THE ROLE OF MANAGEMENT ACCOUNTING IN CREATING AND SUSTAINING COMPETITIVE ADVANTAGE. A CASE STUDY OF EQUITY BANK, KENYA

by

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ABSTRACT

Current management accounting techniques have not been widely accepted as a means to develop a competitive advantage. The information obtained from the literature reviewed and the results from an empirical study that involved a sample of forty respondents from Equity Bank found that the modern management accounting practices provide very important skills and techniques in building competitiveness. The practices play an important role in the planning, developing, implementing and evaluating strategic competitive policies that result in a competitive advantage. The study outlines the importance of management accounting practices in providing strategies that lead to the creation of a competitive advantage in an organisation. However, the conclusions are drawn on a conceptual level and a future empirical investigation is needed to substantiate these claims further. The study also sets a foundation for more focused research into the importance of modern management accounting practices in developing a competitive advantage especially in the banking sector.

Keywords:

- Management accounting
- Competitive advantage
- Competitive strategies
- Low-income
- Unbanked

Student number: 3638-687-1

DECLARATION

I, Ndwiga N. M., declare that,

The Role of Management Accounting in Creating and Sustaining Competitive Advantage

A Case Study of Equity Bank, Kenya

is my own work and that all the sources that I have used or listed have been indicated and acknowledged by means of complete references.

Name:……………………………….........................Signature:……………………..

Date: …………………………………

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CHAPTER 1: INTRODUCTION

1.1 Introduction

This study examines the role of management accounting in creating and sustaining a competitive advantage with reference to Equity Bank. Section 1.2 outlines the background of the study and in Section 1.3 the background of Equity Bank is discussed as well as the awards it has received over the years. The statement of the problem is given in Section 1.4 and this is followed by a discussion on the purpose of the study in Section 1.5. In Section 1.6 the thesis statement is outlined and the delineations and limitations of this study are discussed in Section 1.7. In Section 1.8 definitions of terms are given while assumptions of the research are outlined in Section 1.9. The rationale for the research is explored in Section 1.10 and this chapter concludes with Section 1.11 which presents a layout of the chapters that follow.

1.2 Background to the Study

As today's business environment becomes increasingly competitive, business organisations are becoming more aggressive and dynamic in identifying competitive strategies that will ensure profitable existence. Competition may be attributed to business innovations, advancement in technology and the changing demand of customers.

Competition amongst business organisations may compel the management to develop business techniques and strategies that would guide an organisation towards the maximisation of profits. This may be achieved through increased sales and reduced cost of production. The optimisation of profits and minimisation of costs may enable an organisation to create a competitive advantage in its industry. Certain management accounting practices provide strategies that can influence a large number of customers to have a lasting preference for a company's products. Thompson, Strickland and Gamble (2009) are of the view that the adoption of management accounting techniques may provide an organisation with a sustainable competitive advantage over its rivals.

Management accounting practices have moved from reporting historical information, especially on variance analysis, to taking part in the strategic planning process of an organisation (Kiesler and Sproull, 1982:548). These authors contend that management accounting skills are actively applied in the business environment where both market intelligence is sought and evaluated, and strategic decisions are made and competitive strategies put in place. These are factors which Ittner and Larcker (1997:243) argue that they enable an organisation to gain an advantage in the ever demanding competitive business environment where innovative management accounting practices need to be employed. The management accountants, especially those in the banking sector, should therefore be at the forefront in the search and development of innovative competitive strategies that may enable an organisation to remain profitable and competitive.

In the era of a competitive global environment and technology-based organisations, managers are pressured more than ever to find new ways to maintain the competitive advantage of their organisations. Laverty (2004:949) is of the view that, in order to achieve and sustain competitive advantage, managers should examine the internal processes in their organisations in an effort to make them efficient and cost effective. He notes that an organisation should produce products or provide services that perform a set of activities that create value and increase competitive advantage. These measures are particularly important in the banking sector where efficiency and cost effectiveness may be used as a competitive tool for growth and profitability.

Thompson *et al. (*2009) note that management accounting develops ideas for both manufacturing and service organisations. Hence, management accounting practices may provide strategies for efficiency and cost effectiveness which could be used as a competitive tool for growth and profitability especially in the banking sector.

Durand (2003:821) suggests that management accounting remains largely unexploited as a powerful approach to accounting for a competitive advantage.

He notes that, as an essential part of international business thinking, competitive advantage takes a strategy from broad vision to an internally consistent configuration of activities within an organisation. These activities provide a framework to understand the drivers of cost in an organisation and the organisation's relative cost position within the value chain. The value chain enables managers to isolate the underlying sources of buyer value that command a premium price and the reasons why one product or service substitutes another (Porter, 1998b:33). Porter (1998b) notes that competitive advantage does not only lie in the activities themselves but in the way activities relate to each other in the value chain. In this view, activities that add value, deliver a unique competitive edge and set a pace for innovation all need to be identified if building a successful competitive advantage is to be achieved. This study therefore seeks to investigate the role of management accounting in creating and sustaining a competitive advantage especially in the banking industry.

1.3 Equity Bank, Kenya

The business environment in Kenya is as competitive as it is in other parts of Africa, and the world, and the banking industry is one of the sectors where strong competition is experienced. The Kenyan banking industry comprises of forty three commercial banks out of which nine are listed at the Nairobi Stock Exchange (NSE, 2011). Among these nine is Equity Bank which commenced business on registration in 1984 and has evolved from a building society to a micro-finance institution to an all-inclusive Nairobi Stock Exchange public commercial bank listed in 2004 (Equity Bank, 2010a). Since its listing, the bank has received local and international awards for its performance in various aspects. These awards are presented in Table 1.1 that follows.

Table 1.1 Awards Received by Equity Bank (Adapted from Equity Bank, 2010a)

Award	Year/Period	Description	Aim
MicroCapital Award	September 2007	Equity Bank emerged as the best Microfinance institution (MFI) in Africa and the third best in the world in an analysis conducted by MicroCapital. The award aims at encouraging good returns, increased borrowers, improved portfolio size, growth and expense ratio.	This study aims to establish: • How management accounting practices enabled Equity Bank to provide award-winning micro-financing services. • Whether the micro-financing sector has a role in the bank's growth and profitability.
Best Bank in Kenya by Euromoney Awards for Excellence	2007 – 2008	Equity Bank was voted the best bank in Kenya during the 2007 and 2008 Euromoney Awards for Excellence in July 2009. The award recognises the effort made by banks in encouraging the unbanked to participate in banking activities.	This study seeks to investigate: • The policies and strategies used by the bank in encouraging the unbanked to bank. • Whether management accounting practices were employed in drawing and retaining the unbanked and their contribution to the growth of the bank.
Banking AwardsBest Bank in Kenya	2008	Equity Bank was voted the best bank in Kenya during the 2008 Renaissance Capital Awards in a survey benchmarked against a series of twelve parameters, the principal of which were asset quality, capital adequacy, impressive earnings and liquidity management.	This award motivates this research to establish: • The role played by management accounting skills at Equity Bank in establishing prudent asset quality, capital adequacy, record earnings and liquidity management that resulted in achieving the award.

Award	Year/Period	Description	Aim
African Banker Awards Microfinance Bank of the year	2008 and 2009	Equity Bank was named the Best Micro-finance bank in Africa during the annual African Banker Awards ceremony held in Washington DC, USA and Turkey in 2008 and 2009 respectively. The award goes to the micro-finance lender who contributes the most to the reduction of poverty in Africa. The award recognises achievements in record earnings, innovative practices, commitment to corporate social responsibility and gender equality. The awards are also designed to recognise reforms, rapid modernisation, consolidation, integration and expansion of the African Banking sector.	Based on this award, the study seeks to establish: • Whether management accounting techniques were applied to attain record earnings, innovative practices, organisational social responsibility, gender equality and to reduce poverty in Kenya, all of which contributed to the award.
The African Business Award	2009	Equity Bank was named the African Business of the Year 2009 at the Commonwealth Business Council and Africa Business awards held in London. The award recognises businesses which attain outstanding returns and growth rates coupled with innovative working techniques and development of staff and the community it operates in.	Based on this award, this study seeks to establish: • How the bank managed to beat its competitors in returns, growth rate, innovative working techniques and development of staff. • In particular, the study will investigate the competitive strategies used by the bank and the management accounting practices that led to the success in the parameters that define this award.
AI Financial	March 2009	Equity Bank became the first African financial	This study investigates the role of management

Award	Year/Period	Description	Aim
Reporting Award: 2008/2009		institution to win the inaugural Africa Investor Financial Reporting Award for its leadership and efforts in financial reporting. The AI Financial Reporting Awards recognises the crucial importance that professional financial reporting has in informing investors and decision makers who contemplate investing in Africa.	accounting in: • Enabling the bank to manage professional financial reporting that informs investors and decision makers wishing to invest in Africa and more so in Kenya.
Best Bank in Kenya 2008/2009	April 2009	Equity Bank was named the bank of the year at the 2009 banking awards ceremony. The awards recognise the best financial institutions in Kenya. The aim of these awards is to encourage prudence and stability in the banking sector by recognising, awarding and celebrating exemplary performers and successes of the sector. Equity Bank was also named the best bank in micro-finance, best bank in technology use, third best bank in retail banking and among the fastest growing banks in the country.	This study seeks to establish: • How management accounting skills have helped the bank to take a lead in micro-financing, technology use and in establishing a remarkable growth path despite the strong competition in the banking industry.
Most Sustainable Bank of the Year	May 2009	Equity Bank was named the Emerging Markets' Most Sustainable Bank in Africa and Middle East by the Financial Times and the International Finance Corporation. The award recognises banks and other financial institutions that show leadership and innovation in integrating social, environmental and	The study aims to establish: • Whether management accounting techniques were applied in establishing outstanding leadership and innovation in integrating social, environmental and corporate governance in the bank's operations.

Award	Year/Period	Description	Aim
		corporate governance considerations into their operations.	
Top 50 Emerging Market Business Leaders	2010	The financial times of London named Equity Bank's CEO as one of the top 50 emerging business market leaders.	The study seeks to investigate: • The various strategies employed at Equity Bank that contributed to the award for its CEO.

These awards indicate that Equity Bank was able to beat its competitors in the areas that are recognised by various financial institutions including the International Finance Corporation and the Commonwealth Business Council. The criteria of these awards motivate this study to investigate the contribution of management accounting in the exceptional performance displayed by Equity Bank.

1.4 Statement of the Problem

Management accounting practices have long been associated with providing management solutions for the internal management purposes especially in the manufacturing sector. This may have limited its application in the service industry in the creation of a competitive advantage where internal and external business information could be necessary for strategic planning.

Current innovative management accounting practices, however, provide valuable strategic planning solutions for cost management and the development of a competitive position for an organisation. Horngren, Sundem, Stratton, Schatzberg and Burgstahler (2009:4) state that management accounting provides solutions for business survival in the prevailing dynamic business environment where competition, customer's preferences and innovative IT make business profitability a major challenge. This study therefore aims to challenge the notion that management accounting practices may not provide useful skills for developing a competitive advantage.

1.5 The Purpose of the Study

Equity Bank is an example of where management accounting practices have been successfully applied in developing a competitive edge in the banking sector. The management accounting techniques that have contributed to the bank's achievements, the many awards earned amidst prevailing global competitive challenges and the uncertainties associated with growth and expansion within the banking industry provide a significant area of research in this study. Therefore, the primary purpose of this study is to investigate the role of management accounting in creating and sustaining a competitive advantage especially in the banking sector.

In particular the study aims to address the following research objectives:

- To determine the contribution of management accounting practices in making key organisational decisions towards creating and sustaining a competitive advantage.
- To find out the significance of management accounting practices in the growth, financial performance, competitiveness and organisational responsibility shown by Equity Bank.

- To investigate the competitive strategies applied by Equity Bank in terms of growth and profitability that resulted in its competitive advantage.

This study is expected to meet these objectives and hence provide a platform on which to champion the important role of management accounting practices in hedging competition especially in the banking sector.

1.6 Thesis statement

Management accounting practices provide important skills for building and sustaining a competitive advantage. In the past, management accounting has not been seen as a tool for creating and sustaining a competitive advantage due to its association with traditional variance analysis reporting. However, innovative management accounting can provide valuable information for internal and external strategic planning which in turn can result in the creation of a competitive advantage for an organisation.

1.7 Delineations and limitations

The delineations and limitations associated with this study are outlined below.

- This study focuses on establishing the role of management accounting in creating and sustaining a competitive advantage at only one bank; Equity Bank.
- The study is limited in terms of time available for data collection and analysis. Nevertheless, the research population selected and the data analysis methods used gave adequate information necessary for an authentic conclusion.
- Availability of funds for the research was a limiting factor but the budget allocated for the exercise was sufficient for the planned data collection and analysis.

Overall, the findings in this study are sufficient for the achievement of the objectives of the study.

1.8 Definitions and terms

For the purpose of this study, several working definitions have been formulated for significant terms used in the research.

- **Management accounting:** a branch of accounting that produces information to managers regarding the internal and external business environments (BPP, 2005).
- **Competitive advantage:** a situation where an organisation maintains a competitive edge over its rivals. It is what sets an organisation apart from its competitors (CIMA, 2009).
- **Competitive strategies:** actions that define how an organisation is going to compete in a specific business or industry. It focuses on the management of interests and operations of a particular line of business (Coulter, 2010).
- **Strategic competitive strategies:** practices that form an integral part of a plan of action that sustains competitiveness (Coulter, 2010).
- **Low-income earners:** people with very little income (Equity Bank, 2010b).
- **Unbanked:** people who do not have bank accounts (Equity Bank, 2010b).
- **Micro-financing:** giving limited credit to up-and-coming small business enterprises (Consultative Group to Assist the Poor (CGAP), 2011).

1.9 Assumptions

In the development of this study, the researcher assumes that other micro-financing organisations may become as successful as Equity Bank if they apply the necessary management accounting techniques.

The researcher also assumes that factors such as a favourable economic and political environment may not have contribute as much in creating a competitive advantage for the bank as the management accounting practices did.

1.10 Rationale of the Research

The rationale for undertaking this study is to further investigate the information regarding the supportive role of management accounting practices against competition as well as provide solutions for companies who wish to strengthen their competitive advantage in this way.

The study intends to provide useful information to managers and other stakeholders in the banking sector as follows:

- The managers of organisations will be shown the importance of management accounting and how to apply its skills in creating and sustaining a competitive advantage in their organisations.
- The government may obtain information regarding the role of the banks in enhancing personal and national economic development, which may have a positive correlation with social and political sustainability.
- The bankers will be informed of better ways to deliver services in order to attract and sustain customers. In particular, the study aims to help the management of Equity Bank in assessing and evaluating the impact of their strategic model of enhancing competitiveness to become more innovative in building a stronger market position.
- People who have a bias for banking services are expected to benefit from the study by getting information on services and products provided by banks such as Equity Bank and therefore appreciate the benefits of banking services.

The findings of this study aim to encourage managers and other stakeholders in the banking industry to embrace management accounting skills as a tool for creating and sustaining productive competitive positions.

1.11 Chapter overviews

This dissertation is made up of seven chapters and the structure and content of these chapters are outlined as follows:

Chapter Two consists of a review of the current literature that guides and informs this research. This chapter contains literature on the concept of management accounting and its role in creating a competitive advantage.

Chapter 3 highlights the competitive strategies that can be used by an organisation to achieve a competitive advantage.

Chapter 4 outlines strategic competitive strategies that may be used to create such an advantage.

Chapter Five consists of the research methodology section, provides a detailed explanation of the data collection procedures, the data used in the research and the tools used to analyse the collated data. Overall, this chapter gives an outline of the research methodology used in this study.

The penultimate chapter in this research, **Chapter Six**, will provide both the findings and discussion of the study. This chapter outlines the details of data presentation, data analysis and interpretation of the findings.

The final chapter, **Chapter Seven**, is the concluding chapter where the research questions are answered and a summary of the results is provided. The significance of the study to the existing body of literature is outlined in this chapter and areas for potential future research are suggested.

1.12 Summary

This chapter has outlined the background to the study in which the significance of traditional management accounting practices and the growing importance of modern management accounting practices have been shown. The chapter also gave a brief summary of Equity Bank's achievements, the statement of the problem, the purpose of the study, the thesis statement as well as the delineations and limitations associated with the study. The chapter finally outlines definitions of key terms used, assumptions made, rationale of the research and an overview of the other chapters.

CHAPTER 2: THE CONCEPT OF MANAGEMENT ACCOUNTING AND COMPETITIVE ADVANTAGE

2.1 Introduction

This chapter presents literature on the concept of management accounting in creating a competitive advantage for an organisation. In Section 2.2 the concept of management accounting is discussed. The changing role of management accounting which includes standard costing, lifecycle costing, activity-based costing, target and Kaizen costing follow in Section 2.3. The role of management accountants in an organisation is outlined in Section 2.4 while an overview of management in banks is discussed in Section 2.5. In Section 2.6, a brief history of Equity Bank is discussed while the concept competitive advantage which includes the industrial organisation view, the resource based view and the guerrilla view of competitive advantage follow in Section 2.7. Section 2.8 concludes the chapter.

2.2 The Concept of Management Accounting

The Chartered Institute of Management Accountants (CIMA) (BPP, 2005:18) states that management accounting is an integral part of the core management function that requires the identification, measurement, accumulation, analysis, preparation, interpretation and communication of information used by management to plan, evaluate and control within an organisation and to ensure appropriate use of and accountability for its economic resources. CIMA (2009) further defines management accounting as the practical science of value creation within organisations in both the private and the public sectors. It combines accounting, finance and management with the leading edge techniques needed to drive successful businesses.

Frank (1990:155) views management accounting as the preparation of financial and non-financial reports for non-management groups such as shareholders, creditors, regulatory agencies and tax authorities. He outlines management accounting as a practice that covers three areas which are explained as follows:

- **Strategic management:** Advancing the role of the management accountant as a strategic partner in the organisation.

- **Performance management:** Developing the practice of business decision-making and managing the performance of the organisation.
- **Risk management:** Contributing to frameworks and practices for identifying, measuring, managing and reporting risks to the realisation of the objectives of the organisation.

The integration of these three aspects of management accounting adds value to innovative management accounting practices. These practices provide an organisation with strategies that focus on the dynamic business environment. Management accounting skills are driven by the management accountants who constitute the management accounting function in an organisation (Shah, 2009:9). Shah (2009) asserts that management accountants apply their professional knowledge and skill in the preparation and presentation of financial and other decision-oriented information. They do this in order to assist management in the formulation of policies and in the planning and controlling of operations in their organisations. Management accountants may therefore be seen as value-creators which in turn may assist an organisation to gain a competitive advantage.

Frank (1990:157) asserts that management accountants are much more interested in looking forward and making decisions that will affect the future of an organisation. This is opposed to the historical recording and compliance (scorekeeping) aspects of the profession. Management accounting knowledge and experience is therefore obtained from various fields and functions within an organisation. This includes areas such as information management, treasury, efficient auditing, marketing, valuation, pricing and logistics. These aspects assist the management in the development of strategies for the creation of a competitive advantage in the highlighted fields.

2.3 The Changing Role of Management Accounting Practices

In the late 1980s, accounting practitioners and educators were heavily criticised on the grounds that management accounting practices, especially the curriculum taught to accounting students, had changed little over the preceding 60 years despite the radical changes in the business environment (Ittner and Larcker, 1997). Ittner and Larcker (1997) noted that professional accounting institutes, perhaps expecting that management accountants would increasingly be seen as redundant in business organisations, subsequently devoted considerable resources to the development of a more innovative set of skills for management accountants. This could have led to the development of management accounting practices that have enabled organisations such as Equity Bank to build a competitive advantage.

Shah (2009:10) is of the view that in the past management accountants were referred to as ‘controllers’ since they were in charge of all financial accounting and cost accounting functions. He notes that the controller’s function entailed accumulating data and reporting to all levels of management as well as directing and helping managers in problem solving and in identifying opportunities that could add value to the organisation. However, Shah (2009) argues that modern management accountants play a dual role in the organisation. Firstly, they are responsible for the integrity of the top management and reliability of the reports they submit and secondly, they assume a helper’s role in which they are responsible for helping departmental managers in planning and controlling operations. Moreover, Hilton (2008:4) points out that the management accountants advise and provide valuable information that guides an organisation towards achieving its objectives.

Wu and Boateng (2010:316) argue that the change in management accounting practices may be influenced by factors such as the size of an organisation, foreign partners and knowledge of senior managers and employees. They note that the success with which these factors are known can positively influence the growth of an organisation and the economy in general. Hence this knowledge could have helped Equity Bank to develop strategies that vary with its size, area of operation and the management as a way of creating a competitive advantage.

Traditional accounting costing practices do not adequately fulfil their role especially in inter-organisational accounting practices (Bastl, Grubic, Templar, Harrison and Fan, 2010:65). These authors fault traditional costing practices for its inability to deliver an inter-organisational focus and associated costing information. Equity Bank has partnered with many related and unrelated organisations (Equity Bank, 2010a) and as a result, prudent inter-organisation cost focus would be of importance to the costing system of the bank. Furthermore, to Bastl *et al.* (2010:66) a management accountant should provide timely, accurate and relevant financial information to enable managers to make and execute effective decision-making that reduces the cost of doing business. Therefore, management accounting practices may provide skills that enable an organisation to manage its inter-organisational business more competitively and therefore create a competitive advantage.

In addition, contemporary management accounting practices have incorporated the skills of traditional and innovative costing methods. These innovative methods have been outlined by McLaney and Atrill (2002:365) and Bastl *et al.* (2010:68) and they include, standard costing, lifecycle costing, activity based costing (ABC), target costing and Kaizen costing. These methods are discussed in the next section.

2.3.1 Standard Costing

Ittner and Larcker (1997:243) are of the view that the distinction between traditional and innovative management accounting practices can be illustrated by references to cost control techniques. These authors suggest that cost accounting is a central method in management accounting and traditionally, management accountants' principal technique was variance analysis, which is a systematic approach to the comparison of the actual and budgeted costs (standard costs) of raw materials and labour consumed during a production process.

In the past, more attention was given to variances with an aim of ensuring that products consumed the targeted resources. However, Merchant (1990:297) points out that variance analysis should be combined with innovative techniques such as lifecycle cost analysis and activity-based costing. He notes that such techniques are designed with specific aspects of the modern business which are driven by the need to produce low-cost and competitive products.

Horngren *et al.* (2009:351) argue that the standards set should be attainable to the employees and achievable with realistic levels of effort. They note that such standards would have a desirable motivational impact on employees especially when combined with incentives for continuous improvements. They also argue that standards represent reasonable future performance and not forceful goals. Hence, unfavourable variances may direct attention to performance that does not meet reasonable expectations and therefore the managers in organisations like the banking sector should set standards that employees regard as motivating to fulfil. In this view, EVA^{TM} may be used in designing standards that motivate employees (Horngren *et al*. 2009).Equity Bank has set standards that encourage continuous improvement in such a way that it creates a competitive edge for the bank.

2.3.2 Lifecycle Costing

Lifecycle costing takes into account all the costs incurred throughout a product's life (Seal, Garrison and Noreen, 2006:899). Seal *et al*. (2006) note that lifecycle costing recognises that the manager's ability to influence the cost of manufacturing a product or offering a service is at its best when the product or the service is at the design stage of its lifecycle. This is because small changes to the product or service design may lead to significant savings in the cost of manufacturing an item or offering a service. Based on this, the management accounting function in an organisation such as a bank should evaluate precisely the cost of offering a product or a service in order to offer a product that is cost effective and that creates competitiveness for the organisation.

Horngren *et al.* (2009:14), note that periodic comparisons between planned costs and revenues and actual costs and revenues allows managers to assess the true profitability level of a product, determine its current lifecycle stage and modify the strategy. Hence, Equity Bank may have used lifecycle costing to determine the lifecycle of its financial products or services and also the lifecycle of customers. Equity Bank (2010b) reports that such an act may have enabled the bank to develop strategies that minimise the costs of offering services and hence get a chance to serve the low-income earners efficiently in a way that they create a competitive advantage for the bank.

2.3.3 Activity Based Costing (ABC)

Activity-based costing (ABC) recognises that in modern businesses, most of the costs are determined by the number of activities related to a product or service (Seal *et al.* 2006:297). The key to effective cost control may therefore lie in optimising the efficiency of the activities that relate to a product or a service. Seal *et al.* (2006:297) contend that ABC emphasises activities that drive costs instead of direct labour being the cost driver. Therefore, the activities that drive costs are likely to be some of the aspects of interest for the management accounting function whether in a manufacturing sector or in a service organisation such as in the banking sector. With regard to the applicability of the activity based costing (ABC) system to banking institutions, Carenys and Sales (2008:8) are of the view that there are no substantial differences between the implementation of ABC in cost centres belonging to a manufacturing organisation and costs centres of a service organisation.

Carenys and Sales (2008) suggest that an ABC analysis enables managers to draw up a model of the logical sequence of cost formation and reconcile the degree of profitability of different products, customers and distribution channels. Therefore, ABC may be applied to create a competitive advantage in the service industry such as the banking sector.

In addition, an ABC system enables banks to reduce the number of costs regarded as indirect costs in relation to cost objects (Carenys and Sales, 2008:9). In this way, a larger proportion of costs initially regarded as indirect costs can be directly allocated to products, customers or centres of responsibility that are directly responsible for their existence due to the consumption of resources by activities. Consequently, management accountants should track costs incurred in each value-chain category with a goal of reducing costs. This will improve efficiency and reduce the costs involved in providing services and developing products that create competitiveness in the banking industry.

Furthermore, Horngren *et al.* (2006:158) contend that a bank may implement ABC in its retail banking operations. In this case, the bank calculates the costs of activities such as performing ATM transactions, opening and closing accounts, administering mortgages, performing mobile phone banking and processing credit card transactions. These authors add that the bank may use the activity cost rates to calculate the cost of various products such as cheque accounts, mortgages, credit and debit cards. Therefore, ABC can help a bank to improve its processes, develop competitive products and identify profitable customer segments that would bring a competitive advantage to the bank.

2.3.4 Target costing and Kaizen costing

Target costing is a strategic management accounting technique which involves determining a price by first establishing the price that the market is willing to pay and then designing a product or service to meet that price (McLaney and Atrill, 2002:365). They also note that Kaizen costing involves the continuous improvements of products. They contend that these two costing methods represent important concepts for management professionals involved in the development, manufacturing and marketing of products and services in modern globally competitive markets. Target costing and Kaizen costing therefore provide strategies that enable a bank to provide cost effective services that may contribute to competitiveness in its industry.

Business organisations, particularly banks, face continuous pressure to reduce their service costs in order to remain attractive to customers. In the calculation and management of the cost of products, Horngren *et al.* (2006:6) contends that the management accounting function of an organisation need to investigate the tasks and activities that cause costs to rise. The authors note that managers use the management accounting function to achieve the target costs by eliminating some activities and reducing the costs of performing activities in all the value chain functions. This may enable an organisation in the banking sector to achieve the target costs and hence offer services and products at the target price. This observation motivates this research to investigate whether reducing the cost of services in a banking institution may influence the creation of a competitive advantage.

The literature above indicates that traditional costing methods can be combined with modern and innovative costing techniques in adapting competitive costing techniques that can result in the production of competitive products or services for an organisation. Consequently, the management accounting function may apply the strategies offered by the innovative costing techniques to create a competitive advantage.

2.4 The Role of Management Accountants in an Organisation

Consistent with other roles in today's organisations, management accountants have a dual reporting relationship. Laverty (2004:949) suggests that as a strategic partner and a provider of decisions based on financial and operational information, management accountants are responsible for managing the business team. Laverty (2004) also notes that management accountants report relationships and responsibilities on the organisation's financial situation. This management accounting role is important in the creation of a significant competitive edge for an organisation especially in the banking industry where financial and competitive information is used to build a competitive advantage.

Laverty (2004) is also of the view that the activities of management accountants that have dual accountability to both the finance and the business team include forecasting and planning, performing variance analysis, reviewing and monitoring costs. He notes that tasks where accountability may be more meaningful to the business management team versus the organisational finance department is with the development of new product costing, operations research, business driver metrics, sales management score carding and client profitability analysis. Conversely, the preparation of certain financial reports, reconciliations of the financial data to source systems, risk and regulatory reporting will be more useful to the corporate finance team as they are charged with aggregating certain financial information from all segments of the organisation. Furthermore, Laverty (2004:950) notes that the progression of the accounting and finance career path is that financial accounting is a stepping stone to management accounting.

Therefore, consistent with the notion of value creation, management accountants may drive the success of a business while strict financial accounting is related more to compliance and is a historical endeavour. This information suggests that management accountants may provide important competitive knowledge and skills that may be useful in the creation of a competitive advantage in organisations.

Schulz (2001:661) suggests that management accountants are valued business partners who directly support an organisation's strategic goals. He states that, with a renewed emphasis on good internal controls and sound financial reporting, the role of the management accountants are very important. This may be experienced more in the banking sector where a slight fall in confidence in a bank's liquidity management amongst its customers may seriously erode their loyalty to the bank and consequently erode its competitiveness.

Drury (2004:12) notes that the role of management accounting has moved from the traditional confines of planning, control, organisation, communication and motivation and now focuses more on the external business environment (competition, opportunities, threats and changing circumstances). In addition, he notes that management accounting is expected to play a bigger role in the formulation, implementation and control of business strategies. Therefore it may be necessary to investigate how changes in the competitive business environment influence the management accounting function in creating competitive advantage in the banking industry.

Horngren *et al.* (2006:7) argue that management accountants track performance on the chosen key success factors: cost and efficiency, quality, time and innovation with reference to the performance of competitors on the same factors. These authors argue that tracking the performance of other companies may serve as a benchmark and alert the managers on the changes that customers may be observing and evaluating. Therefore management accountants in the banking industry may benchmark their organisation's activities with those of competitors and use the benchmarking results in creating successful competitive strategies.

The management accounting function need to be more concerned with the effects of the changing business environment especially competition in the organisation and may need to contribute to the formulation, implementation and control of strategic decisions to create competitiveness for an organisation within its industry. Since the banking industry could be an industry where the ever- changing business arena poses strong business threats, management accounting skills could provide strategies that would enhance the creation of a sustainable competitive advantage and hence reduce the threats in the industry.

2.5 An Overview of Management Accounting in Banks

The nature of commercial banks and competing financial institutions is constantly changing. Koch and MacDonald (2006:33) supports this argument by noting that savings, loan and credit unions, brokerage organisations, insurance companies and investment banks offer products and services that were traditionally associated with commercial banks. Commercial banks in turn offer a variety of insurance, real estate and investment banking services that they were denied. Saunders and Cornett (2008) points out that the differences between these institutions are eroded by competitive forces, deregulation (relaxation of rules governing the banking sector) and the changing financial and business technologies. Hence, to remain competitive, an organisation should identify the products with which it has a market advantage and provide customer services that distinguish it from its competitors.

In addition, Carenys and Sales (2008:8) note that deregulation, which has been the general standard in the financial sector, has facilitated the entry of new competitors. They contend that deregulation has given financial institutions a higher degree of freedom with regard to pricing and the product mix that they offer. They note that companies in the banking sector have witnessed the disappearance of the protectionist environment of regulated prices and the advent of new competitors whilst at the same time these companies have been faced with both threats and opportunities. Therefore the management of an organisation needs a comprehensive knowledge of the markets, customers, products and must have the drive to search for new competitive advantages in order to remain attractive to customers.

The management of a bank in conjunction with the management accounting function, need to apply competitive bank management skills in order to remain competitive in their industry and maximise profits. Koch and MacDonald (2006:2) have outlined important bank management issues that may enhance competitiveness. These include adapting to a changing banking environment; analysing bank performance and establishing profitability and risks; managing interest rate risks; managing the cost of funds, bank capital and liquidity; managing credit given to customers and managing the investment portfolio. These issues will now be discussed in turn.

2.5.1 Adapting to the New Changing Banking Environment

Changes in the banking environment arise from financial innovation, deregulation, securitisation (pooling loans into packages and selling the pooled assets by issuing securities collateralised by the pooled assets), globalisation (where geographical boundaries do not restrict financial transactions) and technological developments. The management accounting function has the responsibility to develop strategies that may enable a bank to exploit financial innovations in creating a sustainable competitive advantage. The function may also evaluate strategies that may be applied to reduce the effect brought about by the challenges of deregulation and globalisation.

2.5.2 Analyse Bank Performance and Establish Profitability and Risks

This aspect gives the management accounting function important information on the financial status of an institution. It also identifies key factors that influence performance and risky areas that require improvements. Therefore, the management accountants apply their skills to assist financial managers in evaluating profitability prospects and anticipated risks thereby creating a competitive advantage.

2.5.3 Manage Interest Rate Risk (with favourable trade-off between risk and profitability)

The management focuses on measuring interest rate risk and monitoring performance. They also set policies to stabilise or increase the net interest income and conduct sensitivity analyses. This is done across different assumed interest rate environments to assess the potential variation in market value of shareholder's equity. In addition, the interest rate on loans should be competitive enough to attract valuable customers who base their decision on the competitiveness of a bank. Banks should therefore manage interest rates in such a way that it reduces risks and creates a competitive advantage with the help of the management accounting function.

2.5.4 Manage the Cost of Funds, Bank Capital and Liquidity

The funding decisions that influence a bank include the cost of funds, liquidity risk, interest rate risk and profitability. Furthermore, Koch and MacDonald (2006:276) suggest that accurate measures of the cost of financing a bank's operations allow a bank to compare prices between alternative funding sources and to ensure that assets are priced high enough to cover and pay shareholders the required return. As a result, proper liquidity management ensures that cash needs can be forecasted accurately and arrangements made for readily available sources of cash at minimal costs. This can help a bank to avoid any negative publicity that may cause deposit runs. Furthermore, Singh and Singh (2008:36) state that impulsive liquidity management can put a bank's earnings and reputation at serious risk. In addition, Saunders and Cornett (2008:609) note that liquidity planning is very important in measuring and dealing with liquidity risk and its related costs. They contend that liquidity planning may lower the cost of funds by determining an optimal funding mix and it may also minimise the amount of excess reserves that a bank may be required to hold. Therefore, the bank's management needs to be based on a dynamic and integrated risk management system and process.

Koch and MacDonald (2006:2) argue that the proper management of a bank's capital ensures some 'cushion' against loan losses and protects the interests of depositors. It also provides access to financial markets and constrains growth therefore limiting the taking of risks. In this view, the management of cost of funds, bank capital and liquidity may contribute to a bank's growth, profitability and liquidity. Innovative management accounting practices can therefore be important in providing techniques that may be used to manage the above-risk exposures.

2.5.5 Managing Credit Extended to Customers

Credit risk may arise because of the possibility that the expected cash flows on financial claims held by a financial institution will not be paid in full (Saunders and Cornett, 2008:551). However, although lending is the most risky bank activity, loans dominate the assets of most banks and generate the bulk of operating income (Koch and MacDonald, 2006:344). Koch and MacDonald (2006) suggest that management should analyse the nature of risks carefully before extending credit to customers. Therefore, focus should be on business development activities with emphasis on identifying profitable customers and encouraging credit relationships with them.

Credit managers need to establish an appropriate trade-off between credit risk and profitability. This is important especially where lending to the low-income sector is a priority for an organisation. The management accounting function provides important techniques that may enhance credit risk management and a competitive advantage in the banking sector. The Indian Institute of Banking and Finance (IIBF, 2008:71) notes that the effective management of credit risk is an important component of comprehensive risk management and is essential for the long-term success of any banking organisation.

Equity Bank might have employed management accounting practices that provide strategies for identification, measurement, monitoring and control of credit risk exposure, generating a sustainable competitive advantage in a situation where the majority of the customers are the low-income and the unbanked (Equity Bank, 2010a).

2.5.6 Managing the Investment Portfolio

Banks buy investment securities to generate income and better manage risk exposure. Koch and MacDonald (2006:485) note that the changing competitive banking environment may compel commercial banks to manage investment portfolios more aggressively. These authors argue that suitable portfolio management enhances returns by taking advantage of perceived changes in interest rates and required adjustments in portfolio composition. Therefore, a bank may use its investment securities to manage risk exposure and at the same time generate more revenue which may lead to a competitive advantage.

The considerations discussed above provide the necessary skills that assist a bank in remaining competitive and profitable in its industry. In addition, the management accounting function can provide strategies that enhance the management of competitive forces, costs, risks and investments which will lead to the creation of a competitive advantage. The failure to properly adhere to the bank management issues discussed above may have partially contributed to the financial crisis of 2007 - 2010. The USA Financial Crisis Inquiry Commission (FCIC, 2011), notes that although the crisis started in the USA, it caused a serious financial challenges to the rest of the word. Section 2.6 that follows outlines the effects and causes associated with this crisis.

2.6 Banking Crises 2007 - 2010

The Financial Crisis Inquiry Commission (FCIC) records that he financial crisis from 2007 to present is considered by many economists to be the worst financial crisis since the Great Depression of the 1930s (FCIC, 2011). The commission reported that the crisis was triggered by a liquidity shortfall in the United States' banking system which resulted in the collapse of large financial institutions, the bailout of banks by national governments and downturns in stock markets around the world.

The commission contend that both market-based and regulatory solutions were implemented in reducing the effects of the crises. In its report, the commission concluded that the crisis could have been avoided if it were not for the widespread failures in financial regulation. The commission reported that these failures included too many financial organisations acting recklessly and taking on too much risk, an explosive mix of excessive borrowing and risk by households as well as key financial institutions that put the financial system on a collision course with the crisis. It also featured some key policymakers who were ill-prepared for the crisis, lacked a full understanding of the financial system, overlooked the systemic breaches in accountability and ethics at the most important levels of financial management.

Though there were no banks that collapsed in Kenya, the effect of the financial crisis was experienced in terms of slow economic growth which consequently affected banking activities and profitability. However, Equity Bank continued with its rapid growth as indicated in Table 2.1 during this time of financial crisis. This suggests that the bank established strong financial strategies to monitor and manage banking risks that may have been brought about by the crisis.

2.7 Brief History of Equity Bank in Kenya

Equity Bank (2010a), records that Equity Bank was founded in 1984 as a building society with the purpose of pooling resources of members for onward provision of mortgage facilities. The growth in business volume and outreach necessitated the conversion to a commercial bank. The bank was registered as a commercial bank in December 2004 and listed at the Nairobi Stock Exchange (NSE) in the same year. The bank's mission is to:

> Mobilise savings, term deposits and other funds for the efficient provision of loan facilities to the microfinance and missing middle sector, especially small and medium enterprises, to generate

sufficient and sustainable profits, in order to contribute to the members' welfare and to the national economy.

Equity Bank (2010a) states that the establishment of the bank was motivated by the desire to create a financial service provider which would touch base with the majority of the Kenyan population. The need to come up with such an institution was out of the realisation that most Kenyans lacked access to financial services or simply could not afford them. This inspired the bank to pursue its model of offering financial services to the unbanked and low income individuals in the economy. Since its listing at the Nairobi stock exchange, Equity Bank has realised a steady growth over the years as shown in Table 2.1.

Table 2.1 Growth of Equity Bank between 2004 and 2009 (Equity Bank Annual Report, 2010)

	2004	**2005**	*%*	**2006**	**%**	**2007**	**%**	**2008**	**%**	**2009**	*%*
Customers in thousands	413	556	***35***	1,014	82	1,840	82	3,296	79	4,372	***37***
Customer deposits ksh.millions	5,061	9,048	***77***	16,337	81	31,536	93	50,335	60	69,843	***39***
Gross loan ksh.millions	3,099	5,885	***90***	11,428	94	22,228	95	45,195	103	65,732	***45***
Total assets ksh.millions	6,707	11,457	***71***	20,024	75	3,129	165	78,837	48	100,812	***28***
Profit before tax ksh.millions	218	501	***130***	1,103	120	2,379	115	5,022	111	5,278	***5***
Shareholders fund ksh.millions	1,271	1,596	***26***	2,201	38	14,917	578	19,538	31	22,908	***17***
Staff number	530	884	***67***	1,349	53	2,416	79	4,386	82	5,093	***16***

Source: Equity Bank Annual Report 2010 (Equity Bank, 2010b).

The impressive performance indicated in Table 2.1 is arguably the result of cautious management accounting skills. The skills may have enabled the bank to identify proper competitive strategies which resulted in the steady growth shown over such a short period of time. In addition, for a bank to attract such a customer growth and mobilise savings and loans requires the development of competitive products or services and policies. Hence, the management accounting skills applied by the bank leads to the development of products or services and policies that can in turn contribute to a growth such as the one shown by Equity Bank.

2.8 The Concept of Competitive Advantage

Abernethy and Brownell (1999:189) points out that the competitive advantage theory suggests that everyone is better off if decisions are made based on the competitive advantage at all levels: national, organisational, local and individual. They clarify this by noting that it involves asking for optimal utilisation of resources and the globalisation of manufacturing and services across the world as if we lived in a borderless society. This is because organisations are able to establish and gain success in other countries far from their original base. For instance, the Equity Bank's annual financial report (Equity Bank, 2010b:12) records that the bank successfully established branches in Uganda and Southern Sudan. Hence, the bank may have established the competitive practices necessary for both national and regional levels.

Furthermore, Chenhall (2005:395) contends that economic resources will move to where they find their best employment opportunities. He notes that off-shoring services to the nations and locations which offer a competitive advantage is an irreversible trend. Therefore, organisations will be more successful if they embrace the forces of competition rather than standing in their way. Coulter (2010) outlines three views to competitive advantage. These are: the industrial organisation view, the resource based view and the guerrilla view, each of which will be discussed in the following section.

2.8.1 The Industrial Organisation View

This view focuses on the structural forces within an industry, the competitive environment of organisations and its influence on competitive advantage. Getting and keeping a competitive advantage means analysing the external forces and focusing strategic decisions and actions on the aspects that were found (Coulter, 2010). Therefore, the management accounting function should develop strategies that analyse the competitive environmental forces. Such analyses would assist in developing strategies for the creation of a competitive advantage in an organisation especially in the banking sector.

2.8.2 The Resource Based View

This view proposes that in getting and keeping a competitive advantage, an organisation's resources are more important than the industry structure. The view considers organisations as very different collections of assets and capabilities (Coulter, 2010). However, Cullen and Parboteeah (2005:142) argue that not all resources are capable of leading to a sustainable competitive advantage. They suggest that for the development of a sustainable competitive advantage to be unique, resources need to add value, be rare, be hard to imitate and be able to be exploited. Organisations therefore need to employ the right skills to mobilise resources that can lead to the creation of a competitive advantage. The identification of the right strategies to mobilise resources in an effort to enhance competitiveness are aspects that can be provided by the management accounting techniques. This is especially important in the banking sector where resources may determine the level of competitive advantage for a bank.

Furthermore, Walker (2009:17) suggests that for an organisation to achieve the goal of a competitive advantage, it should position its product line more effectively than competitors and defend the sources of its market position against rivals. Therefore, proper analysis of the external environment and possessing the right resources (assets and capabilities) may contribute to an organisation's competitive advantage. This is significant in the banking sector where possessing the right assets and capabilities may boost the competitiveness of a bank. In addition, the management accounting function may provide skills that identify the resources and provide techniques for analysing the external environment with an aim to create a competitive advantage.

2.8.3 The Guerrilla View of Competitive Advantage

This view proposes that an organisation's competitive advantage is temporary because the environment is in continued radical and often revolutionary changes. Coulter (2010) suggests that the changes alter the competitiveness of an organisation and hence better competitive strategies may need to be put in place. The management accounting function of an organisation should therefore be innovative in developing strategies that keep the competitive advantage of their organisations relevant.

These three views provide a unique perspective of understanding and crafting the best strategies for developing a competitive advantage especially in the banking sector. Therefore, scanning the environment for potential threats, possessing the right resources and adapting to the changing forces of competition and customer needs are important considerations when building and maintaining a competitive advantage.

2.9 Summary

This chapter discussed issues on the concept of management accounting in creating a competitive advantage in an organisation. The concept of management accounting, the changing role of management accounting and the role of the management accountant in creating competitive advantage in an organisation have been discussed as outlined in current literature. An overview of management accounting in banks as well as a brief history of Equity Bank in Kenya has also been discussed.

The review of literature has illustrated the different factors that come into play in management accounting techniques and what these techniques entail. The literature discussed gives insight into the importance of these techniques in the creation of a competitive advantage especially in the banking industry where sustaining a remarkable competitive position may be a challenge to many banking organisations. The next chapter discusses the competitive strategies that may be important for management accountants in the quest for the creation of a competitive advantage in their organisations.

CHAPTER 3: MANAGEMENT ACCOUNTING AND THE DEVELOPMENT OF A SUSTAINABLE COMPETITIVE ADVANTAGE

3.1 Introduction

Chapter three explores literature on the competitive strategies that may be used to achieve a competitive advantage in an organisation. To begin with, Section 3.2 describes competitive strategies which include the adaptive strategic models namely the prospector strategy, the defender strategy, the analyser and the reactor strategy. A discussion of generic competitive strategies which include cost leadership, product and service differentiation, focus strategy and the concept of "stuck in the middle" then follows. Integrated-low cost differentiation strategy, marketing strategies and growth, strategic alliances and collaborative partnerships are also discussed. The chapter concludes with a summary in Section 3.3.

3.2 Competitive Strategies

The managers of market leaders in any industry ought to be aware of the challenges posed by the changing competitive environment. Morse, Davis and Hartgraves (2003:17) are of the view that managers of successful companies should be aware that they compete in a global market where the instant flow of information exists. These authors contend that competition is always striving to gain a competitive advantage. Therefore, world-class companies need to continuously aim at improving performance in the three interrelated dimensions of price/cost, quality and service. In order to compete, successfully, in these three dimensions, effective competitive strategies need to be adopted. Innovative management accounting strategies may therefore be useful in identifying competitive strategies that lead to a competitive advantage for an organisation.

Porter (1998b:481) notes that a competitive strategy takes an offensive or a defensive action to create a defendable position in an industry. He contends that this happens in order to cope successfully with competitive forces and generate a superior return on investment. Porter (1998b) also notes that the basis of above-average performance within an industry is a sustainable competitive advantage.

Different strategies are used to compete in a business environment, but Coulter (2010) suggests that the best strategy for a given organisation is ultimately a unique construction reflecting its particular circumstances. The competitive strategies discussed below can be applied by an organisation in order to create and sustain a competitive advantage especially in the banking industry where innovative competitive strategies seem to define profitability.

3.2.1 The Adaptive Strategic Models

Organisations may use different strategies to adapt to their turbulent business environments (Coulter 2010). This author outlines four strategic models that can be applied in deciding an organisation's market position. These strategic models include the prospector strategy; defender strategy; analyser strategy and the reactor strategy. Each strategy will be discussed in the following subsections.

3.2.1.1 The Prospector Strategy

This is where an organisation continually innovates by searching and exploiting new products and market opportunities. The competitive strength for a prospector is the ability to survey a wide range of rapidly changing environmental conditions and to create new products and services that fit this dynamic environment. This creates uncertainties for the prospector's competitors because they may not predict the next move of the prospector.

However, Coulter (2010) notes that sustainable competitive advantage is attained if the market and the customers are willing to pay for the developed products and services.

Therefore, the development of innovative products, market segmentation and market development could be among the strategies that may be applied in creating a sustainable competitive advantage for banking organisations. The modern management accounting practices provide techniques that may assist in the identification and implementation of the necessary competitive strategies.

3.2.1.2 The Defender Strategy

This strategy is characterised by the search for stability and concentrates primarily on a limited product line directed at a narrow segment of the total potential market (Coulter, 2010). Defenders fight to 'defend' their well-established business and their success is attained if their primary technology and narrow product line remain competitive over time. Therefore, organisations need to defend their key products and policies against competitors so that they can remain competitive and unique. This is important especially in the banking industry where products and services offered are similar in the majority of the banks.

3.2.1.3 The Analyser Strategy

This strategy involves analysis and imitations. Therefore, organisations using this strategy watch for, analyse and copy the new ideas of established prospectors. The direction pioneered by prospectors becomes the analyser's competing front. Furthermore Porter (1998b:101) argues that analysis of the competitor's value chain allows an organisation to uncover good ideas that can be applied in the development of competitive products and policies in their organisation. This is important in the banking sector where competitor analysis and imitations may identify products or services and favourable policies that may lead to the building of a significant competitive advantage.

3.2.1.4 The Reactor Strategy

This is a situation whereby organisations simply react to environmental changes and make adjustments when they are finally forced to do so by environmental pressures. Coulter (2010), note that such organisations lack a coherent strategic plan or an apparent means of competing to build a sustainable competitive advantage. This strategy implies that organisations should always be watchful of their competitive business environment and develop strategies that would keep it competitive despite the changes that could be taking place.

The typology discussed above provides a means of describing competitive strategies that can be used by an organisation to create a sustainable competitive advantage. Seal *et al.* (2006:758) suggests that in order for an organisation to create a good competitive market position, the organisation should decide whether to be a defender; concentrating on reducing costs and/or improving quality, a prospector; continually searching for market opportunities or an analyser which combines the defender and prospector positions.

These different typologies should compel the management accounting function in the banking sector to be more innovative in providing competitive products and services, to defend their competitive position, analyse competitors' strategies, improve and adopt successful competitor products as well as adjust to the changing needs of customers before the opportunity is seized by competitors. Overall, this can result in an organisation's success with regard to creating a competitive advantage in the ever dynamic business environment.

3.2.2 Generic Competitive Strategies

Coulter (2010) notes that generic competitive strategies are strategies that may be applied by any type or size of an organisation in creating a sustainable competitive advantage. She contends that a business can be viewed in three dimensions namely:

- **Customer groups:** Who are to be served?
- **Customer needs:** What customer needs are to be met?
- **Technology or distinctive competencies:** How the needs will be met?

This approach puts an emphasis on understanding customers, rather than just the industry, when developing effective competitive strategies. Therefore, an organisation such as a commercial bank may be required to develop policies that are customer-driven in order to attract and sustain profitable customers. Coulter (2010) notes that a business could be defined by its competitive scope and by the extent of its competitive differentiation of products and services. The combination of these dimensions would form the three possible competitive strategies that are outlined by Coulter (2010). These are differentiated, undifferentiated and focus strategies.

The abovementioned strategies relate well to Porter's generic competitive strategies (Porter, 1998b:11) where he states that strategies are based on the assumption that competitive advantage comes from one of two possible sources namely, having the lowest costs in the industry or possessing desirable differences from one's competitors. Porter (1998a:35) suggests that cost leadership, differentiation and focus strategies are strategies that should be applied in the creation of a competitive advantage. These strategies are discussed below.

3.2.2.1 Cost Leadership

An organisation that is pursuing a cost leadership strategy focuses much of its effort on reducing its economic costs below those of competitors in its industry (Jones and George, 2010). Therefore, the organisation is able to compete on price with other organisations in the industry and earn higher units of profit. These authors contend that sources of a cost advantage include exploiting economies of scale, applying the latest technology, exploiting the learning curve, continuous improvements, minimising overheads, obtaining resources from favourable sources and locating to cheaper areas.

However, Porter (1998b:186) cautions that an organisation that employs cost leadership may experience large capital costs for it to remain competitive in times of unfavourable technological changes. In addition, threats through imitation, design, marketing and increased cost of inputs may compromise the cost leadership strategy.

As a result, an organisation that wishes to pursue the cost leadership strategy may require to using its resources and capabilities in developing cost effective products. It would also be important for such an organisation to guard itself against the risks associated with cost sensitivity by customers, imitations, marketing and increased production costs that are often associated with cost leadership. This aspect of cost leadership is important in the banking sector where it may create a competitive advantage for a bank. In addition, innovative management accounting strategies may provide competitive strategies that build and sustain the cost leadership strategy.

3.2.2.2 Product and Service Differentiation

Jones and George (2010) point out that product and service differentiation is a business strategy where organisations compete on the basis of providing unique products or services that customers value and are ready to pay a premium for. They argue that differentiation may be achieved through building a brand image, producing products with attractive features, using IT to create new product features and the value chain activities namely sales and marketing. However, they note that a customer's price sensitivity and imitations by competitors narrow the aim of differentiation, therefore weakening the strategy. In this view, management accountants, especially in the banking sector, should be innovative in the development of unique products that attract more valuable customers as well as keeping the existing ones satisfied.

3.2.2.3 Focus Strategy

Podder and Gadhawe (2007:19) are of the view that an organisation that pursues the focus strategy seeks to serve a narrow strategic target group or market efficiently and effectively. They note that the focus can either be differentiated focus or cost focus. In the differentiated focus strategy, the aim is to differentiate within just one or a small number of target market segments. In the cost focus strategy, a business may not only differentiate within a small market segment but can also use the strategy to maximise market share in the target segment. These aspects of differentiation and focus strategies may be applied by an organisation in the banking sector which serves clients of diverse economic ability in the creation of a competitive advantage.

3.2.2.4 The Concept of Stuck in the Middle

Porter (1998b:16) identified the concept of "stuck in the middle" which is a situation where an organisation fails to either pursue the cost strategy or differentiation strategy and aims instead to follow all the strategies at the same time. He argues that an organisation that is stuck in the middle will compete at a disadvantage because the cost leader, differentiator or focuser will be better positioned to compete in any segment. Porter (1998b) argues that an organisation needs to choose one of the generic strategies and not "get stuck in the middle". Hence, choosing the right generic strategy may ensure that an organisation remains profitable and competitive in its industry.

3.2.3 Integrated Low-Cost Differentiation Strategy

The integrated low-cost strategy is a refinement of Porter's (1998b:11) competitive strategies. Coulter (2010) outlines this strategy as a situation whereby an organisation develops competitive advantage by simultaneously achieving low cost and high levels of differentiation in the delivery of its products.

This integrated low-cost differentiation strategy has been made possible through technological advancements (Coulter, 2010). She notes that technological advancements have allowed organisations to pursue the differentiation strategy at low costs. Even though technological advancements have made low costs and 'being unique' possible, Coulter (2010) points out that strict attention is required to keep costs as low as possible and to provide products and services with enough features that the market desires. Hence, for an organisation to achieve the benefits of integrated low-cost differentiation, it would be required to invest in a cost effective technology. This is significant in the banking sector where technology may be used to cut the cost of doing business which leads to the building of a competitive edge.

Organisations have achieved low costs and simultaneously differentiated their products below those of its rivals (Jones and George, 2010). These authors outline the case of Toyota's production efficiency that has given the organisation a low-cost strategy against rivals and at the same time differentiating cars on the basis of superior design and quality. In the banking industry, a bank may focus on low-income earners by providing quality services at prices lower than those of competitors and therefore combine both cost and differentiation strategies. Therefore, an organisation such as a bank may build a remarkable competitive advantage by identifying low-cost products and services and at the same time identify a profitable market segment that appreciates its product.

3.2.4 Marketing Strategies and Growth

A well thought out marketing strategy creates a good competitive edge for an organisation. IIBF (2008:368) is of the view that marketing in the banking perspective is the aggregate of functions directed at providing services to satisfy customer's financial needs more efficiently and effectively than competitors while keeping in view the organisational objectives of the bank.

Ashmos, Duchon and McDaniel (1998:25) argue that traditional economic analyses view competition as a battle amongst companies in the same industry or amongst substitute goods and services. They note that as an organisation expands, it faces a lot of environmental competition from rivals. Therefore, it needs to employ marketing strategies that may be able to win customers from competitors and retain them. This aspect may be prevalent in all sectors of the economy including the banking sector. For instance, an organisation may face challenging competitors as it establishes itself in new locations. Such challenges can be tackled by employing creative marketing systems that enhance competitiveness in the new locations.

The Ansoff Growth Vector Matrix highlights a product-market strategy that may be applied for creating competitiveness in the market (Kotler, 2003:100). The model enhances growth of an organisation and builds a competitive advantage as the organisation enjoys economies of scale. The Ansoff's model is illustrated in Table 3.1 that follows.

Table 3.1 Ansoff's Growth Vector Matrix (adapted from Kotler, 2003:100)

	Product	
	Present	**New**
Present market	Market penetration	Product development
New Market	Market development	Diversification

Source: Harvard business review (Kotler, 2003:100).

The section that follows describes the model as outlined by BPP (2007:233).

- **Market penetration:** *Current products and current markets.*
  The organisation concentrates on increasing turnover in the existing market through competitive pricing, advertising and sales promotion. In addition, the organisation

seeks to secure dominance of growth markets, drive out competitors by restructuring a mature market and increase consumption among the existing consumers.

- **Market development:** *Present products and new markets.*

  This is where an organisation looks for new consumers for the existing products. The organisation finds new geographical areas, differentiates products by packaging, finds new distribution channels and employs differentiated pricing policies in order to attract new market segments.

- **Product development:** *New products and present markets.*

  In this strategy, an organisation seeks to launch new products in the existing market. Though this strategy may be expensive, BPP (2007:233) notes that it forces competitors to innovate and therefore it acts as a barrier to the entry of new competitors.

- **Diversification:** *New products and new markets.*

  This is where an organisation develops new products for new markets. The strategy achieves growth if the selected products and markets offer prospects for growth which the existing product-market mix does not. The strategy also provides a better way of investing surplus funds instead of distributing them to shareholders. In addition, diversification may either be related to the existing assets and activities of the organisation or it may be unrelated, in which case new products for new markets are produced and delivered.

These marketing strategies can be drawn on by an organisation to affirm its presence and to win customers in new markets. Hence, the management accounting function in a financial organisation should embark on developing strategies for competitive market success. Such a strategy will hinge on a bank's ability to improvise, experiment, adapt, reinvent and regenerate as market and competitive conditions shift rapidly (Thompson *et al*. 2009). The market growth shown by Equity Bank (Table 2.1) may be a result of employing successful marketing strategies in its banking services.

IIBF (2008:368) points out that bank marketing is concerned with providing banking services to satisfy customers' financial needs more effectively and efficiently than the competitors. Therefore, banks need to discover the financial needs of the customers and develop products and offer services which satisfy those needs. In addition, banks may be required to satisfy the customers' other related needs in relation to the money market. This implies that the management accountants in banks need to develop the correct marketing strategies that inform and appeal to customers.

Marketing helps in achieving the commercial objective (to generate profit) and social objectives (developmental role especially in the rural areas) of a bank (IIBF, 2008:368). In this view, a good marketing strategy for a bank would ensure that the bank creates a competitive advantage and sustains its customers' portfolios.

3.2.5 Strategic Alliances and Collaborative Partnerships as a Competitive Strategy

Once a company has established the basic competitive strategies, it may decide to supplement them for better performance (Thompson *et al.* 2009). These authors contend that many companies use strategic alliances (mergers and acquisitions) and collaborative partnerships (joint ventures) to help them build a global market image and be a leader in the industries of the future. This is because alliances may provide an attractive, flexible and cost-effective means to access missing technological expertise and business capabilities that enhance competitiveness.

Hence, a bank that enters into strategic alliances increases its chance for market growth and also constructs broader business systems by linking the bank's internal core competencies with the best of its allies (IIBF, 2008:82). Growth through these strategies may create a competitive advantage for an organisation in the banking sector where banks may link up with allies involved in diverse activities.

Furthermore, companies could begin as small single-business organisations serving a small local market. This is because during a company's early years, its product line tends to be limited, its capital base thin and its competitive position vulnerable (Chenhall, 2003:127). He notes that a young company's strategic emphasis is on increasing sales volume, boosting market share and cultivating a loyal clientele. Profits, price, quality, service and promotion are tailored more precisely to customer needs. Hence, an organisation should satisfy its customers at home before pursuing expansion strategies. This is vital in the banking sector where newly established branches may require the support of the existing branches and customers to establish itself.

Opportunities for geographic market expansion would normally be pursued next. The natural sequence of geographic expansion may proceed from local to regional and then to international markets, though the degree of penetration may be uneven from one area to another due to varying profit potentials. However, Chenhall (2003:127) notes that geographic expansions may fall short of global or even national proportions because of intense competition, lack of resources and unattractiveness of further market coverage. He continues to explain that as an organisation grows, somewhere along the way the potential of vertical integration either backward to sources of supply or forward to ultimate consumer satisfaction, it may become a strategic consideration.

However, Chenhall (2003) notes that vertical integration only makes strategic sense if it significantly enhances a company's profitability and competitiveness. In this view, a bank may have the opportunity to link different sectors of the economy with its customers and therefore enjoy the benefits of financial transaction that could be undertaken by the customers. This may be one of the strategies that Equity Bank endeavours to achieve as the bank develops partnerships with organisations of different business operations (Equity Bank, 2010b:16).

Mia and Chenhall (1994:2) are of the view that as long as a company has its hands full aiming to capitalise on profitable growth opportunities in its present industry, there is no urgency to pursue diversification. However, when a company's growth potential starts to decrease, the strategic option is either to become more aggressive in taking market share away from rivals or to pursue expansion into other locations. A decision to expand puts an organisation in a dilemma on the kind and the magnitude of expansion. However, the strategic possibilities are wide open because a company can expand into a closely related location or into a totally different location (Mia and Chenhall, 1994:2). These authors note that, once expansion has been achieved, the time may come when the management has to consider divesting or liquidating businesses that are no longer attractive. However, in order to achieve the desired competitive advantage through expansion, the costs and benefits of the growth strategy employed may need to be evaluated. In this view, innovative management accounting practices are important in providing the necessary skills to evaluate and advise the management on how the organisation may achieve a competitive advantage through expansion.

Equity Bank, (2010b:16) indicates that the bank has entered into strategic partnerships with milk processing companies, tea factories, coffee factories and horticulture companies. It also records that in April 2008, the bank acquired Uganda Microfinance Limited (UGL) which is a leading microfinance organisation in Uganda. Additionally, in January 2010 the bank entered into partnership with Safaricom M-pesa. M-pesa is a leading cell phone money transfer service provided by Safaricom mobile phone services. In this partnership, M-pesa subscribers are able to access money from Equity Bank's ATM service points. This is an indication that strategic alliances and partnerships may play a role in creating competitiveness for an organisation especially in the banking sector where such partnerships have the potential to increase customers for a bank.

3.3 Summary

This chapter has outlined the various competitive strategies that may be employed by an organisation in order to develop a competitive advantage. The management accounting role would therefore be expected to analyse and recommend the best strategy for implementation for an organisation to establish a creditable competitive edge over its rivals. The next chapter, Chapter 4, discusses the strategic competitive strategies that may be employed in creating a competitive advantage.

CHAPTER 4: STRATEGIC COMPETITIVE STRATEGIES

4.1 Introduction

Section 4.2 outlines how customer analyses may be used to create a competitive advantage and explores central issues concerning customer satisfaction. Competitor analysis is discussed in Section 4.3 and competitor accounting in Section 4.4. Section 4.5 deals with IT and it includes IT trends in banking, cloud banking and mobile banking. A discussion on human resource management follows in Section 4.6 which is proceeded by a discussion on competitive challenges which include threat by new entrants, threat by substitutes, bargaining power of customers, bargaining power of suppliers and the rivalry among the competitors in Section 4.7. Benchmarking is discussed in Section 4.8 while the balanced scorecard is discussed in Section 4.9. The chapter concludes with a summary in Section 4.10.

4.2 Customer Profitability Analysis

Horngren *et al.* (2009:539) argues that customer profitability analysis makes it possible for an organisation to report and analyse revenues earned from customers and the costs incurred to earn those revenues. Koch and MacDonald (2006:372) note that customer profitability analysis is a procedure for analysing the profitability of existing account relationships of customers. It compares revenues generated from fees, investment income from a customer's deposit balances and loan interest to expenses associated with extending credit and providing non-credit services plus a target return to shareholders.

Moreover, Drury (2004:433) notes that management reports in the past concentrated on profit analysis by product. However, more attention is now paid to analysing profits generated by customers using an activity-based approach. Customer profitability analysis may either be applied at the individual level or at the customer segment level. Hence customer profitability analysis in the banking sector may assist the management to identify the customer segments that can then create a competitive advantage for a bank. Moreover, innovative management accounting practices in such a bank may provide the necessary tools for performing and analysing profit generated by the various categories of customers and help in identifying the most productive customers.

In addition, a company may need to evaluate the overall relationship it has with its customers. Thomas, Shankster and Mathieu (1994:1252) contend that customers may buy more than one product or service from a company. For instance, a customer might have more than one account with a bank: a savings account, a fixed deposit account and a car loan. In this case, management would not only want to know how profitable the customer is to the company by holding a savings account (which is probably not generating much profit) but how profitable the customer is by holding three accounts, especially the car loan account. This particular customer might be identified as not very valuable if attention is only given to the savings account. However, in combination with the other two accounts, the customer might suddenly become valuable with higher customer profitability to the bank. Therefore, a bank may need to provide various types of accounts in order to serve the various needs of a customer. The skills required in developing innovative accounts that are aimed at customer growth in a bank may be provided by the management accounting function of the bank.

Thomas *et al.* (1994:1252), also note that a management that uses customer-focused activity based costing takes into account the specific resources utilised to serve each customer segment. They contend that customer profitability analysis considers the relevant costs for the decision at hand in order to support value-adding and avoid value-destroying decisions. For instance, more information could be obtained from customers regarding their buying habits; whether the customers demand extra or free services, special promotions and the costs of offering these special services.

Some of the data which is already held in the customer's data base could provide valuable information about the profitability of customers (Thomas *et al.* 1994:1252). Therefore, a comparison can be made against the industry's averages or on similar companies in the industry and appropriate actions may be taken to reduce costs in order to remain competitive.

Understanding customer profitability in the designing of a management accounting system would be important as it would enable the right data to be collected, compared and analysed in ways that inform users about the profitability of customers (van der Stede, 2000:609). Van der Stede (2000) also notes that in determining the profitability of customers, management accounting strategies need to focus on variable costs and contribution margins associated with various customer groups. This may therefore enable organisations such as banks to identify and serve the customers that are valuable in terms of creating a competitive advantage to customers who are profitable.

Van der Stede (2000:609) also notes that the management accounting function of an organisation should coordinate with other departments like marketing to obtain relevant information about the customers it serves. The more knowledge companies have on their customers, the more they may be able to establish the best strategies for serving the customers in order to remain competitive. However, the management accounting function of an organisation should link with the marketing function in order to gather the necessary variables required for a customer profitability analysis. This could be important especially in the banking sector where proper strategies for analysing customer profitability may identify profitable clients and customer segments that can create a sustainable competitive advantage for a bank.

BPP (2007:117) provides the benefits of customer profitability analysis in Figure 4.1.

Figure 4.1 Benefits of Customer Profitability Analysis (adapted from BPP, 2007:117).

Source BPP, (2007:117)

Therefore, if organisations could perform a proper customer profitability analysis, it would be possible to enjoy the benefits outlined above.

Koch and MacDonald (2006:205) note that data on customer profitability analysis helps the management to target niches, develop new products and change pricing. Equity Bank's annual report (Equity Bank, 2010b:23) states that the bank's strategic model is to provide financial services to the unbanked and the low-income end market. Therefore, the unbanked and the low-income market may provide a chance for growth and competitiveness for a bank that manages to develop products that satisfy this category of customer.

The management accounting function has the role of providing the management with an analysis of the cost and revenues earned from a particular customer segment. This may ensure that the customers who make large contributions to the operating income receive attention that matches their contribution to the company's profitability as noted by Horngren *et al.* (2006:501). Banks may need to make unprofitable customers profitable by providing them with incentives that make them buy more services that meet their needs. Therefore, the strategy of analysing customer profitability in determining how to serve them better may ensure that an organisation such as a bank maintains a better competitive advantage over its competitors.

4.2.1 Customer Satisfaction

It is no longer the case that organisations produce products and offer services without considering customers' needs. Iyengar (2007:82) notes that in today's challenging and competitive market era, business organisations anticipate the needs of clients and provide products that create positive responses from customers. Furthermore, he points out that satisfied customers may be a source of free publicity for an organisation such as a bank. Iyengar (2007:305) is of the view that customers have become more demanding as they balance cost and quality. He suggests that transition from a seller's market to a buyer's market has compelled bankers to understand the pulse and needs of customers. In essence, the products and services offered by banks today could be as a result of customer needs. Therefore, banks may have no choice except to alter their product mix, delivery channels and corporate structures to serve their current functional role in order to remain competitive and attractive to customers.

The channels that may be used by banks to mobilise potential customers to do business with them include: premises banking, ATM services, use of debit and credit cards, telephone banking, internet banking and electronic funds transfers (Iyengar, 2007:305). Hence, customer satisfaction can be attributed to growth and competitiveness for an organisation in the banking sector where customer satisfaction can be enhanced by technology. The management accounting practices provide strategies that may enhance customer satisfaction which in turn can lead to competitiveness for a bank.

4.3 Competitor Analysis

Competitor analysis is the identification and quantification of relative strengths and weaknesses (compared with competitors or potential competitors) which could be of significance in the development of a successful competitive strategy (BPP, 2005:165). Organisations should analyse their competitors and build models of how they might react based on their future goals, assumptions, capability and their current situation (BPP, 2005:165). Previous research states that competitor's autonomous policies and reactions to market developments have a big influence on each organisation's freedom of action and ultimately on its profitability. Hence, a sound knowledge of competitors and understanding their competitive position may ensure that an organisation's existence and profitability are maintained in order to create a sustainable competitive advantage. BPP (2005:165) asserts that organisations should always be aware of potential competitors.

Kotler (2003:242) outlines four kinds of competitors which are discussed next.

- **Brand competitors:** This is where similar organisations offer similar products.
- **Industry competitors:** This is a situation in which organisations offer similar products but these are differentiated in several ways such as geographical market or range of products.
- **Generic competitors:** This is where different products compete for the same disposable income.
- **Organisational competitors:** In this, organisations offer distinctly different products that satisfy the same needs.

A bank is likely to experience all of the challenges that are posed by any category of competitor. Therefore the management accounting function of an organisation such as a bank needs to develop competitive strategies that are able to hedge against any of the competitive challenges that may be introduced by any competitor within the industry.

Du Plessis (2004:42) notes that competitor analysis may assist the management to:

- Gain insight on the organisation's competitive position.
- Understand competitor's historical, present and potential strategies.
- Obtain a foundation for future strategies that build a competitive advantage.
- Make projected estimates of expected returns when alternative strategies are considered.

The information above shows the need for the management accounting function especially in the banking sector to constantly evaluate the actions of their organisation's competitors. This is important because most commercial banks offer homogenous products and services to their customers which could make competition a major challenge in the banking sector.

Moreover, du Plessis (2004:42) notes that competitor analysis assists the management to identify its competitors, the goals and target achievements of competitors, the success of competitor strategies, competitors' strong and weak points and their probable reaction to an organisation's strategies.

Therefore, if the management accounting function has the right knowledge about competitors, their future strategies may be foreseen and strategies may be crafted to counter any threat that competitors may create. In this case, the management accounting function in an organisation can provide competitive strategies that will counteract a competitor's actions on time which would lead to enhancing the competitive advantage of a bank.

4.4 Competitor Accounting

Management accounting provides important and useful techniques in analysing how the cost structure of competitors influences an organisation's options and in modelling the impact of different strategies as outlined by (BPP, 2005:168). In addition, McLaney and Atrill (2002:302) acknowledge that knowledge of a competitor's cost structures would enable a business organisation to make estimates of the effect on the competitor's profit after an increase or decrease in the volume of their turnover. It would also make it possible to assess how well placed each competitor might be in reacting to a change in sales volume and price changes. In addition, they note that businesses which have detailed knowledge of their own costs and cost structure may be able to make informed estimates of what they mean for the competitors. Such knowledge on competitor's costs would enable an organisation, especially in the banking sector, to develop products and offer services that are cost effective and lead to the creation of a competitive advantage for the organisation.

Competitor cost assessment provides regular updated estimates of a competitor's costs based on the appraisal of facilities, technology, economies of scale, personnel structure and research and development. The information obtained from the analysis assists the organisation in decision making processes and strategic planning as noted by du Plessis (2004:42). McLaney and Atrill (2002:302) outline the following sources of competitor information:

- Direct observation,
- Knowledge of own business,
- Official statistics,
- Suppliers,
- Customers,
- Published reports and
- Previous employees.

These aspects may assist the management accounting function in an organisation to develop strategies that can keep the organisation competitive and ahead of the competitors.

Du Plessis (2004:41) argues that managers are always choosing between alternatives in a bid to retain a competitive advantage. He notes that the management accounting function needs to supply the management with the relevant information on competitors and that they should always consider the reaction of competitors when actions to improve an organisation are undertaken. In particular, the management accountants may provide the aspects outlined below by du Plessis, (2004:41) so that competitor accounting can lead to the creation of a competitive edge for an organisation.

- Find the general direction to be followed and the progress that should be achieved in order to keep stakeholders satisfied.
- Identify the opportunities and threats of the organisation and how they would affect the organisation in future.
- Get to know the strengths and weaknesses of the organisation and their effect on the organisation's opportunities and threats.
- Find the contribution of each product and consumer segment especially as the product approaches the end of its lifecycle.

Therefore, competitor accounting may provide a platform on which an organisation builds competitiveness against competitors. In addition, the management accounting function may provide skills that identify the key areas in which successful competitor accounting may be carried out to create a competitive advantage for a bank.

4.5 Information Technology (IT)

IT is another platform through which an organisation creates a competitive advantage. Furthermore, BPP (2005:38) asserts that information is a source of competitive advantage and organisations develop an information strategy that covers both information systems and IT. Porter (1998b:164) notes that a change in technology may be a major driver of competition which plays a significant role in an industry's structural changes as well as in creating new organisations. However, he warns that technology erodes the competitive advantage of organisations and propels other organisations to success. This said, mobile phone banking, branchless banking and Visa ATM cards are products of advancing technology where, first movers (Porter, 1998b:185) may achieve competitiveness and fast growth especially in the banking sector where technology has the potential to propel growth.

Podder and Gadhawe (2007:144) contend that technology creates a competitive advantage for businesses. They note that IT in banking enhances decision making, distribution of products, operation efficiency and efficient payment systems. An organisation that uses e-commerce more proficiently than competitors may have the potential to establish a competitive advantage in its industry. They point out that IT enables banks to adjust their market strategies to the right target group for the right products and at the right time. They particularly note that banks that are first to market their services with the right mix of technologies, strategies and partnerships are the sure winners.

These suggestions are supported by Muraleedharan (2009:337) who points out that technologies have become central to banking. He notes that it is through technology that new private and multinational banks are able to leverage low-costs and internet banking to the optimum levels that contribute to reduced operating costs. This aspect may enable a bank to expand and establish in new locations with ease. Muraleedharan (2009:337) note that using new technology helps banks to look at new ways to make a customer's banking experience more convenient, efficient and effective. It also assists in identifying customer needs and in offering tailor-made products that match customers' demands. He points out that technology enables banks to better assess interest rate risk, liquidity risk and foreign exchange risk. He further notes that technology plays a major role in reducing costs of developing innovative products and shortens the time to market new products. Hence, technology may be used by banks to enhance profitability, customer service, growth, security and innovation.

These considerations are sources for a competitive advantage especially in the banking sector where technology may equate to competitiveness.

4.5.1 IT Trends in the Banking

The emerging developments in IT have caused institutions in the financial sector to create a competitive edge in their industry. The use of collaboration and community tools (such as tele-presence, video conference, co-browsing capabilities, desktop sharing and social networks) may provide better connectivity with customers and across the workforce (Accenture, 2010). This enables new remote sales and service propositions, the use of social networks as enabling tools for sales and service as well as the increased use of a remote workforce. For instance, experts can connect to any bank branch as virtual advisors to answer questions about products or services or they may connect directly with customers via web call-backs and Internet chatting.

The Internet is rapidly becoming the locus of more and more IT-based business capabilities because of the following reasons:

- It reduces costs of activities. For instance, virtualisation and cloud computing typically lower infrastructure, maintenance and energy costs.
- Internet computing also provides elasticity, scalability and better business agility such as near real-time risk calculation results, and 'infinite' computing capacity on demand.
- Rich Internet Applications (RIAs) provide the potential for vast improvements in the usability and productivity of web-based banking applications and increase the web's usefulness as a computing platform.

These reasons serve to influence an organisation to install an IT system that would lead to the creation of a competitive advantage through the capabilities that would be provided by the IT system.

4.5.2 Banking on the Cloud

Accenture (2010) defines cloud computing as the dynamic provisioning of IT capabilities, which include hardware, software or services, from a third party over the network. The use of cloud computing for key banking applications such as market analysis, portfolio analysis, peak load management and batch processing reduces the costs of transactions and increases business flexibility.

Accenture (2010) points out that an adjacent technology trend that is affiliated to cloud computing is mobility. The mobile phone is an information access device that can be easily injected into the value chain to deliver cloud based services. Accenture (2010) outlines the following uses of cloud computing in a bank:

- It enables banks to store an enormous amount of data and put dormant data to work.
- It provides a cost-effective platform for developing analytics models, reports and driving business intelligence.
- It can enable a bank to work with historical as well as real-time or transaction information from a variety of sources.
- It enables banks to churn through vast amounts of data and decipher patterns and anomalies not only in the past, but also project into the future much more quickly, efficiently and cost effectively.

- Banks will also be able to provide a more engaging and relevant customer experience that will enable customers to access and use banking products and services more easily. This will therefore help to attract and retain customers.
- It provides a platform to lower costs of transactions.
- It can substantially reduce the time it takes for banks to roll out new applications.
- It gives consumers a chance to access their banks at any time.

These attributes of cloud computing can create significant opportunities for banks to create new business models that are more customer-centric and nimble which consequently can help banks grow more quickly and more profitably. The growth levels that have been shown by Equity Bank and the continued service to the unbanked and the low-income people as well as the collaboration with mobile phone providers may have been made possible by applying the cloud computing strategy.

4.5.3 Mobile phone services

Mobile phone devices are beginning to eclipse personal computers as an electronic channel for businesses and customers (Accenture, 2010). These devices are able to assist a bank in the following ways:

- Provide banks with access to new markets, for example the unbanked.
- Provide banks with access to new payment methods.
- Provide banks with access to remote data which enables them to make key decisions quickly.
- Mobile sales force initiatives may make processes such as risk assessment visits faster and provide more efficient delivery of a positive bottom-line impact.
- Hub capabilities of the bank (including pricing decisions, payment authorisation and customer relationship management) may be available via mobile phone devices and accessible by staff when on the move.
- Provide banking customers with access to their financial information directly from their mobile handsets.

Equity Bank (Equity Bank, 2010b) has partnered with Safaricom M-pesa money transfer service to give its customers access to mobile phone banking services more conveniently. This could be a strategy that enhances the bank's quest for creating a competitive advantage through IT.

4.6 Human Resource Management

A company should be aware of the kind of people it employs and their skills just as it ought to know the number, type and quality of its manufacturing facilities (Wheelen and Hunger, 2007). These authors contend that in order for the human resource to be valuable, the management needs to realise that it should be more flexible with its employees. Human resource managers need to be knowledgeable about work options such as part time work, job sharing, flexitime, extended leave, contract work and proper use of teams. In addition, Sadhu (2008:42) argues that recruiting competent staff and training increases the productivity of the human resource. Hence, management accounting functions in conjunction with the human resource managers need to develop work schedules that motivate the employee to work to their optimum.

In order to reduce dissatisfaction and unionisation efforts, human resource managers should be able to improve the organisation's quality of work life. Quality work life can be attained by introducing participative problem solving, restructuring work, introducing innovative reward systems and improving the work environment (Wheelen and Hunger, 2007). Wheelen and Hunger (2007) note that a satisfied workforce plays a significant role in profitability and growth of an organisation. Therefore, the management accounting function should provide skills that result in managing the human resource better and promote the creation of a competitive advantage through proper management of the human resource.

Business organisations often use the level of profit generated by the organisation to encourage the employees to work towards profit maximisation. Economic Value Added (EVA™) may be a measure that can be used to determine the value created by assets. Brealey, Myers and Marcus (2007:474) note that EVA™ is a measure of a company's performance where profits are calculated after deducting all costs including the cost of capital. They note that EVA™ recognises that companies need to cover the cost of capital before they add value. However, if a division is not earning a positive EVA™, the management would be required to explain whether the assets could be employed elsewhere or be handled by fresh management. This may send a signal to the managers of non-performing sectors to improve on their value addition. Therefore, if EVA^{TM} is used to calculate manager's compensation in the banking sector, it would act as a motivating factor for the managers to ensure that a positive EVA^{TM} is achieved.

4.7 Competitive Challenges

An organisation that aims to create a competitive advantage may experience strong challenges in its industry as it endeavours to remain strategically competitive. Porter (1998b:4) outlines five competitive forces that an organisation that attempts to create a competitive advantage may face. These forces include:

- The threat of new entrants,
- The threat of substitute products or services,
- The bargaining power of customers,
- The bargaining power of supplies and
- Rivalry among competitors.

These forces are external influences upon the extent of actual and potential competition within an industry and determine the ability of organisations within that industry to earn profit.

Porter (1998b:4) argues that an organisation should adopt a strategy that combats the competitive forces better than its competitor's if it is to remain competitive, profitable and enhance shareholder value. He notes that these five competitive forces influence the state of competition in an industry and consequently determine the profit potential of the industry. Therefore, the management accounting function should be involved in the development of strategies that enable an organisation in the banking sector to hedge against the threats that may be caused by these competitive forces. These forces are discussed next.

4.7.1 Threat by New Entrants

The threat posed by new entrants may vary depending on the strength of the barriers to entry. Pearce and Robinson (2007:91) asserts that the strength of the barriers to entry may come from the scale of economics, product and service differentiation, capital requirements, switching costs, access to distribution channels and cost advantages independent of the economies of scale. However, they note that favourable environmental changes, technological changes and novel distribution of products and services may compromise the entry barriers employed by an organisation.

The Central Bank of Kenya (CBK, 2011) has recorded an increase in the number of small financial institutions which have been converted into large commercial banks. This continued increase in the number of banks could have compelled Equity Bank to develop strategies that would cushion it from the effects of new entrants.

4.7.2 Threat by Substitute Products or Services

The threat brought about by substitutes may be experienced when another industry produces products and services that satisfy the same customer's needs. However, Porter (1998b:4) suggests that the threat by substitutes can be countered by creating brand loyalty through sales promotions and product differentiation.

In Kenya, Savings and Credit Cooperative Societies (SACCOs), micro-financing institutions and mobile phone banking, offer products that directly compete with those that are offered by banks (CBK:2011). Equity Bank (2010a) records that this may have influenced the bank to develop strategies that would compete with SACCOs and also collaborate with mobile service phone providers such as Safaricom in order to remain competitive.

4.7.3 Bargaining Power of Customers

The bargaining power of customers may be a major challenge to organisations. This is because customers often demand better quality products and services at prices which could compromise the profitability of an organisation.

Muraleedharan (2009:220) is of the view that consumers in the banking sector have become more demanding, time conscious and in need of excellent global status services. Therefore, organisations should critically assess the strength of the customer's independent factors and formulate strategies of dealing with these factors in order to reduce their effect on the bank's profitability and competitiveness.

4.7.4 Bargaining Power of Suppliers

Suppliers exert pressure by demanding higher prices and hence pose a threat to the profitability and competitiveness of a bank. This threat may however depend on the monopoly of the suppliers, substitute products in the supplier's industry, strength of the other customers of the supplier, the importance of the supplier's product and the switching costs for customers (Porter, 1998b). Therefore an organisation should analyse these factors thoroughly in order to exploit any favourable opportunity that may arise. Thompson *et al.* (2009) note that collaborative partnerships between a company and its suppliers may create a win-win opportunity and hence reduce any negative effect that may arise with suppliers. This is important especially to suppliers of technology which could be a major driver of competitiveness in the banking industry.

Management accountants at Equity Bank may have developed strategies that have enabled the bank to reduce the negative effects of supplier bargains.

4.7.5 Rivalry among the Competitors

The intensity of competitive rivalry within an industry affects the profitability of the industry as a whole (Coulter, 2008:221). They suggest that competitive actions take the form of sales promotion campaigns, price competition, new products, improving after sale services and advertising battles. They argue that in any industry, the five competitive forces dictate the rules of competition, determine the industry attractiveness, profitability. Additionally they state that managers assess an industry's attractiveness using these five forces.

Despite the forces mentioned above, Equity Bank has been able to grow (Table 2.1) and establish a strong market position in an industry that has strong players. In order to hedge against the challenges found in the banking industry, the bank may have applied unique innovative management accounting practices in its growth prospects otherwise its target achievements and profitability could not have been realised. Therefore, the management accounting function in organisations and especially in the banking industry should establish strategies that ensure that organisations remain competitive. These strategies should be geared towards overcoming the challenges that may be experienced by organisations that strive to create a sustainable competitive advantage.

4.8 Benchmarking

Sometimes an organisation may benchmark its activities with those of other organisations. Benchmarking involves the search for and implementation of the best way to do something as practised in other organisations or in other parts of an organisation (Lanen, Anderson and Maher, 2007:539). These authors note that benchmarking enables managers to identify an activity that needs to be improved, find the most efficient person in performing that activity, carefully study the process of that efficient person and then adapt and adopt that efficient process to their own organisations. They further note that benchmarking leads to continuous improvement which involves re-evaluating and improving the efficiency of an organisation's activities. Benchmarking can be the search to:

- Improve activities in which the organisation engages through documentation and understanding.
- Eliminate activities that are non-value added.
- Improve the efficiency of activities that are value added.

Benchmarking and continuous improvement may therefore be avenues through which an organisation can create a competitive advantage. This may be important especially in the banking sector where customers can easily compare the level of services offered by various banks which could compromise their loyalty and encourage them to switch to the best service provider.

4.9 The Balanced Scorecard

Business organisations need a measure through which they can verify that they have established both strategic and financial controls in order to assess their performance. Ireland, Hoskisson and Hitt (2010:362) argue that the balanced scorecard may enable an organisation to achieve this goal. They note that organisations may jeopardise their performance possibilities by placing emphasis on financial controls at the expense of strategic controls.

This may happen because financial controls give outcomes of past actions while strategic controls communicate the drivers of future performance. Therefore, an appropriate balance of strategic controls and financial controls rather than an over emphasis on either would allow an organisation to effectively monitor their performance.

The dynamic business environment that banks find themselves in may therefore require their managers to constantly seek the wisdom of the balanced scorecard. This enables them to keep abreast of the changing competitive strategies in their industry. The balanced scorecard was designed to complement financial measures of past performance with measures of the drivers of future performance (Kaplan and Norton, 1996:75). They argue that traditional financial accounting measures such as return-on-investment and payback period analysis offer a narrow and incomplete picture of business performance and that reliance on such data can hinder the creation of future business value. Accordingly, they suggest that additional financial measures be added in order to reflect customer satisfaction, internal business processes and the ability to learn and grow.

The name of the balanced scorecard concept reflects the intent to keep the score on a set of items that maintains a balance between short-term and long-term objectives as well as between financial and non-financial measures (Wu, Lin and Tsai, 2010:273). Additionally, an organisation should aim to balance lagging and leading indicators and internal and external performance perspectives (Kaplan and Norton, 2001:87). A focus by management on such a broad set of performance measures should help to not only ensure good short-term financial results but also guide a business as it seeks to achieve its strategic goals.

The exclusive focus on standard accounting measures such as return-on-investment and payback period analysis within the financial industry has been criticised as the root cause of many problems (Wu *et al.* 2010).These authors note that, with managers emphasising short-term financial performance metrics, they tend to sacrifice the pursuit of endeavours that can result in long-term benefits such as new product development, process improvement, human resource development, IT and customer and market development all in the interest of current profitability. This aspect therefore limits future growth opportunities.

These actions by managers may be a consequence of poorly designed performance measurement systems that only focus on short-term financial performance. However, Wu *et al*. (2010:973) believe that resolving the problem by supplementing standard financial practices with additional indicators can help an organisation evaluate its long-term performance.

The idea of the balanced scorecard was introduced in order to integrate the e-business performance assessment of a company (Wu *et al.* 2010:973). Wu *et al.* (2010) note that, of the four key performance perspectives of the balanced scorecard, only one involves standard financial performance indicators, whereas the other three involve non-financial performance measurement perspectives which are: customer satisfaction, internal business processes and learning and growth capacities. Overall, these four perspectives constitute the framework of the balanced scorecard.

Although the balanced scorecard is intended primarily as a measurement of system performance, the model can be examined as a methodology through which the banking sector can create an integrated framework for attracting high net worth customers. Kaplan and Norton (1996:75) outline the four dimensions of this model and their associated enablers and these will now be discussed.

4.9.1 Financial Perspective

Kaplan and Norton (1996) argue that the balanced scorecard financial data is valuable in calculating the readily measurable economic consequences of previous actions of an organisation. They note that measures of financial performance indicate whether a company's strategy, implementation and execution contribute to bottom-line improvement. Financial objectives typically relate to measures of profitability, including operating income, return on capital and economic value added.

Kaplan and Norton (1996) suggest that alternative financial objectives can include rapid sales growth or generation of cash flow. In the banking industry, the financial indicators that the banks may regularly review include handling charge revenue, customers' market share ratio, the ability to achieve profitability and assets management.

4.9.2 Customer Perspective

Since customers are the source of business profits, satisfying customer needs should therefore be the ultimate objective of a business organisation enterprise. From the customer's perspective (Kaplan and Norton, 1996) the organisational management should identify the expected target customers and market segments for operational units and monitor the performance of operational units in the target segments. In this regard, the core performance measures may include customer satisfaction, customer retention, new customer acquisition, market position and market share in targeted segments. In devising the customer perspective (Kaplan and Norton, 1996) outline the following measurements for consideration: customer acquisition, special customer's certified financial status, customer profitability, customer confidence and customer retention.

4.9.3 Internal Business Process Perspective

The objective of this perspective is to satisfy shareholders and customers by excelling in the business processes that have the biggest impact on an organisation's performance. Kaplan and Norton (1996) contend that in determining the objectives and measures to be taken, the first step is to incorporate value-chain analysis. This may be followed by an outmoded operating process which can be adjusted to factor in financial and customer dimension objectives. In addition (Kaplan and Norton, 1996), suggest that a complete internal business-process value chain that meets current and future needs should be constructed.

They also note that internal value chain of a business organisation may consist of three main business processes: innovation, operation and after-sales services. With this in mind, banks may evaluate organisational performance on the basis of innovation in system programming, certification of a financially-integrated professional platform, operating quality of a group of customers, internal customer satisfaction and management stratum support.

4.9.4 Learning and Growth Perspective

The learning and growth element of the balanced scorecard is intended to identify the criteria for establishing the infrastructure of an organisation's growth. This indicator is arguably the most critical of the balanced scorecard's perspectives for addressing the future needs of an organisation (Kaplan and Norton (1996). These authors also note that it is a difficult parameter to measure. Kaplan and Norton (1996) argue that when managers are evaluated on short-term financial performance, they often indicate some difficult to sustain investments to enhance the capability of their people, systems and organisational processes. In devising the learning and growth perspective, banks may consider the following possible measurements: wealth managers' professional knowledge, education and training of wealth managers, wealth managers' scale of team, wealth managers' complaint systems and the appropriateness of performance policies for rewards and punishments.

Ireland *et al*. (2010:362) provide a summary of the four interrelated perspectives that form the balanced scorecard framework. This summary is outlined in Table 4.1.

Table 4.1 Perspectives of the Balanced Scorecard (Adapted from Ireland *et al*. 2010).

Perspective	Areas of Concern	Benefit to the Organisation
Financial control	Growth, profitability and risk from the shareholders perspective.	Allow the understanding on how it looks to shareholders. Capacity for Profitability. Assets Management. Customers Market Share Ratio. Handling charge/Revenue.
Customer	Amount of value customers perceive was created by the organisation's products.	Understands how customers view it. Customer Acquisition. VIP-Certified Financial. Customer Profitability. Customer Confidence. Customer Retention.
Internal business processes	Focus on the priorities for various business processes that create customer and shareholder satisfaction.	Decide a successful process to achieve competitive advantage. Lead in Innovation System Programming Certified Financial Integration Platform for Professionals. Operational Quality for a Group of Customers. Internal Customer Satisfaction. Management Stratum Support.
Learning and growth	Organisation's effort to create a climate that supports change, innovation and growth.	Determine strategies that improve performance in order to achieve target growth. Wealth Managers' Professional Knowledge and Growth. Education and Training of Wealth Managers. Wealth Manager's Scale of Team. Wealth Managers' Complaint System. Appropriateness of Performance Policy Rewards and Punishments.

The balanced scorecard may therefore provide strategies that enable an organisation to create a balance between strategic controls and financial controls when creating a competitive advantage in its industry.

4.10 Summary

Chapter four highlighted the strategic competitive strategies that can result in the creation of a sustainable competitive advantage. The chapter indicates that management accounting practices provide important skills for identifying the best competitive strategies that may enhance the competitiveness of an organisation.

The purpose of this literature review was to identify the innovative competitive strategies that management accounting techniques provide when creating a competitive edge in the banking industry. An important aspect that should be kept in mind in this discussion is the premise that the management accounting function plays an important role in creating and sustaining a competitive advantage for an organisation. The next chapter discusses the research methodology that was employed in the study.

CHAPTER 5: RESEARCH METHODOLOGY

5.1 Introduction

Chapter five details the research methodology used in this study. In Section 5.2, research design is discussed, research population which includes the sampling procedure follows in Section 5.3. Section 5.4 describes the data collection methods and techniques with regard to the use of questionnaires, interview guides, and observation. Section 5.5, outlines the data analysis and interpretation of the results which include issues of validity and reliability while Section 5.6 gives an overall summary of the chapter.

5.2 Research Design

This study is qualitative in nature in which descriptive research is used to investigate the role of management accounting in creating and sustaining a competitive advantage. Ary, Jacobs, Sorensen and Razavieh (2009) note that qualitative research seeks to understand a phenomenon by focusing on the total picture rather than breaking it down into variables. Consequently, this research aims at achieving an in-depth understanding of the role of management accounting skills in creating and sustaining a competitive advantage in an organisation especially in the banking sector. Equity bank provided the necessary data for this study.

In addition, Cooper and Schindler (2010:194) contend that qualitative research includes techniques which seek to describe, decode, translate and otherwise come to terms with the meaning of naturally-occurring phenomena in the social world. This method focuses on the quality of data rather than its quantity. A qualitative study method was used in collecting information from respondents at Equity Bank in order to describe and analyse the contribution of management accounting in creating and sustaining their competitiveness.

In order to successfully meet the objectives of this study, a descriptive study was carried out. Cooper and Schindler (2010) state that a case study is suitable for descriptive research and hence Equity Bank is used in this study. Accordingly, Kombo and Tromp (2006:9) note that a descriptive study is concerned with fact finding which results in the formation of important principles of knowledge and solutions to investigations associated with a study. Therefore, a descriptive study was carried out in the measurement~~s~~, classification, analysis, comparison and interpretation of the data that was collected.

Data was collected through the use of interviews, questionnaires, observation and a document analysis relating to Equity Bank in which first-hand information on the role of management accounting practices in creating competitiveness for the bank was collected.

5.3 Research Populations

Welman and Kruger (2001:46) note that a population entails the object of a study. It comprises of individuals, objects, organisations, events and products. This study focused on the experience of decision-makers actively involved in the development and implementation of competitive strategies at Equity Bank in Kenya.

5.3.1 Sampling Procedure

Sampling is a procedure that a researcher uses to select a number of individuals or objects from a population to be the subject of a study (Kombo and Tromp 2006:77). They note that the selected group should contain representative characteristics of the entire group. In this view, typical case purposive sampling was applied in identifying the target population. The method was applied because it is believed to be reliable in providing the typical information required for the study (Kombo and Tromp, 2006:82).

The research population involved in this empirical research comprised of eighteen out of twenty two top executive officers of Equity Bank at the headquarters in Nairobi and twenty two out of the twenty seven branch managers in the Nairobi area. Since Equity Bank is managed centrally from the headquarters, the branches serve as instruments of implementing top management policies. It is with this understanding that the study incorporated interviews from the top executives and branch managers.

The sample of the top executives was selected based on their job description. The intention was to ensure that typical or representative subjects that could provide the required information were chosen as suggested by Krishnaswamy, Sivakumar and

Mathirajan (2009). The research respondents selected comprised of people who are actively involved in the development of strategies that may directly determine the competitive advantage of Equity Bank.

5.4 Data Collection Methods and Techniques

In order to meet the objectives of this study, both secondary and primary data sources were used. Secondary sources included Equity Bank publications, journals, books, periodicals, newspapers and the internet. The primary data was obtained through interviews, questionnaires and observations. In addition there was approval from the bank to collect the data (See Appendix C).

5.4.1 Questionnaires

A questionnaire is a set of questions or statements that assesses attitudes, opinions, beliefs, and biographical information. In order to collect data that precisely meets the objectives of the study, both open-ended and closed-ended questions were included in the questionnaire (Kombo and Tromp, 2006:89) (See Appendix A).

The open-ended questions were intended to give respondents room to give more information and express themselves to their satisfaction while the close-ended questions were expected to produce the kind of answers expected by the researcher. In addition Mugenda and Mugenda (2003:71) note that close-ended questions enable a researcher to form an opinion and make a valuable conclusion. These authors contend that structured or close-ended questions are easier to analyse, administer and are more economical in terms of time and finances. On the other hand, unstructured questions are simple to formulate, they encourage in-depth response and they permit the respondents to respond in their own words.

The questionnaires were presented and administered to the respondents in a flexible way. Flexibility in data collection was applied by allowing the respondents to choose either to discuss the questionnaire in the process of filling it in or when the questionnaire was collected. This was preferred in order to reduce bias as well as allow room for probing to elicit more information.

5.4.2 Interview Guide

An interview guide is an oral administration of a questionnaire and it gives a general plan to follow for data collection (Mugenda and Mugenda, 2003:86). An interview guide was preferred because it encourages face to face interaction with the respondents so that issues can be clarified therefore gaining in-depth information on the subject. However, the interview guide may be time consuming which limits responses to just a small number of respondents. In addition, the interview guide was used to supplement the information given in the questionnaires (See Appendix B).

5.4.3 Observation

Observation involves collecting information by watching respondents without informing them. Kothari (2008) notes that observation relates to what is currently happening and it is not complicated by either the past behaviour or future intentions or attitude of respondents. The twenty two branches of the bank in Nairobi formed the sample that was used for observation.

The behaviour of bank employees as they served their clients and the response of the customers towards the service formed the source of the data. The observation was done in the banking halls within the branches. The information gathered was used to supplement the data given on customer service, IT and on transaction processing.

5.5 Data Analysis and Interpretation

The raw data collected was sorted and edited as the first step towards its analysis. The questionnaires were organised and classified according to the patterns given by the respondents and their homogeneity. The responses from the questionnaires were organised in line with the research questions and descriptive narratives were used to reflect the situation as it occurred at Equity Bank.

Both descriptive and inferential statistics were used in the analysis of the data. Descriptive statistics included frequencies from which percentages were derived. The analysed data was summarised and findings were reported as a description of the total population of the study. Data is presented in form of histograms, pie charts, frequency tables and in percentages.

5.5.1 Validity

Krishnaswamy *et al.* (2009) contend that validity is the degree to which the sample of test items represents the content the test is designed to measure. Content validity, which is employed by this study, is a measure of the degree to which data collected using an instrument such as a questionnaire represents a specific domain or content of a particular concept. Krishnaswamy *et al*. (2009), argue that the usual procedure in assessing the content validity of a measure is to use a professional or an expert in a particular field.

To establish the validity of the research instrument, opinions of experts in the field of study, especially the research supervisor, were sought. This led to the revision and modification of the research instrument thereby enhancing the overall validity of this study.

5.5.2 Reliability

Reliability refers to the consistency and stability with which an instrument measures and supplies consistent results (Krishnaswamy *et al.* 2009). These authors note that this aspect can be assessed using the test-retest reliability method. Hence reliability is increased by including many similar items on a measure, by testing a diverse sample of individuals and by using uniform testing procedures. This was taken into consideration in the preparation and presentation of the questionnaires.

In an effort to test the reliability of the research instrument, a pilot group of five individuals from the target population was selected. The pilot study gave a chance for pre-testing of the research instrument so as to establish the clarity of the instrument's items to the respondents and thereby enhance the instrument's validity and reliability. The pilot study also provided a chance to become familiar with the research and its administration procedures as well as the chance to identify items that required modification. The results facilitated the correction of inconsistencies arising from the instruments so that they could pinpoint the management accounting practices that resulted in the competitive advantage at Equity Bank.

For the purposes of reliability and validity of the data, the measures below were taken into consideration:

- A pilot study that involved five branch managers was carried out.
- The respondents were each given a letter (Appendix D) explaining the nature of the research project. The letter also assured the respondents of the confidentiality of the information as well as guaranteeing their anonymity.
- Purposive sampling was used in which the people who were directly linked with the developing and implementing of policies at Equity Bank were targeted for data collection.

5.6 Summary

The objective of the study was to investigate the role of management accounting in creating and sustaining a competitive advantage in an organisation. Forty respondents from Equity Bank were selected according to their job description with guidance from the principles of a purposive sampling method.

Questionnaires, interview guide and observation and were used for the collection of data. The data obtained was analysed and results were presented in pie charts, frequency tables and in percentage forms. The next chapter contains an analysis and interpretation of the results.

CHAPTER 6: DATA ANALYSIS AND INTERPRETATION

6.1 Introduction

The goal of this study was to determine the role of management accounting in creating and sustaining a competitive advantage. Equity Bank, Kenya was used for the data collection. This chapter reports on the findings of the data collected and provides an analysis of the data. In Section 6.2, a report on the rate of competition in the banking industry is given; the customer's rating of the pricing of services follow in Section 6.3. Section 6.4 outlines the results of the importance of management accounting in creating a competitive advantage. An analysis of the importance of management accounting practices in the development of competitive strategies is given in Section 6.5. This includes strategies that relate to product development, service delivery, transaction processing, marketing, human resource and IT.

Section 6.6 gives the responses on the contributions of management accounting in shaping Equity Bank's competitive advantage. It includes the contributions in evaluating the changing business environment, growth and development, risk management, analysing competitors, evaluating customer's needs, assessing customer's abilities and an outline of other aspects of management accounting in creating and sustaining a competitive advantage at Equity Bank.

In Section 6.7, the response on the categories of customers that were considered to be the most valuable to the bank is given while Section 6.8 details the response on the success of the bank's model of serving the low-income and the unbanked groups. The responses on how the bank overcomes the challenges experienced in building a competitive advantage are outlined in Section 6.9 and a summary of the chapter concludes this chapter in Section 6.10.

6.2 Rate of Competition in the Banking Industry

When analysing the responses of the forty respondents, the following results were revealed: 75% indicated that competition in the banking industry in Kenya is high, 20% stated that the competition was moderate and 5% were not sure. The level of competition in the banking industry is quite high (NSE, 2011). This aspect could be a major driver towards the need for the creation of competitive strategies that may lead to a competitive advantage for Equity Bank.

Table 6.1 Rate of Competition in the Banking Industry

Category	Frequency	Percentage (%)
High	30	75%
Moderate	8	20%
Low	0	0%
Not sure	2	5%
Total	**40**	**100%**

Based on the results shown in Table 6.1, it can be concluded that the level of competition in the banking industry in Kenya is high. Therefore, the quest to develop and sustain a competitive advantage within the banking industry in Kenya can therefore be attributed to the high level of competition that prevails in the industry.

6.3 Customer's Rating of the Pricing of Services

The responses obtained in this regard revealed that none of the respondents view pricing of services at Equity Bank as being higher than that of competitors. However, 15% indicated that the pricing was similar to that of competitors, 75% indicated that the prices were lower while 10% were not sure. These results indicate that low pricing of services could be a factor that might have led to the competitive position shown by Equity Bank. Furthermore, Equity Bank (2010a) records that the bank's model is to serve the low-income market and the unbanked. Hence, the bank targets a sector that could be sensitive to pricing and a financial lender who proves to be cost effective would be preferred by the majority of such customers.

Table 6.2 Customer's Rating of the Pricing of Services

Categories	Frequency	Percentage (%)
High	0	0%
Similar	6	15%
Lower	30	75%
Not Sure	4	10%
Total	**40**	**100%**

Producing cost effective products and offering cost effective services enables an organisation to compete favourably and earn higher units of profit (Jones and George, 2010). Furthermore, the reduction of production costs is an aspect that McLaney and Atrill (2002:365) argue that it would require innovative management accounting practices to achieve. Therefore, management accounting practices might have provided important cost control measures that have enabled Equity Bank to create a competitive advantage in its industry. Therefore, from the results illustrated in Table 6.2, it can be concluded that offering products and services at a price lower than competitors is a management accounting practice that may be a source of advantage for an organisation.

6.4 Importance of Management Accounting Practices in Creating a Competitive Advantage

In response to this, 85% of the respondents indicated that management accounting practices were very important in creating a competitive advantage, 10% indicated that it was somewhat important while 5% were not sure. These results are illustrated in Table 6.3 below.

Table 6.3 Importance of Management Accounting Practices in Creating a Competitive Advantage

Categories	Frequency	Percentage (%)
Very important	34	85%
Somehow important	4	10%
Not important	0	0%
Not sure	2	5%
Total	**40**	**100%**

The results shown in this table support the literature by Schulz (2001:661) who argues that management accounting practices add value to a business and directly supports an organisation's strategic goals. In addition, Hilton (2008:4) notes that management accountants serve as internal business consultants, working side-by-side in cross-functional teams with managers from all areas of the organisation.

Hilton (2008) argues that management accountants take a leadership role in their teams and they provide valuable information that guides the organisation towards achieving its strategic goals.

Based on the results shown in Table 6.3, it can be concluded that management accounting provides important skills that may be necessary for creating a competitive advantage for an organisation such as Equity Bank.

6.5 Importance of Management Accounting Practices in Developing Competitive Strategies

This consideration covers competitive strategies that relate to product development, service delivery, transaction processing, marketing, human resource and IT. The findings obtained are discussed and the results are shown in the respective tables.

6.5.1 Strategies that Relate to Product Development

Product development strategy enables an organisation to attract satisfied customers to new products as a result of their positive experience with an organisation's products (Pearce and Robinson, 2007: 208). This section is composed of the respondent's view with regard to new and innovative products, the timely release of products and diversification of products to suit different customer needs. The section ends with a table that summarises these findings.

6.5.1.1 Identifying New/Innovative Products

With regard to this issue, 70% of the respondents indicated that management accounting practices were very important in identifying new and innovative products, 20% indicated that they were somewhat important, 5% indicated that they were not important while 5% were not sure. This supports Koch and MacDonald (2006:40) who note that innovations have been made to banks to change the way they offer products and services with the intention to improve their competitive position. Hence, the bank could be using this strategy to build a competitive advantage.

6.5.1.2 Setting the Time to Release New Products

In response to this aspect, 70% of the respondents indicated that management accounting practices were very important in deciding when to release new and innovative products, 20% indicated that they were somewhat important while 10% were not sure. Therefore, timely development and the release of new products may have enabled Equity Bank to create a competitive advantage in its industry.

6.5.1.3 Diversifying Products to Suit Different Income Groups

Management accounting practices are significant in the diversification of products so as to suit varying income groups. The data collected indicates that, 75% of the respondents were of the view that diversification of products was very important, 20% indicated that they were somewhat important and 5% were not sure. Equity Bank (2010b) highlights the various categories of products that it has developed to target different consumer needs. This indicates that the bank is using this strategy as a way of attracting more customers. The results from subsection 6.5.1 are shown in Table 6.4.

Table 6.4 Strategies Related to Product Development

Category	Very important	Somewhat important	Not important	Not sure	Total frequency and percentage (%)
Identifying new/innovative products	28 (70%)	8 (20%)	2 (5%)	2 (5%)	40 (100%)
Setting the time to release new products	28 (70%)	8 (20%)	0 (0%)	4 (10)	40 (100%)
Diversifying products to suit different income groups	30 (75%)	8 (20%)	0 (0%)	2 (5%)	40 (100%)

Based on the results indicated in Table 6.4, it can be concluded that management accounting practices were important in developing innovative products, the timely release of new products and in the diversification of products at Equity Bank. Therefore, management accounting practices may provide the necessary skills for crafting strategies that enhance the development of competitive products and services which may lead to creation of a competitive advantage.

6.5.2 Strategies Related to Service Delivery

This section contains the results that relate to management accounting and service delivery. It covers responses on methods that enhance quality of services, offering of products that are not offered by competitors, offering better terms of service, offering competitive interest rates and the identification of profitable sectors for micro-financing.

6.5.2.1 Designing Methods that Enhance the Quality of Services

From the data collected, 70% of the respondents indicated that management accounting practices were crucial in designing methods that enhance the quality of services, 20% mentioned it was somewhat important while 10% were not sure. Krishna and Rao (2005:169) note that a customer-driven bank provides unique attributes to products and services that are important to customer satisfaction. Hence the bank could be offering unique and quality services that satisfy customers' needs which lead to the attraction of more customers.

6.5.2.2 Identifying and offering products not offered by others

The information gathered on this issue review that 75% of the respondents noted that management accounting practices were very important in identifying unique products that were not offered by other banks, 20% indicated that they were somewhat important and 5% were not sure. Furthermore, Thompson *et al.* (2009) argue that the use of differentiation-based focused strategy that is directed to superior product quality or unique attributes may create a competitive advantage for an organisation. Hence, the bank may have used this strategy in its quest to build a competitive advantage.

6.5.2.3 Identifying ways of offering better terms of service

Management accounting practices were very important in identifying ways of offering better terms of service. This view was supported by 80% of the respondents while 15% indicated that the practices were somewhat important and 5% were not sure. Offering better terms of service may enhance customer satisfaction. Furthermore, IIBF (2008:118) notes that the road to progress and prosperity for a business can easily be made through friendly behaviour and interaction with customers. Hence, Equity Bank may have used this strategy to attract customers.

6.5.2.4 Determining the Most Competitive Interest Rates

The responses on this issue indicate that 70% of the respondents were of the view that management accounting practices were very important in determining the competitive interest rates that would be charged on the loans advanced to customers. In addition, 20% indicated that they were somewhat important while 10% were not sure. Application of a competitive interest rate would ensure that a bank does not lose its competitive advantage.

Singh and Singh (2008:41) note that changes in the market interest rates may adversely affect a bank's financial condition. They argue that the immediate impact of changes in the interest rates would be on a bank's earnings while the long term effect would be on the market value of the bank's equity. Therefore, Equity Bank may have employed this strategy as a tool to maintain competitive advantage on loans and on its assets to attract more customers.

6.5.2.5 Identifying Profitable Sectors for Micro-financing

The respondents indicated that 75% were of the view that management accounting practices were very important in identifying the profitable sectors for micro-financing, 20% indicated that they were somewhat important and 5% were not sure. The bank received awards for its role in micro-financing in 2007, 2008 and 2009 (Equity Bank, 2010b). This could be an indication that the bank has committed itself to serve the micro-credit sector as a strategy to create a competitive advantage among the micro-credit financiers.

6.5.2.6 Identifying Cases for Refinancing

The respondents indicate that 75% were of the view that management accounting practices were significant in identifying cases that required refinancing, 20% indicated that they were somehow important while 5% were not sure. The bank supports many micro-finance entrepreneurs (Equity Bank, 2010a) who may constantly require refinancing. Therefore, careful choice of the customers who qualify for refinancing may be a strategy to maintain and increase the number of customers for the bank. The results from subsection 6.5.2 are shown in Table 6.5.

Table 6.5 Strategies related to service delivery

Category	Very important	Somewhat important	Not important	Not sure	Total frequency and percentage (%)
Designing methods that enhance the quality of services	28 (70%)	8 (%)	0 (0%)	4 (10%)	40 (100%)
Identifying and offering products not offered by others	30 (75%)	8 (20%)	0 (0%)	2 (5%)	40 (100%)
Identifying ways of offering better terms of service	32 (80%)	6 (15%)	0 (0%)	2 (5%)	40 (100%)
Determining the most competitive interest rates	28 (70%)	8 (20%)	0 (0%)	4 (10%)	40 (100%)
Identifying profitable sectors for micro-financing	30 (75%)	8 (15%)	0 (0%)	2 (5%)	40 (100%)
Identifying cases for refinancing services	30 (75%)	8 (20%)	0 (0%)	2 (5%)	40 (100%)

Table 6.5 indicate that management accounting practices could be very important in developing strategies that enhance a competitive delivery of services that creates customer satisfaction. Satisfied customers are valuable assets for a bank in the creation of a competitive advantage (Iyengar, 2007:305). This leads to the conclusion that management accounting could provide important skills that may enhance service delivery. This would lead to the creation of a competitive advantage in an organisation such as Equity Bank that serves customers that could be sensitive to good customer service.

6.5.3 Strategies Related to Transaction Processing

Management accounting may provide important skills that can create competitive advantages through transaction processing especially in the banking sector where it may be an important aspect for developing competitive advantage. This section analyses the respondent's view on issues relating to easing ways of becoming a member, easing loan application, determining transaction costs, determining collateral, the availability of loans and the use of check-off in loan repayment.

6.5.3.1 Determining Ways of Easing the Process of Becoming a Member

On this issue, 70% of the respondents indicated that management accounting practices were very important in making the process of joining Equity Bank easy for new customers, 20% indicated that they were somewhat important and 10% were not sure. This result leads to the conclusion that the bank may have established favourable terms for potential customers.

6.5.3.2 Methods of Making Loan Application Easier

On this aspect, 75% of the respondents indicated that management accounting practices were significant in determining methods of making loan applications easier, 15% indicated that they were somewhat important and 10% indicated that they were not sure. Loan applications may be an exercise that can determine customer loyalty. IIBF (2008:118) notes that banks have to offer better services and cooperation coupled with courteous service to customers in order to gain a competitive advantage. Hence, Equity bank may have simplified the loan application service as a means of attracting and maintaining customers.

6.5.3.3 Determining What to Charge on Transactions

Management accounting practices were very important in determining the cost of transactions at Equity bank. This was supported by 75% of the respondents. In addition, 15% indicated that the practices were somewhat important, 5% indicated they were not important while 5% were not sure. Thompson *et al*. (2009) note that a company's prices and costs should be competitive enough so that the company does not become competitively vulnerable in its industry. Hence the bank may have used this strategy to attract customers.

6.5.3.4 Determining Collateral for Loans

On this issue, 70% of the respondents indicated that management accounting practices were very important in determining collateral for loans, 15% indicated that they were somewhat important, 5% indicated that it was not important while 10% were not sure. Koch and MacDonald (2006:377) are of the view that the collateral choice should be amenable to the customers. This indicates that the bank may have used favourable collateral choice as a way of attracting and creating customer's loyalty.

6.5.3.5 Ways of Ensuring that Loans are Available when Needed

The respondents who indicated that management accounting practices were very important in finding ways of ensuring that loans were readily available to customers were 65%, 25% indicated that they were somewhat important and 10% were not sure. Availability of loans may be influenced by the liquidity levels of a financial institution. In this view, Singh and Singh (2008:38) note that proper liquidity management would ensure that a bank maintains the correct liquidity levels and be able to serve customers and offer loans promptly.

6.5.3.6 Allowing Check-off and Direct Deposits

This aspect got a 65% response that management accounting practices were very important in determining whether customers should repay loans through check off or direct deposits, 25% indicated that they were somewhat important and 10% were not sure. Check-off and direct deposits may be loan repayment methods that could make customers' experiences on loan repayment easy and convenient. Hence, this strategy might have been useful in attracting more clients for the bank by making customer service efficient. The results of subsection 6.5.3 are shown in Table 6.6.

Table 6.6 Strategies related to transaction processing

Category	Very important	Somewhat important	Not important	Not sure	Total frequency and percentage (%)
Easing the process of becoming a member	28 (70%)	8 (20%)	0 (0%)	4 (10%)	40 (100%)
Methods of making loan application easier	30 (75%)	6 (15%)	0 (0%)	4 (10%)	40 (100%)
Determining what to charge on transaction	30 (75%)	4 (10%)	2 (5%)	4 (10%)	40 (100%)
Determine collateral for loans	28 (70%)	6 (15%)	2 (5%)	4 (10%)	40 (100%)

Ways of ensuring that loans are available when needed	28 (70%)	8 (20%)	0 (0%)	4 (10%)	40 (100%)
Allowing check-off and direct deposits	24 (65%)	10 (25%)	0 (0%)	6 (10%)	40 (100%)

Based on the findings shown in Table 6.6, management accounting practices are important in developing strategies that make financial transaction processing a competitive strategy for Equity Bank. Koch and MacDonald (2006:51) point out that proper management of loan transactions may reduce the risks associated with lending. Hence, the application of management accounting practices in the management of loan transactions at Equity Bank indicates that management accounting provides important skills for the management of loan processing in a way that it creates a competitive advantage. From these results, it can be concluded that management accounting plays an important role in identifying important transaction processing strategies which may lead to the creation of a competitive advantage in an organisation in the banking sector.

6.5.4 Strategies Related to Marketing

This section contains responses on the techniques that management accounting may provide in creating competitive advantage through marketing strategies such as product promotions, product differentiation, premises differentiation, corporate responsibility and identifying areas for new branches.

6.5.4.1 Designing Methods of Product Promotions

With regard to this issue, 70% of the respondents indicated that management accounting practices were very important in designing competitive methods of product promotion, 20% indicated that they were somewhat important and 10% were not sure. Product promotion is an exercise of maintaining the contact with the customer at different levels and in different manners to build, maintain and enhance customer relationship (IIBF, 2008:426). This strategy could have been employed by the management accountants at Equity Bank as a way of increasing and sustaining the bank's customer base.

6.5.4.2 Differentiating Products

With regard to this issue, 80% of the respondents indicated that management accounting practices were very important in product differentiation, 15% indicated that they were somewhat important and 5% were not sure. Differentiation of banking products at Equity Bank may have led customers to perceive them as better alternatives as compared to those provided by other banks. Pearce and Robinson (2007:237) note that differentiation strategy enables an organisation to provide a product or service of a higher perceived value at a differentiation cost below the value premium to customers. Therefore, the bank may have used product differentiation as a method of customer attraction and satisfaction.

6.5.4.3 Differentiating Premises from those of Competitors

On this issue, 75% of the respondents indicated that management accounting practices were very important in differentiating premises from those of competitors, 15% indicated that they were somewhat important, 5% indicated that they were not important while 5% were not sure. Therefore, Equity Bank's physical space may have been an important appealing feature especially to the unbanked and the low-income customers who may be proud to be associated with a large bank. This would have contributed to the growth in customer base as shown in Table 2.1.

6.5.4.4 Identifying Suitable Areas to Showcase Corporate Responsibility

In response to this issue, 75% of the respondents indicated that management accounting practices were very important in identifying suitable areas to showcase corporate responsibility, 20% indicated that they were somewhat important and 5% were not sure. Pearce and Robinson (2007:56) note that a good social responsibility strategy may be a source for competitive advantage for an organisation. They note that an organisation that is socially responsible may attract valuable customers and investors which may increase the financial value of an organisation in the long run. The respondents noted that Equity Bank offers employment for the best students in the Kenya Certificate of Secondary Examination (KCSE) in the districts where the bank has branches (Equity Bank, 2010a). This could be a strategy that enables the bank to improve its image and affirm its identity in the country.

6.5.4.5 Identifying Areas for New Branches

On this issue, 75% of the respondents indicated that management accounting practices were very important in identifying viable areas where new branches can be established, 20% indicated that they were somewhat important and 5% were not sure. Critical assessment of the remote industry and operating environment is important for the financial survival of new branches (Pearce and Robinson, 2007:84). Therefore, management accounting practices may have been used to provide the right skills that would be used to evaluate the viability, growth prospects and profitability of new branches for the bank. The results discussed in section 6.5.4 are shown in Table 6.7.

Table 6.7 Strategies related to marketing

Category	Very important	Somewhat important	Not important	Not sure	Total frequency and percentage (%)
Designing methods of product promotions	28 (70%)	8 (20%)	0 (0%)	4 (10)	40 (100%)
Differentiating products	32 (80%)	6 (15%)	0 (0%)	2 (5%)	40 (100%)
Differentiating premises from those of competitors	30 (75%)	6 (15%)	2 (5%)	2 (5%)	40 (100%)
Identifying suitable areas to showcase corporate responsibility	30 (75%)	8 (20%)	0 (0%)	2 (5%)	40 (100%)
Identifying areas for new branches	34 (85%)	4 (10%)	0 (0%)	2 (5%)	40 (100%)

The results shown in Table 6.7 indicate that management accounting practices are important in developing marketing strategies for Equity Bank. Ashmos *et al.* (1998:25) note that a good marketing strategy creates a good competitive edge for an organisation especially as it expands into new areas. In addition, BPP (2007:233) notes that the product-market strategy model enhances the growth of an organisation and builds a competitive advantage. The results in Table 6.7 also indicate that management accounting practices have been applied by Equity Bank in designing the bank's market growth strategy. It can therefore be concluded that management accounting plays an important role in the development of marketing strategies that lead to the creation and sustenance of a competitive advantage for an organisation.

6.5.5 Strategies Related to Human Resources

Wheelen and Hunger (2007) note that the human resource may be used to improve productivity and lower costs in an organisation. In this view, the respondents provided the importance of management accounting practices in the aspects that relate to staff recruitment, training, incentives and enhancing teamwork.

The following subsections deal with these aspects.

6.5.5.1 Recruiting Competent Staff

In response to this issue, 70% of the respondents indicated that management accounting practices were very important in the recruitment of competent staff, 20% indicated that they were somewhat important and 10% were not sure. Management accounting practices may provide strategies that facilitate the recruitment of competent staff. Sadhu (2008:42) notes that competent staff develops the correct attitudinal behaviour that meets the banking requirements by offering services with the right kind of etiquette which may be a source for customer satisfaction. Therefore, the responses indicate that the competence of Equity Bank's staff may be a source of a competitive advantage for the bank.

6.5.5.2 Training Staff

The respondents who indicated that management accounting practices were very important in the training of staff were 75%, 15% indicated that they were somewhat important and 10% were not sure. Sadhu (2008:165) argues that proper training of banking staff keeps them up-to-date with modern banking issues which can be an asset for the individual and organisational development. Sadhu (2008) notes that training increases performance levels, imports new knowledge and skills as well as develops the right business attitude. This aspect may have resulted in the development of productive staff at Equity Bank which would have contributed to the competitive advantage shown by the bank.

6.5.5.3 Identifying Staff Incentives

Management accounting practices were very important in identifying staff incentives that improve performance according to the responses given by 70% of the respondents. 20% indicated that they were somewhat important and 10% were not sure. Management accounting performance measurement tools such as economic value added (EVA^{TM}) motivate managers to make decisions that increase the value of a company (Horngren *et al.* 2009:435). Therefore, if EVA^{TM} is used as a basis for rewarding employees, these employees would be motivated to work harder to increase the EVA^{TM} and consequently increase the shareholders' value. The bank may have used this information to motivate the management to work for the success of the whole organisation therefore creating a competitive advantage for the bank.

6.5.5.4 Designing Methods of Enhancing Team Work

In response to this issue, 80% of the respondents indicated that management accounting practices were very important in designing methods that enhance team work, 15% indicated that they were somewhat important and 5% were not sure. Team work ensures that different ideas and talents are combined for the benefit of the organisation. Pearce and Robinson (2007:414) are of the view that individuals in a team combine their strengths to build the business they envision. Therefore, Equity Bank may have used teams in building its competitive advantage. The results discussed in Section 6.5.5 are shown in Table 6.8.

Table 6.8 Strategies Related to Human Resource

Category	Very important	Somewhat important	Not important	Not sure	Total frequency and percentage (%)
Recruiting competent staff	28 (70%)	8 20%)	0 (0%)	4 (10%)	40 (100%)
Training staff	30 (75%)	6 (15%)	0 (0%)	4 (10%)	40 (100%)
Identifying staff incentives	28 (70%)	8 (20%)	0 (0%)	4 (10%)	40 (100%)
Designing methods of enhancing team work	32 (80%)	6 (15%)	0 (0%)	2 (5%)	40 (100%)

From Table 6.8, it can be seen that management accounting practices may have been applied in developing competitive strategies that may have improved the productivity of human resource at Equity Bank. A satisfied workforce plays a significant role in the profitability and growth of an organisation (Wheelen and Hunger, 2007). Therefore, the findings illustrated in Table 6.8 show that management accounting practices are very important for the development of competitive strategies that enhance productivity of the human resource.

6.5.6 Strategies Related to Information Technology (IT)

The management accounting techniques may provide the knowledge on the development of an IT that may lead to the creation of a competitive advantage in all the functions of a bank. This section gives the responses on the importance of management accounting in developing an IT system that makes customer service quick and reliable, enhances staff motivation, ensures better organisation management, facilitates strategic alliances and enhances efficient liquidity management.

6.5.6.1 Investing in IT that Makes Customer Service Quick

In response to this aspect, 80% of the respondents indicated that management accounting practices were very important in developing IT infrastructure that makes customer service quick, 15% indicated that they were somewhat important while 5%

were not sure. Muraleedharan (2009:220) argues that customers have become more demanding in terms of accessing global quality services and are increasingly time-conscious. He notes that customers expect to be empowered through self-service channels such as ATMs, tele-banking and internet banking. This suggests that proper IT infrastructure would be a source of improved customer service especially in the banking sector where customers may have many options which can easily influence their loyalty. Consequently, Equity Bank may have employed IT in maintaining good customer service which enhances the bank's competitive advantage.

6.5.6.2 Identifying IT that Makes Customer Service Reliable

With regard to this aspect, 85% of the respondents indicated that management accounting practices were very important in identifying IT that makes customer service reliable, 10% indicated that they were somewhat important and 5% were not sure. Muraleedharan (2009:337) notes that data warehousing and data mining help in providing better transaction experiences for customers and in analysing customer transaction pattern and behaviour. Such technology improves customer service and it may be a source of a competitive advantage especially in banks where technology could provide major strategies for competitiveness.

6.5.6.3 Using IT Enhances Staff Motivation

In response to this issue, 75% of the respondents indicated that management accounting practices were very important in identification and application of IT that enhance staff motivation, 20% stated that they were somewhat important while 5% were not sure. Acquiring a technology system that enables employees to perform their duties with ease may improve their productivity.

Thompson *et al.* (2009) state that a workplace with an appealing features and amenities has a positive effect on employee's morale and motivation. In addition, Podder and Gadhawe (2007:108) argue that IT enables human resource systems to enhance employees' self-service. They note that the potential benefit that accrue to this aspect include cost-savings, speed, convenience, control, flexibility, increased productivity, better reporting, more accuracy, consistency as well as empowering and expanding the capacity of employees, managers and the whole staff in general. As a result, employees may be motivated by installing an IT system that makes their work easier and more enjoyable.

6.5.6.4 Using IT that Ensures Better Organisational Management

In response to this issue, 75% of the respondents indicated that management accounting practices were very important in identifying IT that ensures better organisational management, 20% indicated that it was somewhat important while 5% were not sure. Building competitiveness may require a system that disseminates information at the right time. Horngren *et al*. (2009:23) note that IT and products such as enterprise resource planning (ERP) systems integrate information systems that support all functional areas of a company. Such a system may enable the management to respond to management issues relating to the company on time.

6.5.6.5 Employing IT that Facilitates Strategic Alliances

On this issue, 85% of the respondents stated that management accounting practices were very important in identifying IT that facilitates strategic alliances, 10% indicated that it was somewhat important and 5% stated that they were not sure. Equity bank has entered into alliances with businesses that carry out unrelated businesses. The technology employed by the bank should therefore be one that makes the bank to achieve its objective for the alliance. Thompson *et al*. (2009) are of the view that organisations may opt for alliances to expedite the development of new technologies. Therefore, an organisation would be required to have invested in a technology that enables it to integrate well with its partners. The partnerships that Equity Bank has with various organisations (Equity Bank, 2010a) may have been made possible by installing an IT system that supports efficient transactions between the bank and its partners.

6.5.6.6 Installing IT that Enhances Efficient Liquidity Management

With regard to this aspect, 80% of the respondents indicated that management accounting practices were very important in identifying IT infrastructure that enhance efficient liquidity management, 15% indicated that they were somewhat important and 5% were not sure. Singh and Singh (2008:38) note that a bank management should measure the liquidity position and liquidity requirements of their bank on an on-going basis. In this view, an efficient liquidity monitoring information system would be of vital importance. Therefore, the management accounting function at Equity Bank may have used an information system that helps in the liquidity management in all the branches. This might have led to the creation of a competitive advantage for the bank.

Table 6.9 Strategies Related to Information Technology (IT)

Category	Very important	Somewhat important	Not important	Not sure	Total frequency and percentage (%)
Investing in IT that makes customer service quick	32 (80%)	6 (15%)	0 (0%)	2 (5%)	40 (100%)
Identifying IT that makes customer service reliable	34 (85%)	4 (10%)	0 (0%)	2 (5%)	40 (100%)
Using IT that enhances staff motivation	30 (75%)	8 (20%)	0 (0%)	2 (5%)	40 (100%)
Using IT that ensures better organisational management	30 (75%)	8 (20%)	0 (0%)	2 (5%)	40 (100%)
Employing IT that facilitates strategic alliance	34 (85%)	4 (10%)	0 (0%)	2 (5%)	40 (100%)
Installing IT that enhances efficient liquidity management	32 (80%)	6 (15%)	0 (0%)	2 (10%)	40 (100%)

The results shown in Table 6.9 reveal that Equity Bank applies management accounting practices in establishing IT strategies that enhance systems that create a competitive advantage. This supports the literature by Muraleedharan (2009:337) where he notes that using new technology helps banks to look at new ways to make banking experience more convenient, efficient and effective. Furthermore, Porter (1998b:185) notes that advancing technology enables organisations to achieve competitiveness and propels growth.

The results illustrated in Table 6.9 show that Equity Bank applies management accounting practices in developing an IT infrastructure that makes customer service quick and reliable, improves staff motivation, ensures better organisational management, facilitates strategic alliances and enhances efficient liquidity management. These are aspects that Seal *et al*. (2006:317) relate to modern management accounting practices which focuses more on competition and the dynamic business environment. Based on these results, it can be concluded that management accounting could provide skills necessary for the development of an IT infrastructure that leads to the creation of a competitive advantage in an organisation.

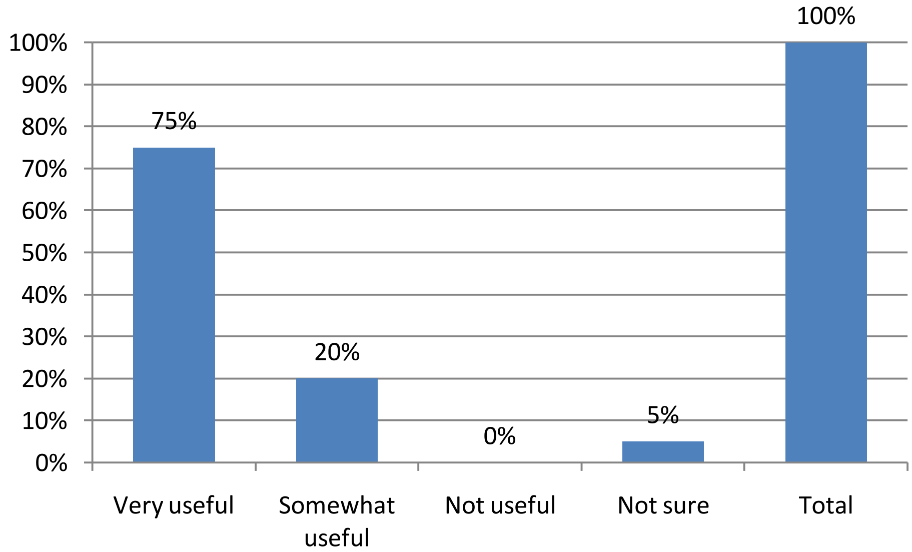
6.6 Contributions of Management Accounting Practices in Shaping the Bank's Competitive Advantage

This section covers the analysis on the contributions of management accounting practices in evaluating the changing business environment, growth and expansion, risk management, analysing competitors, evaluating customer's needs and assessing customer's abilities.

6.6.1 Evaluating the Changing Business Environment

With regard to this aspect, 75% of the respondents indicated that management accounting practices were very useful in evaluating the changing business environment at Equity Bank, 20% indicated that they were somewhat useful and 5% were not sure. This information is illustrated in Figure 6.1.

Figure 6.1 Contributions of Management Accounting Practices in Evaluating the Changing Business Environment

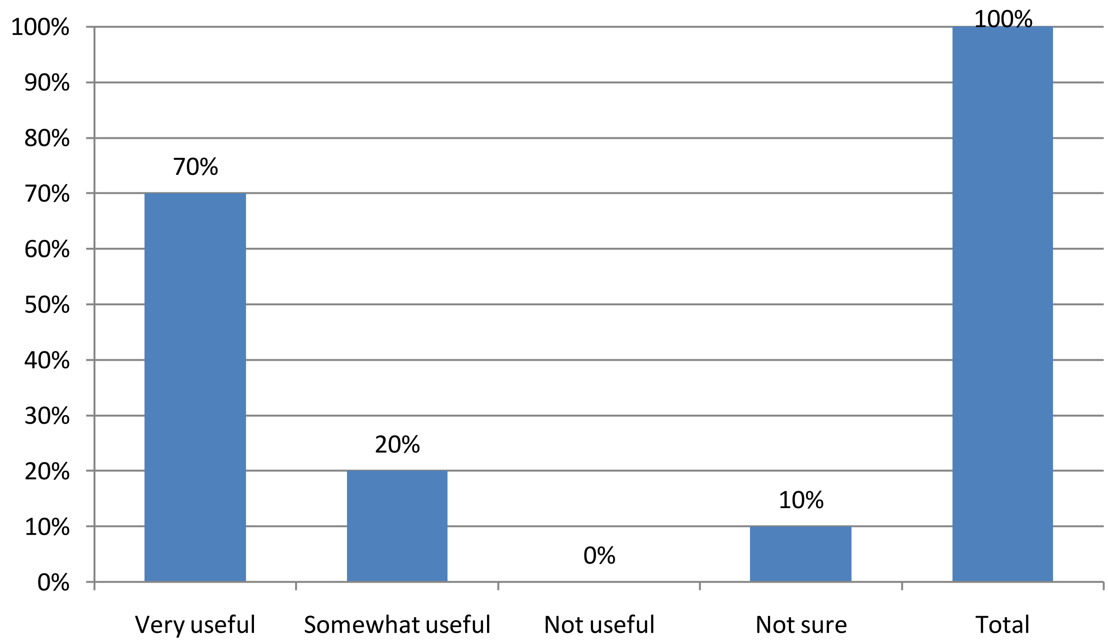


The respondents noted that management accounting techniques were applied in scanning the environment for political, economical, social and technological (PEST) aspects that would affect Equity Bank's performance. Such an analysis ensures that the bank understands the impact of PEST changes that would threaten or create opportunities in its industry. Furthermore, BPP (2005:108) note that, in order for an organisation to secure an environmental fit, an analysis of its environment is paramount. Therefore, the involvement of management accounting practices in the environmental analysis by Equity Bank ensures that the bank develops correct strategies that minimise the effect of PEST and develop environmental strategies that facilitate the creation of a competitive advantage for the bank.

6.6.2 Growth and Expansion

Pertaining to this aspect, 70% of the respondents stated that management accounting practices were very useful in providing skills that lead to the growth and expansion that is experienced by Equity Bank, 20% stated that they were somewhat important and 10% were not sure. These results are illustrated in Figure 6.2.

Figure 6.2 Contributions of Management Accounting Practices in Growth and Expansion



Ashmos *et al.* (1998:25) are of the view that management accountants have a responsibility to establish creative marketing systems that enhance growth and competitive advantage. With regard to Equity Bank, the respondents mentioned that management accounting techniques were applied in feasibility studies and decision making regarding the development of marketing strategies, acquisitions, partnerships and investments. Therefore, the results indicate that management accounting practices are applied in developing strategies that enhance growth and competitiveness for Equity Bank.

6.6.3 Risk Management

In response to this issue, 75% of the respondents stated that management accounting practices were very useful in the management of risks at Equity Bank, 20% noted that they were somewhat useful and 5% were not sure. This information is illustrated in Figure 6.3

Figure 6.3 Contributions of management accounting practices in risk management

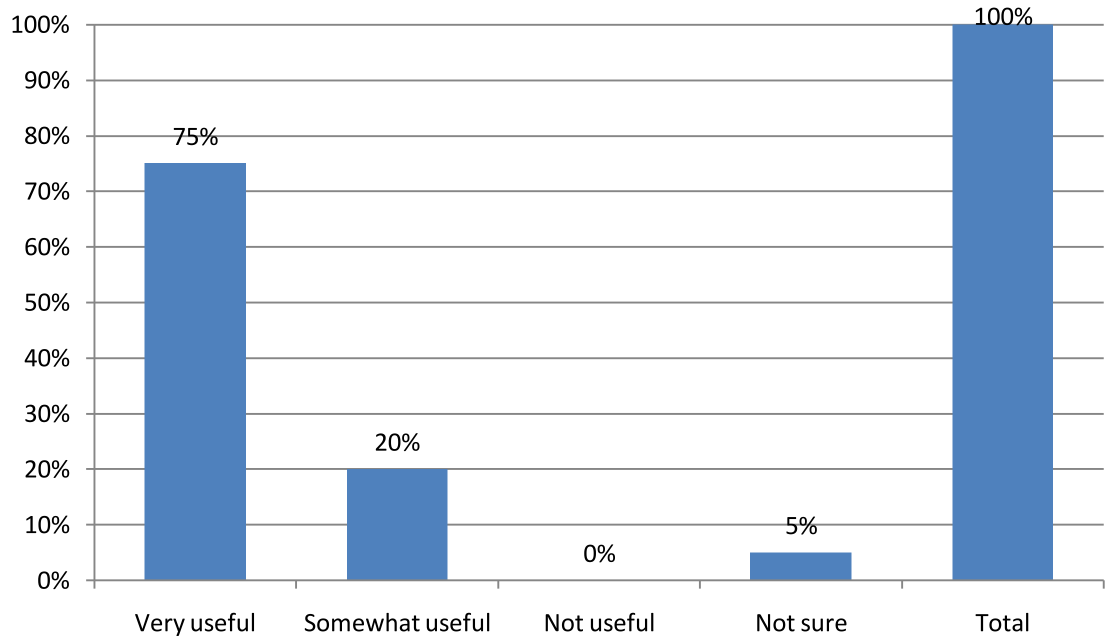


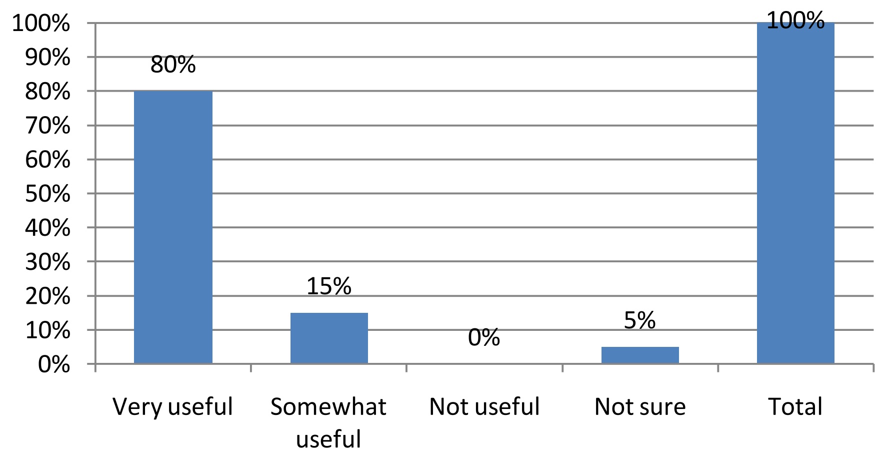
Figure 6.3 indicates that Equity Bank applies management accounting practices to develop strategies that reduce exposure to risks. The respondents stated that management accounting skills were applied in assessing the risks associated with lending to risky customer segments, developing marketing strategies and liquidity management.

The results support the statement by Koch and MacDonald (2006:276) who note that a financial institution needs to put in place prudent liquidity, foreign exchange, interest rate, credit, market and operating risk management in order for it to remain competitive and profitable. The acknowledgement by the respondents that management accounting practices were useful in determining strategies that enhance risk management at Equity Bank, leads to the conclusion that management accounting plays an important role in providing strategies that reduce risks and such strategies may lead to the creation of a competitive advantage for an organisation.

6.6.4 Analysing Competitors

In response to this aspect, 80% of the respondents noted that management accounting practices were very useful in competitor analysis, 15% noted that they were somewhat useful and 5% were not sure. Figure 5.4 illustrates this information.

Figure 6.4 Contributions of management accounting in analysing competitors



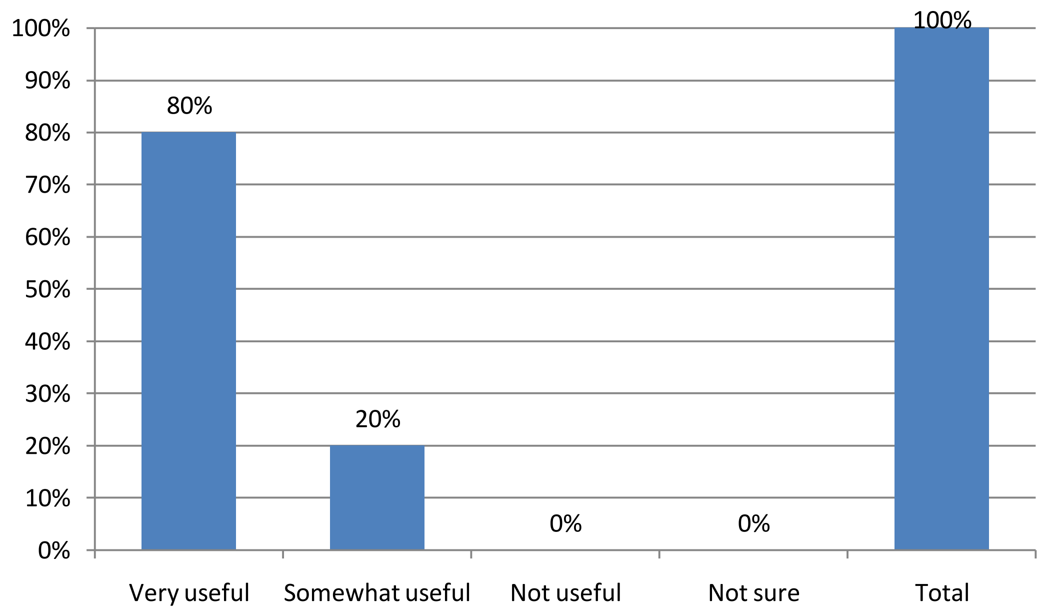
The results in Figure 6.4 indicate that management accounting practices were very useful in analysing competitors at Equity Bank. Furthermore, the respondents stated that management accounting skills were applied in evaluating competitor's service delivery modes, capabilities and reactions to changes on Equity Bank's strategic goals. This aspect relates to the views of du Plessis (2004:42) who notes that competitor analysis enables an organisation to identify its competitor's goals, achievements, strengths and probable reaction to an organisation's strategies.

The results lead to the conclusion that management accounting may create a competitive advantage by developing strategies that are informed by understanding the competitive position of its competitors.

6.6.5 Evaluating Customers' Needs

With regard to this aspect, 80% of the respondents indicated that management accounting practices were very useful in evaluating customer's needs and 20% indicated that they were somewhat useful. Figure 6.5 shows this information.

Figure 6.5 Contributions of Management Accounting in Evaluating Customers' Needs

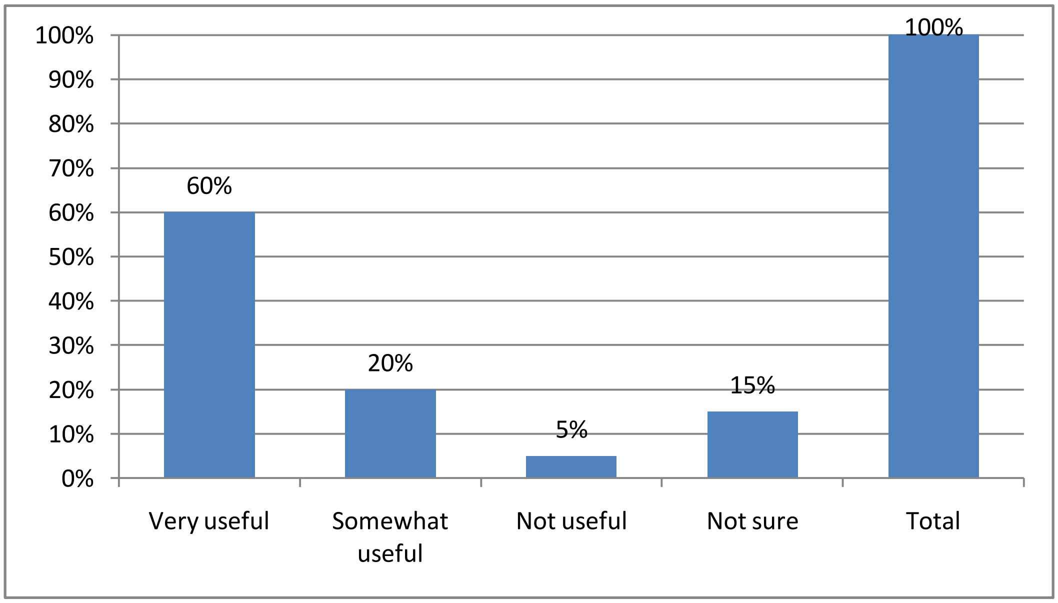


Van der Stede (2000:609) notes that evaluating customer needs enables an organisation to obtain relevant information about the customers it serves. The respondents stated that evaluating customer needs at Equity Bank enables the bank to determine the loan packages to offer its customers, loan repayment methods and the interest rates to be charged. Furthermore, Iyengar (2007:305) suggests that satisfied customers can be attributed to the growth and competitiveness of an organisation. The involvement of management accounting practices in evaluating customers' needs by Equity Bank leads to the conclusion that management accounting may play an important role in the creation of a competitive advantage for an organisation.

6.6.6 Assessing Customers' Abilities

From the information obtained, 60% of the respondents acknowledged that management accounting practices were very useful in assessing customer's abilities, 20% indicated that they were somewhat useful, 5% felt that they were not useful while 15% were not sure. These results are illustrated in Figure 6.6.

Figure 6.6 Contribution of Management Accounting in Assessing Customers' Abilities



The results in Figure 6.6 indicate that management accounting practices were very useful in assessing the ability of customers at Equity Bank. The respondents noted that management accounting practices were applied in developing affordable and flexible financial services for the diverse categories of customers. They also noted that understanding customers' abilities enables the bank to identify profitable customer segments that would create a competitive advantage. The results therefore imply that management accounting skills may enable an organisation to gather valuable knowledge on the customer's ability. Such knowledge would assist the organisation in developing strategies that enhance better customer service in such a way that customers create a competitive advantage.

6.6.7 Other Aspects of Management Accounting in Creating a Competitive Advantage

The respondents were of the view that management accounting practices were quite useful in creating a competitive advantage for Equity Bank. Hence, 70% of the respondents outlined five issues where management accounting practices were applied in an effort to create a competitive advantage. These issues are:

- Extension of banking hours.
- Reaching the mass market by collaborating with institutions that serve a large number of low-income clients such as small-scale farmers and entrepreneurs.
- Identifying special financial products such as the youth and women funds.
- Opening branches in areas where other banks classify as high risk areas, for instance, in the slums and in rural areas.
- Integrating social, environmental and corporate governance considerations into the bank's operations.

This information leads to the conclusion that management accounting practices were used to identify opportunities that may have created a competitive advantage for the bank. The aspects enumerated relate to the external environment for the bank. Hence, management accounting may provide strategies that enhance the competitiveness of an organisation.

6.7 What Category of Customer(s) are Considered to be the Most Valuable to the Bank's Success?

With regard to this question, 85% of the respondents outlined the following categories of customers:

- Small and medium enterprise sector.
- The unbanked and the low-income earners who have formal employment.
- Small-scale farmers.
- Customers with informal employment.

The respondents indicated that the majority of the bank's potential customers are found in the categories listed above. This explains why, Equity Bank (2010a) records that the bank received awards for serving such categories of customers. The awards include:

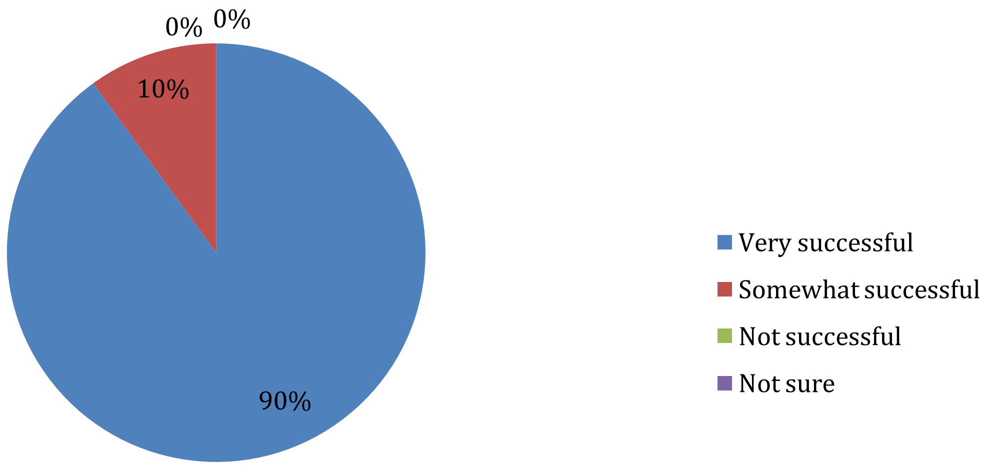
- **Best Bank in Kenya 2008/2009:** This award recognises micro-financing, technology use, retail banking and growth.
- **African Banker Awards:** Microfinance Bank of year 2008 and 2009.
- **Best Bank in Kenya 2007 - 2008:** For encouraging the unbanked to bank.

In addition, the respondents mentioned that management accounting practices were very important in developing the financial products that would best serve the needs of the customers identified above. They further stated that the profitability and high growth levels of the bank can be directly attributed to the abovementioned customer groups. This indicates that management accounting is very important in the creation and sustainability of competitive advantage for an organisation.

6.8 How Successful is the Bank's Model of Serving the Low-Income and the Unbanked?

In response to this question, 90% of the respondents stated that the bank's model of serving the low-income and the unbanked was very successful and 10% stated that the model was somewhat successful. This information is illustrated in Figure 6.7.

Figure 6.7 Success of Bank's Model to Serve the Low Income and the Unbanked



In supporting this information, the respondents cited the rapid increase in the number of customers, customer deposits and the number of borrowers between 2005 and 2009 as reported in the Equity Bank annual financial report (Equity Bank, 2010b:18). They also noted that the increase in the customer base was boosted by customers who were captured after the bank partnered with milk processing organisations, tea factories, coffee factories, horticulture companies and M-Pesa cell phone money transfer service. These organisations are dominated by small-scale farmers and persons with little income. From this information, the bank might have been able to achieve high growth and profitability levels through strategic partnerships. In addition, the information supports Equity Bank (2010a) in that strategic alliances and partnerships are important in creating competitiveness for an organisation.

6.9 How does the Bank Overcome the Challenges Experienced in Building a Competitive Advantage?

The response to this question was that 85% of the respondents mentioned the use of IT. They stated that IT enables the bank to reduce the cost of serving customers, improves the delivery of services, improves real time communication with customers, facilitates strategic collaboration and enables customers to access financial services through mobile phone services. These benefits of IT were attributed to the provision of services that customers were demanding from their financial service providers. This supports the literature highlighted by Porter (1998b) that the bargaining power of customers for quality products and services may compromise the profitability of an organisation. Therefore, Equity Bank was able to create a competitive advantage by developing services that led to customer satisfaction and a good customer growth.

Strategic partnership was also named as a strategy that enables the bank to acquire the targeted customers with ease without arousing competitive rivalry within the industry. The strategic partnership enabled the bank to reduce threats that would have been caused by alternative financial services such as the M-Pesa cell phone money transfer service. Furthermore, Robbins and Coulter (2008:221) are of the view that rivalry among competitors and threats by substitutes may seriously affect profitability of an organisation. Therefore, strategic partnerships allowed the bank to reduce direct confrontation with competitors in attracting customers and therefore, it can be concluded that management accounting practices provide strategies that may enable an organisation to overcome the challenges experienced in building a competitive advantage.

6.10 Summary

Chapter six discussed the findings and the analysis of the data collected. The study was set to find out the role of management accounting in creating a competitive advantage. The information gathered from the analysed data confirms that management accounting practices were applied in developing a competitive edge by Equity Bank.

The final chapter, Chapter 7, deals with the summary, conclusion and recommendations deduced from the analysed data.

CHAPTER 7: CONCLUSION

7.1 Introduction

Strong competition compels management functions to develop business techniques and strategies that would guide an organisation towards the maximisation of profits. The analysis of the findings of this study reveals that management accounting practices may be useful in identifying strategies that lead to the maximisation of profits. However, the practices have not been completely accepted in providing solutions that create competitiveness especially where the focus is on the integration of strategies that relate to the internal business environment and the external business environment when creating a competitive edge.

The main aim of this study was to investigate the role of management accounting in creating a competitive advantage in the banking sector. The analysis of the findings supports the idea that management accounting practices provide important knowledge and skills that lead to the building and sustaining of a competitive advantage in an organisation. The findings are aimed at encouraging managers to appreciate and apply management accounting practices in building a competitive advantage for their organisations.

7.2 Summary of Findings

Section 7.2.1 gives a summary on the responses concerning the level of competition in the banking industry in Kenya. An average on the responses regarding the importance of management accounting practices in creating competitive advantage is given in Section 7.2.2. Section 7.2.3 shows the percentage responses on importance of management accounting practices in shaping Equity Bank's competitive advantage. A list of other aspects that contributed to the creation of competitive advantage is given in Section 7.2.4 while Section 7.2.5 gives the customers who were noted to be the most valuable to the bank's success.

This section ends with a list of other possible factors that were responsible for the creation of a competitive edge for the bank.

7.2.1 Level of Competition in the Banking Industry in Kenya

In response to this aspect, 75% of the respondents in this study were of the view that there existed a strong competition in the banking industry. This could be the reason behind Equity Bank's decision to use cost reduction measures for its services. This was supported by 75% of the respondents who felt that pricing of services at Equity Bank was lower as compared to other banks.

7.2.2 Importance of Management Accounting Practices in Creating Competitive Advantage

The next finding shows the average percentage response on the importance of management accounting in creating the competitive strategies. These are associated with the strategies that were listed in Section 6.5. The summary on the response concerning the importance of management accounting in creating competitive advantage is given in Table 7.1.

Table 7.1 Importance of Management Accounting Practices in Creating Competitive Advantage

Summary of strategies	Average percentage
Product development	72%
Service delivery	74%
Transaction processing	70%
Marketing	62%
Human resource	74%
Information technology (IT)	80%

This information shows that management accounting practices were very important in creating a competitive advantage for Equity Bank.

7.2.3 Contributions of Management Accounting Practices in Shaping the Bank's Competitive Advantage

The information below gives the percentage of respondents who stated that management accounting practices were very useful in shaping the bank's competitive advantage as given in Section 5.6. Table 7.2 shows the summary of the contributions of management accounting practices in shaping the bank's competitive advantage.

Table 7.2: Contributions of management accounting practices in shaping the bank's competitive advantage

Area of concern	Percentage response
Evaluating the Changing BusinessEnvironment	75%
Growth and expansion	70%
Risk Management	75%
Analysing Competitors	80%
Evaluating Customers' Needs	80%
Assessing Customers' Abilities	60%

The information above shows that management accounting practices have successfully assisted in developing the competitive advantage shown by Equity Bank.

7.2.4 Other Aspects Developed by Management Accounting Team that Contributed to the Creation of a Competitive Advantage

The following aspects were identified by 75% of the respondents as having played a role in the creation of a competitive advantage for the bank:

- The extension of banking hours.
- Reaching out to the mass market.

- Identifying special financial products for special groups.
- Opening branches in areas where other banks refused to open.
- Incorporating social, environmental and organisational governance in day-to-day operations.

The focus of management accounting in the areas mentioned above confirms that management accounting provides information on strategies that relate to external business environments where strategic business planning is necessary for the creation of a competitive advantage.

7.2.5 Categories of Customers that were Identified as Most Important to the Bank's Growth

The results of the data indicated that 85% of the respondents identified the following categories of customers as being very valuable to the success of Equity Bank:

- The small and medium enterprise sector.
- The unbanked and the low-income earners from formal employment sector.
- Small-scale farmers.
- Customers with informal employment.

This information shows that management accounting practices are important in identifying customer segments that may bring growth and profitability to a business organisation.

7.2.6 Other Responses

- 90% of the respondents stated that the bank's model of serving the low-income and the unbanked was very successful.
- 85% of the respondents attributed IT and the development of low-cost products (specifically designed for the mass market) as strategies that were used to overcome the challenges faced when creating a competitive advantage. This information indicates that management accounting practices provide important strategies that contribute to the success of the bank's driving model of serving the low-income and the unbanked.

7.3 Conclusions

The involvement of management accounting practices in developing competitive strategies shows the departure of management accounting from the traditional confines of internal reporting to focus more on the external business environment. The results of this study therefore lead to the following conclusions:

- Management accounting practices provide both internal and external strategic competitive strategies that enable business organisations to create and sustain competitive advantages.
- Management accounting practices are very useful in making key organisational decisions which include marketing, service delivery, transaction processing, human resource and IT which enable organisations to create a competitive advantage.
- Management accounting practices provide very important strategies for growth, evaluating the changing business environment, risk management analysing customers and competitors, financial performance and competitiveness in an organisation especially in the banking sector.
- The strategy of serving the low-income earners, the unbanked and micro-financing is very significant in the growth and creation of competitiveness in financial institutions especially in growing economies such as in Kenya.

7.4 Summary of Recommendations

This study found that management accounting practices are very important in the creation of a competitive advantage in an organisation especially in the banking sector. These recommendations are summarised as follows:

- **The managers:** managers are recommended to embrace management accounting as an integral part of management. It is a tool for value creation and for the creation of a competitive advantage in an organisation. This is important especially in the banking sector where competition and flexibility of a customer's loyalty pose a challenge to managers.
- **The government:** the government should give special consideration to financial organisations that serve the low-income end market. The study has indicated that

the Equity Bank's model of serving the low-income and the unbanked has had a positive impact in encouraging the low-income and the unbanked to participate in the economic development of the country.

- **The low-income persons:** this group of people should feel encouraged to take advantage of the friendly financial services offered by the emerging banks such as Equity Bank in boosting their economic status.
- **The use of information technology (IT):** this study found that IT enables an organisation to interlink with businesses that have diverse activities hence making IT an important instrument for outsourcing, information sharing and remote access of information especially with regard to financial transactions.

7.5 Suggestions for Future Work

This study has identified the importance of management accounting practices in building a competitive advantage in an organisation. This leads to the suggestion for further studies that will develop a model that assists micro-financing organisations or banks (in developing countries) with using management accounting techniques to become competitive.

The study also found that an integrated management accounting practice is needed in the future where the distinct organisational functions converge to exist as one integrated function. Future research should focus on the interrelation of diverse businesses and the role that physical contact with customers plays in the organisation's overall success.

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Appendix A: Questionnaire

Name of the respondent: ………………………………………………….........

Job position: ....……………………………………………………..

Branch: ....………………………………………………………..…

Thank you for accepting to be a part of this research.

The information that you will supply will be used for academic purposes only.

Introduction

Traditionally, the management accounting principle technique was variance analysis and supplying financial information to the senior management. However, this has changed over time.

Management accounting practices have moved from the confines of planning, organising, communication and motivation. It now focuses more on the external business environment; competition, threats, opportunities and changing circumstances as well as formulation, implementation and control of business strategies.

This research is therefore aimed at investigating the role of management accounting: techniques, knowledge and skills in the creation of competitive advantage at Equity Bank.

1. How would you rate the level of competition in the banking industry? (Tick the appropriate comment).

    a) High

    b) Moderate

    c) Low

    d) Not sure

2. How do customers rate the prices of services at Equity Bank as compared to those of competitors? (Tick appropriately).

    a) Higher

    b) Similar

    c) Lower

    d) Not sure

Please give reasons

____

____

3. How would you rate the importance of management accounting practices in creating competitive advantage for Equity Bank? (Please tick appropriately).

    a) Very important

    b) Somewhat important

    c) Not important

    d) Not sure

4. Using a circle, indicate the importance of management accounting practices in developing competitive strategies at Equity Bank in relation to the strategies identified below.

Key

1 = Very important

2 = Somewhat important

3 = Not important

4 = Not sure

a) Strategies related to product development

i.	Identifying new/innovative products	1	2	3	4
ii.	Setting the time to release new products	1	2	3	4
iii.	Diversifying products to suite different income groups	1	2	3	4

b) Strategies related to service delivery

i.	Designing methods that enhance the quality of services	1	2	3	4
ii.	Identifying and offering products not offered by others	1	2	3	4
iii.	Identifying ways of offering better terms of service	1	2	3	4
iv.	Determining the most competitive interest rates	1	2	3	4
v.	Identifying profitable sectors for micro-financing	1	2	3	4
vi.	Identifying cases for refinancing services	1	2	3	4

c) Strategies related to transaction processing

i.	Determining ways of easing the process of becoming a member	1	2	3	4
ii.	Methods of making loans application easier	1	2	3	4
iii.	Determining what to charge on transaction	1	2	3	4
iv.	Determining collateral for loans	1	2	3	4
v.	Ways of ensuring that loans are available when needed	1	2	3	4
vi.	Allowing check off and direct deposits	1	2	3	4

d) Strategies related to marketing

i.	Designing methods of product promotions	1	2	3	4
ii.	Differentiating products	1	2	3	4
iii.	Differentiating premises from those of competitors	1	2	3	4
iv.	Identifying suitable areas to showcase corporate responsibility	1	2	3	4
v.	Identifying areas for new branches	1	2	3	4

e) Strategies related to human resource

i.	Recruiting competent staff	1	2	3	4
ii.	Training staff	1	2	3	4
iii.	Identifying staff incentives	1	2	3	4
iv.	Designing methods of enhancing team work	1	2	3	4

f) Strategies related to information technology (IT)

i.	Investing in IT that makes customer service quick	1	2	3	4
ii.	Identifying IT that makes customer service reliable	1	2	3	4
iii.	Using IT that enhance staff motivation	1	2	3	4
iv.	Using IT that ensure better corporate management	1	2	3	4
v.	Employing IT that facilitates strategic alliances	1	2	3	4
vi.	Installing IT that enhances efficient liquidity management	1	2	3	4

5. Using a circle, indicate the contributions of management accounting practices in shaping the bank's competitive advantage in the aspects given below.

Key

1 = Very useful

2 = Somewhat useful

3 = Not useful

4 = Not sure

a) Evaluating the changing business environment | 1 | 2 | 3 | 4 |

Please give reasons

____

____

____

b) Growth and expansion

1	2	3	4

Please give reasons

____

____

____

c) Risk management.

1	2	3	4

Please give reasons

____

____

____

d) Analysing competitors.

1	2	3	4

Please give reasons

____

____

____

e) Evaluating customer needs

1	2	3	4

Please give reasons

____

____

f) Assessing customers abilities

1	2	3	4

Please give reasons

____

____

____

Outline other important aspects worth noting

____

____

____

6. What category of customer(s) do you consider to be the most valuable to the bank's success?

Please give reasons.

____

____

____

7. How successful is the bank's model of serving the low-income market and the unbanked (those who could not raise the minimum balances and transaction costs in other banks)?

(Tick appropriately)

Very successful	Somewhat successful	Not successful	Not sure

Give reasons

____

____

____

8. How does the bank hedge against the challenges experienced in building competitive advantage?

____

THANK YOU FOR YOUR PARTICIPATION

Appendix B: The Interview Guide

1. How does pricing of services and products influence customer's growth and competitiveness?

2. How does a management accounting practice influence competitive advantage?

3. What strategies may have influenced the bank's expansion and growth?

4. What is the success of the bank's model of serving the low-income and the unbanked?

Appendix C: Permission Letter

EQUITY
Bank • Your Listening, Caring Partner

HEAD OFFICE: Ragati Road, NHIF Building, 14th floor,
P.O.Box 75104-00200, Nairobi.
Contact Centre: 020-2744000, 0711025000, 0734 108 000
Fax: 020-2737376
Email: info@equitybank.co.ke
Website: www.equitybank.co.ke

Your Ref: ……………………
Our Ref: EB2010/PR/JUNE/F/2512

Date: 18th June 2010.

NDWIGA N. M.
P.O. BOX 2514 - 60100,
EMBU.

RE: PERMISSION FOR RESEARCH.

Your request to carry out a research dated 29th May 2010 has been granted.
You are however requested to adhere to the ethical issues governing data collection and more so to be patient with our staff.

We hope that you will find the research interesting and worthwhile for you studies.

Wishing you success.

EQUITY BANK * PUBLIC RELATIONS OFFICER * P.O. BOX 23141 - 00200 NAIROBI

……………………………………………
MBUGUA JOSEPH.
PUBLIC RELATIONS OFFICER.

Appendix D: Confidentiality Note

TO THE RESPONDENTS,

The fine details of competitive strategies and actions as well as strengths, weaknesses, opportunities and threats are confidential. Due to this aspect, the questions in the questionnaire do not suggest the collection of any confidential information. They are formulated in such a way as to establish if theory and practice correspond. Furthermore the data collected will exclusively be used for academic purposes in this study only.

With this aspect in mind, the name of the respondent or information that may lead to a particular respondent will not be implied. Furthermore, the results will be used for academic research purposes only.

I therefore trust that the above note meets your kind and favourable consideration to participate in this research.

Regards

NDWIGA N. M.