

The Application of Porter's Five Forces Model on Organization Performance: A Case of Cooperative Bank of Kenya Ltd

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Abstract

The apex of environmental scanning with regard to competition can only be found in Porter's Five Forces model. This is a long side External environment scanning tools such as Strengths, Weaknesses, Opportunities and Threats (SWOT) analysis and Political, Economic, Social, Technological, Environmental and Legal (PESTEL) analysis and calculate its coping with competition, how to retain or increase a company's market share among others. This requires accurate competitive analysis in the face of these complexities. This may adversely affect the application and continued use of the five forces in Kenya. This study was an assessment of the application of Porter's Five forces model of competitive analysis amidst the rapidly changing environment in the Kenyan Banking industry. The problem in this study was that the failure to use and under-utilisation of the five forces by banks has led to poor performance. The purpose of the study was to assess the application of the five forces model in terms of its benefits and limitations, and how it can be modified to cope with the Kenyan banking industry. This study would be of great significance in enriching the body of knowledge on Porter's five forces model and providing a meaningful and contextual evaluation of the Kenyan banking industry consequently coming up with useful insights. A descriptive survey design was used and a triangulation of both quantitative and qualitative methods. A sample of 62 respondents was randomly selected from the stratified target population of top, middle and operational level managers in Cooperative Bank of Kenya and given questionnaires. The data was analyzed both qualitatively and quantitatively and processed through computer (SPSS) with special emphasis on the facts and emerging themes that addressed the research questions and the resulting correlation and regression analyses results presented, discussed and interpreted. This was a mixed methodology of descriptive and inferential statistics to establish the existing relationships between the independent and dependent variables. Based on the findings, this study concludes that there is a strong positive relationship shown by R value of 0.8 between Porter's Five Forces model and the performance of Cooperative Bank of Kenya. It also concludes that the strength and effects of substitutes should not be ignored; competitors are significant in benchmarking, keeping the management on toes and increasing efficiency and effectiveness thus aiding in success and achievement of competitive edge through innovation; the Bargaining power of buyers within the banking industry is critical in terms of understanding the bank's buyers and successfully meeting their demands as a way of retaining them and achieving high customer satisfaction for repeat sales; the Bargaining power of sellers apply to the banking industry was a factor to watch as increase in the cost of their services leads to an increase in the cost of services offered by Cooperative Bank and the quality of their services also such as assured security and clean working environment determines employee motivation and satisfaction. Threat of new entrants was found to apply to the banking industry and needed mitigation measures as stated in the recommendations of the study.

1.0 Introduction

Competition has proved to be a critical force in the operation of various organizations regardless of their industry of belongingness. Although there are various tools for analyzing the competitive environment such as the Five forces analysis, Game plan, Value Chain model, PESTEL model and the Strategic group analysis (Lumpkin et al., 2005), the researcher chose the Five forces analysis model due to the role played by these five forces in the Kenyan banking industry. Among the various strategic analysis tools, Porter's Five Forces Model has been perceived as the best. Due to the vast nature of the external environment, this paper only tackles the competitive environment. This study commences with the Background to the Problem, the statement of the problem, Research Questions and Significance of the Study. From the significance, it proceeds to the Scope and Delimitation of the Study, Theoretical Framework and finally, the Conceptual Framework. This project investigates the application of Porter's five forces model to the Kenyan banking industry amidst the rapidly changing competitive environment: A case of Cooperative bank of Kenya.

1.1 Background to the Problem

Globally, the use of Porter's Five Forces model involves a continuous process of environmental scanning and monitoring as well as obtaining competitive intelligence on present and potential rival banks. This is why many banks use scenario planning to anticipate and respond to volatile and disruptive environmental changes. Strategic management identifies the general environment and the competitive environment (Dess, et al., 2005).

Although many scholars and practitioners at both the international and local levels still highly value and use Porter's Five forces model, there has been a high level of debate on the application of this model to the complex contemporary industry environment with rapid changes and technological advancement. Some scholars argue that the advance of internet has done much in changing the industry environment and thus challenging the five forces model. They argue that before the advent of the internet, every industry consisted of a physical part and an informational set and the informational set was difficult to handle and access. This makes them to further point that Porter's argument that in as much as the five underlying forces of competition determine the industry attractiveness, it has also been challenged by its failure to explain the expansion of the distance learning industry (Karagiannopoulos et al., 2005).

Other scholars have also criticized the static nature of the model as a challenge to innovation in a rapidly changing industrial structure such as environmental trend or event, such as changes in the ethnic composition of a population or a technological innovation which may pose a greater impact on some industries than on others (Dess, et al., 2005). It was rightly noted that another critical point that the model ignores the pivotal role of complements by focusing on industry and group structures rather than individual companies (Brandenburger & Nalebuff, 1995).

The shift towards the internet consequently impacts on the Five competitive forces and influence the Industry structure rather than porter's argument that industry structure is not fixed but rather is shaped to a considerable degree by the choices made by competitors. It is also argued that companies can still capture a lot of benefits and at the same time reduce the buyers bargaining power which implies that Porter's Five forces model may still remain relevant (Kosiur, 1997).

A survey carried out in the late 1980s revealed that only a few of the influences Porter flagged commanded strong empirical support. They assert that despite the fact that the "five forces" framework focuses on business concerns rather than public policy, it also emphasizes extended competition for value rather than just competition among existing rivals, and the simplicity of its application inspired numerous companies as well as business schools to adopt its use (Wheelen & Hungerl, 2000). These factors of the static nature of the five forces model, innovation, and lack of complements may impact on the application of the five forces model to the Kenyan banking industry. This industry which is regulated by the Central Bank of Kenya is one of the profitable and fastest growing industries with increase in the number of both local and international financial players.

Continently, scholars have admitted the critical role of Porter's five forces model in Botswana. Rivalry from already established firms, threat of new entrants, threat of substitute products, bargaining power of buyers and sellers are indomitable forces within the African continent and the world in general that any business cannot afford to ignore them (Monbiot, 2011).

In Kenya, some scholars have highly praised the model as applicable to highly competitive environments while adding other forces such as technology, complementors and other PESTEL factors to the model (Aosa, 2009). This confirms the position of different scholars but falls short of clarifying whether the model is applicable or not to the Kenyan banking industry. He argues that the mere coming up with more forces that can be added to the model is a development in itself, but this does not render the five forces stated by Porter to be redundant or irrelevant. All theories should be open to development based on further research and time.

In a study on the Relevance of the Five Forces Model to the Kenyan Mobile telephony Industry, it was noted that the Five Forces are forces to reckon within the Kenyan mobile telephony environment but also followed a similar pattern in citing additional forces but arranged them in different layers such as the foundational forces and other forces (Okoreh, 2010).

1.1.1 The Kenyan Banking Industry

The Kenyan Banking industry has 43 commercial banks with some operating as local and others as international banks. Their services fall under various categories such as deposit taking, provision of loan facilities, transactions, e-services among others based on their individual competencies. The Kenyan banking sector has increased uptake of customer credit history by banks and additional approvals to banks to commence agency-banking in this highly profitable industry (Anyanzwa, 2013). The competitive forces in the industry have increased owing to the continued entry of international banks in the Kenyan market (Olaka, 2013). This growing competition from international as well as local banks may require a critical analysis of the competitive forces in the industry.

1.2 Statement of the Problem

Competition related challenges have continuously increased globally and locally. This is what propelled scholars to come up with strategic analysis tools to aid in appraising both the external and internal environment. The

internal environment has been perceived as fairly challenging because it is within the control of the organization while the external environment on the other hand has been perceived as complex due to its being beyond the control of the organization (Dess et al., 2005). Porter's Five Forces Model has been highly praised for its efficiency and effectiveness. Recent developments in research have however shown that some scholars argue that the Five Forces Model cannot be applied to analyze competition right from its inception of the Five forces to date (Karagiannopoulos et al., 2005). This point towards a bleak future for the model and the banking industry in which there is intense competition and need for a thorough environmental audit that can help banks maintain competitive edge over their competitors. The problem in this study is that the failure to use and under-utilisation of the five forces by banks has led to poor performance. As a way of covering their poor performance, the banks settled on high interest rates to make them retain their profitability. This poor performance and reverting to high interest rates as a way of covering up for the dwindling market share, reduced sales, reduced profitability, increased costs of operation, efficiency and effectiveness-related challenges has led to outcries from buyers of banking services and withdrawal of some clients to Savings and Credit Cooperative Societies (SACCOS).

2.0 LITERATURE REVIEW

2.1 Review of Porter's Five Forces Model

Although there are various tools for analyzing the competitive environment such as the Five forces analysis, Game plan, Value Chain model, PESTEL model and the Strategic group analysis (Porter, 1998), the researcher chose the Five forces analysis model due to the role played by these five forces in the Kenyan banking industry. Porter's Five forces model of competitive analysis is an illustration of how the Five competitive forces can be used to explain low profitability and viable entries to an industry (Hill & Jones, 2007).

These Five forces are the threat of new entrants, buyer power, supplier power, threat of substitutes, and rivalry among the already established firms. The intensity of these forces highly determines the average expected level of profitability in an industry and their thorough understanding, both individually and in combination, is beneficial in deciding what industries to enter, and in assessing how a firm can improve its competitive position (McGanan.A.N,1997). The strength of each of the five forces is inversely proportional to the price and profits such that a weak competitive force may serve as an opportunity, while a strong one, may serve as a threat (Hill & Jones, 2007).

2.2 The risk of entry by new potential competitors

Threat of new entrants refers to the possibility that the profits of established banks in the industry may be eroded by new competitors. The extent of the threat depends on existing barriers to entry and the combined reactions from existing competitors. If entry barriers are high or the new-comer anticipates a sharp retaliation from established competitors (Porter, 1998), threat of entry becomes low. The circumstances discourage new competitors. The major barriers to new entries are many including patents and brand identification (Bateman & Snell, 2004).

2.3 The major barriers to new entrants

Economies of Scale: Economies of scale refers to spreading the costs of production over the number of units produced. The cost of a product per unit declines as the absolute volume per period increases. This deters entry by forcing the entrant to come in at large scale and risk strong reaction from existing banks or come in at a small scale and accept a cost disadvantage. Both are undesirable options. The Sources of Economies of Scale as cost production gained through mass producing a standardized output, discount on bulk purchases of inputs and component parts, the advantages of spreading fixed production costs over a large production volume and the savings from spreading marketing and advertising costs over a large volume of output. These factors deter potential small scale competitors by giving them a significant cost disadvantage and a high capital requirement in various ways (Hill & Jones, 2007).

Product Differentiation is the strong brand identification, customer loyalty, and differentiation in established industries which create a barrier to entry by forcing entrants to spend heavily to overcome existing customer loyalties. High capital requirements also create barrier to entry due to the need to invest large financial resources to compete or risky or unrecoverable advertising and research (Bateman & Snell, 2004). Another factor is the switching costs in cases where a barrier to entry is created by the existence of one-time costs that the buyer faces when switching from one supplier's product or service to another.

Access to Distribution Channels also deters the new entrants due to the need to secure a distribution channel for its products. There are also cost disadvantages independent of size or economies of scale that bars new entrants. The already established industries may have advantages independent of economies of scale through a proprietary product, favorable access to raw materials and government subsidies. The fewer the entry barriers, the higher the threat of new entrants. If a new firm can launch its business with a low capital investment and operate efficiently despite its small scale of operation, it is likely to be a threat. It is dangerous for a firm to enter an industry with very low entry barriers (Bateman & Snell, 2004).

2.4 Bargaining power of buyers

Buyers may threaten an industry by forcing down prices, bargaining for higher quality or more services, and playing competitors against each other. This consequently reduces profitability. The power of each buyer group depends on the attributes of the market situation and the importance of purchases from that group compared with the overall business (Alkhafaji, 2003). Buyers of banking services are institutions, organized groups, Non Governmental

Organizations, Faith Based Organizations, Community Based Organizations and individual clients

2.5 Bargaining power of suppliers

Suppliers can pressurize an industry by through price increments or quality reduction of the purchased products. Powerful suppliers can squeeze the profitability of banks industry so far that they can't recover the costs of raw material inputs. They are companies that supply raw materials, equipment, machinery, associated services and labor. Suppliers of banks may include trade unions for the supply of labour force, Automated Vending Machine suppliers, cleaning services, IT consultants, marketing agents just to mention but a few (Dagmar, 2001).

2.6 Conditions under which a supplier group can be powerful

The supplier group is dominated by a few companies and is more concentrated few banks dominate the industry than the industry it sells to. Suppliers selling from fragmented industries influence prices, quality, and terms. Another condition is if the supplier group is not obliged to contend with substitute products for sale to the industry. This is because the power of even large, powerful suppliers can be checked if they compete with substitutes (Alkhafaji, 2003). The third condition is if the industry is not an important customer of the supplier group. This occurs when suppliers sell to several industries and a particular industry does not represent a significant fraction of its sales, suppliers are more prone to exert power. Suppliers can also be powerful if their product is an important input to the buyer's business. When such inputs are important to the success of the buyer's manufacturing process or product quality, the bargaining power of suppliers is high (Dess, et al., 2005)

Another condition is that suppliers are powerful if the supplier group's products are differentiated or it has built up switching costs for the buyer as these two costs cut off their options of playing one supplier against another. Finally, the supplier group can be powerful if it poses a credible threat of forward integration which provides a control measure against the industry's ability to improve the terms of purchases (Riley, 2012).

2.7 Threat of substitute products

All banks within an industry compete with industries producing substitute products and services because substitutes reduce the potential returns of an industry by placing a ceiling on the prices that banks in that industry can profitably charge. Identifying substitute products involves searching for other products or services that can perform the same function as the industry's products (Riley, 2012). In the banking industry, substitutes have been noted to be the Savings and Credit Societies with low levels of interest and less strict terms and conditions regarding their loan services. This is a delicate role that leads a manager into businesses seemingly far removed from the industry such as digital technology, wireless forms of telecommunication, teleconferencing, and e-commerce as viable substitutes for traveling.

2.8 Rivalry among established firms

Rivalry is the competitive struggle between banks in an industry to gain market share from each other (Hill & Jones, 2007). It is jockeying for position whereby banks use tactics like price competition, advertising battles, product introductions, quality competition, and increased customer service or warranties (Pearce & Robinson, 1994). The competitor is the first to be dealt with in competitive environment (Bateman & Snell, 2004).

There are 43 banks that compete with Cooperative bank of Kenya in provision of similar services under the same external environment. These include banks such as Kenya Commercial bank, Equity, National bank of Kenya, Habib Bank, City Bank, Standard Chartered, Barclays Bank of Kenya, Family Bank among others.

Rivalry occurs when competitors sense the pressure or act on an opportunity to improve their market segment (Dagmar, 2005). Some forms of competition, such as price competition, are typically highly destabilizing and are critical for profitability level in an industry. For example, price cutting lowers profits for all banks while advertising battles inflate the demand and enhance the level of product differentiation for the benefit of all banks in the industry. The intensity of rivalry differs across industries and this may be due to various factors.

2.9 Examples of Exit Barriers

Investment in expensive assets such as machines, equipment and operating facilities which need writing off their book value, high fixed costs of exit such as severance pay, health benefits and pensions in case of liquidation and emotional attachments to an industry such as sentiment or pride which prevent banks from leaving the industry. Other exit barriers include economic dependence on the industry because of failure to diversify in other industries, the need for maintaining an expensive collection of assets for effective participation in the industry, and tough bankruptcy regulations (Hill & Jones, 2007).

2.10 Porter's Competitive Strategies

Porter identified the competitive, corporate and generic strategies that can be applied after successful competitive analysis. He also outlined three general business level strategies that can be used to gain competitive advantage over other banks operating in the same industry, that is, cost leadership and differentiation strategy for the broad industry-wide environment, and focus strategy for the narrow market segments. The focus strategy consists of the low cost focus strategy and focus/niche differentiation strategy (Porter, 1980). Porter also identified the specific generic strategies for countering the five industry forces.

Table 1 Porter's Generic Strategies

| Industry Force | Generic Strategies | | |
|------------------------------|--|---|---|
| | Cost Leadership | Differentiation | Focus |
| Entry Barriers | Ability to cut price in retaliation deters potential entrants. | Customer loyalty can discourage potential entrants. | Focusing develops core competencies that can act as an entry barrier. |
| Buyer Power | Ability to offer lower price to powerful buyers. | Large buyers have less power to negotiate because of few close alternatives. | Large buyers have less power to negotiate because of few alternatives. |
| Supplier Power | Better insulated from powerful suppliers. | Better able to pass on supplier price increases to customers. | Suppliers have power because of low volumes, but a differentiation-focused firm is better able to pass on supplier price increases. |
| Threat of Substitutes | Can use low price to defend against substitutes. | Customer's become attached to differentiating attributes, reducing threat of substitutes. | Specialized products & core competency protect against substitutes. |
| Rivalry | Better able to compete on price. | Brand loyalty to keep customers from rivals. | Rivals cannot meet differentiation-focused customer needs. |

Adapted from Porter (2003)

In cost leadership strategy, a bank can decide to become the low cost producer in its industry by charging the lowest price or rates for its services (Porter, 1985). The sources of cost advantage for such a bank may include economies of scale, proprietary technology, preferential access to raw materials and other factors. A low cost producer must find and exploit all sources of cost advantage as well as be in a position to be an above average performer in its industry to such an extent that it can command prices at or at least near the industry average. By utilizing differentiation strategy, a bank can be unique in its industry or products in areas that are highly valued by its clients. This may involve selecting one or more attributes that many buyers in the banking industry perceive as important, and then uniquely positions itself to meet those needs. This uniqueness is rewarded by charging a premium price (Hamel .G.2002).

A bank's utilization of focus strategy implies its choice of narrowing of competitive scope within the banking industry. The focusing bank selects a segment or group of segments in the industry and tailors its strategy to serving them effectively and efficiently to the exclusion of others. Focus strategy may be cost focus or differentiation focus. In cost focus strategy, a bank seeks cost advantage in its target segment while in differentiation focus; a bank seeks differentiation in its target segment (Thomson A.A 1990). Both variants of the focus strategy rest on differences between a target segment and other segments. The target segments must either have buyers with unusual needs or the production and delivery system that best serves the target segment must differ from that of other segments. Cost focus exploits differences in cost behavior in some segments, while differentiation focus exploits the special needs of buyers in certain segments.

2.11 Theoretical Framework

Although there are various strategic analysis tools for analyzing the competitive environment such as the Five forces analysis, Game plan, Value Chain model, PESTEL model and the Strategic group analysis (Lumpkin et al., 2005). This study is based on the Five Forces Model. This is due to the role played by these five forces in the Kenyan banking industry. Porter's Five-force model of competitive analysis is an illustration of how the Five competitive forces can be used to explain low profitability and viable entries to an industry (Hill & Jones, 2007). The impact of the forces is relative to their intensity (Riley, 2012). The intensity of these forces highly determines the average expected level of profitability in an industry. Proper understanding of the five forces is key in deciding what industries to enter, and in assessing how a firm can improve its competitive position. The strength of each of the five forces is inversely proportional to the price and profits such that a weak competitive force may serve as an opportunity, while a strong one, may serve as a threat (Andrews K.R1980).

There are some advantages of the model as providing a wide range of information about the competitive environment and strategic options to choose from and helps in the evaluation of profit potential of an industry and explores alternatives in the strengthening of the firm's position. The increased globalization has led to a high demand for information about the foreign market, competitors, potential entrants, customers, suppliers and substitutes. The model also assumes the zero-sum game in determining how a firm can enhance its position amidst the five forces which is quite beneficial (Dess, et al., 2005).

It can also be argued that the Five Forces model is less expensive in Hobbe's state of nature of 'man-eat-man' capitalistic society where it is only survival for the fittest with no danger of collusions which are illegal. It is

more practical and realistic than the game theory, and has an advantage of security through its analysis of potential entrants which is a missing element in the Value net.

2.12 Criticisms of the Porter's Five Forces Model

In a study entitled Entrepreneurship and strategy in China: why 'Porter's five forces' may not be, some authors argue that the zero-sum game approach is short term and ignores the long term benefits of a constructive win-win strategy through relationships with all or most of the stakeholders like strong mutual relationship with suppliers and buyers can make the firm enjoy the Just In Time philosophy (JIT), thus saving on storage costs. It has also been noted that power show-downs to competitors may sometimes boomerang on the firm and heavily impact on the firm cost-wise, and that by co-operating with the stakeholders, the banks in an industry can become least-cost producers (Wang & Chang, 2009). The static nature of the model is a challenge to innovation in a rapidly changing industrial structure such as environmental trends, changes in the ethnic composition of a population or a technological innovation which may pose a greater impact on some industries than on others.

The model ignores the pivotal role of complements by focusing on industry and group structures rather than individual companies (Brandenburger, 1995) and innovation creates change in industry structures, thus, altering the competitive environment and that the industry structure alone cannot fully explain the performance differences between industry competitors (Moriarty, 1983).

2.13 Empirical Review

Complements are products that impact on the value of a firm's own products or services while complementors are those banks and other companies that produce the complements (Dagmar, 2001) such as the money transfer platforms like MPESA, YU Cash, and Airtel Money. These virtual money platforms fit the banking industry.

Complementors are companies whose products are sold in tandem with another company's products such that an increase in the supply of a complementary product collaterally increases the demand for the primary product such as 'Pesa pap'. Industrial analysts assert that this is a real force to reckon in enhancing a firm's competitive advantage, widening the product scope, and increasing sales. In the banking industry such products may be loans and assets such as cars, machines among others. Complements can be used by banks in cases of asset financing loans. The nature of life and business in the predominantly capitalistic society naturally promotes competition which makes it difficult to maintain a mutual, healthy and legal relationship with competitors without compromising the quality of products. The security and futural aspect is a very essential asset to banks and this calls for prior control measures to bar potential entrants.

This vital aspect is missing in the value net. Due to the fact that it is not devious to absorb skills from one's partner, learning from partners is paramount but highly inclusive of risks (Hamel, & Prahalad, 2002). This compels Cooperative bank of Kenya to learn from its competitors like Equity. The view that Porter's five forces model only ignores the options of interactions and transactions are inaccurate as the model only offers options in case their transactions are detrimental to the profitability and sustainability of the firm's competitive advantage. There are very minimal benefits for competitors to gain from each other than benchmarking, forming a cartel or collusion. Even in collaboration, harmony is not the most important measure of success and co-operation too has limits as companies must defend themselves against competitive compromise. In this age, the role of technology calls for the putting of technology right at the Centre of the business.

2.14 Summary

This section deals with the Literature Review which has been sub-divided into Review of the Five Forces Theory, Theoretical Framework, Conceptual Framework, Criticism of Porter's Five Forces Model and Empirical Review. It also includes the Knowledge Gap that relate to Porter's Five forces model and its application to the banking industry in Kenya, the Five forces model of competitive analysis in the light of the contemporary challenges of rapidly changing environment, the missing sixth force (complements), challenges that face the model and how these impact on organizational performance.

2.15 Knowledge Gap

A clear gap in this study was the divided opinion on the application of Porter's Five Forces model to competition as some scholars argue for it while others against it. This needs some clarity to shed off the confusion.

The changes in the external environments of operation have made some banks victims to their competitors with some of them being forced to retrench their staff or reduce their number of branches as a way of coping with the intense competition. This calls for a thorough environmental scanning that can help foresee and control the negative effects of competition in the banking industry by use of the five forces model. The many authors and scholars who have either applauded or criticized the Five forces model have not contextualized the application or impact of this model to banking industry.

The changing industrial environment, industry structure, and the rise of newer approaches may have in turn caused some changes in the application and impact of the Five forces model to the contemporary Kenyan banking industry. The application of the Five forces model has been clouded by criticisms such as its lack of complements, its static nature and constant technological changes. However, the continued use of the model in various industries shows the gap that exists between the theoretical review and empirical review thereby leaving researchers in the dark on the application of the model especially in the face of the rapidly changing environment and the challenge of SACCOS as supplements and complements.

Another gap is that no model seems to offer a more comprehensive approach to competition other than the five forces model. These gaps were filled using various literatures and coming up with models that are better equipped to fight the stiff competition.

3.0 RESEARCH DESIGN AND METHODOLOGY

3.1 Research Design

Research design outlines the methods used for data collection, measurement and analysis (Cooper & Schindler, 2001) to obtain answers to research questions. The researcher collected data from selected various respondents sampled in the study using descriptive survey design. Descriptive survey research method was used in order to obtain accurate information for large numbers of people with a small sample to explore relationships between variables because it allows generalizations across the population. Owing to the above justification, the researcher used descriptive survey design in this study as it rightly fitted and clearly brought out what is in the mind of the researcher (James & Sally, 2001). A triangulation of both quantitative and qualitative approach was used because the expected information from the field will involve factual elements that were presented using descriptive and inferential statistics. The study also surveyed attitudes that could not be quantified but only thematically analyzed. Triangulation comes up with data rich information that enriches the study (Mugenda & Mugenda, 2003).

3.2 Target Population

The study targeted the top level managers, middle level managers and lower cadre employees at the Cooperative Bank of Kenya Headquarters to seek their attitude towards the application of the five forces model. The target population totals to 200 employees spread across all the departments of Cooperative Bank of Kenya Ltd. This study was conducted at the headquarters of the Cooperative Bank of Kenya, Nairobi Province. Cooperative Bank of Kenya has various departments such as the research and development department, Human Resource Department, Marketing Department, Finance and Accounts Department customer service Department, IT/Technical Department. Cooperative Bank of Kenya has been chosen due to the fact that it is one of the key players in the industry, the researcher is accessible to the study area, and finally, because it has employed the five forces analysis thus provides a basis for evaluation.

Table 2: Target Population

| Category | Population |
|----------------------------|------------|
| Top level managers | 5 |
| Middle level managers | 30 |
| Operational level managers | 165 |
| Total | 200 |

3.3 Description of Research Instruments

The main data collection instruments used included questionnaires, oral and telephone interviews. The designed questionnaire consisted of closed and open-ended items. Close-ended items enabled the respondents to choose what they felt was best from the given alternatives while open-ended items enabled them to express their opinions in details. Questionnaires were distributed randomly to the selected sample in the departments. The questionnaires were chosen because the target populations have a high level of education and therefore, were in a position to read and follow the contents of the questionnaires. The information needed was sensitive, thus, needed accuracy and objectivity. Even though the information needed is impersonal, it is assumed that the informants might be willing to respond to questionnaires or be questioned directly by the researcher.

The researcher also used self-made structured interview guide to supplement the questionnaires. These were pre-tested to establish their validity. An interview is a way of obtaining data about a person by asking him rather than by watching him behave. A personal interview helped the researcher to measure what the respondents know or think (Ogula, 1998) about the Five forces model, what they like or dislike about it, and how best it could be improved. Both formal and informal interviews were used where the researcher had received consent from the respondents who were willing to be directly involved in a discussion with the interviewer. This was useful in determining deeper attributes such as attitudes, opinions about certain questions and in probing to get more insights.

These responses were particularly beneficial for making qualitative judgments and conclusions about the research questions. It has to be taken into account, as well, that the subjects are very busy people who may have very limited time for the questionnaires or interviews. This somehow made it difficult to obtain the required information from all of them within the limited time. As such, telephone interviews were advantageous because the interviewers helped explain the reasons and benefits of the research besides clarifying anything that were not clearly understood although this will be costly.

3.4 Sampling Procedure

The target population totaled to 200 and stratified random sampling technique will be done to get representatives from all the departments of Cooperative Bank of Kenya. All levels of the management were included in the

study, that is, the top level managers, middle, and lower level employees. The members of the sample were randomly selected to include all using 30 % selection of samples (Kothari, 2003) who suggests that for a target population of less than 1000, at least 30% should be used for accuracy. Random sampling was chosen to reduce bias and prejudice in selecting samples to ensure objectivity.

3.5 Sample Size

The 30% of 200 employees gives an average of 60 respondents. This consisted of 30% of 5 top level managers which totals to 2, 30% of 30 middle level managers which totals to 10, and 30% of 165 lower level employees totaling to 50 employees. Two top level managers concerned with Cooperative Bank of Kenya strategy were purposively sampled for interview to become part of the study.

Table 3: Sampling Frame

| Category | Population | Sample | Sampled Percentage (%) |
|----------------------------|------------|-----------|------------------------|
| Top level managers | 5 | 2 | 40.00 |
| Middle level managers | 30 | 10 | 30.00 |
| Operational level managers | 165 | 50 | 30.00 |
| Total | 200 | 62 | 100.00 |

Researcher (2013)

3.5 Methodology

This study is sensitive and touches on issues that are outside the public domain; individual strategies used by the various companies in the Kenyan banking industry. Individual respondents were therefore assured of the utmost privacy and confidentiality of the information they provided for the purposes of this research by remaining anonymous. Informed consent to participate was also be sought, and the subjects were provided with the right information about the research topic, the purpose of the study as well as its benefits to them as managers, to the banking industry and to academic spheres prior to the actual commencement of the study.

The respondents were approached in person by making appointments through their secretaries or questionnaires were given to the different managerial levels but only to those willing to participate in the study. The very busy ones were reached through the human resource manager and phone. The authority to collect data and a permit was sought from the national Council for Science and Technology and a copy given to the Human Resource Manager of Cooperative Bank of Kenya, Nairobi. Data was collected through the use of questionnaires, interview schedule, and telephone calls.

The questionnaire was administered personally to the respondents after obtaining permission from the HRM and after setting dates for visitations. In areas that proved difficult to access, the researcher used telephone interview or allowed the HRM to collect data on his behalf. The researcher then waited for the instruments to be filled in, and then collected them back. The researcher also conducted interviews with top level sampled managers from the three levels individually using the interview schedule.

3.6 Data Analysis Procedures

Analysis of data started with editing so as to identify errors made by respondents such as spelling mistakes and any wrongly answered or unanswered questions. After this, the data was sorted, coded and accurately fed into the SPSS program for computerized analysis to generate descriptive statistics such as frequencies, percentages, mean and present them through frequencies tables, bar charts and pie charts in so far as possible. Qualitative data generated from open-ended questionnaires was organized into various themes and patterns, evaluated and analyzed. The results were then be compared with the literature review to establish the application of Porter's Five forces model to the Kenyan banking industry, correlation and regression analysis conducted and the results of the tested hypotheses explained using inferential statistics. This was done using computerized SPSS for efficiency and accuracy.

Qualitative analysis is the rational, explorative and intuitive approach to research. Qualitative research requires abstract thinking, stepping back and critically analyzing situations, recognizing and avoiding biases, the ability to keep analytical distance and a shrewd sense of observation and interaction (Ghauri, et al., 1995).

Qualitative analysis was used in this case since the study entails research questions and objectives that focus on uncovering people's experiences, opinions and attitudes towards the five forces model. Repeated choices, comments, and preferences were analyzed and grouped into themes that form the basis for making conclusions.

4.0 FINDINGS

4.1 Regression Analysis

Model Summary

| Model | R | R Square | Adjusted R Square | Std. Error of the Estimate |
|-------|-------------------|----------|--------------------------|----------------------------|
| 1 | .800 ^a | 1.640 | -0.02173523 7898-1.64 | .34096 |

a. Predictors: (Constant), Rating of the relationship between the Five Forces and performance of Cperative Bank of Kenya

ANOVA^b

| Model | | Sum of Squares | df | Mean Square | F | Sig. |
|-------|------------|----------------|----|-------------|------|-------------------|
| 1 | Regression | .002 | 1 | .002 | .021 | .437 ^a |
| | Residual | 5.232 | 45 | .116 | | |
| | Total | 5.234 | 46 | | | |

a. Predictors: (Constant), Rating of the relationship between the Five Forces and performance of Cperative Bank of Kenya

b. Dependent Variable: The relationship between the Five Forces Model and performance of Cooperative Bank

Coefficients^a

| Model | | Unstandardized Coefficients | | Standardized Coefficients | t | Sig. |
|-------|---|-----------------------------|------------|---------------------------|--------|------|
| | | B | Std. Error | Beta | | |
| 1 | (Constant) | 1.113 | .111 | | 10.035 | .000 |
| | Rating of the relationship between the Five Forces and performance of Cperative Bank of Kenya | .007 | .047 | .804 | .146 | .884 |

a. Dependent Variable: The relationship between the Five Forces Model and performance of Cooperative Bank

There was a strong positive correlation between the Five Forces Model and performance of Cooperative bank of Kenya as shown by the R value of 0.8. The F statistic test value of 0.021 and a small significance value of 0.437 that is $P = 0.437 > \alpha = 0.05$, indicates that there is a regression relationship between the dependent variable and the predictor variables. The standardized coefficients of 0.80 show there is effect of the Five Forces Model n the performance of Cooperative bank of Kenya.

5.0 CONCLUSION AND RECOMMENDATIONS

5.1 Conclusions Based on the Findings

The researcher made the following recommendations:

In line with the first research question, the study concludes that there is a strong positive relationship of 0.8 between Porter's Five Forces model and the performance of Cooperative Bank of Kenya.

Based on the findings on the second research question, the study concludes that owing to the strong relationship between substitutes of substitutes and the performance of Cooperative bank of Kenya, the strength and effects of substitutes should not be ignored.

On the third research question, the study concludes that significance of competitors in benchmarking, keeping the management on toes and increases efficiency and effectiveness; competitors remain the key to success and achievement of competitive edge through innovation.

Regarding the fourth research question, this study concludes that the Bargaining power of buyers within the banking industry is critical in terms of understanding the bank's buyers and successfully meeting their demands as a way of retaining them and achieving high customer satisfaction for repeat sales.

On the fifth research question, the study concludes that the Bargaining power of sellers apply to the banking industry was a factor to watch as increase in the cost of their services leads to an increase in the cost of services

offered by Cooperative Bank and the quality of their services also such as assured security and clean working environment determines employee motivation and satisfaction.

In line with the last research question, the study concludes that the Threat of new entrants applies to the banking industry due to the presence of various microfinance organizations, youth funds, women funds and savings and Credit Societies (SACCOs) performing similar roles and offering such products and services at lower rates.

5.2 Recommendations Based on the Findings

Based on the findings of the study, the following recommendations were made as a way of highly benefiting from the Five Forces Model and other forces that affect the performance of Cooperative Bank other than Porter's Five Forces.

Equal employment opportunity employment and promoting gender parity exercised by Cooperative Bank of Kenya should be applied by all organizations that wish to retain their employees as no employee can withstand unjust employment policies.

Other than the use of M-banking only for checking of balances and transferring money from the bank accounts to MPESA accounts and vice versa, Cooperative bank should go towards the step made by Commercial bank of Africa in offering M-SHWARI.

Owing to the fact that substitutes are posing challenges to the bank's products, the bank should constantly study the steps taken by the firms that offer substitutes and integrate them within their system as partners or be proactive in modifying their products to avoid losing clients to substitute products.

In response to the increasing number and strength of competitors this study recommends that Cooperative bank increases its product diversity and customize its products in a way that suits and retains the already existing customers as well as increasing efficiency and effectiveness in service provision.

As a way of maintaining high quality services and good working environment, this study recommends that Cooperative bank should use their bargaining power of consuming such services to engage high quality service providers at the lowest possible cost as such a step could be cost effective and reduce the rates that the bank charges its clients.

5.3 Suggested Areas for Further Research

Based on the findings of the study, the study suggests that detailed research could be done to ascertain the effect of each component of the Five Forces individually and not all of them in a package as were the case in this study. A study could also be conducted on individual players within each force such as the effect of security or the effect of cleaning services on the performance of Cooperative bank of Kenya.

Other studies could be conducted on the effect of M-SHWARI on the performance of Cooperative bank of Kenya.

A study could also be conducted on the application of McKenzie's 7 S on the performance of Cooperative bank of Kenya.

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