# CORE COMPETENCIES AND CHOICE OF COMPETITIVE STRATEGIES AT EQUITY BANK LIMITED IN KENYA

**BY**

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# DECLARATION

I declare that this is my original work and has not been submitted for a degree in any other university.

Sign: ……………………..                    Date: …………………………

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**D61/63631/2010**

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

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# DEDICATION

This research project has been dedicated to all my family members for their prayers, support and encouragement throughout the duration of the project.

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# ABSTRACT

Competitive strategies which enable a firm to survive in a fierce competitive business environment and emerge stronger are the most valuable assets possessed by businesses as sources to competitive success are usually hard to determine and imitate. Precisely, sustainable competitive advantage emanates from unique core competencies developed within an organization. Firms wishing to maintain their competitive position or emulate industry leaders need to clearly understand the concept of core competence and how it influences choice of competitive strategies among businesses. Equity Bank has grown rapidly over the past ten years to become the second most profitable in the country. In addition, it has the largest customer base in East Africa and has attracted both local and international recognition on poverty reduction by extending financial and non-financial services to the low income segment and the unbanked population. This prompted the researcher to carry out a study to establish the influence of core competencies on choice of competitive strategies at Equity Bank. This research project conducted between April and November, 2013 answered the following research question, what is the influence of core competencies on the choice of competitive strategies at Equity Bank? The study reviewed literature on concept of strategy, core competence, choice of competitive strategies, and core competencies and choice of competitive strategies. The study was demonstrated on a case study research design and data was collected through personal interview method as guided by an in-depth structured interview guide. The data was analysed using content analysis technique and inferences made based on reliability, sufficiency and consistency of the data. The study findings revealed that core competencies provide very important skills and techniques in building competitiveness and choice of competitive strategies. In addition, core competencies play an important role in the planning, developing, implementing and evaluating strategic competitive policies that result in a competitive advantage. Based on the findings, it was recommended that policy makers should give special consideration to financial institutions that serve the low-income segment. Also, Equity bank managers need to understand, develop and exploit the firm's core competencies in choosing competitive strategies as well as make them an integral part of their responsibility. Moreover, future researchers should develop models which can assist banks to gain competitive advantages using core competencies. Therefore, the study sets a foundation for more focused research into the importance of core competencies in developing a competitive advantage especially in the banking sector.

# CHAPTER ONE: INTRODUCTION

## 1.1 Background of the study

The business environment today has increasingly become very competitive thus making the business organizations to also become more dynamic and aggressive in identifying and adopting competitive strategies which enable profitable existence (Pearce and Robinson, 2007). Competition is attributed to technological enhancement, business innovations and the change in customer demands. Among all business organizations, competition may compel management to come up with business strategies and techniques that would lead an organization into profit maximization. For this to be achieved, it would be necessary to increase sales and reduce production costs. Parasuraman, Zeithaml and Leonard (2005) point out that for competitive advantage to be achieved and sustained, managers need to examine an organization's internal processes so as to allow for efficiency and cost effectiveness.

Equity Bank is considered to be one of the leading banks in Africa that transform the livelihoods and lives of the people of Africa economically and socially by extending financial and non-financial services to the low income segment and unbanked population hence maximizing their opportunities. Equity Bank is present in 5 countries where it operates its businesses notably Kenya, Uganda, Tanzania, Rwanda and South Sudan. It has 135 branches in Kenya with its headquarters in Nairobi and the largest customer base in Africa with nearly 8 million active accounts. Analysis of the financial performance of the company revealed that its net profit rose by 17% to Kshs 12 billion in 2012 from

Kshs 10.32 billion in 2011 (Equity Bank, 2013). This good corporate financial performance that Equity Bank reported clearly shows that the firm is very successful despite the stiff competition in the Kenyan banking industry as a result of commitment to its outstanding winning strategy. There is need to examine how core competencies influence the choice of competitive strategies employed by Equity Bank to achieve organizational success.

### 1.1.1Concept of competitive strategy

To create competitive strategies, firms need ability to utilize resources and be able to handle matters at hand. However as this capability grows, firms should be able to use the resources that are available, create new ones for example skills (through software application or new technology) or give opportunities for the creation of new categories of products. For a firm to be regarded as having competitive advantages, it must be implementing a strategic value not concurrently practiced by any potential or current player. For competitive advantage to be gained, a firm's business strategy manipulates the different resources that are directly under its control and which have ability to create competitive advantage. According to Mbwayo (2005), superior performance results and advancement in resource production results to competitive advantage.

Competitive strategies which enhance customer satisfaction are achieved through core competence thus leading to firm's competitiveness (Ohmae, 2008). Moreover, consumers want competitive prices hence companies can use prices as their competitive strategy through cutting down of costs incurred in production and distribution in order to lower the overall price of commodities. In markets where there is price control, this is still possible through automation, flexibility and improved production thereby eliminating by a large percentage inefficiencies in the production process. When a company keeps lowering prices without a reduction in operating costs, it runs the risk of depletion of resources and consequently becoming insolvent especially in a fiercely competitive market (Woodruff, 2007).

Consequently, due to competitive market pressures, many companies seek to add value to their products thereby making them more expensive, something that customers are willing to pay for. Chandler (2012) suggests that value addition can be achieved through greater quality price relative to competitors, coming up with completely new products not yet available, improving existing products and increasing availability of the same product. This is especially applicable in environments where the market dictates the price especially in commodity type markets. Competitive strategies can also be created through Information Technology.

### 1.1.2 Concept of core competence

The concept of core competence was created to support efficient utilization and identification of organizations' strength. It is assumed that core competence is cumulative and it changes more slowly as time passes compared to markets and products. However, the core competence concept has various strategic implications in that, firms should work systematically upon realizing their core competencies (Clemonsand and Row, 2009). In addition, they need to develop them for a competitive advantage that would be sustainable.

It has been reported that the competence-based theory describes core competencies as a source of strong competitive advantage. The theory refers to core competencies as valuable capabilities that are unique and collective in their attributes, and as well as strategically flexible leading to success of prospective businesses. Furthermore, Mintzberg (2010) attests that the usefulness of core competencies especially in the traditional manufacturing sector appears higher compared to that in the high technology sector. Therefore this study is very important to the banking industry since manufacturing is regarded as traditional. Given that competence is a major ingredient in the success of an organization, it implies that the main objective of this research is to evaluate how organizational performance, core competence and competitive strategies are related in Equity Bank.

### 1.1.3 Banking Industry in Kenya

The banking sector in Kenya is made up of 44 licensed commercial banks and 1 mortgage finance company. Out of the 44 institutions, 13 are foreign owned and 31 are locally owned. The locally owned financial institutions comprise 3 banks with significant shareholding by the Government and State Corporations, 27 commercial banks and 1 mortgage finance institution (CBK, 2013). All these banks are 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 CBK is responsible for formulating and implementing monetary policy and fostering the liquidity, solvency and proper functioning of the financial system. The banking sector was liberalized in 1995 and exchange controls lifted. The banks have come together under the Kenya Bankers Association (KBA), which serves as a lobby for the banking sector's interests. The KBA serves as a forum to address issues affecting members.

Over the last few years, the Banking sector in Kenya has continued to grow in assets, deposits, profitability and products offering. The growth has been mainly underpinned by an industry wide branch network expansion strategy both in Kenya and in the East African community region, automation of a large number of services and a move towards emphasis on the complex customer needs rather than traditional 'off-the-shelf' banking products and better meet globalization challenges. Players in this sector have experienced increased competition over the last few years resulting from increased innovations among the players and new entrants into the market. Nevertheless, there has been increased competition from local banks as well as international banks in the past decade, some of which are new players in the country. This has served the Kenyan economy well as the customers and shareholders are the ones who have benefited the most.

### 1.1.4 Equity Bank Limited

Equity Bank was founded as Equity Building Society (EBS) in October 1984 and was originally a provider of mortgage financing for the majority of customers who fell into the low income population. Consequently, it has grown from being a building society to an MFI and then to an inclusive NSE commercial bank listed in 2004. Equity Bank is incorporated, registered under the Kenyan Companies Act Cap 486 and domiciled in Kenya. The Bank is licensed under the Kenya Banking Act (Chapter 488), and continues to offer retail banking, microfinance and related services. Equity Bank is present in 5 countries where it operates its businesses notably Kenya, Uganda, Tanzania, Rwanda and South Sudan. It has 135 branches in Kenya with its headquarters in Nairobi. It has the largest customer base in Kenya with over 7.8 million accounts and employs over 5,200 people.

Equity Bank has grown rapidly over the past ten years to become the second most profitable in the country, posting KSh12 billion net profit in 2012. In 2001, the operating income was Kshs 141 million which further grew to Kshs 1,803 million in 2006. By 2012, the operating income was reported at KSh 23, 934 million (Equity Bank, 2013a). Moreover, it has more than half of all bank customers in Kenya having revolutionized the retail banking segment with innovations such as allowing customers to open accounts without deposits.

Equity Bank's business model of extending financial services to the low income segment and the un-banked population has attracted both local and international recognition. On many occasions, the Bank has been invited to various international forums and bodies to share on its successes. Equity Bank has also become a hub of other institutions worldwide keen on learning and exchanging insights. Equity Bank beat 42 other local lenders to rank as the best bank in Kenya according to reports by CBK (2013). The awards received show that this bank had ability to win over its rivals in those areas recognized by different financial institutions (FI's) including the IFC and the Council of Commonwealth Business (Equity Bank, 2013a). Consequently, it is important to determine how core competence has influenced the choice of competitive strategies employed at Equity Bank to achieve competitive advantage and hence organizational success.

## 1.2 Research problem

The core competence of firms such as skills and tactic knowledge is used to develop competitive strategies that are unique to an organization. Hence, core competence has given a significant contribution to the end product, provided access to more than one market, and has become difficult for competitors to imitate. Therefore, a core competence has led to sustained competitive advantage if a firm possesses it and understands how to take advantage of it thus influencing strategic choice (Prahalad and Hamel, 1990). The notion of core competence was formulated to justify strategic choices in businesses and support the internal processes like production development. Nevertheless, today, core competence is valued by financial institutions and banks to gain competitive strategies as the impacts of globalization on banking industry became real, leading to increased presence of foreign banks and increased competition. Core competence is used in explaining collaboration in a firm to be initiative which co-ordinate activities of different individuals in an organization with different skills and capabilities.

Firms in the Kenyan banking industry seek to respond and adapt effectively to the changing and variable world that is characterized by many challenges like fierce competition, global markets and continuous change in technology. Consequently, keeping up with unstable events requires core competencies and choice of effective competitive strategies to keep up with the competition and updates (Drejer, 2010). Equity Bank is considered to be one of the largest and profitable commercial banks in Kenya that extend financial services to the unbanked population and low income segment due to, among other factors, the customer dedication and talented management team. Hence, it has attracted both local and international recognition on poverty reduction initiatives in Africa. Therefore it would be an appropriate bank to study to determine the role of core competencies in its success and development of competitive strategies.

It has been acknowledged that core competencies are important to financial institutions in a number of ways. Scholars such as Kimathi (2012) had sought to determine competitive strategies employed by Equity Bank and found out that there were challenges in implementation of those strategies. Kimani (2011) conducted a survey on the factors influencing strategy choice in commercial banks in Kenya and concluded that core competence play a big role in the success of firms in the Banking industry. On the other hand, Makori (2010) conducted a study on impact of 2008 global financial crisis on the Kenyan banking industry and highlighted challenges facing the sector.

However, none of these studies focused on Equity Bank to determine how the company has entrenched the core competence concept in its operations and processes. There is need to empirically examine and analyze the phenomenon in detail. What is the influence of core competencies on the choice of competitive strategies at Equity Bank?

## 1.3 Research Objectives

The objective of this study was to establish the influence of core competencies on choice of competitive strategies at Equity Bank

## 1.4 Value of the Study

Policy makers will find this study useful to obtain information about importance of banks in enhancing economic development nationally. Additionally, this study will help policy makers to gain more knowledge on how Equity Bank contribute to the welfare and high living standards of citizens, thus initiate regulations that help in growth of banks. In addition, managers of firms intending to successfully internationalize into new markets can use the findings of this study to increase their knowledge on importance of organization competencies.

Financial institutions will use the findings of this study to identify inadequacies in their operations and use the recommendations to improve on their strategy choices. Besides, the findings can be employed by financial institutions looking to target the unbanked population who are currently estimated to be 2.5 billion people worldwide. This study will also be relevant to provide innovative ways through which banks can increase their competitiveness through the use of core competencies for the benefit of their customers.

Further, the study will contribute to bridging the gap of knowledge on of how Equity Bank has entrenched the core competence concept in its operations and processes and bring to light various ways banks can employ their core competencies on choice of their competitive strategies to ensure sustainable competitive advantage. Also, the study will increase the existing knowledge on the core competencies of Equity Bank and their influence on the success of the company in terms of non-financial and financial aspects. Hence, future researchers can use the findings of this study to develop models which can assist banks to gain competitive advantages using core competencies.

# CHAPTER TWO: LITERATURE REVIEW

## 2.1 Introduction

This chapter summarizes the information from other scholars who have carried out their research in the same field of study which are closely related to the theme and the objectives of this study. The specific areas detailed include theoretical foundation of the study, concept of strategy, core competence, choice of competitive strategies, and core competencies and choice of competitive strategies.

## 2.2 Theoretical Foundation

The development of the field of core competence and competitive strategies is as a result of the dramatic development of strategic management within the last two decades. Theory refers to a statement of concepts and their interrelationships that show how and why a phenomenon occurs (Gioia and Pitre, 1990). Perhaps, the industrial organization performance framework, the notion of strategic groups and provision of a foundation for research on competitive dynamics by Porter (1980) majorly contributed to theoretical foundation of strategic management. More recent theoretical contributions focused on the resource-based theory of the firm. Competence-based view of the firm has also developed simultaneously based on the resource-based view. Therefore, this study is based on the primary theoretical foundation of strategic groups, resource-based view and competence-based view in the existing research literature.

### 2.2.1 Strategic group's theory

A strategic group is commonly defined as a group of firms in an industry following similar or the same strategy along the strategic dimensions (Porter, 1980). Firms pursue effectively similar strategies wherever a leading group member acts as a reference point or benchmark leading to mimicry (Fiegenbaum and Thomas, 1995). The strategic group concept provides an attractive middle ground between industry and firm offering strategic management scholars the opportunity to compare groups of firms in terms of their strategies and Industrial Organization scholars the means to analyse industries.

The idea of strategic groups began with the observation by Hunt (1972) that there were significant differences in strategies and characteristics among the companies in the US White Goods Industry. This observation was amazing because it was contrary to existing industrial organisation theory, which proposed that for a given industry, there was an optimal strategy that all firms would pursue and where the only significant difference between firms was the relative application of scale (Bain, 1959). However, at the same time he established that many firms followed similar strategies. This perhaps was one of the reasons why strategic group theory diffused so rapidly into current strategy thinking. The review concludes that strategic group research continues to offer a valuable way to classify firms by their strategy. Clustering firms clarified understanding of the seemingly feasible strategic options in the industry. Moreover, variables chosen to represent strategy should be industry specific and a sound theoretical reason given for inclusion and exclusion.

The identification of strategic groups has been used primarily to explore systematic differences in profitability among firms in the same industry (McGee and Thomas, 1986). Porter suggests that firms of similar size whose fortunes are closely intertwined through addressing common markets in the same type of way are far less likely to compete away their profits through internecine rivalry than firms who offer closely related or substitute products but compete on markedly different bases. To date however, the link between performance and strategic group membership has not been conclusively proven empirically. In conclusion strategic group study offers researchers the possibility to classify strategy within a given industry that in turn, provides the base for the testing of theories related to strategic choice between strategic groups.

### 2.2.2 Resource based theory

Resource based view has been argued to provide the basis for a new theory of the firm (Conner, 1991) and it has been offered as a theory of competitive advantage (Barney, 1991) and a theory of value creation (Peteraf and Barney, 2003). This theory is focused on the ability of the firm to maintain a combination of resources that cannot be possessed or built up in a similar manner by competitors. For instance, it suggests that firm A is more successful than firm B if A controls more effective and/or efficient resources than B (Barney 1991). The argument goes that when firms have bundles of intangible or tangible resources that are valuable, rare, inimitable, and non-substitutable, they can implement value creating strategies not easily duplicated by competing firms (Barney, 1991; Wernerfelt, 2008). The resources are developed over time, following the principle of path dependence.

This theory describes the ability of a firm to deliver sustainable competitive advantage when resources are managed such that their outcomes cannot be imitated by competitors, which ultimately creates a competitive barrier (Mahoney and Pandian, 1992). Further, sustainability of competitive advantage is enhanced when the firm's resources and capabilities are "opaque" such that nobody (including the focal firm's managers or employees) can understand their value enhancing attributes. Many of the factors that render imitation difficult are tacit in nature or due primarily to proprietary information. Though, the sustainability strength of competitive advantage depends on the ability of competitors to use identical or similar resources that make the same implications on the performance of a firm (Makadok, 2001).

To change a short run competitive advantage into a sustained competitive advantage requires that these resources are heterogeneous in nature and not perfectly mobile. If these conditions hold, the bundle of resources can sustain the firm above average returns (Barney, 1991; Peteraf, 1993). However, resource based view also highlights the fact that not all resources of a firm may contribute to a sustainable competitive advantage of a firm. Varying performance between firms is as a result of heterogeneity of assets and resource based theory is focused on the factors that cause these differences to prevail (Mahoney and Pandian, 1992). Despite the specific emphasis in the respective approach, resources can be regarded as the root of competitiveness, survival and performance in terms of sustaining competitive advantage and profitability.

One of the key hypotheses of resource based view is that the presence of strategic resources is sufficient to establish the potential for competitive advantage: there is a direct relationship between the resources and performance. This theory is therefore predicated on explaining performance differences between firms. The basic argument is that value creating resources and capabilities are heterogeneously distributed among firms, opening up the possibility of above average returns. The distribution of resources and capabilities can remain durably heterogeneous, due to failures in strategic factor markets, resource scarcity and uncertain imitability (Barney, 1991).

Regarding the relationship between the market and the firm, the resource-based view is sometimes (mis-)understood as an inside-out approach. Barney's (1991) Value Rarity Imitability Organization (VRIO) framework clearly suggests that resources can only be of strategic importance if they are able to produce value which is only possible in case of market orientation. Although planning starts with identifying the strengths of the corporation, the way of thinking follows the other way round. Despite this criticism, resource based view has been credited with restoring the balance between internal and external analysis in strategic management theory in terms of advances (Collis, 1991). In addition, Madhok (2002) points to the fact that the potential of the resource-based view to create an alternate theory of a firm is under-estimated. In the same way, Langlois and Foss (1999) argue out that the resource-based view represents a perspective acknowledging both transactional and transformational aspects. This integrated perspective, goes along with a more comprehensive understanding of external and internal conditions of a firm.

Though the resource based view concludes that superior resources will lead to performance differences among firms, it notes that competence is essential in building resources by the process of asset refinement. Hence, scholars refined and extended the core principles resource based view to explain how knowledge use and development process as well as dynamic competences can create sustainable strategic advantage (Dyer & Singh, 1998; Teece, Pisano and Shuen, 1997).

### 2.2.3 Competence based theory

Competence is defined as the organizational learning-based repeatable and non-random capability to sustain the coordinated deployment of resources and assets allowing the firm to reach as well as defend the state of competitiveness and to achieve its goals (Prahalad and Hamel, 1990). The competence view offers new conceptual dimensions which capture more aspects of the dynamic and complex interplay of competences, assets and resources (Sanchez, 2001). Heterogeneous resources and homogeneous assets are the starting point of the chain. The firm must have the ability to utilize these resources in a market and goal oriented way. For instance, Firm X can only be more successful than Y if A is in a position to exploit the available resources more efficiently and/or effectively than Y. This is simply possible in the case of available action-related competences. Competences therefore fill the explanatory gap between performance and distinctive resources by considering both asset flows and activities.

The competence based view recognizes the phenomenon of open boundaries (Madhok, 2002) by considering the importance of combining firm specific and firm addressable resources to attain goals (Sanchez and Heene, 1997). Moreover, competences that are firm-specific do not certainly refer to internal assets. This leads to the impression that sustaining competitive advantages usually rest on each firm's assets of network and also, on blending own competences with the ones of partner firms (Lorenzoni and Lipparini, 1999). Such a "relational view" of sustainable competitive advantage (Dyer and Singh, 1998) is simultaneously significant in building a competence based theory of the firm. Thus, the theory of competence-based builds on the indispensability of management in its view of firms as open systems that are guided by a strategic logic derived from managerial cognitions and governed by management processes that coordinate asset stocks and flows.

The framework of the path dependent (three phases of competition for the future) is useful in proving the outside-in character of the competence-based logic (Hamel and Prahalad, 1994). Past researches suggest that being successful in the present competitive market share depends on successful behaviour in the earlier competition for intellectual leadership and management of the migration paths. Dominating the fundamental and frame-giving competition for intellectual leadership implies to probe deeply into the drivers of the market development and in particular to understand customer's problems and wishes in the distant future. First steps in creating a pro-active competence based management view about new solutions requires matching market needs later on and designing the market interface the customer-oriented way. Next, firms need to figure out favorable core competences and arrange networks to build them over time. This clearly indicates the strong touch of outside in orientation which is a typical feature of the competence based theory.

The pro-active approach of market orientation is based on the desirable opportunity to shape the market and the environment (moderate voluntarism). All these distinctive features indicate that the competence-based view does not follow the thinking in terms of the market equilibrium, in contrast to some alternate theories of the firm. Instead, a fundamental strategic goal is to develop innovative strategic architectures by ‘industrial foresight’ (Hamel and Prahalad, 1994), ‘creatively destructing’ current market situations close to the meaning of Schumpeter (1934). Moreover, competence-based thinking implies to identify undiscovered market opportunities as well as to take the respective chances, the market process offers.

Sanchez and Heene (1997) opine that although the competence-based perspective prefers an economic reasoning, it is open for cognitive elements, such as learning. Lei et al., (1996) and Prahalad & Hamel (1990) attest that organizational learning is identified as a “core competence”. The competence view has given emphasis to the significance of organizational resources and capabilities, particularly organizational knowledge. It is by integrating and applying managerial knowledge, however, that managers develop managerial capability render the service of their resource (Penrose, 1959). Moreover, the process of capability development and learning for managers play a critical role in organizational knowledge creation processes and in the adoption of new organizational forms that improve dynamic organizational capabilities. Considering that managers are part of organizational resources, it should be emphasized that managerial knowledge is put at the forefront of competitive advantage (Floyd and Wooldridge, 1996).

Problematic at this point is the fact that competence research is focused upon delivering a theory of competitive advantage, not a theory of the firm. All in all, the profile of a competence-based theory of the firm is dynamic, focused upon delivering a theory of the uniqueness of the firm, oriented towards explaining both transaction and transformation costs and benefits, as well as delivering an explanation which is at least partly independent from opportunism and the contractual point of view.

## 2.3 Concept of Strategy

Chandler (1962) defined strategy as the determination of the basic long term goals and objectives of an enterprise and developed the idea that strategy follows structure. Moreover, he acknowledged strategy as a means of response to increasing dynamic and turbulent business environmental factors such as the opportunities and needs created by changing markets and technological innovation. But strategy is not, as Chandler (1962) defined it, just about determining long term goals. A goal is not a strategy. Strategy involves consistent and coherent decisions, action theories (response and outcome), and coordinated resource allocations that may help achieve a goal unachievable by direct frontward attack. A strategy therefore defines how a business is going to go about winning in a marketplace when it challenges capable rivals, taking into account customer expected behaviors and needs as well as responses of rivals. It involves designing a business model, including the formulation of a compelling value proposition for the customer. Market segmentation is also vital, as are the decisions about which capabilities to build or not to build and how and when to deploy them. Most importantly strategy is about how focus is achieved and assets are coordinated to exploit weaknesses in competitors and opportunities in the market. In short, a different perspective of strategy has been presented by Rumelt (2009) that involves diagnosis, coherent action and a guiding policy.

Strategy is critical for achieving success in firms (Barney, 2007). In the first place, strategy identifies the core objectives and guides the process of organizing and developing the firm’s resources. Chandler (2012) also believes that strategy helps in defining the competitive priorities in the organization’s vital functional areas. The strategies of a company shape and inform how the company defines itself including the strategic advantages. Consequently, Prahalad and Hamel (2011) notes that the concept of strategy enables companies to make correct decisions on their future operations for example on market decision and product option. This implies that without having strategies, the company will be forced to refer to their past decisions in making future decisions. According to the reports by Barney (2007), there are strategies that shape the firm’s strategic intentions. These include technology, market needs, production capability, products offered, distribution method, scale method, return/profit, natural resources and size/growth. Such strategic areas influence the success of the companies but each company must consider the strategic areas serving as the major driving force in their business. Consequently the chosen strategies influence other decisions regarding the future operations of the company.

On the other hand, firms having unclear strategies that drive their operations or companies employing a variety of strategies may develop conflicting priorities, frustration, confusion, indecision and wasted resources in their workforce and marketplace. Consequently, when there are conflicting priorities yet scarce resources have to be allocated, arriving at the most suitable decision can be very tough. Chandler (2012) differentiates between vision/mission statements from strategies by stating that the vision/mission statements define purpose of a company while strategies communicate how the company resources are going to be leveraged to achieve such goals.

Warnaby and Woodruffe (2005) indicate that firms must consider needs of customer in their offerings to satisfy them. Customer satisfaction results in positive brand image. Consequently, services and products provided by firms must involve corporate structures, delivery channels, and product mix in order to serve the functional roles hence remains attractive and competitive to customers. Therefore, customer satisfaction is attributable to competitiveness and growth for the firms where satisfaction of customers can be increased by technology.

Wernerfelt (2008) affirms that information enhances competitive advantage of firms hence they develop strategies for information which includes Information Technology and information systems. Technological change may drive competition hence play a vital role in the structural changes in industries. It was also noted by Wernerfelt (2008) that Information Technology enhances product distribution, decision making, efficiency in payment systems and operation efficiency. Organizations adopting e-commerce are more proficient compared to competitors. Moreover, Information Technology helps firms to adjust marketing strategies towards target groups more effectively. In addition, firms which market services using more advanced technologies, partnerships and strategies tend to be more successful. Hence technology is central in enabling firms to leverage low costs to optimum levels which contribute largely to reduction in operating costs. Therefore, firms can establish new locations and expand with ease.

On his part, Veliyath and Fitzgerald (2009) wrote that social networks have also been incorporated as competitive strategies to reach out to more customers. Mobile phones are also important electronic channels adopted by customers and businesses. Moreover, they can help firms to access new markets, access new methods of payments, and access remote data hence enable quick decision making. Mobile phones also help customers to directly access financial information. Hence, this is a competitive strategy to enhance the aim of firms to create the much needed competitive advantage over other institutions through Information Technology. Having variety of products and services can also be a good strategy that makes a firm more peculiar and therefore superior than others in the eyes of customers (Drejer, 2010). Though this strategy can be useful during the transient period before other competitors catch up, it can be sustained through patenting for patentable products or through a continuous investment into product development with a clear insight of future trends.

## 2.4 Core competence

Kiptugen (2003) simply described core competencies as what differentiates an organization from competitors. On their part, Gomez-Mejia (2008) and Prahalad and Hamel (1990) affirmed that core competencies refer to the outcomes of the ‘collective learning’ in the organization and are majorly manifested in the business processes and activities such as coordination of diverse production skills and integration of multiple streams of technologies. Hence, it can be said that core competencies involves unique capabilities that span over the multiple markets and products.

In the opinion of Hamel and Prahalad (1994), in order for a competence to be a core competence, three criteria have to be met. For instance, the competence has to provide access to more than one market, give a significant contribution to the end product, and be difficult for competitors to imitate. As a result, if a company possesses a core competence and understands how to take advantage of it, it can lead to sustained competitive advantages.

Distinctive core competence refers to certain strength in an organization which is difficult imitating and is used in attaining sustainable profits. On the other hand, distinctive competences are competencies which primarily drive aspiration system. In the reports by Christopher (2006) core competence is considered to be a communication, deep commitment and involvement in working across the organizational boundaries. Moreover, core competences are not specific to products but contribute to competitiveness of different services and products. Process of determining an organization's core competencies require employees identifying their core competencies through assessing and scanning the organization's competencies, capabilities and critical resources.

During the process of identifying core competence, the concepts become empirically and conceptually merged. For instance, competencies and capabilities are interchangeably defined by Chong and Cheong (2008), capabilities and resources by Walsh and Linton (2001) as well as capability, skill and competence. Core competence of an organization is considered by most scholars to emanate from the unique resources and results into distinctive capabilities.

Moreover, Carrier (2009) suggests that resources are attributes and that core competence and unique resources are affected by the unique weakness while integrating a firm's competence results into unique potential function. Consequently, this notion of core competence can be used in explaining collaboration in a firm to be initiatives which co-ordinate activities of different individuals in an organization with different skills and capabilities. Reports by Carrier (2009) concluded that acquiring core competence by organizations involves a number of initiatives like transforming key abilities into strengths, comparing with other firms to ensure unique capabilities are being developed, understand capabilities valued by customer and invest to sustain and develop valued strengths, create strategies to build competence, pursue acquisitions, license and alliance arrangements to enhance the strengths of the organization in core abilities, preserve the core strengths as management redefines and expands the business, employ highly skilled employees, and outsource experts.

Warnaby and Woodruffe (2005) opine that a core competency should meet the following criteria: Benefit customers, be hard for competitors to imitate, and should be transferable to many products and markets. In terms of organizational competence, the organizational structure should be open to innovation and the organization should develop its solutions around needs of customers to achieve customer satisfaction. In the studies conducted by Wernerfelt (2008) on makers of modern strategy, network competence is reported to be an essential part that contributes to the success of a company by enabling ease of flow of information. Apart from linking customers, a company also links with contract partners or suppliers purchasing platforms, as well as carry out its loyalty programs more effectively. These networks also help in increasing transactions through leveraging the customer bases. In addition, Veliyath and Fitzgerald (2009) are of the opinion that customer interface is a major core competence since closeness to the customers help in understanding their preferences and needs which is vital for business survival. However, other competencies can be built around building a first-class supply chain system. The performance of the retailer is also enhanced through building a particular store format.

## 2.5 Choice of competitive strategies

According to Porter (1985), the potential for a firm to be profitable and successful is negatively associated with increased competition, a large number of substitutes, lower barriers to entry, and increased bargaining power of suppliers and customers. He further argues that an organization can develop the three generic competitive strategies which include cost leadership, differentiation strategy and focus strategy through an appropriate configuration and coordination of its value chain activities. Hence, these competitive strategies are important in developing competitive advantage that is sustainable. Consequently, an organization must decide between differentiation and cost leadership strategies or create no coherent strategy. According to Porter (2001) any of the competitive strategies are pursuable on regional or global basis or organization managers may consider matching and mixing the corporate strategies as functions of product or market dimensions. Moreover, a firm can be successful by a single competitive strategy.

Cost leadership strategies refer to gaining competitive advantage through charging sustainably lower prices than other competitors (Porter, 2001). This is achieved by cutting down of costs incurred in production and distribution in order to lower the overall price of commodities. In markets where there is price control, this is still possible through automation, flexibility and improved production thereby eliminating by a large percentage inefficiencies in the production process. When a company keeps lowering prices without a reduction in operating costs, it runs the risk of depletion of resources and consequently becoming insolvent especially in a fiercely competitive market (Woodruff, 2007). This strategy faces many challenges in different sectors, and is therefore only applicable in certain environments such as in the manufacturing where the level of output is higher as compared to the market size thereby being able to achieve economies of scale. Achieving economies of scale is of great use since operating costs are spread over a large number of customers. This is however not possible for many craft industries as well as hair-dressing due to very low output and for organizations since other competing firms can also achieve maximum cost effectiveness.

Porter (1985) opined that differentiation strategy may be explained based on differentiation through technology, brand, positioning, design or innovation. Differentiation strategy involves the development of strengths that can give a firm a differential performance advantage above other competitors. An example of this is a firm that competes by having the most inclusive branch network open at customers' convenient time, and is able to cut down waiting time and speed up service delivery or one that is able to cut down lending time without securities. Focus strategy on the other hand involves pursuing specific market segments through overall cost leadership and or differentiation as opposed to engaging in the whole market according to Porter (2001). It involves first market segmentation and then specialization in the chosen segment which is useful in gaining competitive advantage. The disadvantage of this strategy is that it may put an organization in danger if the focussed segment is too small to be economical, or if it declines. According to recent scholars, the success in any of these strategies is achieved through having effective and clear objectives. However, others also argue that firms cannot succeed by only employing a single strategy and that the success currently experienced is due to effective application of multiple strategies notably low cost in addition to differentiated services or products.

## 2.6 Core competencies and choice of competitive strategies

Many organizations seek to respond and adapt effectively to the changing and variable world that is characterized by many challenges like fierce competition, global markets, scarcity and lack of resources, evolution of ICT, continuous change in desires, tendencies, needs and technology. Consequently, keeping up with unstable events requires core competencies and effective competitive strategies to keep up with the competition and updates (Drejer, 2010). So, businesses need competitive strategies which enable it to maintain and determine their competitive position in the variable dynamic business environment, and in addition, retain competitive advantage over other competitors in order to be more adapting and responsive to the challenges.

Early researches in 1980s and 1990s proposed that choice of an enterprise is not the most important factor in determining industry profitability and sustainability, rather, the core competence of the firm is of greater significance (Baden-Fuller and Stopford, 1992). Moreover, Hamel and Prahalad (1994) focus on core competencies and argue that a firm’s sustained competitive advantage is to be found in its core competencies. Therefore, it is evident that most scholars nevertheless agree that core competence is the main source of competitive advantage and includes certain set of knowledge and how organizational resources are utilized to produce the outcomes. Furthermore, the position that core competence is vital to renewal of organizations and the driving force of strategic change has interested both scholars and managers. This means that core competencies may result from areas of skills and knowledge of competencies which are shared in the organization and emanate from harmonization and integration of organizational competencies.

Therefore, the focus for organizations should be on developing core competences through and then leveraging those competences in different markets.

There are clear linkages between strategies, core competences, resources and value adding activities. Stonehouse and Pemberton (1999) and Stonehouse et al. (2001) developed an approach to understanding these linkages better. They emphasize that each strategy is usually built on the structure of the value adding activities of an organization, resources form the inputs to these activities, whereas core competences provide the knowledge and skills required to implement them. Therefore, core competencies can in fact be integrated with competitive strategies of an organization in order to create a wider understanding of the influence of core competencies on the choice of a firm' s sustained competitive advantage.  Hence, Mintzberg et al. (1995) continuous to argue that the more core competences can be integrated into the choice of competitive strategies such as value addition, and the greater will be the profitability and sustainability of a firm.

Managers in general want to be successful but the existence and survival of their organizations in competition requires them to formulate strategies based on their organizational core competencies so as to face the competitive forces as well as to reinforce competitiveness, because, real life and interaction of firms with environments are characterized with ambiguity, complexity and suddenness. However, organizations should avoid the danger inherent in the competencies approach to strategy by not becoming too internally focused at the expense of customer focus. This can be achieved by successfully being customer and market driven as well as process and internally driven (Greenley and Oktemgil, 1996).

As a result, having competitive strategies requires core competencies given that survival of firms depend on ability of the firms to explore the core competencies since skills, learning and technology are vital to development and use in the firms. In addition, core competencies of firms are also linked to their differentiation strategies hence influence choice of competitive strategies (Hamel and Prahalad, 2009). In the opinion of Woodruff (2007), longevity of firms in marketplace also depends on core competence utilization since the presence of core competencies in the value chain leads to successful product penetration in the market. Value chains are utilized so as to determine whether the implementation of differentiation strategy activities is linked. When these activities are not linked to core competencies, the firms cannot implement their differentiation strategies.

# CHAPTER THREE: RESEARCH METHODOLOGY

## 3.1 Introduction

This section discusses the research methodology that was used to achieve the objective of the study. It outlines the research design, procedure for data collection and method of data analysis that was used.

## 3.2 Research Design

The researcher adopted a case study design to describe core competencies and choice of competitive strategies and their roles in success of Equity Bank. Myers (2008) explains that case studies involve examining phenomenon in the actual environment or context. Yin (2003) defines it slightly different as an empirical enquiry that examines a contemporary phenomenon within its real life context. The researcher chose this research design because it was useful in exploration of influence of core competencies on choice of competitive strategy where existing knowledge was limited. In addition, it had a number of advantages like data analysis depth, conceptual richness, consistency and theoretical completeness.

The study was carried out at Equity Bank because it served as a financial institution that successfully implemented core competency to develop competitive edges in the banking sector. Furthermore, its proximity to the researcher made it time and cost effective.

## 3.3 Data Collection

The type of data collected was qualitative data. In particular, the data collection instrument was an interview guide because it was faster, effective and accurate compared to other data collection instruments. In essence, the interview guide was made up of open ended questions based on the objective of the study.

Data was obtained through both primary and secondary data collection methods. Hence, primary data was collected using an in-depth interview with the aid of an interview guide. On the other hand, sources of secondary data included Equity Bank website, research articles, published reports, books, magazines, academic journals, Equity Bank annual reports and financial data that was obtained from Google, online academic databases like Ebscohost and the Library. The interview guides were administered through personal interview to 5 managers drawn from Equity Bank business unit as guided by the extent of involvement either in decision making or execution of the bank's strategic plans.

## 3.4 Data Analysis

The qualitative data obtained from the primary research (interview transcripts), was edited and scanned through in order to group the responses based on their similarities to enable analysis to be performed. In particular, analysis of the qualitative data involved content analysis. According to Ary, Jacobs and Razavieh (2002), content analysis refers to the technique of analysing qualitative data where inferences are made systematically and objectively through identifying the specific characteristics of messages and using the same to relate to established trends. Hence to perform the content analysis, the similar words, phrases and sentences in the interview transcripts were grouped into major themes and interpreted as the findings of the study. Consequently, the findings were presented inform of paragraphs and sentences and discussed appropriately.

Justification for using content analysis was that the data obtained was qualitative in nature. Another reason for adopting content analysis was because in-depth analytical understanding was required to ascertain whether at all core competencies adopted by Equity Bank had influenced choice of competitive strategies to outwit competitors in the banking industry. Moreover, since content analysis was done only by researcher, the validity and reliability issues and concerns like biases, reproducibility, stability and accuracy of findings were mitigated against.

# CHAPTER FOUR: DATA ANALYSIS, RESULTS AND DISCUSSION

## 4.1 Introduction

This chapter presents the analysis and results of the study. Besides, chapter four includes the discussions of the results as an attempt to answer the research questions, obtain the objectives and purposes of conducting the study and test the hypotheses accordingly. The study employed a case study research design to bring a clear and an in-depth understanding of the objective. Personal interviews were conducted to 5 Equity Bank managers; Business Growth and Development Manager, Relationship Manager, Credit manager, Operations Manager, and Agent Manager involved in decision making and execution of the bank's strategic plans. This was carried out with the assistance of a structured interview guide and responses were captured for a more detailed content analysis. Probing was also used to get full and accurate facts while administering the interview guides. Findings were presented inform of paragraphs and sentences and discussions done appropriately.

## 4.2 General Information of Interviewees

This section presents the results of the analysis on the demographic characteristics of the respondents in terms of their gender, age, academic qualifications and work experience in the organization as well as in the current position held. These demographics are important in establishing the respondents' perceived ability to make better decisions and execute the bank's strategic plans hence attain designated types of performance and also achieve greatest results.

The five respondents who took part in this study consisted of four males and one female hence the male respondents were more than their female counterpart. This helped in determining gender representation of managers at Equity Bank. An enhanced balance in decision making structures of a firm can upgrade innovation capacity and improve competitive advantage hence increase an organization’s productivity and profitability in terms of revenues and assets. Hence, there was a need to look at gender balance in Equity Bank management team.

In this study, majority of the respondents were mainly in the age group 35 to 40 years while the rest of the respondents were between 41 to 45 years old. Age affects peoples’ experience and competence hence decision making in an organization. Consequently, older people tend to retain the status quo while younger people are more innovative and ready to take the risk of trying out new ideas hence influencing core competence and choice of competitive strategies of a firm.

It was interesting to find that all the Equity Bank managers who took part in this study were holders of bachelor degree and that none had a post graduate degree. In addition, they had varied academic backgrounds such as hospitality and hotel management, horticulture, finance, education and economics. This was viewed as an asset for Equity Bank in terms of creativeness and good customer service.

Majority of the study participants had been working for Equity Bank in the last 5 to 6 years while the rest had been with the bank for 3 to 4 years. When the respondents were asked how long they have been working in their managerial positions, it was found that only one respondent had been working for 2 years as a manager while the rest held managerial positions for over 5 years. This boosted the research work as their knowledge and experience with core competence and competitive strategies of Equity Bank were established by the researcher.

## 4.3 Core competencies and choice of competitive strategies at Equity Bank

The interviewees were required to respond to various questions concerning core competency and choice of competitive strategies in Equity Bank. Therefore, this section of the study concerns a number of the responses received from the respondents during the interviews relating to importance of core competencies at Equity Bank, strategies influencing Equity Bank's expansion and growth, rating of Equity Bank's model of serving the low income segment and unbanked population, effectiveness of the bank's strategies in gaining competitiveness, influence of core competencies in choice of competitive strategies, and hedging against challenges experienced in building competitive advantage.

### 4.3.1 Importance of core competencies in Equity Bank's growth

Core competencies were stated to be very useful in providing skills that lead to the growth and expansion that is experienced by Equity Bank. In particular, it was further explained that core competencies were applied in feasibility studies and decision making regarding the development of marketing strategies, acquisitions, partnerships and investments. Besides, it was mutually agreed that there were many challenges in the Kenyan banking industry to be addressed hence the bank always came up with new innovations e.g. designed an agency model that has enabled it to be in every village. Consequently, it can be understood that core competencies was vital in product development strategy which enables Equity Bank to attract satisfied customers to new products as a result of their positive experience.

### 4.3.2 Importance of core competencies in the Bank's competitiveness

It was noted that having core competencies at Equity Bank had made the competitors' strategies irrelevant and hence the bank still had the largest customer base in East Africa. For instance, Equity Bank had only done one mass media marketing unlike its competitors such as Family Bank and Kenya Commercial Bank who frequently did it. Consequently, it can be understood that that core competencies were very important in Equity Bank in competitiveness and identifying new and innovative products.

In addition, it was observed that core competencies were very important in deciding when to release new and innovative products with timely development thus enabling Equity Bank to create a competitive advantage in its industry. What was also interesting to note in the interviews is that core competencies was revealed to play a vital role even in differentiating premises from those of competitors to enable physical space of Equity Bank to be appealing feature especially to the unbanked and the low-income customers who may be proud to be associated with a large bank. This was noted to contribute to the growth in customer base.

Furthermore, it was also explained that having core competencies had been vital in enabling competitiveness through proper identification of viable areas where new branches can be established since critical assessment of the remote industry and operating environment is important for the financial survival of new branches. Therefore, core competencies may have been used to provide the right skills that would be used to evaluate the viability, growth prospects and profitability of new branches for the bank.

### 4.3.3 Importance of core competencies in the Bank's organizational responsibility

In response to this issue, respondents stated that core competencies had enabled Equity Bank to identify suitable areas to showcase corporate responsibility since a good social responsibility strategy was a source for competitive advantage for an organisation. It was further explained that core competencies was vital in recruitment of competent staff since it provided strategies that help in development of correct attitudinal behaviour amongst staff that meets the banking requirements by offering services with the right kind of etiquette which may be a source for customer satisfaction.

Additionally, core competencies had resulted into frequent staff capacity building and enabled the bank to develop new products which address customers' needs. It was also asserted that core competencies does play a role in identifying staff incentives which improve performance because rewarding employees motivate employees to work harder and hence success of the whole organisation therefore creating a competitive advantage for the bank. Moreover, it was found that it also supported training of banking staff which keeps them up-to-date with modern banking issues which can be an asset for the individual and organisational development. Therefore, the responses indicate that the competence of Equity Bank's staff may be a source of a competitive advantage for the bank.

### 4.3.4 Importance of core competencies in the Bank's financial performance

It was noted that determining the competitive interest rates that would be charged on the loans advanced to customers requires the bank to develop core competencies. This was because application of competitive interest rates would ensure that a bank does not lose its competitive advantage.

Moreover, respondents were of the opinion that changes in the market interest rates would adversely affect a bank's financial condition since immediate impact of changes in the interest rates would be on a bank's earnings while the long term effect would be on the market value of the bank's equity. Besides, Equity Bank normally diversified products so as to suit varying income groups and attract more customers.

### 4.3.5 Strategies influencing Equity Bank's expansion and growth

This section is composed of the respondents' view with regard to the strategies influencing the bank's expansion and growth. When respondents were asked what strategies influence the bank's expansion and growth, they noted that targeting low income earners and unbanked population was important in growth of Equity Bank. The bank particularly achieve this through being a customer-driven bank that provides unique attributes to products and services that are important to customer satisfaction. Hence Equity Bank offers unique and quality services that satisfy customers' needs at low costs which lead to the attraction of more low income earners and unbanked population.

Technological innovation is Equity Bank's major core competencies that also add to its expansion. The unique areas include: cash lay system where customers pay bills in supermarkets and hospitals via cards, beba-pay which enables Equity customers to pay bus-fares through a card to a few bus companies in Nairobi that the bank has partnered with, visa personal pay where money can be transacted to a customer by mere knowledge of his visa card number, and Master Card alumina that enables KU students to pay for services anywhere in the world.

Other strategies mentioned by the respondents also included having strong credit policies and procedures effectively communicated throughout the bank and the strong risk management procedures. Good customer service, and ccompetitive products implemented for all lending areas based on Equity's strategies and a strong organizational structure clearly outlining roles, responsibilities and reporting lines were also noted as strategies contributing to expansion of the bank. Respondents also noted that,tailored training curricula and internal trading capacity as well as good credit scoring and rating models which are appropriate to ensure better credit decision making play an essential role in growth of Equity bank either indirectly or directly. Also, strong collaborations with western union linkages and all mobile phone companies where any of Equity customer's account can be link with hence enabling one to access bank details via any mobile phone network similarly play a role in the bank's growth.

### 4.3.6 Rating of Equity Bank's model of serving the low income segment and unbanked population

When the respondents were asked how successful Equity Bank's model of serving the low-income market and the unbanked population is, the respondents generally agreed that Equity Bank's model of serving the low-income and the unbanked was very successful. However, the bank was still working on how to tap the customers who are still unbanked especially those with small business who think they cannot benefit from bank services due to their low income. In supporting this information, rapid increase in the number of customers, customer deposits and the number of borrowers between 2010 and 2011 as reported in the Equity Bank annual financial report of 2012 was cited.

On the other hand, respondents noted that the increase in the customer base was boosted by customers who were captured after the bank partnered with milk processing organisations, tea factories, coffee factories, horticulture companies and M-Pesa cell phone money transfer service. Consequently, these organisations mentioned buy the respondents are dominated by small-scale farmers and persons with little income. From this information, the bank might have been able to achieve high growth and profitability levels through strategic partnerships. In addition, the information supports Equity Bank in that strategic alliances and partnerships are important in creating competitiveness for an organisation.

### 4.3.7 Effectiveness of Equity Bank's strategies in gaining competitiveness

It was found that indeed the strategies employed by Equity Bank have been effective in gaining competitive advantage. For instance, it was indicated that the strategy of identifying Information Technology infrastructure had played a big role in enhancing efficient liquidity management and hence development competitive advantage. This was because a bank management should measure the liquidity position and liquidity requirements of their bank on an on-going basis.

In this view, an efficient liquidity monitoring information system would be of vital importance. Therefore, the core competencies at Equity Bank helps in the liquidity management in all the branches and this might have led to the creation of a competitive advantage for the bank.

In addition, respondents indicated that indeed Equity Bank's strategies were effective in gaining competitiveness since the bank had been able to identify the profitable sectors for micro-financing. Moreover, the bank received awards for its role in micro-financing in 2007, 2008 and 2009 which is an indication that the bank had committed itself to serve the micro-credit sector as a strategy to create a competitive advantage among the micro-credit financiers. And more importantly, the awards indicate that Equity Bank's strategies were effective in gaining competitiveness.

On the other hand, respondents acknowledged that Equity Bank had unique core competencies and effective strategies since it had come up with methods of making loan applications easier compared to the other banks. Loan applications is an exercise that can determine customer loyalty therefore Equity Bank offered better services and cooperation coupled with courteous service to customers in order to gain a competitive advantage. Hence, Equity Bank had simplified the loan application service as a means of attracting and maintaining customers.

### 4.3.8 Influence of core competencies in choice of competitive strategies

The study also aimed at determining how the core competencies influence the choice of competitive strategies in Equity Bank. According to the responses, it was evident that Equity Bank needs competitive strategies in order to maintain and determine their competitive position. Consequently, the core competence of the firm plays a greater significance in what competitive strategies are best suited for the bank. According to the responses, retaining competitive advantage over other banks is a complex issue and Equity Bank strives to have differentiation strategies in order to be more adapting and responsive to the challenges thus choice of competitive strategies is influenced by the core competencies in various areas.

For instance, core competencies contributed to identifying Information Technology that makes customer service reliable and having this competitive strategy over other competitors help in providing better transaction experiences for customers and in analysing customer transaction pattern and behaviour. Moreover, such technology improves customer service and it may be a source of a competitive advantage especially in Equity Bank where technology provides major strategies for competitiveness.

The respondents pointed out that competitive strategy of application of Information Technology enhanced staff motivation and acquiring a technology system which enables employees to perform their duties with ease improved their productivity. A workplace with an appealing features and amenities has a positive effect on employee's morale and motivation consequently, Information Technology enables human resource systems to enhance employees' self-service. The potential benefit that accrue to core competence in Information Technology include cost-savings, speed, convenience, control, flexibility, increased productivity, better reporting, more accuracy, consistency as well as empowering and expanding the capacity of employees, managers and the whole staff in general. As a result, employees are motivated by installing an Information Technology system that makes their work easier and more enjoyable.

Core competencies are very useful in the management of risks at Equity Bank as a competitive advantage over other competitors. In addition, this competitive strategy which is developed from the core competencies and uniqueness of skills of employees at Equity Bank was vital in assessing the risks associated with lending to risky customer segments, developing marketing strategies and liquidity management.

The results support the statement by Woodruff (2007) who noted that a financial institution needs to put in place prudent liquidity, foreign exchange, interest rate, credit, market and operating risk management in order for it to remain competitive and profitable. The acknowledgement by the respondents that core competencies were useful in determining strategies that enhance risk management at Equity Bank, leads to the conclusion that core competencies plays an important role in providing competitive strategies that reduce risks and such strategies may lead to the creation of a competitive advantage for an organisation.

### 4.3.9 Hedging against challenges experienced in building competitive advantage

Finally, the respondents were required to explain how Equity Bank hedge against the challenges experienced in building competitive advantage. As expected based on their previous responses, the respondents mentioned the use of Information Technology. They stated that Information Technology enables the bank to reduce the cost of serving customers, improves the delivery of services, improves real time communication with customers, facilitates strategic collaboration and enables customers to access financial services through mobile phone services. These benefits of Information Technology were attributed to the provision of services that customers were demanding from their financial service providers.

In particular, developing Information Technology infrastructure makes customer service quick. Furthermore, customers have become more demanding in terms of accessing global quality services and are increasingly time-conscious. Therefore, they expect to be empowered through self-service channels such as ATMs, tele-banking and internet banking. This suggests that proper Information Technology infrastructure is a source of improved customer service especially in the banking sector where customers may have many options which can easily influence their loyalty. Consequently, Equity Bank employed Information Technology in maintaining good customer service which enhances the bank's competitive advantage and hence hedge against the challenges experienced in building competitive advantage.

Secondly, strategic partnerships were cited as a strategy to hedge against the challenges experienced in building competitive advantage. It was further noted that strategic partnerships allow Equity Bank to reduce direct confrontation with competitors in attracting customers. Therefore, it can be noted that core competencies provide strategies that enabled Equity Bank to overcome the challenges experienced in building a competitive advantage. In addition, it was also found that Equity Bank hedge against the challenges experienced in building competitive advantage by creating competitive advantages through transaction processing and designing effective competitive methods of product promotion.

Thirdly, it was attested by respondents that hedging against the challenges experienced in building competitive advantage also involved product promotion which is an exercise of maintaining the contact with the customer at different levels and in different manners to build, maintain and enhance customer relationship. This strategy was employed in Equity Bank as a way of increasing and sustaining the bank's customer base.

Product differentiation was mentioned as a way of hedging against the challenges experienced in building competitive advantage. The respondent reiterated that differentiation of banking products at Equity Bank has led customers to perceive them as better alternatives as compared to those provided by other banks. In addition, differentiation strategy enabled Equity Bank to provide a product or service of a higher perceived value at a differentiation cost below the value premium to customers to attraction and satisfaction customer.

Equity Bank has also placed itself strategically in gaining competitiveness alongside its rivals. For instance, Cooperative Bank of Kenya, Kenya Commercial Bank, National Bank of Kenya and Consolidated Bank of Kenya are protected by the government hence most public institutions and public accounts have partnered with these Banks yet Equity Bank is still one of the most profitable banks in Kenya. In addition, Barclays Bank of Kenya and Standard Chartered Bank are international banks hence most international organizations and UN have partnered with them yet Equity Bank which is local is still one of the most profitable banks in Kenya. It can therefore be seen that core competencies of Equity Bank are being used to grow and expand the bank hence enable Equity Bank to be successful. Moreover, successful diversification of Equity Bank services and products has played a vital role in Equity Bank rise to be amongst the leading banks in Kenya.

Lastly, it was stated by the respondents that Equity Bank also hedges against the challenges experienced in building competitive advantage through competitor analysis, development of products that suit client needs as well as going an extra mile in customer service. Consequently, the bank has strived to ensure that all services that a customer requires in a financial institution are provided under one roof.

## 4.4 Discussion of Results

The results presented in this study have indicated the relative usefulness of the concepts of core competence and how it influences choice of competitive strategies in Equity Bank and achieved all the research objectives and answered the generated research questions. Moreover, since the respondents were Equity Bank managers with different demographic characteristics and management levels, the results provided are accurate with regard to Equity Bank competitive strategies and core competencies because they are better informed than the customers of Equity Bank.

### 4.4.1 Comparison with Theory

It has been reported that the competence-based theory describes core competencies as a source of strong competitive advantage. This supports the literature by Greenley and Oktemgil (1996) where it was noted that using new technology helps banks to look at new ways to make banking experience more convenient, efficient and effective. Furthermore, advancing technology enables organisations to achieve competitiveness and propels growth. The theory refers to core competencies as valuable capabilities that are unique and collective in their attributes, and as well as strategically flexible leading to success of prospective businesses.

Prahalad and Hamel (1990) emphasize in the competence based theory that the ability to sustain the coordinated deployment of resources and assets allowing the firm to reach as well as defend the state of competitiveness and to achieve its goals. This was evident from the results that core competencies were very important in identifying unique products at Equity Bank that were not offered by other banks notably such as bebapay thus gaining competitive advantage.

According to the results presented, it was also found that customer values are better delivered through core competencies which cannot be imitated by competitors. Resource based view supports this fact by showing that a firm having a bundle of resources such as core competencies that are valuable, rare, inimitable, and non-substitutable can implement value creating strategies not easily duplicated by competing firms (Barney, 1991; Conner and Prahalad, 1996; Peteraf, 1993; Wernerfelt, 2008). This was evident at Equity Bank which has exploited its core competencies to enable it have the lowest charges in the Kenyan banking industry and consequently reduce the number of unbanked population from 2.5 million to less than 10% as a result of Equity Agency thus gaining large customer base in the whole of East Africa hence greatest financial performance. Therefore, competitive prices provided by Equity Bank are a core competence in pricing which has not been matched by the other rivals in the Kenyan banking industry.

In addition, core competencies are important in developing marketing strategies for Equity Bank hence Chong and Cheong (2008) noted that core competencies creates good competitive edge for an organisation especially as it expands into new areas. Furthermore, Mintzberg (2010) attests that the usefulness of core competencies especially in the traditional manufacturing sector appears higher compared to that in the high technology sector. In addition, the findings of this study are in line with the reports by Christopher (2006) in which it was noted that core competencies enhances the growth of an organisation and builds a competitive advantage.

Therefore, these sentiments confirm that core competencies influence the choice of competitive strategies in organizations including the banks. Furthermore, Kimathi (2012) is of the view that rivalry among competitors and threats by substitutes may seriously affect profitability of an organisation. Core competencies were applied in evaluating competitor's service delivery modes, capabilities and reactions to changes on Equity Bank's strategic goals. Moreover, Woodruff (2007) opine that developing core competence requires that a business entity must know who their rivals or competitors are including the competitors' strategies of attracting consumers and being successful in the market. Acquiring such details is vital for Equity Bank to formulate and make choices regarding its competitive strategies.

However, Equity Bank's strategies such as good customer service, market segmentation, and strong collaborations with western union linkages and all mobile phone companies are similarly to those of other banks in the Kenyan Banking Industry. Porter (1980) affirms in the strategic group's theory that a group of firms in an industry will follow similar or the same strategy along the strategic dimensions. Moreover, Hunt (1972) established that many firms in the same industry followed similar strategies. Besides, firms pursue effectively similar strategies wherever a leading group member acts as a reference point or benchmark leading to mimicry (Fiegenbaum and Thomas, 1995).

### 4.4.2 Comparison with other Empirical Studies

The main objective of this study was to establish the influence of core competencies on choice of competitive strategies at Equity Bank. The study found out that core competencies were very important in creating various competitive strategies as well as a promoting the bank's growth and organizational responsibility. Consequently, these results supports Barney (2007) who noted that core competencies in banks enable them to change the way they offer products and services with the intention to improve their competitive position. Hence, it can be recommended to Kenyan banks to use core competencies in building a competitive advantage.

The results presented also indicate that core competencies have been applied by Equity Bank in designing the bank's market growth strategy. It can therefore be concluded that core competencies play an important role in the development of marketing strategies that lead to the creation and sustenance of a competitive advantage for an organisation. As regards the findings that core competences are also important in the growth of the case study bank, Clemons and Row (2009) also found that managers of banks have a responsibility to establish creative marketing systems that enhance growth and competitive advantage and these are easily developed through core competencies.

Therefore, the reports from the previous studies have also supported the findings of this study that core competencies are applied in developing competitive strategies and enhance growth and competitiveness in Equity Bank. It was also interesting to find that core competencies were important in enabling competitive strategy of organizational responsibility. Moreover, an organisation that is socially responsible may attract valuable customers and investors which may increase the financial value of an organisation in the long run.

This is why Equity Bank offers Wings To Fly secondary school scholarships for top performing yet needy (Orphans and Vulnerable) students in the counties across Kenya. This scholarship support program is in line with Kenya's Vision 2030 to transform Kenya into a middle-income economy led by well-educated and trained citizens. Moreover, it offers employment for the best students in the Kenya Certificate of Secondary Examination (KCSE) in the districts where the bank has branches. These strategies in the opinion of respondents who took part in the study have enabled the bank to improve its image and affirm its identity in Kenyan banking industry. Additionally, the results of this study are in line with the earlier reports by Drejer (2010) who focused on organizational responsibility and competence development. Drejer (2010) further indicated that training of the staff members as an organizational responsibility increases performance levels, imports new knowledge and skills as well as develops the right business attitude. This aspect results in the development of productive staff at Equity Bank which contributes to the competitive advantage shown by the bank. In the results presented on the effectiveness of bank's strategies in gaining competitiveness, it was revealed that Equity

Bank applies core competencies in establishing Information Technology strategies that enhance systems which create competitive advantages.

The results presented also showed that Equity Bank applies core competencies in developing an Information Technology infrastructure which makes customer service quick and reliable, improves staff motivation, ensures better organisational management, facilitates strategic alliances and enhances efficient liquidity management. These are aspects that Griliches (2008) relate to core competencies which focus more on competition and the dynamic business environment. Based on these results, it can be concluded that core competencies provide skills necessary for the development of an Information Technology infrastructure that leads to the creation of a competitive advantage in an organisation.

With regards to hedging against challenges experienced in building competitive advantage, the findings of this study are in line with a number of past studies such as Gomez-Mejia (2008) and Hamel and Prahalad (2009). As expected based on their previous responses, majority of the respondents had mentioned the use of Information Technology as what is used by Equity Bank in hedging against challenges experienced in building competitive advantage. This supports the literature highlighted by Kimani (2011) that the bargaining power of customers for quality products and services may compromise the profitability of an organisation. Therefore, Equity Bank was able to create a competitive advantage by developing services that led to customer satisfaction and a good customer growth.

Strategic partnership was also named as a competitive strategy that enables the bank to acquire the targeted customers with ease without arousing competitive rivalry within the industry. The strategic partnership enabled the bank to reduce threats that would have been caused by alternative financial services such as the M-Pesa cell phone money transfer service. This aspect relates to the views of Mbwayo (2005) who notes that competitor analysis enables an organisation to identify its competitor's goals, achievements, strengths and probable reaction to organisation's strategies. The results lead to the conclusion that core competencies create a competitive advantage by developing strategies that are informed by understanding the competitive position of its competitors.

# CHAPTER FIVE: SUMMARY, CONCLUSION AND RECOMMENDATIONS

## 5.1 Introduction

This chapter presents the summary of key data finding, conclusions drawn from the findings highlighted and recommendations made. In the outline are also limitations of the study and suggestions for further research. The conclusions and recommendations were made based on objective of the study and recommendations given to address the value of the study.

## 5.2 Summary of the findings

Strong competition compels bank managers to develop business techniques and strategies that guide the organisation towards the maximisation of profits. The analysis of the findings of this study reveals that core competencies are useful in identifying competitive strategies that can lead to the maximisation of profits. However, core competencies have not been completely accepted in providing solutions that create competitiveness especially where the focus is on the integration of competitive strategies that relate to the internal business environment and the external business environment when creating a competitive edge.

The aim of this study was to investigate the role of core competencies in creating a competitive advantage in the banking sector with focus on Equity Bank. The analysis of the findings supports the idea that core competencies provide important knowledge and skills that lead to the building and sustaining of a competitive strategies in an organisation. Consequently, the findings are aimed at encouraging managers to appreciate and apply core competencies in building effective competitive strategies for their organisations.

In summary, it was demonstrated in the results that core competencies in an organization are vital in competitive strategies chosen and that they played very important roles in growth, competitiveness, organizational responsibility and financial performance of the case study organization. In addition, a number of strategies influencing Equity Bank's expansion and growth were presented and included targeting low income earners and unbanked population, technological innovation, strong credit policies and procedures effectively communicated throughout the bank, strong risk management procedures, competitive products implemented for all lending areas based on Equity's strategies, strong organizational structure clearly outlining roles, responsibilities and reporting lines, tailored training curricula and internal trading capacity, good credit scoring and rating models which are appropriate to ensure better credit decision making, and strong collaboration.

The respondents also generated rated Equity Bank's model of serving the low income segment and unbanked population to be very successful. It was also found that bank's strategies in gaining competitiveness were very effective. Finally, how Equity Bank hedges against challenges experienced in building competitive advantage were also detailed.

These information leads to the conclusion that core competencies were important in identifying opportunities that may have created a competitive advantage for the bank. The aspects enumerated relate to the external environment for the bank. Hence, core competencies provide strategies that enhance the competitiveness of an organisation. In addition, the respondents mentioned that core competencies were very important in developing the financial products that would best serve the needs of the customers identified. They further stated that the profitability and high growth levels of the bank can be directly attributed to the abovementioned customer groups. This indicates that core competencies are very important in the creation and sustainability of competitive advantage for an organisation.

## 5.3 Conclusion

The main purpose of conducting this study was to examine the relative usefulness of the concept of core competence in influencing choice of competitive strategies in Equity Bank. Based on the results presented and discussion above, it was clear that core competencies allowed Equity Bank to plan its choice of competitive strategies which enabled the bank to be one of the most successful banks in the Kenyan banking industry and outperform its rivals. Consequently, Equity Bank improved its products and services in order to benefit the customers which results from competitive advantage and core competencies. Reports by Kimathi (2012) who conducted a case study of Equity Bank and its competitors concluded that despite other factors that play a big role in Equity Bank's competitive advantage over its competitors, understanding the business competitive strategies of the rivals enabled Equity Bankto generate new competitive strategies and eventually outperformed a number of its rivals in the Kenyan banking industry.

Equity Bank needs to engage more in corporate social performance so as to gain more competitive advantage over its rivals and increase its customer bases. Moreover, since competitive strategy is vital for achieving success in firms as reported by Veliyath and Fitzgerald (2009), Equity Bank can innovate and develop more ways of excelling in strategic areas like products offered, technology and production capability, market needs, profit/return, growth/size and sales approach. Pearce and Robinson (2007) also indicated that core competencies are essential in defining a company's priorities and choice of competitive strategies.

## 5.4 Recommendations

This study found that core competencies are very important in the choice of competitive strategies and hence creation of a competitive advantage in an organisation especially in the banking sector. In view of the above, the researcher recommendations the following for the government or policy makers, the financial institution managers, and bank customers:

The government should give special consideration to financial organisations that serve the low-income end market. The study has indicated that the Equity Bank's model of serving the low-income and the unbanked population has had a positive impact in encouraging the low-income and the unbanked Kenyan citizens to participate in the economic development of the country hence improve their livelihoods and standards of living.

Financial institution managers are recommended to embrace development of core competencies and competitive strategies as an integral part of their responsibility. Core competencies are also vital for value creation and for the creation of a competitive advantage in the organisation. This is important especially in the banking sector where competition and flexibility of a customer's loyalty pose a challenge to many bank managers.

Financial institutions especially banks should embrace the use of Information Technology to effectively and efficiently offer services to their customers**.** This study found that Information Technology enables an organisation to interlink with businesses that have diverse activities hence making Information Technology an important instrument for outsourcing, information sharing and remote access of information especially with regard to financial transactions.

Equity Bank should improve its core system that will prevent system failures and enable efficient and effective delivery of services to its large customer base thus reduce the long queues hence improve the turnaround time.

Based on the results presented, it can be posited that core competencies were quite useful in arriving at the competitive strategies at Equity Bank hence further recommendations in areas where core competencies could be applied in an effort to create a competitive advantage include reaching the mass market by collaborating with institutions that serve a large number of low-income clients such as small-scale farmers and entrepreneurs. In addition, Equity Bank should identify special financial products such as the youth and women funds, open branches in areas where other banks classify as high risk areas, for instance, in the slums and in rural areas, and integrate social, environmental and corporate governance considerations into the bank's operations.

Low-income earners and unbanked population should feel encouraged to take advantage of the friendly financial and none-financial services offered by the emerging banks such as Equity Bank in boosting their economic status thus transforming their lives and livelihoods.

## 5.5 Limitations of the study

The limitations encountered in this study revolved around time since a number of managers at Equity Bank had tight schedules and some were not willing to take part in the study due to unavailability of free time. However, since the study used a qualitative approach where interviews were conducted, the sample size required was small thus obtaining the number of respondents desired was relatively easier.

Another limitation was that conducting interviews required that the respondents were to be engaged in the interview for relatively a considerable amount of time in order to investigate the phenomena in-depth and ask all questions relating to the subject. Moreover, these interviews were conducted within the bank at the respective offices of the managers, hence the interviews faced a number of interferences from other bank employees who were contacting the managers for one reason and the other.

Using qualitative study and involving a small number of respondents may have also been a limitation unlike if qualitative study involving higher number of respondents was used. That is, when the sample size is small like in qualitative studies then the representativeness of the target population may not be very high.

## 5.6 Suggestions for further research

This study has identified the importance of core competencies in choice of competitive strategies and building a competitive advantage in an organisation. This leads to the suggestion for further studies that will develop a model that assists micro-financing organisations or banks (in developing countries) with using core competencies to become competitive. The study also found that core competencies are needed in the future where the distinct organisational functions converge to exist as one integrated function. Future research should focus on the interrelation of diverse businesses and the role that physical contact with customers plays in the organisation's overall success.

It was found that most studies focused on senior and middle managers on studies of core competence and competitive strategies/advantages. There is no special research relating to lower management and non-management especially at Equity Bank where proposed bank's changes by the staff are seen as new suggested innovations and therefore kept confidential by all staff as per the bank policies. It is important to study different ways in which employees contribute to development and choice of competitive strategies and how they go about it.

One of the areas that may be interesting to look into is the different forms of management in cross industry alliances. It could highlight whether different forms of management in terms of whether a combined management team is created, or whether separate organizational teams are used to manage the alliance or perhaps a combination of both. It would be interesting to see the advantages and drawbacks of different methods, as well as which method has been most effective in alliance management.

Another research area may include the analysis of the alliance based on the other party's perspective i.e. the mobile phone company. This could be in terms of the benefits they are gaining through this alliance and perhaps whether they are able to exploit the alliance further to gain more than financial resources. A focus on their relationship with different banks and how these relationships affect each other would also provide an interesting view on alliance portfolio management.

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# APPENDIX: INTERVIEW GUIDE

## Introduction

This study is about core competencies and competitive strategies of Equity Bank. All the information you provide will be kept confidential and used for academic purposes only hence your identity will be anonymous.

## SECTION A: Background information

1. How long have you worked in Equity Bank?
2. What is your current position held?
3. How long have you worked in this position?

## SECTION B: Core competency and choice of competitive strategies

1. How important do you find core competencies in the bank's growth, competitiveness, organizational responsibility and financial performance?
2. What strategies may have influenced the bank's expansion and growth?
3. How successful is the bank's model of serving the low-income market and the unbanked population?
4. How effective do you find the strategies used above in gaining competitiveness?
5. How do core competencies influence choice of competitive strategies in Equity Bank?
6. How does the bank hedge against the challenges experienced in building competitive advantage?