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CONTRIBUTIONS OF FOCUS STRATEGY ON THE PERFORMANCE OF EQUITY BANK, HOMA BAY BRANCH

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Abstract

Banks often drive their profitability by focusing on cost minimization through investments in efficient-scale facilities and effectiveness, while seeking to expand their revenue streams and gaining large market share. They often deploy strategies that lead to low costs in marketing, selling and service delivery and continuously attempt to invest in products and services that satisfy their customers. Thus, seeking a competitively valuable way to reduce cost of supply and production, producing products and services that meet and satisfy client demands and doing so to the right market segment is central to banks strategic formulation and execution. Banks therefore must strive to effectively manage every expense and find new sources of potential cost reduction, increase its market share and divest its revenue channels so as to remain both profitable and relevant in a competitive market environment. This study limited itself to the variables of interest. The secondary data was derived from Equity Bank data for a period of 1999 to 2017. The study that targeted 75 respondents was conducted in Equity Bank, Homa Bay Branch and the researcher employed a descriptive research design and used questionnaires as a research tool to collect data. The researcher with the help of two supervisors and a research assistant was able to use the Content Valid Index (CVI) to measure the validity of the research instrument. The analysis of data was conducted through both descriptive and inferential statistics specifically percentages, likert scale analysis, frequencies and multiple regression analysis. The data was presented using figures, frequency tables and Charts and then findings were interpreted. The findings of this study revealed that competitive strategies affect the performance of Equity Bank. The study recommends that the bank management should adopt focus strategy so as to enable it gain a competitive standing vis a viz its competitors.

Keywords: *Focus Strategy, Market Share, Competitive Strategy, Performance*

Introduction

Banking trade means accepting the members of the public to deposit money to the bank repayable on demand or at the maturity of the contract of engagement or after notice from the depositors or account holders and payment on and acceptance of cherubs; and the employing of customer deposits, or part of it, by lending, investing or putting such monies in to any use that may be lawfully profitable to both the depositors and the bank. According to the Banking Act of Kenya (cap 488), Commercial banks are accredited and regulated under the banking act and prudential regulations issued there beneath. There are at this time 43 commercial banks in Kenya. Out of the 43 institutions 32 are locally owned and 11 internationally owned. The locally owned banks include 3 banks with momentous government shareholding and 27 private owned commercial banks. The foreign owned banks include 7 locally incorporated foreign banks. Of the 40 private banking institutions in the segment, 71% are locally owned and residual 29% are foreign owned (Nyakundi and Mreri, 2017)

Johnson and Scholes (2008) observe that competitive strategy is the basis from which a firm might attain a competitive advantage against its business rivals. Thus improving or eroding a market position within an industry will depend on a company`s choice of strategy. Competitive strategy then not only responds to environment but also attempts to shape that environment in a firm's favor and to the disadvantage of rivals. The most important aspect of originating a competitive strategy according to Porter (1980) links a firm to both the exogenous and endogenous environmental considerations. How an industry is structured or configured will have a strong influence on how the competitive rules of the game are played as well as what strategies should be applied so as to gain advantage.

Equity Bank is a remarkable institution, but in 1993, according to Central Bank of Kenya Banking survey (1993), the Central Bank of Kenya confirmed that, as Equity Building Society, was technically insolvent, and had poor board supervision and inadequate management. Non-performing loans were 54% of the portfolio, and accumulated losses totaled KSh.33 million ($500,000), on a paid up capital of KSh.3 million. Equity's liquidity stood at 5.8%, far below the required 20%. Contrast this to the situation today. As at June 2016, Equity Bank had become the most highly capitalized and most profitable bank in Kenya with total shareholders' funds more than $250m, serving more than 11 million customers, through 178 branches across the country, and more than 350 ATMs, over 20000 agents and the top most merchant acquirers and issuers with continued regional expansion strategy (Equity Group Holdings 2016 annual report).

Purpose of the study

Competition in the banking industry in Kenya has become so stiff that banks are in maximum strain in doing business and survival. Customers are becoming more demanding, more affluent, more informed and as a result, more financially sophisticated. The economic environment has changed significantly due to liberalization of the banking businesses, well-organized information flow, political instability and more stringent regulatory environment (Banking Amendment Bill, 2015). A midst these myriad set of challenges, Equity bank has remained defiant and has continued to demonstrate resilience.

Equity bank Homa bay has been formed by the generic characteristics of the branch which have striking resemblance to that of the Equity bank limited. The branch which came into operation in

2008, had by the year 2012 made a cumulative lose of up to Kshs.45million, with a deposit base of Kshs.178 million, asset base of kshs.280 million and continued to perform at the second bottom last position for a long of four and half years (Equity Bank, Homa Bay Annual Report, 2012). With a cost to income ratio of 178%, the Bank CEO, had by January, 2012 declared the branch technically insolvent and decided to either close the branch or replace the branch manager (Equity Bank, Homa Bay Annual Report, 2012).

The Board of directors in May, 2012, decided to sack the branch manager and replace by another with strict instructions to execute the Equity Bank Strategies; differentiation strategy, cost leadership strategy and focus strategy. The Chief Executive Officer, instrumentally, in his own assessment, made it clear that just like he inherited a technically insolvent Equity bank of 1993 and transformed it to become the leading bank today, the Equity Bank Homa Bay branch manager was equally given a technically insolvent Homa bay branch of 2012, and was expected to transform it to be the leading branch of Equity Bank in Kenya (Equity Bank Annual Report 2016). Today, the branch has become one of the top 5 branches of Equity Bank in Kenya, achieving a profitability target of up to 90%, asset base of up to 90%, while surpassing its targets in all the key performance indicators. The question is, does focus strategy contribute to the performance of Equity bank, Homa Bay Branch.

Theoretical underpinning

Theory of Strategic Balancing

The theory of strategic balancing is rooted on the basis that an organization`s strategy partly draws from the strategy of an individual. Consequently, the performance of organizations is influenced by the individual actor's behaviors and value system of its leaders (Collins et al., 2009). The organization then revolves around two extreme and antagonistic poles signifying both cooperation and competition. The existence of antagonistic poles of cooperation and competition may allow the configuration of alliances leading to strategic collaborations and partnerships.

Strategic balancing as a theory can be understood from the three perspectives, which include; relational, symbiotic and deployment models. Rivalry and competition among firms can be explained from the relational and deployment models which can take the form of the two aggressive strategies, being cooperative as depicted by the relational model and competing as explained by the model of deployment. The firm can then shifts between the two strategies so as to keep their relationship checked. In support of this reasoning, Belsley et al., (1980), avers that there are three types of competitive relationships: competition-dominated, cooperation-dominated, and equal relationships. At this point, it is important to note that whereas the theory of strategic balancing underscores the various models, its significance is based on the fact that just like human actors, firms must keenly understand the behavior of rivals and decide which ones need to be corporate with, which one offers aggressive competition and hence make a decision on the possible vertical and horizontal strategies to be adopted. Hammer and Champy (2010) used the key intelligence topics (KIT) process to identify and prioritize the major intelligence needs of senior management who are the actors in inter firm relationships. This made sure that intelligence operations of other firms are understood and could thus be matched to the firm`s own operations. This approach is valuable since it allows corporate intelligence to prioritize and act decisively to the emerging issues from either the model of relational or deployment. This could either take the form of strategic corporation or

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competition as may be deemed appropriate. Furthermore, strategic balancing models may use the organizational intelligence to create an early warning signal and this will enable the identification, monitoring and mitigation of potential threats to the organization and other stake holders

Market Focus Strategy

The market focuser, gains competitive advantage by pursuing cost advantages in a narrow market segment or pursuing differentiation strategies within a narrow market segment which is otherwise avoided by other market players for one reason or another. The ability to offer alcove members incredible services and superior products than the rivals deepens the competitive advantage to the focuser at the expense of its rivals. A market focuser primarily chooses on a particular market niche where clients have exclusive tastes and preferences based on their demographic, physiological and other defining characteristics. The niche is defined by geographical uniqueness, specialized requirements in using the services based on a certain physiological aspects or by special attributes that appeal to members of a certain social class (Stone, 2008).

Focus strategy based on low cost flourishes when the buyers` needs and demands are cheaper and easier to satisfy than the rest of the wider market based on either their social class or income levels while on the other hand, a focus strategy based on differentiation will depend on there being a buyer population with distinctive and exclusive product and service demands. In the focus strategy, a bank targets a specific segment of the market (Porter, 1998). The banks can choose to focus on a select client group, services and products range, geographical area, or service streak (Stone, 2008). Focus therefore, is based on pursuing a narrow competitive scope within an industry and then deploying either cost leadership or differentiation strategies to gain competitive advantage.

A focuser may grow and increase its market share by increasing its presence in a particular niche and carefully choosing those markets that are ignored by the leading companies or just do not make economic sense to the market leaders. These market alcoves arise from a number of factors including geographical considerations, product and service requirements and buyer characteristics. Market penetration or market growth can be significant focus strategy. Midsize and large banks use focus-based strategies but only in coincidence with differentiation or cost leadership generic strategies. But, focus strategies are most effectual when consumers have distinctive preferences and when the niches have not been pursued by the rival banks (Nyakundi and Mreri 2017).

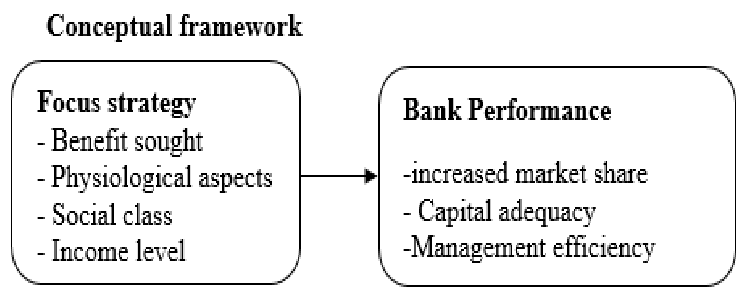

Fig 1; conceptual framework

Research methodology

The study that targeted 75 respondents was conducted in Equity Bank, Homa Bay Branch and the researcher employed a descriptive research design and used questionnaires as a research tool to collect data. The researcher with the help of two supervisors and a research assistant was able to use the Content Valid Index (CVI) to measure the validity of the research instrument. The analysis of data was conducted through both descriptive and inferential statistics specifically percentages, likert scale analysis, frequencies and multiple regression analysis. The data was presented using figures, frequency tables and Charts and then findings were interpreted.

Study findings

Focus strategy on performance of Equity Bank

The study sought to find out the effect of focus strategy on the performance of Equity Bank as indicated in the table below.

Table 1 Focus Strategy affects the performance of Equity bank

Response	Frequency	Percentage
Yes	44	61
No	27	39
Total	**71**	**100**

The above response can be summarized as per figure 2 below

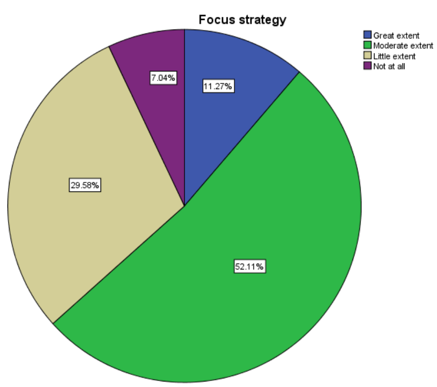

Figure 2. Focus Strategies

Figure 2 above demonstrates response distribution on the contribution of market focus strategy on the performance of Equity Bank Homabay. 52.11% of the respondents moderately agreed that focus strategy positively affect the bank performance while to the other extreme end, 29.58% of the employees were not able to substantially relate the bank performance to focus strategy. It was however instrumental to note that only a paltry 7.04% of the staff thought that focus strategy has no impact at all on the bank performance. This observation concurred with Stone, (2008) who observed that focus strategy is based on low cost being a buyer segment whose needs are less costly to gratify than the rest of the market founded on their income levels. On the other hand, a focus strategy based on demarcation depends on there being a buyer segment that demands exclusive services and products characteristic. In the focus strategy, a bank targets a specific segment of the market (Porter, 1998). The banks can choose to focus on a select client group, services and products range, geographical area, or service streak (Stone, 2008). Focus also is based on espousing a narrow competitive scope within an industry.

Focus strategies on Equity bank performance

The study sought to find out the contribution of attributes of focus strategy on equity bank performance based on the following: Strongly agree (5) Agree (4) Neutral (3) Disagree (2) strongly disagree (1) and the results are indicated in table 2 below.

Table 2: Contribution of Focus strategies on performance of Equity Bank

	SA 5	A 4	MA 3	D 2	SD 1	∑fi	∑fiwi	∑fiwi / ∑fi
The bank practices segmentation based on benefit sought by the customers	14	30	13	2	12	71	243	3.42
The bank practices segmentation based on physiological aspects of the customers	8	2	25	30	6	71	189	2.66
The bank practices segmentation based on social class of the customers	4	36	20	6	5	71	241	3.39
The bank practices segmentation based on income level of the customers	15	10	12	10	24	71	195	2.74

The study sought to find out the effect of focus strategies on equity bank performance and the results are indicated in table 2 above. It showed that the bank practices segmentation based on benefit sought by the customers with a score of 3.42 focus or niche strategy on social class of the customers had a score of 3.39; focus strategy based on income level of the customers with a score of 2.74, segmentation based on physiological aspects of the customers scored 2.66. This reveals that while most of the respondents moderately agreed that focus strategy affect Equity Bank performance, the bank should however put more focus on the customer needs in a particular market segment the deploys either low cost or exclusive services and products to satisfy the identified need. This view is supported by Stone, (2008) who argues that low-cost focus strategy is eminent if there is a buyer group whose needs are easy and cheaper to gratify, while on the other hand, a differentiation focus flourishes based on a buyer category who have taste for exclusive product and service characteristics. The banks can decide to pursue a geographical area, a specific category of customers, a selected service or product category based on the need, and associated costs and anticipated profits (Stone, 2008).

Table 3: Model Summary of focus strategy on Equity bank performance

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.593ᵃ	.352	.342	.576

a. Predictors: (Constant), Focus strategy

The standard value for R^2 is 1, which means that there is a perfect linear relationship between the dependent and independent variables. On the contrary if R^2 value is equal to 0; this indicates that there is no linear relationship between the dependent and independent variables. The coefficient of determination (R Square adjusted) of 0.342 which indicates that the model can explain 34.2% of the variations or changes in the dependent variable, Equity bank performance the other 65.8% is due to other variables not covered in their study.

Table 4: ANOVA

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	12.422	1	12.422	37.425	.000ᵇ
	Residual	22.902	69	.332		
	Total	35.324	70			

a. Dependent Variable: Performance
b. Predictors: (Constant), Focus strategy

ANOVA test was carried out to determine the variations/level of significance/difference in the perceptions of focus strategy on Equity bank performance. The result of the ANOVA has a highly positive and significant influence on the performance of Equity Bank at0.000 significance level, because this value is <0.05 acceptable threshold.

Table 5: Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	1.760	.305		5.773	.000
	Focus strategy	.547	.089	.593	6.118	.000

a. Dependent Variable: Performance

A further test on the beta coefficients of the resulting model, the constant $\alpha = 1.760$ is significantly greater than zero. The coefficients $\beta = 0.547$ is significantly different from zero with p-value of 0.000. The results show that for each unit increase in the independent variable, there is an expected increase of 0.547 in the dependent variable. An examination of the t-value ($t = 6.118$, $p = 0.000 < 0.05$) indicates that focus strategy contributes to the performance of Equity bank. This implies that focus strategy has a positive and significant effect on Equity bank performance.

Summary and conclusion of the study

The aim of the study was to find out whether Focus Strategy contributes to the Performance of Equity Bank, Homa Bay Branch. The results in Table 2 showed that the bank practices segmentation based on benefit sought by the customers with a score of 3.42, segmentation based on social class of the customers had a score of 3.39; segmentation based on income level of the customers with a score of 2.74, segmentation based on physiological aspects of the customers scored 2.66. This shows that, most of the respondents moderately agreed that focus strategy affect Equity Bank performance. The beta coefficients of the resulting model, the constant $\alpha = 1.760$ is significantly greater than zero. The coefficients $\beta = 0.547$ is significantly different from zero with p-value of 0.000. The results show that for each unit increase in the independent variable, there is an expected increase of 0.547 in the dependent variable. An examination of the t-value ($t = 6.118$, $p = 0.000 < 0.05$) indicates that focus strategy contributes to the performance of Equity bank. The result of the ANOVA depicts a highly positive and significant influence on the performance of Equity Bank at 0.000 significance level, because this value is less than 0.05 acceptable threshold.

Recommendation

The study recommends that Equity Bank should deepen its focus for customer service; a focus strategy based on demarcation depends on there being a buyer segment that demands exclusive services and products characteristic. In the focus strategy, a bank targets a specific segment of the market.

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