STRATEGIC RESPONSES AND COMPETITIVE ADVANTAGE OF COMMERCIAL BANKS IN KENYA: A CASE OF EQUITY BANK BRANCHES IN NAIROBI CITY COUNTY

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JULY, 2017
DECLARATION

This Project is my original work and has not been presented for a degree at any other University or for any other award.

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DECLARATION BY THE SUPERVISOR:

This Project has been submitted for examination with my approval as Kenyatta University Supervisor.

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DEDICATION

This work is dedicated to my family who have been my source of inspiration and motivation.
ACKNOWLEDGEMENT

To the Almighty God, I thank you for gift of good health, blessings and your protection throughout this course. I will live to Worship you, Great is thy Faithfulness. To my Supervisor Dr. Jane Wanjira, you are a great mentor and teacher. Doing this project under your instruction and guidance was great and I have gained a lot and May God blesses you.

To my dear Husband Isaac and my son Jayden you are my great motivation, your patience and support is a challenge, you are my greatest and closest friends. I pray that God may grant us long life so that we can do more together. To my Dad and my Sister thank you for your endless encouragement.

I also acknowledge Equity bank management for their support in this work during data collection.
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ABBREVIATIONS AND ACRONYMS

ATM  Automated Teller Machines
CA   Competitive Advantage
CBK  Central Bank of Kenya
CEO  Chief Executive Officer
CRM  Customer Relationship Management
DPF  Deposit Protection Fund
ICT  Information Communication and Technology
KBA  Kenya Bankers Association
KRA  Kenya Revenue Authority
SACCOS  Savings and Credit Cooperative Societies
USA  United States of America
# OPERATIONAL DEFINITION OF TERMS

<table>
<thead>
<tr>
<th>Term</th>
<th>Definition</th>
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<tbody>
<tr>
<td>Strategy</td>
<td>is the organization’s scope over a long period of time to gain a competitive advantage in case the environment changes</td>
</tr>
<tr>
<td>Strategic Response</td>
<td>This refers to the decision and the actions that Equity bank will adopt to remain competitive.</td>
</tr>
<tr>
<td>Competitive advantage</td>
<td>This refers to the activities that will give EquityBank superior value above its rivals</td>
</tr>
<tr>
<td>Positioning</td>
<td>This refers to the strategic changes in the organization pricing model, products, services and market in order to cope with a changing environment</td>
</tr>
<tr>
<td>Market segmentation</td>
<td>Refers to the act of grouping the market of an organization according to consumer needs</td>
</tr>
<tr>
<td>Business acquisition strategy</td>
<td>It is a strategy involving acquiring another business entity or merging businesses for competitive advantage</td>
</tr>
<tr>
<td>Diversification</td>
<td>Is a strategy that involves expansion of an organization’s products, markets or services</td>
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ABSTRACT

When there is an increase in competition of an industry, the profits by the members reduces. The banking sector in Kenya is no exemption, and thus, the commercial banks are formulating strategies to survive. The main objective of the study was to establish the effect of strategic responses on competitive advantage of commercial banks in Kenya focusing on Equity bank while the specific objective of the study were to examine extent to which strategic positioning, strategic outsourcing, market segmentation and mergers and acquisitions affects competitive advantage of Equity bank. The study was guided by three theories namely resource based theory, resource advantage and resource dependence to explain the responses adopted by banks to gain competitive advantage. This study adopted descriptive cross section survey design. The unit of analysis was branches of the bank. Equity Bank maintains a network of 135 branches across Kenya, which includes 38 branches in Nairobi; therefore, the population was 135 branches of Equity Bank. The target population was the 38 branches in Nairobi County. The respondents of this study were top and middle management employees Equity Bank branches in Nairobi County. Stratified sampling method was used to group branches of Equity Bank into strata and afterward simple random sampling was subsequently be used. The study used primary data to achieve its objectives. Descriptive and inferential analysis were conducted on the quantitative data. The study findings indicated that strategic positioning, strategic outsourcing, market segmentation and mergers and acquisitions were practiced to a large extent by Equity Bank Kenya. The results further indicated that all the four strategic responses that is strategic positioning, strategic outsourcing, market segmentation as well as mergers and acquisition had a positive and significant effect on competitive advantage of Equity Bank. The study hence recommended that Equity bank and other commercial banks should invest more resources in strategic positioning practices like horizontal strategic alliances with peer companies in banking, downstream vertical strategic alliances with marketing firms and strategic alliances which stimulate generative knowledge flow so as to gain more competitive advantage in the banking sector. Furthermore, Equity bank and other commercial banks should engage more in strategic outsourcing in order to reduce/control costs, to gain access to world-class capabilities, to free up resources for other purposes, to free up resources for other purposes, as a way of sharing risks and due to lack expertise or difficulty in management so as to gain more competitive advantage in the banking sector. Another recommendation made by the study is that Equity bank and other commercial banks in Kenya should include market segmentation among their strategic responses since it leads to a positive significant effect on competitive advantage. They should engage in designing services perceived as unique by the clientele, geographical segmentation to develop products fitting a certain geographical area, differentiation based on the understanding of unique customer needs and seeking to meet them, demographic segmentation by developing products fitting certain demographic characteristics and designing services perceived as unique by the clientele. The study finally recommends that there is a need for commercial banks to also give mergers and acquisition a consideration in their strategic response as it leads to a positive and significant improvement in their competitive advantage.
CHAPTER ONE

INTRODUCTION

1.1 Background to the Study

There has been an increase in the external environment turbulence and hence, there is a need for organizations to settle on a strategic behaviour which can help it maintain its competitiveness. There is also a need for an organization to develop the best capabilities to help it transition (Acur & Englyst, 2006). Through a better choice of strategy, a company can improve its performance within a competitive industry. Porter (2008) argues that a competitive strategy helps a firm maintain its performance as well as cope with the turbulence in the environment. There is hence a need for a firm to position itself so that the environment acts in its favor.

Competitive advantage is crucial for earning and sustaining superior performance. The level of performance is in turn directly related to the strategies the organization adopts and its implementation of the same. Gunasekaran, Lai & Cheng (2008) asserted that any business strategy capable of success must be grounded in competitive advantage and have an edge over the competitors. Johnson et al. (2008) further argued that an organization can only achieve competitive advantage over others if it has capabilities that the others do not have or have difficulty in obtaining. These include powerful brands, prime location, intellectual capital, a particular outcrop of minerals among others.

In order to maximize its capabilities an organization must effectively exploit its core competencies. Organizations must also focus on achieving competitive advantage that can be preserved over a long period of time. This is because a company’s prosperity is dependent on how powerful and enduring its competitive advantages are (Tilson, 2000). Ruiz-Mercader, Meroño-Cerdan & Sabater-SáNchez (2006) agreed that the most important factor for achieving long term success is if a firm can be able to maintain a competitive edge over the its competitors.
One of the ways of a firm achieving a competitive edge over the rivals is by implementation of a strategy not familiar with its competitors in that they are unable to replicate the same (Hornsby, Kuratko, Shepherd & Bott, 2009). There is hence to relook at the strategic intents of companies.

The Kenyan banking sector has of late been characterized by pressure and competition. There has been a change in the customers’ demands and tastes due to more information. There has also been a change in the external environment due to business liberalization as well as political stability and information flow. This has led to massive competition in the sector. There has been a need for commercial banks to respond to these changes in the environment of operation by developing response strategies.

Thompson, Strickland and Gamble (2008) revealed that competitive strategy involves a plan which can aide an organization to be able to compete with the rivals and at the same time have a competitive advance over them. Competitive advantage enables profitability and sustainability of an organization in a competitive environment (Porter, 2008). Thompson et al. (2008) argues that a competitive advantage helps an organization to knock off the competitors through better customer satisfaction and preference achievement.

Johnson and Scholes (2008) argue that competitive advantage enables a company to respond strategically to changes in the environment because it has fully prepared itself for any changes in the environment. A choice of a strategy can enable a firm to improve its position or to be worse off in a competitive industry hence either improving the performance of an organization or shaping the environment to favor the company.

1.1.1 Strategic Responses

Strategy is the organization’s scope over a long period of time to gain a competitive advantage in case the environment changes (Johnson, 2015). It enables an organization to reorganize its resources in the long run in order to gain a competitive advantage and fulfill what the stakeholders expect. An organization reorganizes its external environment, the resources and the missions, visions as well as objectives so as to meet the expectations of the stakeholders.
Lee & Grewal (2004) argue that strategic management combines various organizational activities so as to be successful. In simple terms, strategic management is the highest level of managerial functions normally conducted by the company key people including the members of the committees, directors, chief executive officer and the executive teams so as to provide the final direction for the firm to follow.

Ansoff and McDonnell (2000) define strategic response as the art of formulation, evaluation as well as implementation of specific key decisions which aim to enable an organization be sustainable and achieve its targets even in a turbulent environment. It involves a clear specification of company’s objectives, policies as well as plans. Generally, it surrounds the changes in the behaviour of an organization with regard to the environmental changes.

Ansoff (2008) argues that strategic responses may vary from diversification of the prices, products, markets and services, coming up with new ways of customer management, innovations such as information technology as well as mergers and acquisition. Strategic responses cannot work where there is poor analysis of the company’s internal and external threats and strength. There is a need to relook at the strength, weaknesses, opportunities as well as the political stability, environmental factors, technological changes, economic environment as well as social environment (Thompson & Strickland, 2003).

Grant (2011) argue that the outcome of strategic responses highly depend on the environment surrounding the business. The social context, political context, environmental context, social context and economic context which an organization operates in influences the success rate or implications of its strategic response. There are also internal determinants of the success rate of a strategic response such as the resources that a company has, the total assets allocated towards implementation of strategies, the employee’s capabilities, the organizational systems and technology (Peteraf & Barney, 2003).

Strategic responses have been associated with an improvement in performance of organizations. Nganga (2014) as well as Mugo (2014) identified a positive relationship between strategic management practices such as visible leadership, effective customer service, customer awareness,
strategic positioning, strategic outsourcing, market segmentation and mergers and acquisition to good performance (Sohl, 2012).

One of the strategic responses to a competitive environment is strategic positioning which is involved with how the external environment, resources of a company and capabilities as well as stakeholders influence. These factors collectively decide the strategic position of a firm (Johnson & Scholes, 2005). It is relative to the competition available, other players available and the constituents of an industry. It helps to create the identity of an organization and distinguish it from the rest of the competitors. In short, it creates a presence which enables a firm to attain its goals easily (Johnson & Scholes, 2005).

Another strategic response is outsourcing the core or non-core activities which are a strategic decision for banks, as it can affect the quality and cost of services and above all the bottom-line of a bank. The maintenance of information technology emerges as a major activity to outsource the world over. There are e-business suites on demand offering a complete and cost-effective package for administering, managing and maintaining information technology (Drozdenko & Drake, 2002). An example of outsourcing core activities in the banking sector is where banks decide to focus purely on loan origination and pass on loan management to other companies through securitizations. Another example is the emergence of asset reconstruction companies, which exclusively focus on delinquent loan collections, while banks concentrate solely on origination and servicing of loans. In the private sector we also see outsourcing of customer servicing activities through call centers.

There is also another strategic response which is market segmentation. It is the classification of the market into distinctions with similar needs. The process involves identification, selection and evaluation of the markets before categorization. The most critical factors that aide the process is the geographic characteristics of an area, the demographic characteristics of the occupants of the area and the data on attitude. Market segmentation helps to retain high profits by identification of characteristics which are similar with an aim of tailor providing services (Drozdenko & Drake, 2002).
Furthermore, a company can also use mergers and acquisition to respond to the changing environment as well as to expand its market especially into new territory. The strategy helps firms to get hold of new customers and markets, to cut costs of operation as well as be able to come up with new products as well as technologies for production (Welch & Welch (2005). The strategy can be used to penetrate new markets, develop new markets, penetrate products into the market as well as diversify the operations of a company to other sectors (Ansoff, 1965).

1.1.2 Competitive Advantage

A business cannot avoid competition from its competitors. The magnitude of the competition heavily relies on the market which a business operates in (Hamel & Prahalad, 2003). To manage this competition, there is a need to have strategies so as to have a competitive advantage over the competitors. Competitive advantage can be defined as having sustained above normal returns in an organization for a long period (Scott and Davis, 2015).

When a company is able to have an edge over their competitors in terms of access to customers and being able to hedge appropriately against forces in the environment, then it’s termed as having a competitive edge over its competitors (Thompson & Strickland, 2002). The main factors that yield competitive advantage is the firm’s core competencies (Prahalad and Hamel, 2000). According to Prahalad and Hamel (2000), an organization is said to be at a point of being labeled core competent if it has successfully harmonized the complex systems such as technology as well as work activity. A core competent company is able to access the markets widely, increase customer satisfaction and is unpredictable where it can’t be imitated by its competitors. By the end of the day, the ultimate results of a competitive company are products of high quality, high customer satisfaction and lower costs of production in comparison to the competitors.

Porter (2004) argued that for a firm to be competitive, it heavily relies on how sustainable the competitive advantage they command are. There has been an increase in competition in the banking industry that saw a number of commercial banks go global over the border. To enter a new market, Dulo (2006) argues that a company needs to re-evaluate its entry strategies and be
able to build a competitive advantage over time so as to be able to protect its competitive position.

Banks use a myriad of strategies to respond to competition or any force in the external environment. These are grouped as asset and liability strategies, market strategies, human resource strategies, information technology strategies, and organizational strategies. These are the strategies that have been used by banks in the past in other countries. The variables of interest to this study are the market strategies. The strategies here include segmentation, price, delivery and distribution, extending products, and promotion (Trethowan & Scullion, 2007).

1.1.3 Commercial Banks in Kenya

The financial institutions in Kenya consist of the CBK as the regulator, bank financial institutions, those that do not offer banking services, currency trading exchange and savings and credit institutions as the controlled bodies. The banking sector comprised offorty threefinancial institutions by end of 2015. The financial institutions provide joint and market financial assistance even though few of them particularly a small number, mainly comprising the big financial institutions, also provides speculative banking. The role of banks in an economy is paramount because they execute monetary policy and provide means for facilitating payment for goods and services in the domestic and international trade. Commercial banks are custodians of depositor’s funds and operate by taking moneysecurity from the business minded individuals and giving needy ones loans at statutorily allowed interest rates. Loans are based on the credit policy of the bank that is tightly coupled with the central bank interest rate policy. These in effect determine the level of financial risk in a particular bank (Annual Bank Supervision report (2015).

As a compliance measure, Central Bank of Kenya conducts intrinsic and extrinsic monitoring of the financial institutions activities. An intrinsic monitoring entails daily checks carried out by the central bank of Kenyapersonnel at the individual financial institution to determine whether their daily transaction details tally with the stipulated conditions in place as stated by the regulator. Moreover, extrinsic monitoring involves reexamination of the intermittent entry forwarded to the central bank of Kenya by the banking institutions. The monitoring operations are guided by stipulated guidelines put in place for evaluation and ranking procedures and any
institution violating the said regulations is disciplined as provided for in the guidelines (Annual Bank Supervision report, 2016).

1.1.4 Equity Bank Limited

The bank started as a building society in the year 1984 in Muranga and its main focus was the mortgage sector, however, it expanded rapidly and was later converted to a bank come the year 2004. The bank started by targeting Murang’a Tea Zones which had no cooperatives SACCOS offering banking services then and that played a significant role in the break-even of the company. The target of the commercial banks was also small scale farmers then but at the moment it’s a giant in corporate as well as investment banking (Equity Bank, 2016).

At the moment, the commercial bank has subsidiaries across countries in Eastern and Central Africa and has been listed at the Nairobi Securities Exchange, Uganda Securities Exchange as well as the Rwanda Stock Exchange. It has over eight million accounts which translates to over fifty percent of all the bank accounts in Kenya and has been termed as the largest bank when rated based on the customer base (Equity Bank, 2016).

The banking sector has been characterized by massive competition which saw commercial banks come up with various products to compete. Equity bank was the pioneer of the agency model and it has served it well. At the moment, the model has been replicated by other commercial banks. Agency model was very successful in Kenya and the bank decided to replicate in other countries like Rwanda and Tanzania. The bank has 152 branches in Kenya 8 in Rwanda and 5 in Tanzania the bank has over 7720 agents in Kenya and thousands of ATM around the regions (Equity Bank, 2016).

1.2 Statement of the Problem

According to Onuonga (2014), the commercial banks in Kenya have suffered mixed performance over the last decade. Due to this, the banking sector has tirelessly aimed to turn around these mixed results by implementing a number of reforms which were aimed to improve the stability, productivity as well as increase the financial inclusion and efficiency in this sector. The performance of the sector on average has been below expectations (Onuonga, 2014).
The same can be seen in the unsteady increase in the profits before tax for the banking sector which has been below 20%, a good case being between the year 2008 and 2013. The lowest increase between the year 2008 and 2013 was a 12.9% increase in the year 2009 which was a drop from 13.4% in the year 2008. By the end of the year 2013, there was a small increase of 16.6% which was still below the 20% figure (Onuonga, 2014). This was despite the fact that reforms have been implemented in the sector.

The year 2010 is the only year that PBT increased by around 52 percent. This trend is not impressive given that a lot of reforms have been put in place to enhance performance of the banking sector (Onuonga, 2014). There is need of the firms and especially banks to implement responsive strategies to gain competitive advantage over their rivals if they have to remain in the highly competitive banking Kenyan market which is overbanked. These strategies include mergers and acquisition, strategic positioning, strategic outsourcing, market segmentation among others.

Studies conducted on strategic responses have indicated scope and conceptual knowledge gaps. Studies for instance Oliver (2001) focused on typology of strategic responses in active organizations, Munir, Baird and Perera (2011) conducted on the strategic responses adopted by the banking sector but not commercial banks, Mutua (2010) focused on strategic responses by the deposit protection fund (DPF) board and Mwithiga (2013) did a study on strategic responses adopted by SACCOS to the Changing Operation Environment presented a scope gap as they were outside the context of commercial banks. Other studies that addressed strategic responses are Mwangi (2010), Chepkiyeng (2011), Mwithiga (2013), Marete (2007), Mudanya (2007), Odongo (2008), Wairimu (2008), Ombok (2009). These studies indicate conceptual knowledge gaps due to the differences in the strategic responses investigated. This indicates that the strategic responses have not been investigated exhaustively. Furthermore, there is also a difference in contexts of the studies. Various sectors have been focused on. There is a need to focus on the banking sector and compare the findings with the other studies. There was also a methodological knowledge gap as the current study focused on a case study in order to have an in depth analysis of the situation.
The knowledge gaps indicate a need to focus on strategic responses and competitive advantage. The environment in which businesses operate from time to time brings threats from all the forces and when a firm fails to respond to a threat, the losses that result continue to accumulate (Maina and Manyara, 2004). To respond accordingly, there is a need to establish the various strategic responses and their effect on competitive advantage before adopting the most suitable. With knowledge gaps in previous studies on the same theme, this study sought to establish the impact of strategic responses on competitive advantage of commercial banks in Kenya taking a case of Equity bank.

1.3 Objectives of the Study

1.3.1 General Objective

The main objective of the study was to establish the impact of strategic responses on competitive advantage of commercial banks in Kenya a case of Equity bank.

1.3.2 Specific Objectives

The specific objectives were.

i. To determine the extent to which strategic positioning affect competitive advantage of Equity Bank.

ii. To establish the extent to which strategic outsourcing affect competitive advantage of Equity Bank.

iii. To establish the extent to which market segmentation affects competitive advantage of Equity Bank.

iv. To establish the extent to which mergers and acquisition affect competitive advantage of Equity Bank.

1.4 Research Questions

i. To what extent does strategic positioning affect competitive advantage of Equity Bank?

ii. To what extent does strategic outsourcing affect competitive advantage of Equity Bank?
iii. To what extent does market segmentation affect competitive advantage of Equity Bank?
iv. To what extent does mergers and acquisition affect competitive advantage of Equity Bank?

1.5 Significance of the Study

The environmental conditions currently facing commercial banks are different from those of past decades. At the moment, the banking sector in Kenya is experiencing tremendous technological changes, economic instability, cut throat competition, rapid sociological changes and governmental policies. These changes in the business environment determine the success and profitability of commercial banks. To be competitive, commercial banks need to establish the right response strategies. Strategic responses provide the means of establishing the organizational purpose in terms of long term objectives, action programs and resource allocation.

It is a response to external opportunities and threats in order to achieve sustainable competitive advantage. This study was hence timely in establishing the strategic responses which commercial banks can use to remain competitive. The study also established the effect of these strategic responses to competitive advantage. The recommendations of the study are hence relevant to the management of commercial banks operating in Kenya, the banking sector regulator, the policy makers and the researchers in the field of finance.

1.6 Scope of the Study

This study was limited to the impact of strategic response on competitive advantage. The specific strategic responses that were assessed include strategic positioning, strategic outsourcing, market segmentation and mergers and acquisition. The research was focused on Equity Bank branches located in the Nairobi County as they was easy to access and the top management main branches is always involved in overall management of Equity Bank, and the target population was the top management and middle level management.
1.7 Limitations of the Study

The study faced challenges during the data collection stage. Since the concept of strategic response is sensitive, respondents felt uncomfortable giving information freely as there was a feeling that the responses could be shared with competitors. However, the researcher assured the respondents that all the information provided was considered private and confidential for the purpose of academic research only. The respondents were also asked not to indicate their names on the questionnaires. Furthermore, there was a problem with time of the respondents due to their busy schedules. To mitigate that, the researcher gave the respondents more time to respond to the questionnaires.

1.8 Organization of the Study

The project has five chapters in total. The first chapter has discussed the background of the study to help clarify how the variables relate to each other and also bring about the need for the study. It has also presented the statement of the problem as well as the objectives, significance and limitations of the study. The second chapter presented the review of both theoretical and empirical literature where the research gaps were presented.

There was also a figurative presentation of the conceptual framework linking the study variables. After which the methodology of the study was brought out in the third chapter where methods of data collection, population, analysis techniques were discussed. After data collection, the analyzed data is presented and explained in Chapter four part of the project. Lastly, the study presents the conclusions, recommendations and areas of further study in the last chapter, which is chapter five.
CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter presents the literature in line with the impact of strategic responses on competitive advantage of commercial banks. It also presents theoretical framework and conceptual framework for the study.

2.2 Theoretical Review

A theoretical review is conceived by study as the structure that theorizes there search problem, and guides knowledge making process. The study was anchored on three theories namely resource-based view, Resource advantage theory and porter’s five forces theory.

2.2.1 Resource-based theory

The theory posits that resources are the main drivers of an organization’s competitive advantage as well as good performance. This resources are however hard or costly were it to be copied as well as being valuable (Peteraf & Bergen, 2003). The resources come in form of physical assets as well as the capabilities (Mills, Platts & Bourne, 2003)

According to an assessment by Barney (1991), a firm’s resources play a critical role in improving its competitive advantage and the resources must first possess four main characteristics that is ; highly valuable, very rare, hard to imitate and difficult to substitute. According to him, the resources ranges from physical assets a firm has, the capabilities of the human resource, the processes of the organization, attributes of the firm, rare resources such as information as well as knowledge about the market and competitors. These factors can play a huge role in a firm being able to create a competitive edge over the rival firms.

The relevance of the theory to the study is in addressing both the strategic positioning and strategic outsourcing variables in which the firms can use their resources to gain competitive advantage and this theory addresses the firms, who use resources to position themselves where competition is stiff.
2.2.2 Resource advantage Theory

The theory heavily rely on the marketing’s heterogeneous demand theory which was proposed by Alderson (1965). The theory argues that there is heterogeneous demand in the market whereby various consumer tastes are required for various markets segments in a wider market. A firm can only be able to do well in such markets if they are able to cope with the different demands and that can only be achieved through competitive advantage realized through strategic positioning (Porter 1985). In such a market, a firm can have both efficiency advantage and effectiveness advantage. For the case of efficiency advantage, a firm is able to produce products of high value efficiently and for the case of effectiveness advantage, a firm is able to produce products of value more efficiently (Alderson, 1965). Such firms are said to have resource advantage.

Some of the previous application of the theory is in a study by Ngonjo and Sindani (2013). They argued that, the underlying factor behind competitive advantage is resources and capabilities. This theory informs the study as it explains the strategic outsourcing variable of this study which various firms such as Equity Bank use to gain the competitive advantage over their competitors.

2.2.3 Resource Dependence Theory

This theory arose from the fact that firms are not able to solely generate their resources internally and as such, they are forced to enter into external agreements and transactions so as to be able to gain more resources to give them a competitive edge. The theory in itself provides some of the adaptation strategies which companies can put in place in order to survive a turbulent regime (Pfeffer & Salancik, 1978).

The main critics of the theory have highlighted its inability to address the social and cultural issues in the organizational environment (Pfeffer & Salancik, 1978). The Institutional theory however takes care of these issues. The relevance of the theory lies in its ability to explain why some firms succeed and why others don’t succeed in this equally competitive environment. The theory explains that the recipe for competitive advantage lies in the dynamic capabilities of a firm.
Dynamic capabilities of a firm enable it to develop strategies which enable it to adapt to the changing environment appropriately (Teece et al., 1997; Eisenhardt & Martin, 2000; Teece, 2007). The theory is relevant to the study as it addresses the merging and acquisition which are done by the firms to increase their resource and presence in the market. Equity bank has merged with other firms in Kenya in pursuit of providing available and accessible services.

2.2.4 Porter’s Five Forces Model

The basis for this model is the industry positioning and structure. Out of understanding of these structures and positioning, as well as the complex systems and how attractive an industry is, does competitive advantage arise (Porter, 2002). Competitive advantage seeks to change the rules of the game, the systems of the industry to the advantage of the player. Hence, the five forces are the determinants of the profitability of the players and the attractiveness of one player against the other.

Profitability is guided by how much value is created by a firm while on the other hand, the structures that make up an industry determines who is capable of capturing this value. The positive point is that, the industry structures don’t imprison firms and as such, firms can influence the structure to their advantage through competitive edge (Porter, 2002). This theory is relevant to the study as it addresses the market segmentation which firms do in order to gain competitive advantage through provisions of goods and services affordable to their target market.

2.3 Empirical Review

This section presents scholarly review of literature on both the dependent and independent variables that the study wishes to address and their interrelationship.

2.3.1 Strategic Positioning

Bischoff-Turner (2008) argues that in most cases, situation analysis yields strategic positioning. In order for a firm to be able to communicate the uniqueness and the value of its brand well, it needs to be strategically positioned. The process of attaining brand positioning involves first being able to identify the firm’s competitors of its product or service, know how the competitos are positioning their products and services, know their own positioning plan for the case of a
startup business, compare this positioning plan to that of the competitors so as to be able to establish the key differentiation point and after establishing these points, create a positioning which is strategic enough to handle customer value across various target points and market through the media, public relations as well as websites (Ries & Trout, 1981).

Kairu (2013) studied the effect of strategic responses on Kenya Revenue Authority operational performance. The research design used for this study was descriptive survey design. The population of this study was top management, middle management and supervisory employees of Kenya Revenue Authority. The study found that ICT, staff training, customer relationship management and strategic partnership practices in KRA positively affects performance.

Mwithiga (2013) conducted a study on strategic responses adopted by SACCOS to the Changing Operation Environment in the Kenyan Financial Sector. He found out that Strategic responses adopted by SACCOS made them more competitive in the Kenyan Financial Sector. The context of this study was not among the commercial banks though.

### 2.3.2 Strategic Outsourcing

The concept of outsourcing is as old as the existence of the human community. As everyone in the civilized work environment focuses on his or her core competency, everything else is outsourced. However, with the division of labor and specialization of occupation, the complexity of functions has increased and the core competency has become more narrowly and clearly defined. In terms of outsourced activities, these typically begin with non-core activities (such as HR administration, payroll, travel logistics, IT infrastructure, etc.) and go on to the core operational areas of the institution.

Banks need to keep in mind the rationale behind outsourcing before defining outsourcing priorities. The focus in outsourcing has often been on cost saving, as specialized entities can provide the same services at a lower cost due to learning curve efficiencies and economies of scale/scope (scope because they can apply best practices of one industry in another industry). Drivers for outsourcing also include the need for consistency in processes. In addition, outsourcing enables banks to free employees for areas more aligned with the core
competency/strategic priorities and other activities like business development. Before a bank decides to outsource a particular activity, it has to be convinced that it is comfortable sharing information regarding its employees, customers and business with the outsourcing entity.

Muchangi (2014) carried out a study on strategic responses of commercial due to a competitive environment and its effect on performance taking a case of Bank of Africa using a descriptive survey design. The respondents targeted were 1040 employees of the commercial banks. The results revealed that the bank focused on revising its human resource strategies in order to get the best out of the employees by for instance, incorporating training in the programmes of the company. The focus was on a few strategic responses leaving a room for more exploration of other strategies.

A study by Broedner et al (2009) focused on how outsourcing affects the productivity of a company. Some of the outsourcing practices established was the vertical integration decision. The results however revealed that vertical integration decisions don’t follow a sound decision making scheme rather a fad.

Nyamai (2011) on the other hand focused on, insurance firms and how they respond to the competitive environment. The main focus was Jubilee insurance company. The results revealed that Jubilee responds to competitive environment through development of new products, market segmentation, improving their customer service as well as motivating their employees and adopting a state of the art IT systems. The study addressed various responses but mainly was internal and thus the firm addressed responses that aimed it to remain competitive among other firms.

On the other hand, Ramona (2008) sought to establish how Barclays bank coped with the changing environment in the banking sector in Kenya. The results showed that among the strategic responses the company has been implemented is product and service reinvention and development, use of highly skilled labour, outsourcing support externally and managing their staff requirements threshold. The studies addressed various responses but mainly were internal and thus the firm addressed responses that aimed it to remain competitive among other firms.
2.3.3 Market Segmentation

In order for a manager to establish the best marketing mix to be used to serve a certain unique segment, of course based on the characteristics of that segment, there is a need for market segmentation. The process generally involves partitioning the market into segments based on characteristics which can aide in tailor making services which can in turn help a company have a competitive edge over the competitors (Dorf, 1999).

It is basically involves identification of buyers with similar characteristics and coming up with a marketing mix or product and service mix that suites them (Welch & Welch, 2005). A study by Nyamai (2011) established that Jubilee Insurance Ltd responded to economic environment and changes in the Insurance Industry in Kenya through strategic choices which included: new products development, entering new markets, improved customer service, employees’ motivation and adoption of state of the art of information technology systems.

On the other hand, Kibe (2008) sought to establish the effect of strategy implementation on performance of Equity Bank Limited. His study established the bank deployed various strategies in order to gain a bigger market share. The study failed to address the response strategies to gain competitive advantage.

Another study was carried out by Njenga (2015) who focused on linking mobile banking to competitive advantage of commercial banks in Kenya. Of the available research designs, the study focused on a descriptive research design as it was suitable in regard to the questions targeted. The study found that mobile customer relationship management innovation has led to an increase in customer satisfaction as well as contributed to both customer loyalty and customer retention. On the other hand, banks have embraced mobile marketing innovation as a platform to boost advertising and enhance their brand value. Banks have also initiated robust account operations that have significantly influenced payment of services. From the study, it can be concluded that mobile CRM innovation is typically an opt-in only channel which allows for high and quality responsiveness. In order to reach a vast majority of customers, banks have also come up with mobile marketing innovation as an interactive platform with the customer.
Githii (2007) established the strategic responses practiced by Rwathia Group of Companies to environmental changes businesses responded to changes in the environment by price adjustments, modernization of their facilities, training, differentiation and diversification. The study focused on few responses that were aimed to sustain the company in the changing environment.

Another study by Vassinen (2006) found that the competitive environment, operational marketing performance and international growth, the resource-based view of a firm, and market orientation and performance. The study presented the strategic marketing discourse and never presented strategic responses to gain competitive advantage among banks.

2.3.4 Mergers and Acquisition

Mergers and acquisitions are the most popular form of growth strategy according to a survey by Boston Chapter of the association for corporate growth conducted in New England USA. Other proponents of this strategy are Welch & Welch (2005) and Gaughan(1999). Growth aspects include market penetration, market development, productpenetration and diversification (Ansoff 1965). Equity Bank has responded to competition by rapidly growing its business through a series of acquisitions including the acquisition of Industrial development Bank, acquiring more shares in Housing Finance as well as the acquisition of Uganda Micro Finance over the last 10 years.

Kilonzi (2012) while focusing on how NIC bank has responded to the changing environment, he was able to reveal that the commercial bank has been more than aggressive in its response strategies. The commercial bank has combined a number of strategic responses varying from development of new products to suite their customers, diversifying their services, carrying out market segmentations, introducing the use of IT in its operations just like the other commercial banks, improving their customer service through various ERP practices as well as building their staff capacity through trainings.

Another study by Migunde (2003) investigated how Kenya Broadcasting Corporation responded to changes in the media industry. The study established that Kenya Broadcasting Corporation responded to increased competition by improving the quality of its programs as well as venturing
on an expansion strategy to reach a wider coverage. No strategic responses were addressed to gain competitive advantage over other media firms.

2.4 Summary of Research Gaps

Several studies on strategic responses of organizations have been conducted but all these studies which have been carried out seem brings out methodology gap, findings gap, context gap, time gap and also approach gap and hence this study is worthy while. The table 2.1 below summarized Research Gaps of the empirical review and focus of the current study.

Table 2.1: Summary of Research Gaps

<table>
<thead>
<tr>
<th>Author</th>
<th>Study</th>
<th>Findings</th>
<th>Gaps</th>
<th>Focus of the current study</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gakenia (2008)</td>
<td>Strategy implementation in Kenya Commercial Bank.</td>
<td>The KCB deployed various strategies.</td>
<td>The Bank did not have comprehensive strategies.</td>
<td>This study focused on strategic responses on competitive advantage</td>
</tr>
<tr>
<td>Githii (2007)</td>
<td>Strategic responses of Rwathia Group of Companies to environmental changes</td>
<td>businesses responded to changes in the environment by price adjustments, modernization of their facilities, training, differentiation and diversification</td>
<td>The study focused on few responses that were aimed to sustain the company in the changing environment.</td>
<td>This study addressed key strategic responses on competitive advantage of commercial banks</td>
</tr>
<tr>
<td>Kandie (2001)</td>
<td>Competitive Advantage of Telkom Kenya Ltd</td>
<td>Telkom Kenya Ltd responded by reducing costs of operation in terms of cutting down on staff.</td>
<td>The company focused on one response through staff retrenchment, and thus missed other responses.</td>
<td>This study presented CA among commercial banks</td>
</tr>
<tr>
<td>Kibe (2008)</td>
<td>strategy implementation at Equity Bank Limited</td>
<td>The study found the bank deployed various strategies in order to gain a bigger market share</td>
<td>The study failed to address the response strategies to gain competitive advantage</td>
<td>This study presented the impact of strategic responses on competitive advantage of Equity Bank</td>
</tr>
<tr>
<td>Migunde (2003)</td>
<td>Responses of Kenya Broadcasting Corporation on Competition among media firms</td>
<td>Kenya Broadcasting Corporation responded to increased competition by improving the quality of its programs as well as venturing on an expansion strategy to reach a wider coverage.</td>
<td>No strategic responses were addressed to gain competitive advantage over other media firms.</td>
<td>This study presented strategic responses on competitive advantage of commercial banks</td>
</tr>
<tr>
<td>Mpungu (2005)</td>
<td>How AAR insurance responds to the changing environment</td>
<td>The 69 of AAR Health Services Ltd implemented various response strategies that kept in the market</td>
<td>The study addressed response strategies to the environmental conditions and not to gain competitive advantage</td>
<td>This study addressed the impact of strategic responses on competitive advantage of commercial banks</td>
</tr>
<tr>
<td>Author</td>
<td>Title</td>
<td>Description</td>
<td>Additional Notes</td>
<td></td>
</tr>
<tr>
<td>--------</td>
<td>-------</td>
<td>-------------</td>
<td>------------------</td>
<td></td>
</tr>
<tr>
<td>Munir, Baird and Perera (2011)</td>
<td>strategic responses adopted by the banking sector</td>
<td>The study found the banking sector firms adopted various strategies to gain competitive advantage.</td>
<td>failed to address the strategic responses adopted commercial banks towards competitive environment in Kenya</td>
<td></td>
</tr>
<tr>
<td>Mwithiga (2013)</td>
<td>Responses that SACOS have put in place to respond to the changes in the environment</td>
<td>Strategic responses adopted by SACOS made them more competitive in the Kenyan Financial Sector.</td>
<td>it did not address the strategic responses of commercial banks and the effect of such strategies on the profitability of commercial banks</td>
<td></td>
</tr>
<tr>
<td>Njihia (2009)</td>
<td>Strategic responses of KCB bank in Kenya</td>
<td>The strategic responses adopted by Equity Bank in Kenya towards competitive environment and their effect on profitability of the bank.</td>
<td>This study addressed strategic responses on competitive advantage of commercial banks</td>
<td></td>
</tr>
<tr>
<td>Nyamai (2011)</td>
<td>How Jubilee bank responds to the changing environment</td>
<td>Jubilee Insurance Ltd responded to economic environment and changes in the Insurance Industry in Kenya through strategic choices which included: new products development, entering new markets, improved customer service, employees’ motivation and adoption of state of the art of information technology systems.</td>
<td>strategic responses on competitive advantage of commercial banks</td>
<td></td>
</tr>
<tr>
<td>Reim (2007)</td>
<td>Outsourcing Trends and Concerns. Ernst &amp; Young Eastern Africa.</td>
<td>The study found that the Ernst &amp; Young Eastern Africa sourced its staff from other firms.</td>
<td>strategic responses on competitive advantage of commercial banks</td>
<td></td>
</tr>
</tbody>
</table>

### 2.6 Conceptual Framework

A conceptual framework according to Mugenda (2008) is a figurative model that seeks to link the independent and the dependent variables of a study. Normally, it is hypothesized. Figure 2.1 presents the linkage between competitive advantage variables (independent variables) and the dependent variable.
Figure 2.1 indicates the relationship between the variables under the study. Strategic positioning helps commercial banks to have and achieve their goals easily. Banks such as Equity Bank need to keep in mind the rationale behind outsourcing before defining outsourcing priorities. Market segmentation on the other hand enables the bank to classify its market geographically and demographically so as to be able to provide tailor made services which boost a company
competitively over its rivals. Mergers and acquisition on the other hand enable a company to come together with other companies by pulling resources together and being able to penetrate new products into the market, diversify products and enter new markets while at the same time cutting costs. Resourcing strategies on the other hand enables a company to achieve competitive advantage through acquiring resources that it’s not able to acquire internally.
CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

The chapter provides the methodology used to achieve the specific objectives of the study. The section presents a systematic procedure of achieving these objectives from the design of the research, the population targeted as well as the method of arriving at the sample. There is also a description of other research procedures ranging from how data was collected, how the questionnaire was piloted as well as data analysis techniques and finally presentation of the results. Finally, the ethical procedures undertaken when conducting the study are also discussed in the chapter.

3.2 Study Design

This study adopted a descriptive research design. The research design was suitable since it enables to answer the type of research questions presented in this study. It answers the what, when, how and which questions and these are the questions that characterized this study (Groves et al, 2009). A descriptive research design plays a significant role in describing the situation at hand and establishing causal relationships between variables. Further, cross-sectional surveys are better aimed at determining the frequency (or level) of a particular attribute such as firms responses gain competitive advantage. This research design was suitable in investigating strategic response on competitive advantage of commercial banks in Kenya, Equity bank.

3.3 Target Population

According to Groveset al (2009), the target population refers to the population to which the study makes inferences to; this population should theoretically be countable, observable and exist within a specific time frame. The units of the target population must also be specified. The unit of analysis was branches of the bank. The bank had 135 branches countrywide at the time of the study out of which 38 were in Nairobi. The target population of this study was top and middle management employees of the branches in Nairobi County. The branches are distributed in the regions as per the Table 3.1
Table 3.1: Sample Size determination

<table>
<thead>
<tr>
<th>Region/Strata</th>
<th>Number of Branches</th>
</tr>
</thead>
<tbody>
<tr>
<td>Nairobi central business District</td>
<td>18</td>
</tr>
<tr>
<td>Nairobi West</td>
<td>4</td>
</tr>
<tr>
<td>Nairobi East</td>
<td>6</td>
</tr>
<tr>
<td>Nairobi North</td>
<td>3</td>
</tr>
<tr>
<td>Nairobi South</td>
<td>7</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>38</strong></td>
</tr>
</tbody>
</table>

Source: Equity Bank Ltd (2016)

3.4 Sample Size determination and Sampling Technique

This was a census study since the study was carried out in Nairobi County, the selection of respondents was done through multistage sampling, stratified based on the level of management and random sampling was used on selecting the actual respondents.

There are 38 branches of Equity Bank in Nairobi County of which a representative sample was drawn. Each branch has an average of ten employees (both middle level and top level management) as presented in the Table 3.2 hence the sample of responding staff was drawn from 380 employees from Nairobi County. From this population of 380 employees, a sampling frame of 25% was selected from each group (strata) turning into 96 respondents. Mugenda (2008) revealed that a representative of 30% of the population target can make up a sample.
Table 3.2: Sampling Frame

<table>
<thead>
<tr>
<th>Region/Strata</th>
<th>No. of Branches</th>
<th>Total number of Employees</th>
<th>Percentage of the sample</th>
<th>Sample</th>
</tr>
</thead>
<tbody>
<tr>
<td>Nairobi CBD</td>
<td>18</td>
<td>180</td>
<td>25%</td>
<td>45</td>
</tr>
<tr>
<td>Nairobi West</td>
<td>4</td>
<td>40</td>
<td>25%</td>
<td>10</td>
</tr>
<tr>
<td>Nairobi East</td>
<td>6</td>
<td>60</td>
<td>25%</td>
<td>15</td>
</tr>
<tr>
<td>Nairobi South</td>
<td>7</td>
<td>70</td>
<td>25%</td>
<td>18</td>
</tr>
<tr>
<td>Nairobi North</td>
<td>3</td>
<td>30</td>
<td>25%</td>
<td>8</td>
</tr>
<tr>
<td>Total</td>
<td>38</td>
<td>380</td>
<td>25%</td>
<td>96</td>
</tr>
</tbody>
</table>

Source: Author, 2016

3.5 Operationalization of the Research Variables

Table 3.3: Operationalization and measurement of variables

<table>
<thead>
<tr>
<th>Variable</th>
<th>Type</th>
<th>Operationalization</th>
<th>Measurement (indicators)</th>
</tr>
</thead>
<tbody>
<tr>
<td>competitive advantage</td>
<td>Dependent</td>
<td>Ways in which the Equity Bank has remain top competitor among commercial banks</td>
<td>Increase in customer portfolio, Number of branches opened, Profit earned</td>
</tr>
<tr>
<td>strategic positioning</td>
<td>Independent</td>
<td>Areas or locations branches have been opened in high footpath</td>
<td>Locations branches opened</td>
</tr>
<tr>
<td>strategic outsourcing</td>
<td></td>
<td>Specialist services the Equity Bank have sourced</td>
<td>HR administration outsourced, payroll, travel logistics, IT infrastructure outsourced</td>
</tr>
<tr>
<td>market segmentation</td>
<td></td>
<td>Methods and packages for different categories of customers</td>
<td>geographic, demographic, behavioral, and attitude data</td>
</tr>
<tr>
<td>mergers and acquisition</td>
<td></td>
<td>Firms that Equity Bank have acquired or merged with</td>
<td>purchase of the retail business in mortgage and other sectors</td>
</tr>
</tbody>
</table>

3.5 Data Sources and Collection

The study used primary data collected using structured questionnaires. This was suitable since it collected raw data to be used for analysis. The questionnaire was categorized into a Likert form
with statements ranging from strongly disagree to strongly agree. A drop and pick method was adopted since the respondents had busy schedules.

3.6 Pilot Testing

Pre-testing or pilot testing of questionnaires is essential to avoid pitfalls after administering the data collection tool. Pre-testing is a screening method that allows the researcher to try the questionnaire on a smaller group of respondents initially to allow for feedback and corrections (Zikmund & Babin, 2010). This approach helps the researcher to minimize on wrong answers due to misinterpretation of questions or blanks in questionnaires due to respondents misunderstanding of questions. The relevance of the questions, clarity and understandability is established through a pilot study. The respondents were suitable to participate in the pilot since Cooper and Schindler (2007) argues that a size of between 1% to 10% of the target population is suitable.

3.6.1 Validity

An assessment of what a questionnaire purports to capture can be established through a validity test (Newing, 2011). It captures the differences or congruence between the reality and the explanations. The content validity was established by seeking opinions of experts who are aware strategies being implemented to counter competitive environment. The experts gave their take on whether the questionnaire was suitable in measuring what it was supposed to capture. They basically gauged the meaningfulness, clarity / ambiguity and offense. Before using the questionnaire in the main survey, the opinions sort were established and adjusted to the questionnaire to enhance content validity. The participants were the supervisor, strategic managers and other lecturers.

3.6.2 Reliability

Cooper and Schindler (2006) defines reliability as the consistency when answering research questions. A common measure of reliability is the use of Cronbach’s Alpha which ranges on a scale of 0 to 1. A high reliability is indicated by a number that is close to one than it is to zero.
The study nevertheless, used a threshold of 0.7 as the standard of reliability such that a coefficient below 0.7 indicated that the sub constructs were not reliable in capturing the variable.

### 3.7 Data Collection Procedure

The questionnaires were administered to the Equity Bank employees as outlined in section 3.4.1. The selected participants per branch was purposefully done. The participants were briefed on the importance of the study to which they were provided with the semi-structured questionnaires, the semi-structured questionnaires covered the various response strategies implemented by Equity Bank to gain competitive advantage over other commercial banks in Kenya.

### 3.8 Data analysis and Presentation

The study used primary data that was collected using the research questionnaire (attached in Appendix II). The questionnaire captured demographic factors and the study variables ie strategic positioning, strategic outsourcing, market segmentation, mergers and acquisition and competitive advantage. After primary data had been collected, it was edited and used to generate descriptive statistics for the study. Both the frequencies, percentages, means and standard deviations of the primary data were established. The significance of the variables was used to test research questions. Apart from the regression model, the correlation method using Pearson method was used to establish the association between the variables in terms of direction. The results of the regression model indicated the coefficient of determination as well as the ANOVA. The coefficient of determination was used to establish the percentage of the changes in competitive advantages attributed to strategic responses.

\[
Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \mu
\]

Where;

- \(Y\) = Competitive advantage of Equity bank
- \(X_1\) = Strategic positioning
- \(X_2\) = Strategic Outsourcing
- \(X_3\) = Market segmentation
- \(X_4\) = Mergers and Acquisition

In the model, \(\beta_0\) = the constant term while
$\beta_i = 1….4$ will be used to measure the sensitivity of the dependent variable ($Y$) to unit change in the predictor variables $X_1$, $X_2$, $X_3$ and $X_4$

$\mu$ is the error term which captures the unexplained variations in the model.

### 3.8.1 Diagnostic tests

Before running the regression model, the study conducted diagnostic test to establish whether the model adheres to the OLS assumptions. Multicollinearity, Homoscedasticity and normality of the dependent variable tests were conducted. The normality of the dependent variable was tested using Kolmogorov Smirnova (KS) test to show whether there was presence of extreme values.

Multicollinearity refers to a situation where the predictor variables are highly correlated to each other in a tune of Pearson Correlation values above 0.8 (Field, 2008). It inflates both the standard errors and the coefficients which in turn gives false prediction. A VIF method was used to test for multicollinearity. There was a need to ensure that the residuals of the regression model are constant across time (Homoskedastic) and hence the study used Breusch-Pagan test to run the test. It is tested against the null hypothesis of homoscedasticity.

### 3.9 Ethical Considerations

Permission from the university was sought before research study began. There was also a need for the researcher to introduce herself to the administration and explain the purpose of the study before the survey began. The confidentiality of the information was emphasized and anonymity was also assured. Acceptable language was observed throughout the study period to avoid offense. Data collected was well managed and stored to avoid manipulations.
CHAPTER FOUR

RESEARCH FINDINGS

4.1 Introduction

This chapter contains analysis of data collected for the study. Data interpretation and discussion was also conducted. It also contains results presentation for this study; the results were presented in forms of figures and tables. Both descriptive and inferential findings are presented.

4.2 Response Rate

The targeted sample size was 96 of whom 93 provided their responses and this translated to 96.9%. According to Mugenda and Mugenda (2003), a response rate of 50% is adequate for analysis and reporting, 60% is good and a response rate of 70% and over is excellent and thus for this study, the average response rate of 96.9% was good. The high response rate was achieved because the respondents were given enough time to respond to the questionnaire.

4.3 Demographic characteristics of the respondents.

The section provides demographic characteristics of the respondents in terms of their gender, age, designation and their work experience at Equity Bank.

4.3.1 Respondents Gender

This study sought to establish the gender distribution of the respondent. The findings presented in Table 4.1 indicate gender distribution of respondents.

Table 4.1: Respondent’s Gender

<table>
<thead>
<tr>
<th>Gender</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Male</td>
<td>45</td>
<td>48.4</td>
</tr>
<tr>
<td>Female</td>
<td>48</td>
<td>51.6</td>
</tr>
<tr>
<td>Total</td>
<td>93</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: Field Data, 2017
The study findings indicated that majority of the respondents, 51.6%, were female while 48.4% were male. This implies that Equity bank has employed more female than male. The findings indicate that the bank has complied with the constitutional requirements of not employing over two thirds of employees from the same gender (Kenyan Constitution, 2010).

4.3.2 Respondents Age
The study also sought to establish the age of the respondents. The findings are presented in Figure 4.1.

![Figure 4.1 Respondents Age Bracket](image)

<table>
<thead>
<tr>
<th>Age Bracket</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Below 30 years</td>
<td>19%</td>
</tr>
<tr>
<td>30-40 years</td>
<td>52%</td>
</tr>
<tr>
<td>41-50 years</td>
<td>23%</td>
</tr>
<tr>
<td>Above 50 years</td>
<td>6%</td>
</tr>
</tbody>
</table>

**Figure 4.1 Respondents Age Bracket**

**Source: Field Data, 2017**

The results indicate that majority of the respondents, 52%, were aged between 30 and 40 years while those who are aged between 41 and 50 years were 22.6% of the respondents who participated in the survey. Only 6% of the respondents were above the age of 50 years. These results imply that majority of the top and middle level employees at Equity Bank involved in strategic decision making are between the age of 30 and 40 years. Kasomi (2015) links middle aged employees and younger employees to being innovative, agile and have higher risk appetite as compared to the older age.
4.3.4 Respondents’ Job Level

The study also sought to establish the job level of the respondents and the results are presented in Table 4.2.

Table 4.2 Respondents Job level

<table>
<thead>
<tr>
<th>Position</th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Top level Management</td>
<td>24</td>
<td>25.8</td>
</tr>
<tr>
<td>Middle level management</td>
<td>69</td>
<td>74.2</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>93</strong></td>
<td><strong>100</strong></td>
</tr>
</tbody>
</table>

Source: Field Data, 2017

According to the findings of this study, 74.2% of the respondents were in middle management level of employment while the remaining 25.8% were in top level of management. The implication of the findings is that Equity bank has more employees in middle level of management than in the top level of management. The results also indicate that there was diversity in the respondents who participated in the study in terms of management positions. The organizational structure of Equity Bank has more employees in the middle level management than in the top level management.

4.3.5 Duration of the respondents at Equity Bank

This study sought to establish for how long has the respondents worked in equity bank and the Table 4.6 below presented the findings

Table 4.3 Respondents Work Experience

<table>
<thead>
<tr>
<th>Duration in the bank</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Less than 5 years</td>
<td>21</td>
<td>22.6</td>
</tr>
<tr>
<td>6-10 years</td>
<td>45</td>
<td>48.4</td>
</tr>
<tr>
<td>More than 10 years</td>
<td>27</td>
<td>29.0</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>93</strong></td>
<td><strong>100</strong></td>
</tr>
</tbody>
</table>

Source: Field Data, 2017
The study findings presented in Table 4.3 indicate that 48.4% of the respondents had worked at Equity bank for a period of between 6 and 10 years while only 22.6% had worked for less than 5 years in the bank. Generally, 77.4% of the respondents had worked in the company for over 6 years.

These findings imply that majority of the top level employees at Equity bank had been in the bank for a period above 6 years. It means that since the respondents had been in the bank for a long period, they had more information about strategic responses of the bank. The findings also indicate that there is a low turnover rate among the top level employees at Equity bank. These findings agree with the findings of a study by Bashir and Durrani (2014) that as people gain more experience in an industry, the rate of turnover decreases.

4.4 Descriptive statistics of the study variables

The section presents the findings on ratings of the Likert point questions.

4.4.1 Strategic Positioning

The study sought to examine the extent to which strategic positioning affect competitive advantage of Equity Bank. The respondents were asked to rate statements on strategic positioning on a scale of 1 to 5. The findings are presented in Table 4.4.

<table>
<thead>
<tr>
<th>Statements</th>
<th>Mean</th>
<th>Std Dev</th>
</tr>
</thead>
<tbody>
<tr>
<td>Equity Bank is well located in major towns in Kenya</td>
<td>4.01</td>
<td>1.30</td>
</tr>
<tr>
<td>The company engages in horizontal strategic alliances with peer companies in banking</td>
<td>3.48</td>
<td>1.50</td>
</tr>
<tr>
<td>The top management team of the strategic alliance partners of Equity bank have a good understanding and experience of the markets</td>
<td>4.15</td>
<td>1.30</td>
</tr>
<tr>
<td>The company engages in downstream vertical strategic alliances with marketing firms</td>
<td>3.37</td>
<td>1.37</td>
</tr>
<tr>
<td>The company engages in strategic alliances which stimulate generative knowledge flow</td>
<td>3.53</td>
<td>1.13</td>
</tr>
<tr>
<td>Statements</td>
<td>Mean</td>
<td>Std Dev</td>
</tr>
<tr>
<td>------------------------------------------------</td>
<td>------</td>
<td>---------</td>
</tr>
<tr>
<td>The company engages in strategic alliances involving joint ventures</td>
<td>3.59</td>
<td>1.19</td>
</tr>
<tr>
<td><strong>Aggregate</strong></td>
<td><strong>3.69</strong></td>
<td><strong>1.30</strong></td>
</tr>
</tbody>
</table>

**Source: Field Data, 2017**

The findings indicate that the respondents agreed that Equity Bank is well located in major towns in Kenya (Mean = 4.01), the respondents also agreed that the company uses horizontal strategic alliances with peer companies in banking (Mean = 3.48), the results also agreed that the management team of the strategic alliance partners of Equity bank have a good understanding and experience of the markets (Mean = 4.15). In addition, the respondents neither agreed nor disagreed that Equity bank engages in downstream vertical strategic alliances with marketing firms (Mean = 3.37) while agreeing that the bank engages in strategic alliances which stimulate generative knowledge flow (Mean = 3.53). The respondents also indicated that Equity Bank engages in strategic alliances involving joint ventures (Mean = 3.59). On average the respondents generally agreed on the statements that strategic positioning affects the competitive advantage of the bank (Mean = 3.69). The standard deviation also indicated that there was a small variation in the responses given by the respondents.

This finding implies that Equity bank participates in strategic positioning practices for instance horizontal strategic alliances with peer companies in banking, downstream vertical strategic alliances with marketing firms, engaging in strategic alliances which stimulate generative knowledge flow and strategic alliances involving joint ventures.

The study agrees with Johnson and Scholes, (2005) who indicated that consideration of the environment, strategic capability, the expectations and the purposes within the cultural and political framework of the organization provides a basis for understanding the strategic position of an organization and Equity Bank has been working on this front to gain CA over other banks in Kenya. According to Bischoff-Turner (2008), sometimes an organization’s position emerges
from the situation analysis and Equity Bank being one of best performing bank in Kenya has implemented them and have met expectations that the organization would be the leader in the state, representing the sector in significant policy issues.

### 4.4.2 Strategic Outsourcing

The study sought to establish the extent to which strategic outsourcing affect competitive advantage of Equity Bank. The respondents were asked to rate statements on strategic outsourcing on a scale of 1 to 5. The findings are presented in Table 4.5.

Table 4.5 Descriptive Statistics for Strategic Outsourcing

<table>
<thead>
<tr>
<th>Statements</th>
<th>Mean</th>
<th>Std Dev</th>
</tr>
</thead>
<tbody>
<tr>
<td>The bank engages in strategic outsourcing in order to reduce/control costs</td>
<td>4.01</td>
<td>1.30</td>
</tr>
<tr>
<td>The bank conducts outsourcing to gain access to world-class capabilities</td>
<td>3.48</td>
<td>1.50</td>
</tr>
<tr>
<td>The bank engages in outsourcing so as to free up resources for other purposes</td>
<td>4.15</td>
<td>1.30</td>
</tr>
<tr>
<td>The bank outsources activities in which resources are not available internally</td>
<td>3.37</td>
<td>1.37</td>
</tr>
<tr>
<td>The bank outsources activities when the firm lacks expertise or the function is difficult to manage</td>
<td>3.53</td>
<td>1.13</td>
</tr>
<tr>
<td>The bank outsources activities as a way of sharing risks</td>
<td>3.59</td>
<td>1.19</td>
</tr>
<tr>
<td><strong>Aggregate</strong></td>
<td><strong>3.69</strong></td>
<td><strong>1.30</strong></td>
</tr>
</tbody>
</table>

**Source: Field Data, 2017**

The study findings reveal that majority of the respondents agreed that Equity Bank engages in strategic outsourcing in order to reduce/control costs (Mean = 4.01), the respondents neither agreed nor disagreed that the bank conducts outsourcing to gain access to world-class capabilities respectively (Mean = 3.48)and that the bank outsources so as to free up resources for other purposes (Mean = 4.15). On the other hand, the respondents neither agreed nor disagreed that the bank outsources activities in which resources are not available internally (Mean = 3.37). Of the 93 respondents, majority indicated that the bank outsources activities when the firm lacks expertise or the function is difficult to manage (Mean = 3.53).
Lastly, the respondents agreed that the bank outsources activities as a way of sharing risks and due to lack expertise or difficulty in management respectively (Mean = 3.59). On average the respondents agree with the statements on the strategic outsourcing of the bank (Mean = 3.69). The standard deviation also indicates that there was a small variation in the responses given by the respondents.

The findings imply that Equity Bank engages in strategic outsourcing in order to reduce/control costs, to gain access to world-class capabilities, to free up resources for other purposes, to free up resources for other purposes, as a way of sharing risks and due to lack expertise or difficulty in management. The focus in outsourcing has often been on cost saving to which the study was in agreement with Drozdenko and Drake (2002), as specialized entities can provide the same services at a lower cost due to learning curve efficiencies and economies of scale/scope (scope because they can apply best practices of one industry in another industry).

4.4.3 Market Segmentation

The study sought to determine the extent to which market segmentation affects competitive advantage of Equity Bank. The respondents were asked to rate statements on market segmentation on a scale of 1 to 5. The findings are presented in Table 4.6.

Table 4.6 Descriptive Statistics for Market Segmentation

<table>
<thead>
<tr>
<th>Statements</th>
<th>Mean</th>
<th>Std Dev</th>
</tr>
</thead>
<tbody>
<tr>
<td>Equity Bank has designed services perceived as unique by the clientele</td>
<td>4.02</td>
<td>1.20</td>
</tr>
<tr>
<td>Equity Bank engages in geographical segmentation to develop products fitting a certain geographical area.</td>
<td>4.45</td>
<td>0.93</td>
</tr>
<tr>
<td>Equity Bank differentiation is based on the understanding of unique customer needs and seeking to meet them.</td>
<td>3.75</td>
<td>1.04</td>
</tr>
<tr>
<td>Equity Bank engages in demographic segmentation by developing products fitting certain demographic characteristics</td>
<td>3.99</td>
<td>1.19</td>
</tr>
<tr>
<td>Equity Bank has designed services perceived as unique by our clientele</td>
<td>4.02</td>
<td>1.20</td>
</tr>
</tbody>
</table>
Equity Bank differentiation is based on the understanding of unique customer needs and seeking to meet them.

<table>
<thead>
<tr>
<th>Aggregate</th>
<th>4.45</th>
<th>0.93</th>
</tr>
</thead>
</table>

Source: Field Data, 2017

The findings reveal that those the respondents agree that the bank has designed services perceived as unique by the clientele (Mean = 4.02), the bank engages in geographical segmentation to develop products fitting a certain geographical area (Mean = 4.45), differentiation is based on the understanding of unique customer needs and seeking to meet them (Mean = 3.75) and that the bank engages in demographic segmentation by developing products fitting certain demographic characteristics (Mean = 3.99). The results also revealed that majority of the respondents agreed that the bank has designed services perceived as unique by the clientele (Mean = 4.02) and that the statements that bank differentiation is based on the understanding of unique customer needs and seeking to meet them (Mean = 4.45).

On average the respondents agreed with the statements on market segmentation (Mean = 4.11). The standard deviation also indicates that there was a small variation in the responses given by the respondents. These study findings indicated that Equity bank engages in market segmentation practices for instance designing services perceived as unique by the clientele, geographical segmentation to develop products fitting a certain geographical area, differentiation based on the understanding of unique customer needs and seeking to meet them, demographic segmentation by developing products fitting certain demographic characteristics and designing services perceived as unique by the clientele.

### 4.4.4 Mergers and Acquisition

The study sought to establish the extent to which mergers and acquisition affect competitive advantage of equity bank. The respondents were asked to rate statements on market segmentation on a scale of 1 to 5. The findings are presented in Table 4.7.
### Table 4.7 Descriptive Statistics for Mergers and Acquisition

<table>
<thead>
<tr>
<th>Statements</th>
<th>Mean</th>
<th>Std Dev</th>
</tr>
</thead>
<tbody>
<tr>
<td>Equity Bank engages in mergers and acquisition to expand the customer base</td>
<td>4.41</td>
<td>0.82</td>
</tr>
<tr>
<td>Equity Bank engages in mergers and acquisition to fend off competition</td>
<td>4.28</td>
<td>1.17</td>
</tr>
<tr>
<td>Equity Bank engages in mergers and acquisition to improve the company portfolio</td>
<td>4.09</td>
<td>1.17</td>
</tr>
<tr>
<td>Equity Bank engages in mergers and acquisition to increase market presence</td>
<td>4.10</td>
<td>1.08</td>
</tr>
<tr>
<td>Equity Bank engages in mergers and acquisition to have diversified products in the market</td>
<td>4.06</td>
<td>1.01</td>
</tr>
<tr>
<td>Equity Bank engages in mergers and acquisition to have diversified services in the market</td>
<td>3.52</td>
<td>1.13</td>
</tr>
<tr>
<td>Equity Bank engages in mergers and acquisition to broaden geographical coverage</td>
<td>4.23</td>
<td>1.12</td>
</tr>
<tr>
<td><strong>Aggregate</strong></td>
<td><strong>4.10</strong></td>
<td><strong>1.07</strong></td>
</tr>
</tbody>
</table>

**Source: Field Data, 2017**

The study findings reveals that the respondents agreed that EB engages in mergers and acquisition to expand the customer base (Mean = 4.41), fend off competition (Mean = 4.28) and also improve the company portfolio (Mean = 4.09). Furthermore, the respondents also agreed that the bank engages in mergers and acquisition to increase market presence (Mean = 4.10). Moreover, the respondents agreed that the bank engages in mergers and acquisition to have diversified products (Mean = 4.06) and services (3.52) in the market. The respondents agreed with the statement that the bank engage in mergers and acquisition to broaden geographical coverage (Mean = 4.23). On average the respondents agreed with the statements on mergers and acquisition (Mean = 4.10). The standard deviation also indicates that there was a small variation in the responses given by the respondents. These study findings imply that there has been mergers and acquisition at Equity Bank so as to expand the customer base, fend off competition, improve the company portfolio, increase market presence, have diversified products in the market and services as well as to broaden geographical coverage. This in turn affects competitive advantage of the commercial bank.
4.4.5 Competitive Advantage

The respondents were asked to rate various statements on competitive advantage on a scale of 1 to 5. The study findings are presented in Table 4.8.

Table 4.8 Descriptive Statistics for Competitive Advantage

<table>
<thead>
<tr>
<th>Statements</th>
<th>Mean</th>
<th>Std Dev</th>
</tr>
</thead>
<tbody>
<tr>
<td>The gross profits for the bank have been improving</td>
<td>4.59</td>
<td>0.81</td>
</tr>
<tr>
<td>The bank’s market share has been improving</td>
<td>4.60</td>
<td>0.46</td>
</tr>
<tr>
<td>The number of branches of the bank has been increasing</td>
<td>4.80</td>
<td>0.41</td>
</tr>
<tr>
<td>The number of internationalized subsidies for the bank have gone up</td>
<td>3.77</td>
<td>1.62</td>
</tr>
<tr>
<td>The number of employees for the bank has been increasing</td>
<td>4.18</td>
<td>0.39</td>
</tr>
<tr>
<td>The geographical coverage for the bank has been widening</td>
<td>4.80</td>
<td>0.41</td>
</tr>
<tr>
<td><strong>Aggregate</strong></td>
<td><strong>4.52</strong></td>
<td><strong>0.60</strong></td>
</tr>
</tbody>
</table>

Source: Field Data, 2017

Results on Table 4.8 indicate that majority of the respondents agreed that there has been an improvement in the banks profit, market share and the number of branches (Mean = 4.59, 4.60 and 4.80) respectively. The findings also indicated that majority of the respondents agreed that there is an increase in the number of internationalized subsidies for the bank and employees (mean 3.77, 4.18). Further findings showed that majority of the respondents indicated that there is a widened geographical coverage for the bank (4.80). The results indicated an overall mean score value of 4.52 which showed that the respondents agreed on all the statements on the competitive advantage of the bank. There was also a small variation in the responses from the mean as shown by a standard deviation of 0.60.

These results imply that Equity bank has a high competitive advantage as shown by an improvement in the banks profit, market share, number of branches, number of internationalized subsidies for the bank, employees and geographical coverage.
4.5 Diagnostic Tests Results

The study performed tests on statistical assumptions such as test of regression assumptions and statistics used. This included the normality of the dependent variable, Heteroskedasticity and multicollinearity test.

4.5.1 Multicollinearity test

Multicollinearity was tested by computing the Variance Inflation Factors (VIF) and its reciprocal, the tolerance and the results are presented in Table 4.9. VIF's values that are above 10 shows that there is multicollinearity but in this case, there was absence of multicollinearity since all the values were below 10.

Table 4.9: Multicollinearity Test

<table>
<thead>
<tr>
<th>Variable</th>
<th>Tolerance</th>
<th>VIF</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strategic positioning</td>
<td>0.934</td>
<td>1.071</td>
</tr>
<tr>
<td>Strategic outsourcing</td>
<td>0.938</td>
<td>1.066</td>
</tr>
<tr>
<td>Market segmentation</td>
<td>0.965</td>
<td>1.036</td>
</tr>
<tr>
<td>Mergers and Acquisition</td>
<td>0.874</td>
<td>1.145</td>
</tr>
</tbody>
</table>

a Dependent Variable: Competitive Advantage

Source: Field Data, 2017

4.5.2 Normality test

The normality of the dependent variable was also tested using Kolmogorov Smirnova (KS) test to show whether there was presence of extreme values. The dependent variable should be normally distributed. The results for the KS test of normality are as presented in Table 4.10.
Table 4.10 Kolmogorov- Smirnova test of normality

<table>
<thead>
<tr>
<th>Tests of Normality</th>
<th>Kolmogorov-Smirnova</th>
<th>Shapiro-Wilk</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Statistic</td>
<td>df</td>
</tr>
<tr>
<td>Competitive advantage</td>
<td>0.186</td>
<td>93</td>
</tr>
</tbody>
</table>

a Lilliefors Significance Correction

Source: Field Data, 2017

The null hypothesis that the dependent variable is normally distributed is not rejected at 5% level of significance since the level of significance that is, 0.056 for KS test in (Table 4.11) is not significant (more than 0.05). This implies that the data met the statistical requirements to be used in a regression model. The study hence conducted an OLS regression model.

4.5.3 Heteroscedasticity Test

Homoscedasticity suggests that the dependent variable has an equal level of variability for each of the values of the independent variables (Garson, 2012). The results in Table 4.11 reveal that the p-value was greater than 0.05 at 5% level of significance hence the null hypothesis of homoscedasticity was not rejected.

Table 4.11: Test for Heteroscedasticity in the Response and Residuals

<table>
<thead>
<tr>
<th>Test – Statistic</th>
<th>Degree of Freedom</th>
<th>P-Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>6.3221</td>
<td>4</td>
<td>0.5463</td>
</tr>
</tbody>
</table>

Source: Field Data, 2017

4.6 Correlation Analysis

A Pearson correlation was used to establish the strength of the association between the study variables. The study findings presented in Table 4.12 indicate that there was a positive correlation between strategic positioning and competitive advantage of Equity bank. The correlation was significant as indicated by a level of significance of 0.001. The findings imply
that an increase in strategic positioning practices for instance horizontal strategic alliances with peer companies in banking, downstream vertical strategic alliances with marketing firms, engaging in strategic alliances which stimulate generative knowledge flow and strategic alliances involving joint ventures is positively associated with competitive advantage of Equity bank.

These study findings are consistent with the findings of a study by Nyamai (2011) who sought to determine the effect of strategic responses of insurance companies to economic environment and changes in the Banking Industry in Kenya and found that Jubilee Insurance Ltd responded to economic environment and changes in the Insurance Industry in Kenya through strategic choices which included: new products development, entering new markets, improved customer service, employees’ motivation and adoption of state of the art of information technology systems. Additionally, the study findings also reveal that there was a positive correlation between strategic outsourcing and competitive advantage of Equity bank. The correlation was significant as indicated by a level of significance of 0.000. The findings indicate that an increase in the frequency and magnitude of conducting strategic outsourcing in order to reduce/control costs, to gain access to world-class capabilities, to free up resources for other purposes, to free up resources for other purposes, as a way of sharing risks and due to lack expertise or difficulty in management is positively associated with competitive advantage of Equity bank. The findings are consistent with the study by Broedner et al (2009) who sought to establish how productivity affects outsourcing found that management practices such as outsourcing seem to be following a fad rather than being based on sound decision-making schemes and their study failed to address strategic responses as management practices due to competition.

The study also reveals that there was a positive correlation between market segmentation and competitive advantage of Equity bank. The correlation was significant as indicated by a level of significance of 0.000. The results reveal that an increase in market segmentation practices for instance designing services perceived as unique by the clientele, geographical segmentation to develop products fitting a certain geographical area, differentiation based on the understanding of unique customer needs and seeking to meet them, demographic segmentation by developing products fitting certain demographic characteristics and designing services perceived as unique by the clientele is positively associated with competitive advantage of Equity bank.
The findings are consistent with the findings of a study by Kihara (2015) who sought to establish the effect of mobile banking on the competitive advantage of commercial banks in Kenya using descriptive study design with a target population of 31 commercial banks. The study found that mobile customer relationship management innovation has led to an increase in customer satisfaction as well as contributed to both customer loyalty and customer retention.

Furthermore, the study findings indicated a positive correlation between mergers and acquisitions competitive advantage of Equity bank. The correlation was however not significant as indicated by a level of significance of 0.325. This indicates that even though mergers and acquisition leads to an improvement in competitive advantage of Equity bank, the effect is small and not significant. The findings are consistent with the study by Kairu (2013) who sought to determine the effect of strategic responses on Kenya Revenue Authority operational performance using descriptive survey design and found that ICT, staff training, customer relationship management and strategic partnership practices in KRA positively affects performance.

**Table 4.12 Correlation Results**

<table>
<thead>
<tr>
<th>Correlations</th>
<th>Strategic positioning</th>
<th>Strategic outsourcing</th>
<th>Market segmentation</th>
<th>Mergers and acquisitions</th>
<th>Competitive advantage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strategic positioning</td>
<td>Pearson Correlation</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sig. (2-tailed)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Strategic outsourcing</td>
<td>Pearson Correlation</td>
<td>-0.078</td>
<td>1</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sig. (2-tailed)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Market segmentation</td>
<td>Pearson Correlation</td>
<td>-0.019</td>
<td>-0.024</td>
<td>1</td>
<td></td>
</tr>
<tr>
<td>Sig. (2-tailed)</td>
<td>0.459</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Mergers and acquisition</td>
<td>Pearson Correlation</td>
<td>-.216*</td>
<td>-.205*</td>
<td>-0.165</td>
<td>1</td>
</tr>
<tr>
<td>Sig. (2-tailed)</td>
<td>0.858</td>
<td>0.82</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
4.7 Regression analysis

The study used a regression model to establish the effect of strategic position, strategic outsourcing, market segmentation and mergers and acquisitions on the competitive advantage of Equity bank. This enabled the study to answer the research questions. The results for model summary are presented in Table 4.13.

Table 4.13 Model Summary

<table>
<thead>
<tr>
<th>Model Summary</th>
<th>R</th>
<th>R Square</th>
<th>Adjusted R Square</th>
<th>Std. Error of the Estimate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Model 1</td>
<td>.800</td>
<td>.64</td>
<td>.623</td>
<td>0.254402</td>
</tr>
<tr>
<td>a Predictors: (Constant), mergers and acquisitions, market segmentation, Strategic outsourcing, Strategic positioning</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: Field Data, 2017

The study findings presented in Table 4.13 indicate that strategic responses that is strategic positioning, strategic outsourcing, market segmentation and mergers and acquisition account for up to 64% of the variation in the competitive advantage of Equity bank as indicated by a coefficient of determination (R-square) value of 0.64. This implies that the remaining 36% of the...
variation in competitive advantage of Equity bank is explained by other factors other than strategic responses and not considered in the study.

The findings agree with the findings of a study by Maina and Manyara (2004) who indicated that the major determinant of financial institution’s competitive advantage as well as performance is how well they strategically respond to the competitive environment. The results in Table 4.14 further indicated the model fitness.

Table 4.14 Model Fitness

<table>
<thead>
<tr>
<th></th>
<th>Sum of Squares</th>
<th>df</th>
<th>Mean Square</th>
<th>F</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Regression</td>
<td>10.115</td>
<td>4</td>
<td>2.529</td>
<td>39.073</td>
<td>.000*</td>
</tr>
<tr>
<td>Residual</td>
<td>5.695</td>
<td>88</td>
<td>0.065</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>15.811</td>
<td>92</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

* Correlation is significant at the 0.05 level (2-tailed)

Source: Field Data, 2017

The results in Table 4.10 indicate that the overall model linking strategic responses to competitive advantage of Equity bank was significant as indicated by a level of significance of 0.000. This indicates that strategic responses (strategic positioning, strategic outsourcing, market segmentation and mergers and acquisition) can be used to predict competitive advantage in Equity bank. The study lastly presented the model coefficients in Table 4.15.

These results indicate that holding all other factors including strategic responses constant, the competitive advantage of Equity bank is 0.744. The study findings further indicate that strategic positioning affects the competitive advantage of Equity bank positively as indicated by a beta coefficient of 0.293. The effect is also significant as shown by a significance level of 0.000 which is less than 0.05 at 5% level of significance. The study findings indicate that increase in strategic positioning practices leads to 0.293 increase in the competitive advantage of Equity bank. The results are in agreement with the results of a study by Kilonzi (2012) who conducted a study to determine the effect of strategic responses at NIC Bank to changes in the banking industry in Kenya and found that the bank has adopted strategies similar to the other Kenyan
banks such as diversification, good corporate governance, new products and services, products and services differentiation and branch network expansion.

The study findings also revealed that strategic outsourcing affects the competitive advantage of Equity bank positively as indicated by a beta coefficient of 0.199. The effect is also significant as shown by a significance level of 0.000 which is less than 0.05 at 5% level of significance. The study findings indicate that a one unit increase in strategic outsourcing practices leads to a 0.199 unit increase in the competitive advantage of Equity bank. The findings are in agreement with the results by study by Ramona (2008) who conducted a study to determine the effect of competition at Barclays Bank of Kenya Limited and found that the bank has adopted some strategic responses such as outsourcing support, advertisements and also reducing operating staff.

The study findings also revealed that market segmentation affects the competitive advantage of Equity bank positively as indicated by a beta coefficient of 0.259. The effect is also significant as shown by a significance level of 0.000 which is less than 0.05 at 5% level of significance. The study findings indicate that increase in the frequency and magnitude of market segmentation leads to 0.259 increase in the competitive advantage of Equity bank.

Furthermore, mergers and acquisitions affect the competitive advantage of Equity bank positively as indicated by a beta coefficient of 0.195. The effect is also significant as shown by a significance level of 0.000 which is less than 0.05 at 5% level of significance. The study findings indicate that increase in the number of mergers and acquisitions leads to 0.195 increase in the competitive advantage of Equity bank. The findings are consistent with the study by Migunde (2003) who conducted a study on the effect of competition among media firms on Kenya Broadcasting Corporation and established that KBC responded to increased competition by improving the quality of its programs as well as venturing on an expansion strategy to reach a wider coverage.
Table 4.15 Model Coefficients

<table>
<thead>
<tr>
<th>Independent variables</th>
<th>Beta</th>
<th>Std. Error</th>
<th>t</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>(Constant)</td>
<td>0.744</td>
<td>0.325</td>
<td>2.286</td>
<td>0.025</td>
</tr>
<tr>
<td>strategic positioning</td>
<td>0.293</td>
<td>0.042</td>
<td>6.993</td>
<td>0.000*</td>
</tr>
<tr>
<td>strategic outsourcing</td>
<td>0.199</td>
<td>0.027</td>
<td>7.424</td>
<td>0.000*</td>
</tr>
<tr>
<td>market segmentation</td>
<td>0.259</td>
<td>0.03</td>
<td>8.671</td>
<td>0.000*</td>
</tr>
<tr>
<td>mergers and acquisition</td>
<td>0.195</td>
<td>0.034</td>
<td>5.793</td>
<td>0.000*</td>
</tr>
</tbody>
</table>

* Correlation is significant at the 0.05 level (2-tailed).

a Predictors: (Constant), mergers and acquisitions, market segmentation, Strategic outsourcing, Strategic positioning

a Dependent variable: Competitive advantage

Source: Field Data, 2017

The overall regression model is as indicated.

\[
\text{Competitive advantage} = 0.744 + 0.293 \text{ (Strategic positioning)} + 0.259 \text{ (Market segmentation)} + 0.199 \text{ (Strategic outsourcing)} + 0.195 \text{ (Mergers and Acquisition)}
\]
CHAPTER FIVE
SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This chapter presents the summary of the findings especially the descriptive, correlation and regression analysis. It also provides the conclusions as well as the recommendations to theory and for further study.

5.2 Summary

The objectives of the study were to establish the effect of strategic responses on competitive advantage of commercial banks in Kenya taking Equity bank as a case. Specifically, the strategic responses investigated were strategic positioning, strategic outsourcing, market segmentation and mergers and acquisition. Descriptive as well as inferential analysis was used to achieve these objectives. This section presents the summary of the descriptive, correlation and regression results obtained from the data collected. The summary of findings guided conclusions which further guided the recommendations made by the study. To answer each research questions, the study presented the summary per objective.

5.2.1 Strategic Positioning

The study findings indicated that Equity bank participates in strategic positioning practices for instance horizontal strategic alliances with peer companies in banking, downstream vertical strategic alliances with marketing firms, engaging in strategic alliances which stimulate generative knowledge flow and strategic alliances involving joint ventures. The correlation results indicated a positive and significant correlation between strategic positioning and competitive advantage of Equity bank (r = 0.329, P-value = 0.001). The regression results indicated that strategic positioning positively and significantly affects competitive advantage of Equity bank (Beta = 0.293, Sig = 0.000) implying that an increase in strategic positioning practices for instance horizontal strategic alliances with peer companies in banking, downstream vertical strategic alliances with marketing firms, engaging in strategic
alliances which stimulate generative knowledge flow and strategic alliances involving joint ventures is positively associated with competitive advantage of Equity bank.

5.2.2 Strategic Outsourcing

The descriptive findings indicated that Equity Bank engages in strategic outsourcing in order to reduce/control costs, to gain access to world-class capabilities, to free up resources for other purposes, to free up resources for other purposes, as a way of sharing risks and due to lack expertise or difficulty in management. The correlation results showed that there is a positive and significant correlation between strategic outsourcing and competitive advantage of Equity bank ($r = 0.360$, $P$-value = 0.000). The regression results indicated a positive and significant effect of strategic outsourcing on competitive advantage of Equity bank (Beta = 0.199, Sig = 0.000) which indicates that an increase in the frequency and magnitude of conducting strategic outsourcing in order to reduce/control costs, to gain access to world-class capabilities, to free up resources for other purposes, to free up resources for other purposes, as a way of sharing risks and due to lack expertise or difficulty in management is positively associated with competitive advantage of Equity bank.

5.2.3 Market Segmentation

The results of the study also showed that Equity bank engages in market segmentation practices for instance designing services perceived as unique by the clientele, geographical segmentation to develop products fitting a certain geographical area, differentiation based on the understanding of unique customer needs and seeking to meet them, demographic segmentation by developing products fitting certain demographic characteristics and designing services perceived as unique by the clientele. Furthermore, the inferential correlation results indicated a significant positive correlation of market segmentation on competitive advantage of Equity bank ($r = 0.479$, $P$-value = 0.000). The regression results indicated a positive and significant effect of market segmentation on competitive advantage of Equity bank (Beta = 0.259, Sig = 0.000) implying that an increase in market segmentation practices for instance designing services perceived as unique by the clientele, geographical segmentation to develop products fitting a certain geographical area,
differentiation based on the understanding of unique customer needs and seeking to meet them, demographic segmentation by developing products fitting certain demographic characteristics and designing services perceived as unique by the clientele is positively associated with competitive advantage of Equity bank.

5.2.4 Mergers and Acquisition

These study findings imply indicated that there has been mergers and acquisition at Equity Bank so as to expand the customer base, fend off competition, improve the company portfolio, increase market presence, have diversified products in the market and services as well as to broaden geographical coverage. The correlation results showed that mergers and acquisition has a positive but not significant correlation with competitive advantage (r = 0.103, P-value = 0.325). The effect of mergers and acquisition on competitive advantage of Equity bank was positive and significant (Beta = 0.195, Sig = 0.000) This indicated that participation in mergers and acquisition so as to expand the customer base, fend off competition, improve the company portfolio, increase market presence, have diversified products in the market and services as well as to broaden geographical coverage leads to a significant improvement in competitive advantage of the commercial bank.

5.3 Conclusions

The study findings led to the conclusion that strategic positioning positively and significantly affects competitive advantage of commercial banks. This indicates that the commercial banks should invest more in strategic positioning practices for instance horizontal strategic alliances with peer companies in banking, downstream vertical strategic alliances with marketing firms, engaging in strategic alliances which stimulate generative knowledge flow and strategic alliances involving joint ventures because they will lead to a positive and significant effect on competitive advantage of Equity bank.

The study also concluded that strategic outsourcing has a positive and significant effect on competitive advantage of commercial banks. Based on this, the study established that strategic sourcing in order to reduce/control costs, to gain access to world-class capabilities, to free up
resources for other purposes, to free up resources for other purposes, as a way of sharing risks and due to lack expertise or difficulty in management leads to a positive and significant effect on competitive advantage of Equity bank. The study therefore recommends that the commercial banks should invest more in these strategic outsourcing practices so as to gain more competitive edge.

Another conclusion made by the study is that market segmentation has a positive and significant effect on competitive advantage of commercial banks. The study recommends that the commercial banks should focus on market segmentation practices for instance designing services perceived as unique by the clientele, geographical segmentation to develop products fitting a certain geographical area, differentiation based on the understanding of unique customer needs and seeking to meet them, demographic segmentation by developing products fitting certain demographic characteristics and designing services perceived as unique by the clientele as it will lead to a positive and significant effect on competitive advantage.

The study further concluded that participation in mergers and acquisition positively and significantly affects competitive advantage of commercial banks. Based on this the study recommends that commercial banks should invest more in mergers and acquisition practices to expand the customer base, fend off competition, improve the company portfolio, increase market presence, have diversified products in the market and services as well as to broaden geographical coverage because they lead to a positive and significant improvement in competitive advantage.

Lastly the study concluded that strategic responses (strategic positioning, strategic outsourcing, market segmentation and mergers and acquisition) account for up to 64% of the variation in the competitive advantage of Equity bank. This outlines the importance of these strategies on competitive advantage of commercial banks and hence the study recommends that the commercial banks should invest more in strategic responses strategies.
5.4 Recommendations of the Study

The study recommends that strategic positioning leads to a positive and significant effect on competitive advantage. Equity bank and other commercial banks should invest more resources in strategic positioning practices like horizontal strategic alliances with peer companies in banking, downstream vertical strategic alliances with marketing firms and strategic alliances which stimulate generative knowledge flow so as to gain more competitive advantage in the banking sector.

The study also recommends that since strategic outsourcing leads to a positive and significant effect on competitive advantage, Equity bank and other commercial banks should engage more in strategic outsourcing in order to reduce/control costs, to gain access to world-class capabilities, to free up resources for other purposes, as a way of sharing risks and due to lack expertise or difficulty in management so as to gain more competitive advantage in the banking sector.

Furthermore, the study recommends that Equity bank and other commercial banks in Kenya should include market segmentation among their strategic responses since it leads to a positive significant effect on competitive advantage. They should engage in designing services perceived as unique by the clientele, geographical segmentation to develop products fitting a certain geographical area, differentiation based on the understanding of unique customer needs and seeking to meet them, demographic segmentation by developing products fitting certain demographic characteristics and designing services perceived as unique by the clientele.

The study finally recommends that there is a need for commercial banks to also give mergers and acquisition a consideration in their strategic response as it will expand the customer base, fend off competition, improve the company portfolio, increase market presence, make them have diversified products in the market and services as well as to broaden geographical coverage which will lead to a positive and significant improvement in their competitive advantage.
5.4 Recommendations for Further Study

The study findings indicated that strategic responses that is strategic positioning, strategic outsourcing, market segmentation and mergers and acquisition account for up to 64% of the variation in the competitive advantage of Equity bank implying that the remaining 36% of the variation in competitive advantage of Equity bank is explained by other factors other than strategic responses and not considered in the study. The study suggests that another study can be conducted to establish these other factors that account for the remaining 36%.

Another study can also be conducted to establish the effect of similar strategic responses investigated in this study on the competitive advantage of other financial institutions for instance Deposit Taking Micro Financial Institutions. This will play a role in filling the scope gap left by this study. Other studies can as use secondary data to conduct a similar study to fill a methodological research gap presented by this study.
REFERENCES


56


Shelli Bischoff-Turner (2008). From Strategic Planning to Strategic Positioning


Warucu, G. (2001). *Competitive Strategies Employed by Commercial Banks*. MBA project University of Nairobi
APPENDICES

Appendix I: NACOSTI Letter
Appendix II: Research Questionnaire

1. Indicate your gender
   Male [ ]   Female [ ]

2. Indicate your age bracket
   Below 30 years [ ]   30-40 years [ ]
   41-50 years [ ]   above 50 years [ ]

3. What is your position in the bank?
   Top management [ ]   Middle level management [ ]

4. How long have you worked in the bank?
   Less than 5 years [ ]   6-10 years [ ]   More than 10 years [ ]

5. Indicate your department
   ………………………………………………………………………………………………..

STRATEGIC POSITIONING

6. Indicate the extent to which you agree with the following statements regarding strategic outsourcing
   (1) Not considered (2) Less Extent (3) Moderate extent(4) To great extent (5) To very great extent
Equity Bank is well located in major towns in Kenya.

The company engages in horizontal strategic alliances with peer companies in banking.

The top management team of the strategic alliance partners of Equity bank have a good understanding and experience of the markets.

The company engages in downstream vertical strategic alliances with marketing firms.

The company engages in strategic alliances which stimulate generative knowledge flow.

The company engages in strategic alliances involving joint ventures.

**STRATEGIC OUTSOURCING**

7. Are you aware of strategic outsourcing?

   Yes [ ]
   No [ ]

8. If yes, does Equity Bank outsource some services?

   Yes [ ]
   No [ ]

Indicate the extent to which you agree with the following statements regarding strategic outsourcing
(1) Not considered (2) Less Extent (3) Moderate extent (4) To great extent (5) To very great extent

<table>
<thead>
<tr>
<th>Statement</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
</tr>
</thead>
<tbody>
<tr>
<td>The bank engages in strategic outsourcing in order to reduce/control costs</td>
<td></td>
<td></td>
<td></td>
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<td></td>
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<tr>
<td>The bank conducts outsourcing to gain access to world-class capabilities</td>
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<tr>
<td>The bank engages in outsourcing so as to free up resources for other purposes</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>The bank outsources activities in which resources are not available internally</td>
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<tr>
<td>The bank outsources activities when the firm lacks expertise or the function is difficult to manage</td>
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<tr>
<td>The bank outsources activities as a way of sharing risks</td>
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</tbody>
</table>

**MARKET SEGMENTATION**

9. Are you aware of market segmentation?

| Yes | [ ]
| No  | [ ]

Indicate the extent to which you agree with the following statements regarding market segmentation

(1) Not considered (2) Less Extent (3) Moderate extent (4) To great extent (5) To very great extent

<table>
<thead>
<tr>
<th>Statement</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
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</tr>
</thead>
<tbody>
<tr>
<td>EB has designed services perceived as unique by our clientele</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>EB engages in geographical segmentation to develop products fitting a certain geographical area.</td>
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<td></td>
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</tr>
<tr>
<td>EB differentiation is based on the understanding of unique customer needs and seeking to meet them.</td>
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</tr>
<tr>
<td>EB engages in demographic segmentation by developing products fitting</td>
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</tbody>
</table>
certain demographic characteristics

EB has designed services perceived as unique by our clientele

EB differentiation is based on the understanding of unique customer needs and seeking to meet them.

**MERGERS AND ACQUISITION**

Indicate the extent to which you agree with the following statements regarding strategic outsourcing

(1) Not considered (2) Less Extent (3) Moderate extent (4) To great extent (5) To very great extent

<table>
<thead>
<tr>
<th>Statement</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
</tr>
</thead>
<tbody>
<tr>
<td>EB engages in mergers and acquisition to expand the customer base</td>
<td></td>
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<td></td>
<td></td>
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</tr>
<tr>
<td>EB engages in mergers and acquisition to fend off competition</td>
<td></td>
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<tr>
<td>EB engages in mergers and acquisition to improve the company portfolio</td>
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<tr>
<td>EB engages in mergers and acquisition to increase market presence</td>
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<tr>
<td>EB engages in mergers and acquisition to have diversified products in the market</td>
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<tr>
<td>EB engages in mergers and acquisition to have diversified services in the market</td>
<td></td>
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<td></td>
<td></td>
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<tr>
<td>EB engages in mergers and acquisition to broaden geographical coverage</td>
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</tbody>
</table>
## COMPETITIVE ADVANTAGE OF EQUITY BANK

Rate your level of agreement to the following statements of competitive advantage

(1) Strongly Disagree (2) Disagree (3) Neither agree nor Disagree (4) Agree (5) Strongly Agree

<table>
<thead>
<tr>
<th>Statement</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
</tr>
</thead>
<tbody>
<tr>
<td>The gross profits for the bank have been improving</td>
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<tr>
<td>The bank’s market share has been improving</td>
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<tr>
<td>The number of branches of the bank has been increasing</td>
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<tr>
<td>The number of internationalized subsidies for the bank have gone up</td>
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<tr>
<td>The number of employees for the bank has been increasing</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>The geographical coverage for the bank has been widening</td>
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</tr>
</tbody>
</table>
Appendix III: Data collection letter from the university