EFFECT OF STRATEGY IMPLEMENTATION AND EXTERNAL ENVIRONMENT ON PERFORMANCE OF COMMERCIAL BANKS IN KENYA

BY

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DECLARATION

I Gladys Tegek hereby declare that this research project titled the Effects of Strategy Implementation and External Environment on Performance of Commercial Banks in Kenya has not been submitted for any academic award such as certificate, diploma or degree in any college, university or institution of learning.

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This research project by Gladys Tegek entitled effects of strategy implementation and external environment on performance of commercial banks in Kenya has been developed with my guidance and has not been submitted for examination with my approval as the university supervisor.

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DEDICATION

This study is dedicated to my parents Mr. and Mrs. Richard Tegek for their prayers, support, encouragement and patience during the entire period of my study contributed to the successful completion of this project.
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<tr>
<td>AMREF</td>
<td>Africa Medical Research Institute</td>
</tr>
<tr>
<td>ATMs</td>
<td>Automatic Teller Machines</td>
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<td>CBK</td>
<td>Central Bank of Kenya</td>
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<td>CSR</td>
<td>Corporate Social Responsibility</td>
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<td>ECK</td>
<td>Electoral Commission of Kenya</td>
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<td>KCB</td>
<td>Kenya Commercial Bank</td>
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<td>KRA</td>
<td>Kenya Revenue Authority</td>
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<td>NGOs</td>
<td>Non-Governmental Organizations</td>
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<tr>
<td>PESTEL</td>
<td>Political, Economic, Social, Technological, Ecological and Legal</td>
</tr>
<tr>
<td>ROA</td>
<td>Return on Assets</td>
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ABSTRACT

The main objective of the study was to determine the effect of strategy implementation and external environment on performance of commercial banks in Kenya. Implementation of strategy is a cautiously measured practice that ensures effective and efficient execution of formulated strategies in an organization so as to realize organizations goals and objectives. It is a constant feedback mechanism process which ensures relevance, objectivity and effectiveness of strategies to the goals of the organization. The banking institutions operating in Kenya currently face a business environment that is dynamic, fast paced and competitive not only locally but also globally. It is thus very important that each institution develops strategies that will facilitate their survival as well as maximize value even with the dynamics in the external environment. It is however important to note that importance is not placed on mere formulation of strategies as this will not guarantee its success. Sound formulation and excellent implementation of strategies is the only way that banks will be able to realize success. The study was carried out to ascertain what role implementation of strategy and external environment played on performance of commercial banks that operate in Kenya. The research design that was employed for this research was descriptive cross sectional survey whereby all operating commercial banks were targeted. Structured questionnaires were distributed to 43 banks whereby 31 were collected back which accounted for a response rate of 74%. Findings from the study showed that majority of the banks develop guidelines/models which guide the strategy implementation process and puts into consideration different environmental factors that can influence the implementation process. The study also found that each institution is exposed to a myriad of factors unique to the specific firm which has an influence on strategy implementation process. Putting in mind the findings of the study, the researcher recommends that banks ought to consider outsourcing the strategy implementation process to experienced professionals in the field and also put into consideration the myriad of factors that have an influence on the process. The researcher also recommends that policy makers can enforce best practices identified like development of guidelines for the strategy implementation process while putting into consideration the environmental factors that may affect the process. Limitations arose owing to respondents giving positive information to present a good picture of their organization and senior officers not responding on claims of being too busy. Comparative research could be conducted in other industries to identify any similarities or differences or specific study could be done for banks in similar banks.
CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

The task of implementing a strategy can turn out to be more challenging as compared to formulation of strategy (Hrebiniak, 2006). Successful implementation of formulated strategies is the main assurance of a firm performing exemplary (Noble, 1999). Implementation of strategy involves the process of translating strategies chosen by an organization into actions in the quest towards achievement of organizational goals as well as objectives. It highlights ways in which an organization goes about developing, utilizing and integrating the structure of the organization, the company culture and also the control systems to follow strategic direction that leads to gaining a competitive advantage thus resulting to performance that is superior. The business setting of firms is characterized by a continuously dynamic and ever-changing environment. Alashloo, Castka and Sharp (2005). Implementation of strategy is a process that actualizes plans and strategies in an effort to reach desired goals. The strategic plan itself is a detailed document that outlines the necessary or ideal steps and processes desirable to reach the set organization goals, and consists of reports, feedback and progress to make certain the plan is on track (Loretta 2018).

This study was anchored on contingency theory which was supported by open system theory and industrial organization economic theory. Contingency theory alludes that in the management of organizations, no one or single best way or style can be credited. Firms are therefore to come up with a managerial strategy that is ideal where prevailing conditions or circumstances being experienced are considered.
Arguments put forth by Wright et al., (1994) present that there is a connection between high financial returns and environmentally fit strategies in organizations that consider the environment when formulating their strategies. He further stated that organizational performance is a result influenced by elements in the environment and strategic actions taken by the organization (Porter, 2008; Wright et al., 1994). Industrial organizational theory puts emphasis on how the industry operating environment impacts the organization at large; (Wright et al., 1994). Open systems theory presents the idea that organizations are in a very high degree impacted by their operating environment. The various factors that make up the environment put forth numerous forces of different natures including economic, political, or social forces. Other contributions also include key resources which support the firms to remain afloat as well as stimulate transformation as well as survival.

The banking sector in Kenya is facing major challenges such as banks are not making good returns on investment. The bank is not meeting the customer’s expectation. Banks are facing a major challenge due to increased financial technology. Finally the banking sector in Kenya is facing increased pressure from new regulations. Banks have been forced to dig deeper in their discretionary budget to facilitate compliance to the ever increasing regulatory requirements. These challenges have led commercial banks to build systems and processes to keep up with the escalating requirement which has proven to be cumbersome. The challenges have necessitated re-evaluation of strategy implementation tactics by commercial banks.
1.1.1 Strategy Implementation

Implementation of strategy is the step in the process of strategic management which many management scholars and practitioners regard as the activity which is most difficult, challenging and time consuming (Barnat, 2012; Sage, 2015; Sial, Usman, Zufiqar, Satti & Khurheed, 2013). The first step being strategy formulation and control being the third step. Strategy entails the outcome of choices senior managers make in regards to area of operation as well as ways and methods that would ensure they win, so that the value of the organization is maximized in the long-term. Assertions made by Beard & Dess (1981) presented strategy to be a document which clearly articulates the direction to be pursued by a business as well as the steps to follow so as to ensure the set goals are achieved. Implementation of strategy is considered to be a vital process that ensures that during turbulent times, the organization survives and functions properly (Sial et al., 2013), the step is also considered to be a crucial aspect and a principle for success in organization (Noble, 1999).

Organizations achieve superior performance and competitive advantage when robust and solid strategies are implemented (Awino, 2013; Okwachi, Gakure & Ragui, 2013). Evidence from both practice as well as scholarly research indicate that the performance of organizations is greatly impacted by how the implementation of strategy is done (Giles, 1991). During the formulation of business strategy, executives pick one method out of the several to employ in analyzing an organization’s market characteristics, available resources, existing challenges as well as opportunities. Identification of the goals the firm intends to accomplish is the ultimate goal of strategic analysis.
Methodologies employed to assess strategies can entail evaluation of the operating business environment including internal as well as external, developing scenarios mimicking the competitive environment, determination of the prevailing market forces and evaluating competitors just to mention but a few (Beard & Dess, 1981). Arguments by Shrader, Taylor & Dalton (1998), presented that formulating corporate policy and adopting strategic planning to be means of facilitating improvements in regards to performance of organizations.

The argument articulated by Shrader et al., (1989) collectively represents the diverse modes involved in strategic planning that organizations have implemented so as to achieve the goals both in the long term as well as short. Taylor (1997) on the other hand echoed the sentiments of Shrader et al., (1989) in conceptualizing strategic planning when he emphasized the existence the evolutionary process of strategic planning that that was effected in numerous phases. Taylor (1997) presents that the evolving process has progressed through the years starting with the shift from planning in the long term to Strategic Planning in the 1960s, then the 1980s shifted to Strategic Management which then proceeded to Strategic Leadership later in 1990s (p. 344). However the basis of strategic planning which includes planning, organizing, and strategizing ought to be related to various existing theoretical constructs that backs the strategy concept (Shrader et al., 1998, Rudd, Greenly, Beatson & Lings, 2007).

1.1.2 External Environment

Organizations don't exist in a vacuum. Each organization operates in an environment that affects everything. The organization’s external environment helps us to proactively take advantage of opportunities and minimize on the threats.
In an organizational context, the external environment encompasses all existing units existing outside the organization’s boundary, yet affects it survival and growth significantly. The following sectors makeup the external environment; the macro-environment comprised of the Political, the Ecological, the Economic, the Social, Technological and Legal (PESTEL) elements. The PESTEL framework enables us to scrutinize how the external environment impacts the performance of while implementing strategies. Included in the micro-environment is Suppliers, labor markets, customers, creditors and also trade unions. The industry environment entails the threat of substitutes, threat of new entrants, bargaining power of suppliers, bargaining power of customers and also rivalry among firms (Porter, 1980).

The external environment of the firm consists of all external influences that impact a firm’s decisions and performances (Grant, 2001). It can be described as the world around an organization. It refers to forces or factors external to an organization that affects the organization’s operations. Johnson, Scholes and Whittington (2008), argues that the environment is what gives organizations their means of survival. The flow of inputs and outputs of an organization is governed by the nature of components of its external environment such as the state of technology, government, competitors, substitute products and customers. Organizations do not exist in a vacuum. They operate as open systems that interact with their environment for inputs and outputs. Bateman and Zeithaml, (1993), argued that, organizations operate and survive within an external environment comprising competitors, the economy, suppliers, customers, technological requirements, government and communities.
Contingency theory states that no one method can be credited as being the best in organizing a firm or making decisions. Thompson (1994), points out that, the organizations must be flexible enough to adapt and change as necessary in the face of external changes. Therefore managers and organizations must adapt and respond to their situations. The assertions of Ansoff and McDonnell (1990), point out that a major shift has been created in the economic environment due to greater competition whereby hopes for organization to stay afloat are thwarted especially in the event where they fail to handle issues using proper strategic responses. They argue that, a huge chunk of managerial time in organizations is dedicated to dealing with uncertainties that have been prompted by the environment. These uncertainties are the competitor moves, economic fluctuations, availability of raw materials, constant changes in customer demands, technological changes and government legislations.

The firm exists in an environment which is composed of the firm and the organizations that compete directly with it (Bateman & Zeithaml, 1993). Forces outside the industry are significant and usually affect all firms in the industry, the key is found in the differing abilities of the firm to deal with them (Porter, 1980). Ansoff and McDonnell (1990), says that the changes that emanate from the environment pose threats or opportunities to the firm such as; the firm’s technology becoming obsolete, decrease of market share, operating cost increasing, an opportunity to get major jump on competitors or ground floor entry into a new industry. He adds that, the pace with which such threats or opportunities develop has been increasing and it may no longer be possible to perceive and respond to them fast enough.
1.1.3 Firms Performance

Hofer (1983) states that performance is a contextual concept that is related with the phenomenon under study which in this case stands as strategy implementation. Organizational performance is a concept that is perceived to be multidimensional (Murphy et al., 1996) whose pointers can be departmental, such as pertaining to marketing, production or finance (Sohn et al., 2007), or consequential which pertains growth as well as profit (Wolff and Pett, 2006). The notion of organizational performance is grounded on the fact of an organization being the intended association of assets considered productive which include various resources that is capital human and physical, with the intention of accomplishing a common resolution (Alchian and Demsetz, 1972; Barney, 1995; Carton, 2004). Financial measures as well as those that are non-financial are the likely metrics that an organizations could employ to quantify performance. Examples of the financial metrics include profits made, the return on assets as well as investments, return on investment and sales, whereas the focus of non-financial metrics are mainly on matters that relate to client satisfaction, as well as rates of customer referrals, total time of delivery, Turnaround time as well as the rates of employee’s turnover.

Performance measures that are based on financial metrics like sales and profits may not be a perfect reflection of the firm’s actual performance as asserted by Bucklin and Sengupta, (1993). The measures have qualities of objectivity, simple and easily understandable as well as easily computed, however they have several demerits for example the fact that they are historical and are often unavailable when needed by the interested stakeholders.
Geringer and Hebert (1991) suggest the fact that data regarding financial status of a company are habitually not put out, and will rarely be included in financial performance calculations especially when taken out to be made public. It is noted that financial metrics rarely reflect absolute performance of firms.

Another substitute is to employ measures that are non-financial, to complement the financial metrics (Sandberg & Hofer, 1987; Covin and Slevin, 1989). Putting these two metrics together ensures a broader outlook on measurement and comparisons of corporate performance, more specifically how effective and efficient the existing resources have been utilized, the level of competitiveness and promptness in the effort to tackle extra pressure that is ever increasing (Chong, 2008). McCann (2004) views firm performance as relating to how efficient and effective an organization is, whereas Hofer (1983) contends performance being a contextual concept which is connected to the occurrence that is being studied.

1.1.4 Licensed Commercial Banks in Kenya

Commercial banks are financial institutions that admit demand deposit from the general public, transfer funds from the bank to another and earn profit. The banking sector in Kenya is governed by several Acts and guidelines outlined by Central Bank of Kenya (CBK). These acts include The Companies Act (Cap 286), the Banking Act, and the Central Bank of Kenya Act. In 1995, liberalization of the sector took place where the exchange controls were lifted. CBK has been tasked with the responsibility of overseeing the formulation, as well as implementation of the monetary policy, and also facilitating liquidity and solvency as well as ensuring that the financial systems are functioning properly.
Notes from Central Bank of Kenya (2010a) indicate that since 2001 there has been stability in the Kenya’s banking system and a remarkable increase in profitability levels recorded over the last 18 years.

Reports from the Central Banks (CBKs) internal rating system indicate that the all-inclusive assessed performance in the banking sector remained fair, which was gauged in terms of capital capability, quality of assets, liquidity status and also earnings. A number of challenges continue to face the banking sector. Among them is a reduction of business activity resulting from slowdown in economic growth, and efforts to re-introduce controls of interest rate. A major challenge is also posed by the huge number of non-performing loans. Mergers and liquidations have resulted to a reduction in the number of banking institutions in operation (Otiso, 2008). There has been an increase in the adoption of advanced information technology systems which has played a positive role in automation resulting in faster and efficient processing of data. This has however resulted to a substantial number of employees’ are being laid off.

In addition to adoption of information systems, increased usage of online banking as well as Automated Teller Machines (ATMs), has unbound the workers from the routine labor-intensive handling of tasks (Central Bank of Kenya, 2009). Some institutions have gone ahead and reduced the number of outlets or branches that have been operation so as to reduce costs that come with operating the branches. Assets composition for majority of the banking institutions has changed as well resulting from unfavorable economic conditions which has also been faulted for the shutting businesses and reduced demand for bank credit at different levels both personal as well as corporate.
Banking institutions in Kenya have to adapt to changes so as to be able to fulfill the needs of clients not like where there was no dynamism in the banking market. Aligning operations to the dynamic business environment in the banking industry is very critical and thus search of knowledge on how change management affects performance in the Kenyan Banks is necessary.

1.2 Research Problem

The implementation stage in strategic management process is considered to be the most challenging of all other stages. Up to 90 percent strategies that have been formulated well flop at the implementation stage. The remaining 10 percent are implemented but only 4 percent of the implemented strategies achieve their targets (Mintzberg & Quin 1991). Eppler, Yang and Guohui (2008) note that after formulating a comprehensive strategy difficulties start to arise during the implementation processes. Key challenges may arise from organizations’ failure to fully institutionalize and operationalize the strategies. In addition new developments from within the internal or the external environment may make previously developed strategies irrelevant hence posing a greater challenge. Organizations should therefore be informed that strategy formulation is entrepreneurial and less challenging compared to implementation which is purely administrative and challenging (Aosa; 1992, Machuki 2005; Thompson Strickland and Gamble; 2007).

The banking sector in Kenya is growing tremendously leading to several challenges especially in terms of strategy implementation. The challenges are due to the complex and diverse demands placed on commercial banks by its shareholders. The bank’s leadership structure and operations need to be re-aligned and improved in order to reduce
these challenges of strategy implementation. Commercial banks have not given strategy implementation and its challenges the seriousness it deserves compared to others components of strategic management and therefore the challenges are unique and contextual to the bank. Numerous studies covering strategy implementation have been carried out. An empirical study conducted by Aosa (1992) looked at the large privately owned manufacturing firms and the aspects of strategy formulation and implementation.


These case studies highlighted that challenges are contextual and they cannot be generalized across the board. It was therefore important for the researcher to undertake an explicative study since there is no documented research that focused on challenges faced during implementation of strategy in commercial banks of Kenya. The research will seek to find answers to the questions: What is the influence of strategic implementation and external environment on performance of commercial banks in Kenya and which external environment factors affect strategy implementation in commercial banks of Kenya?
1.3 Research Objectives

The main research objectives of this study include;

i. To establish the effects of strategy implementation on performance of commercial banks of Kenya.

ii. To establish how the external environment affect strategy implementation in commercial banks in Kenya.

iii. To establish the moderating effect of external environment on the link between strategy implementation and performance of commercial banks in Kenya.

1.4 Value of the Study

The outcome of this study contributed to the theory that is the body of knowledge in the field of strategy implementation. It contributed to the theoretical understanding of strategy implementation thus acting as an inspiration to scholars in the future who would venture in related field. The study contributed to the body of knowledge on the best practices to adapt to in strategy implementation in the banking industry.

The study contributed to practice by enhancing sustainable continuous process in strategic implementation in regards to the environment in the banking industry. It also assisted in identification of critical factors hindering successful strategy implementation in relation to the external environment in the industry. The study also promoted ownership or strategy implementation process thus creating windows of opportunity for the human resource. The research presented a reference tool to future researchers, students as well as academicians in efforts towards comprehension the effect as well as significance of strategy implementation.
The study contributed to policy through revealing new findings which added to the existing knowledge. Other researchers stand to benefit from this study as they pursue knowledge about challenges of strategy implementation especially in regards to the external environment and the practices to adopt to manage the challenges so as to improve on the organization performance. The result added value to the literature available in successful implementation strategies especially in the banking industry. The study aided the government in making policies that affected the banking sector in the country. The finding of the study intended to provide a sources of reference to policy developers in the banking industry. Outcomes presents a reference point to inform banks and other institutions in strategy implementation. The study also intended to contribute to forming of good practices in management of commercial banks and other related institutions. Findings intended to enlighten the management of commercial banks about the challenges faced in implementation of the formulated strategies and the possible solutions that could be employed to overcome the challenges.
CHAPTER TWO
LITERATURE REVIEW

2.1 Introduction

The focus of this chapter was the theoretical underpinnings related to the concept of this research. They included arguments and findings of other scholars in strategy implementation, challenges that arise in the course of implementation of strategy and actions that can be undertaken to mitigate these challenges so as to improve performance.

2.2 Theoretical Underpinnings

Implementation of strategy has its theoretical underpinning drawn from three major theories namely the industrial organization economics theory, open system theory and the contingency theory. Theories provide a foundation of how an organization interacts with environment leading to improvement in the firm performance. The theories also provide valuable information to parties interested in strategy formulation, implementation and evaluation.

2.2.1 Contingency theory

In order to organize effectively, it's important to consider and depend on the nature of the environment to which the organization relates (Scott 2006). It asserts that the operating environment of a firm will determine ways on how to best organize itself. Contingency theory presents two simple core assumptions: First is that no one best way exists when organizing firms. Secondly is that any way of organizing is not equally effective. (Galbraith, 1983). Organization should develop as well as adapt to environment by using PESTEL analysis tool which identifies key external environment change drivers.
The Changes drivers ‘entail political, economic, social, technological legal and environmental factors. Political, elements outline parameters in regards to legal and regulatory frameworks that firms ought to operate. Limitations are placed on organizations through, decisions on fair-trade, laws regarding antitrust, programs addressing taxes, legislations on minimum, Rules and policies on pollution and pricing. The aim of these actions or resolutions is to ensure protection of workers, clients as well as the environment. Laws and regulations are restrictive in nature and they reduce the firm’s productivity. Economic factors on the other hand focus on the nature and also the direction of the economy (Pearce & Robinson, 1997).

Economic environment cover all the economic activities in a country such as inflation rates, bank lending rates, balance of payments, level and growth of GDP, growth of population and factors affecting that growth like HIV and Aids (Yabs, 2010). Socio-cultural factors entail beliefs, the values, the attitudes, the opinions as well as lifestyles of people in company’s external environment. As attitudes in the social sphere change, so does the demand for many categories of products. Similar to various other influences in the basic external environment, social influences are characterized by dynamism, constant change which is a result of efforts of people trying to fulfil their needs and also wants by regularization and adaptation of the prevailing environmental conditions.

Technological factors influence the industry in which a firm operates. Creative technological adaptations can suggest possibility of new products, manufacturing and marketing techniques. Technological forecasting is thus important because it improves productivity of firms and also alerts managers of opportunities and threats. Ecology refers to relationship that exists between man, other living things and elements of nature like
air, soil and water which provides life support to them. Particular concerns are mainly on global warming, the loss of habitat, biodiversity as well as pollution. As the main contributor to ecological pollution, companies are being shouldered the responsibility for removing the non-friendly toxic by-products in its manufacturing processes as well as for cleaning up the environmental damage it propagated (Pearce & Robinson, 1997). According to Yabs (2010), legal environment denotes the legal framework that operates within a specific country. It includes business laws and regulations that deny or also allow the company freedom to do business. Positive laws protect the operations of the firm these include such laws as provision of grants by government, giving concessions, special preferential licenses, patent laws, trademark laws etc. Negative laws are a term used to mention laws placing restrictions on organizational activities. They are all kinds of licenses, laws on imports, regulations on minimum wage, use of child labor, anti-pollution laws and practice of social responsibility. An industry is a group of firms producing products that are close substitutes. In the course of competition these firms influence one another (Hitt, Ireland & Hoskisson, 1997).

2.2.2 Industrial Organization Economics Theory.

The Industrial organization economics theory suggests that before an organization enters the market it should first study the market structure conduct and performance of the market (Jacquemin, 2000) He further suggests that under the market structure organization should study the total figures in regards to competitors operating in the significant market as well as their shares of the market, circumstances governing the entry and also the exit to the market, standardization of products as well as proximity to suitable goods, levels of interdependence between upstream and downstream,
information quality that is under the control of partners and also the risk involved. Under Conduct, the organization should study what role is played by price and non-price strategies and the degree of corporation established over times. Lastly it should look at the performance this is how the organizations are evaluated. This is because when the organization enters the market it will be in constant interaction with the external environment and all this factors will affect its performance.

2.2.3 Open system theory

The interaction with others factors is illustrated in the open systems theory (Betchtold, 1997). Open system theory refers to the concept of organizations being strongly influenced by the environment. He further defines systems to be a collection of parts interacting with each other and function as a united whole in an organization. An organization is seen as a subsystem of a large macro system which may be identified as a sector, Industry or economic zone. Jacquemin (2000) notes that an organization is therefore believed to be in constant interactions with the micro – system for it to survive it should formulate and implement strategies that will render it relevant in the market. He further notes that open systems are a subject of differentiation and integration. Under differentiation the organizations subsystems are required to remain connected in order to sustain cooperate identity whereas under integration, the action parts are supposed to work together in order to achieve Synergies.

There are new developments in the open systems theory that show that organizational survival is dependent on the environment. According to Murray (1996) complications arise from the interrelationship, interaction and interconnectivity of elements within a
system and between a system and its environment. Interdependence and co-existence are important for systems to function effectively. Mitleton & Speh (2002) notes that Managers are therefore encouraged creating an enabling environment and conditions favorable for the connectivity, interdependence and coexistence of the subsystems. Arguments by Pfefer and Nowak (1976) present that organizations being open systems ought to routinely make contacts with the existing organizations operating in the immediate environment to ensure success. Lawrence and Lorsch (1967) advance their contributions stating that like with all systems, organization can ensure sustenance by continuous interaction with the external environment or otherwise by feeding on self.

2.3 Strategy Implementation and firm performance

Effective strategy implementation results in success of an organization. Success of an organization implies good performance. While good implementation results to good Performance, poor implementation results in poor performance. Kotler (1984) contends that implementation refers to the process which actualizes plans into action and guarantees that such tasks are executed in a way which realizes the plan’s stated goals. Harrington (2006) argues that strategy implementation is an iterative process where strategies, policies, programs as well as plans for action are executed thus allowing organizations to exploit their resources as well as explore opportunities that arise in the competitive environment.

Aosa (1992) contends that after development of strategies has been finalized, implementation kicks in; the strategies are of no value unless they are converted into action effectively.
Thus it is not enough just to develop strategies; efforts must be made to have clear and consistent guidelines for action for good results to be attained. Implementation of strategy entails numerous managerial activities which facilitate operationalizing of strategy, supervision of its goals and as well as achievement of the intended results. To ensure success, the strategic plan must be translated into carefully implemented actions. Okumus (2003) analyzed the work of other authors and found that common factors recognized for implementation of strategy include development of strategy, uncertainty in the environment, organizational structure, organizational culture, styles and forms of leadership, planning of operations, and allocation of resources, employees, clear and reliable communication as well as control.

Noble (1999) looks at strategy implementation from a people perspective and argues that implementation is a process that is both complex as well as multi-faceted which can be defined as the communication, interpretation, implementation and enactment of strategic plans. Therefore it can be pointed that the strategies that are considered to be the best may not result to better performance for an organization after all if successful implementation is not achieved. All detailed procedures, undertakings and behaviors necessary to ensure strategy implementation is a success must be put in place and be customized to fit the particular organization’s situation. Successful strategy implementation requires that the strategy is reflected in the way the firm organizes its activities, the key organizational leaders and the culture of the organization so that the strategy and the organization become one. Systems that offer strategic control as well as capability of adjusting strategies, the confirmed commitments, as well as objectives in response to the dynamic conditions must also be put in place by the implementers.
Due to globalization and the rapidly changing business arena, firms ought to seriously commit to innovativeness so as to survive, grow and remain competitive (Pearce & Robinson, 2007). Finally Rapert, Velliquette, & Garretson (2002) concentrated on strategic agreements, precisely on common grounds and priorities. The managers hold the key responsibility of promoting and ensuring cohesion in providing direction to employees in the firm. There is a connection between Strategic agreement successful implementation leading to growth. As found by Rapert et al. (2002) one of the major hindrances to implementation of strategy is the lack of collective understanding. This is in agreement with the sentiments of Beer and Eisenstat (2000); where they pointed out that firms often fail to achieve a strategic agreement and precision in regards to objectives and the firm’s direction. Findings by Noble(1999) indicated inability to carry out duties adequately so as to achieve a desired new state with new strategies was due to employees having a poor comprehension of the big picture as well as organizational goals.

2.4 Strategy Implementation and the external environment

The external environment has a significant role when it comes to determining the long term ideal future of individual organizations as well as entire industries. To gain and maintain a competitive advantage, Organization leaders ought to constantly fine-tune their strategies to replicate the operating environment of their businesses (Tan Chee Teik 2013). Arguments by Hrebiniak (2006) present that formulating and effectively communicating the vision, the mission as well as the values presents the biggest hurdle in implementation of strategy. This hinders the level of project commitment and thus affecting negatively the firm’s results which will ensure fulfillment of the organizations’ mission as well as strategize for organizational planning which will ensure empowerment
and also effective communication. Literature covering on strategy recognizes formulation to be the ends (that is objectives and the goals) while it identifies implementation of strategy to be the means (that is action plans as well as resource allocation) in strategic management (Snow and Hambrick, 1980). According to Okumus & Roper (1999), it is important to note that outstanding strategies that are impossible to implement don’t have value at all. Implementation of Strategy involves translating the strategic plan into deed which will then yield outcomes (Thompson & Strickland, 1993).

Managers formulate specific strategies with expectations about how the strategy will transform into organizational objectives. They translate these Strategies or action plans into internal processes that will implement the formulated strategy (Campbell et al, 2006). The quality of strategy formulation therefore directly affects quality of implementation of strategy and substandard formulation of strategy may pose hurdles to the process of implementation of strategy. A shoddy alignment of strategy and structure is a sure predecessor to failed strategy Implementation in a firm (Noble, 1999).

Aligning the organizational structure to strategy has an impact to the shape, how labor is divided, responsibilities and tasks on the job, power distribution and procedures of making decisions within the firm (Okumu 2003). With the presence of the organization structure comparable tasks and activities are grouped together while different responsibilities and tasks are defined. An organizational structure that stands out increases operational efficiency while at the same time balancing specialization needs with integration. Poor organization structure presents grave hurdles in duty separation whereby the consequence may end up to be conflicts of interest and roles overlapping (Obara, 2006).
Dobni (2003) presents culture to be among the six C’s in the efforts towards the creation of an environment that favors implementation of a strategy (culture, co-alignment, core competencies, connection, customer value and communication). According to her views, culture stands out as the most important driver of implementation of strategy. Strategy Implementation begins from a point of clear comprehension of the current organizational culture and the end result is the change of this culture where the new strategy will enable and embrace the new strategy. Culture can be a real challenge to strategy implementation because it is difficult to change. Consequently there cannot be successful implementation of a strategy when there is lack of understanding of organizational culture.

Culture allows adaptive behavior by the firm necessary for strategy implementation as Obara (2006) pointed out; resistance to change; civil servant mentality and lack of skills to handle modern work challenges are major cultural challenges in strategy implementation. It is important that Culture and the new supposed realities are aligned. The starting point is the comprehension of dynamics presented in the prevailing culture as well as assumptions that employees hold on to. Research that culture values held by the human resource have the potential of influencing the success of strategy implementation (Hamann, 2006).

Strategy execution is the art of decision making uniting both the leadership and also the management processes to define and gauge the strategy. It entails an alignment with internal and external organizational units especially the employees through motivation and targeted competency development programs. Chimhanzi & Morgan (2005). Human capital alignment is achieved when employees’ goals, training and incentives become aligned with business strategy (Kaplan & Norton, 2008).
Various studies in the recent past have proved that challenges of strategy implementation are contextual. Muthuiya (2004) carried out study that focuses on the NGO’s. He undertook a research which focused on challenges of strategy implementation a case of African Medical Research foundation (AMREF) Kenya. The study revealed that inadequate resources and unsupportive culture was among the challenges faced by the organization in strategy implementation.

Adongo (2008) looked at challenges to strategy implementation in health focused NGO’s in Nairobi. The study revealed that structural aspect posed a challenge to strategy implementation. The studies focused on challenges of strategy Implementation in NGO’s but not in Sacco’s hence providing a gap in knowledge that need to be filled. Koskei (2003) focused his study on implementation of strategy and encountered hurdles as experienced in public corporation, the case of Telkom Kenya Ltd. The study revealed that poor resources, poor Management of resources, government regulations and limited information technology capacity to be the main constraints of implementation of strategy.

The findings of these researches prove the contextual nature of challenges hence proving a gap in knowledge for more research to be carried out in different contexts. Kitutu (2009) did a research that focused on strategy implementation challenges at the public works Ministry in Kenya. The research findings discovered that organizational culture, meager remuneration structures, miss-fit between strategy and structure, communication that was not efficient, poor coordination and support, lack of updated information technology, erroneous choices of strategy, meddling from government and regulations as well as managing the available resources poorly, International developments in the
industry as well as personnel who were inadequately trained on necessary skills posed hurdles on implementation of strategy.

2.5 Strategy Implementation external environment and performance

Strategy implementation depends on many factors that directly or indirectly influence its course. According to Obara (2006) strategy implementation starts with formulating the organization vision and mission that is, the purpose, philosophy, and goals. An analysis that reflects the firm’s internal conditions and capabilities (Strengths and weaknesses) is then conducted. An assessment of the organization’s external environment is carried out to identify the opportunities and threats. These are caused by competitors, political factors, legal and cultural factors, technology, economic conditions and environmental factors. Management evaluates each of the decision options to be in tandem with the vision as well as mission of the organization and also decides on the most optimal decisions. A selection of a set of long term objectives and grand strategies that will achieve the most desirable decision option is done followed by developing annual Objectives and short term strategies.

2.6 Summary of the Empirical studies and knowledge gaps.

Strategies that have been successfully implemented have a definite impact to the performance of firms in that implementation of strategies is superior to formulation. Davenport (2007). Implementation of strategy partakes an indispensable portion of organization’s resources and is geared towards fulfillment of the customer’s needs (De Feo and Janssen, 2001). Organizations can only maintain a competitive advantage if they succeed in implementing their strategies (Porth, 2003).
Powell (1992). In order to ensure successful implementation of strategy there is need to successfully scan the external environment of the organization. The whole business of implementing strategy is to ensure translation of drafted plans into quantifiable activities resulting into real outputs. The actual performance matched against the set targets or goals is the true test of effective implementation of strategy. Performance deficits presents a sign of a strategy that is weak, poor implementation of strategy or both according to various studies by Noble (1999), Kaplan and Norton (2005), Speculand (2009).

Several studies have been done in regards to strategy implementation. Kurendi G. Alphaxard (2013) carried out research on factors influencing strategy implementation among flower firms. He discovered that internal factors outweigh the external factors in the environment. Wycliffe (2008) carried out research on Challenges of implementing strategies on health in NGO. He discovered that culture, structure, resources, leadership, organizational objectives and policies are key challenges to strategy implementation.

Kipkoskei (2016) carried out research on Challenges of implementing strategies in national government ministries. His findings were that Strong culture promotes the implementation of strategic plan in government ministries. Ochieng (2011) did a study on Factors influencing strategy implementation at KCB. His finding were that top leadership plays a key role in strategy implementation process. Githaiga (2011) researched on the challenges that were encountered in strategy implementation within the medical insurance scheme of the armed forces. His findings were that strategy implementation and organizational performance had a relationship that was positive and functional.
<table>
<thead>
<tr>
<th>Study</th>
<th>Methodology</th>
<th>Findings</th>
<th>Knowledge gap</th>
</tr>
</thead>
<tbody>
<tr>
<td>Challenges of implementing strategies in national government ministries. (Kipkoskei, 2016)</td>
<td>Cross sectional survey</td>
<td>Strong culture promotes the implementation of strategic plan in government ministries</td>
<td>The study focused on the internal organization environment leaving out the external environment</td>
</tr>
<tr>
<td>Factors influencing strategy implementation among flower firms. (Kurendi, 2013)</td>
<td>Cross sectional descriptive survey</td>
<td>Internal factors outweigh the external factors in the environment.</td>
<td>The study concentrated on the internal factors and ignored external factors</td>
</tr>
<tr>
<td>Factors influencing strategy implementation at KCB. (Ochieng, 2011)</td>
<td>Cross sectional survey</td>
<td>Top leadership plays a key role in strategy implementation process</td>
<td>The study focused on the internal organization environment leaving out the external environment</td>
</tr>
<tr>
<td>Challenges facing the strategy implementation within the armed forces medical insurance scheme (Gitahiga, 2011)</td>
<td>Case study</td>
<td>Strategy implementation has a direct effect on the organization performance and productivity</td>
<td>The study did not explain how strategy implementation resulted to better performance at Kenya armed forces medical insurance.</td>
</tr>
<tr>
<td>Challenges of implementing strategies in health focused NGO (Adongo, 2008)</td>
<td>Census survey design</td>
<td>Culture, structure, resources, leadership, organizational objectives and policies are key challenges to strategy implementation</td>
<td>The study did not focus on the impact of successful strategy implementation to firm's performance</td>
</tr>
</tbody>
</table>
2.7 Conceptual Framework

The knowledge gaps highlighted on table has led to the development of the conceptual framework below which will be adapted to guide empirical research in filling the gaps identified from the analysis of conceptual writings and empirical literature. From the model, strategy implementation is the predictor variable while firm performance was the dependent variable. The external environment is presented as the moderating variable. (Miles & Huberman, 1994; Robson, 2011). Kothari (2003) describes a variable to be model that can adopt quantitative values. A dependent variable is the outcome while the independent variables are factors that try to explain disparities in the dependent variable. The research considered five factors that drive strategy implementation in organizations which are strategic direction, organization structure, the human resource, the style of leadership and technology.
Figure 2.1 The Conceptual Model

**Strategy Implementation drivers**
- Strategic direction (vision, mission, goals and objectives)
- Leadership style (transformational, transactional, passive)
- Human resource (training, reward, availability)
- Organization structure (formalization, centralization, specialization)
- Technology (knowledge, research, systems)

**Independent Variable**

**Dependent Variable**

**Firms Performance**
- Financials
  - ROI
  - ROA
- Non-financials
  - Market share
  - Employee satisfaction
  - Customer satisfaction

**External environment**
- Political factors
- Economical
- Social
- Technological
- Ecological
- Legal factors

**Moderating Variable**
CHAPTER THREE
RESEARCH METHODOLOGY

3.1 Introduction

The focus of this chapter was the research methodology and the approaches that were adopted by the researcher. This included research design, techniques for collecting data, and analysis of data and presentation methods. Research methodology discusses the framework layout of the research. According to Polit and Hunger (2003) methodology denotes to ways in which data is obtained, organized and analyzed.

3.2 Research Design

The research design adopted was the descriptive cross sectional survey research design. Descriptive research designs help provide answers to the questions of who, what, when, where, and how in relation to a particular research problem; Conclusiveness on answers to the ‘why’ questions cannot be ascertained in regards to a descriptive methods. Descriptive technique was adopted to attain relevant data regarding the present status of the phenomena and also assist in the description of "what exists" with respect to the variables and/or conditions in a situation. Descriptive studies produce meaningful data which provide for vital references and at the same time for detailed analysis. Census survey was carried out through collecting data from the 42 licensed commercial banks in Kenya. A census study enhances wide representation of the current state and a definite answer to the research questions (Mugenda & Mugenda2003).
3.3 Study Population

The target population for the study was the 42 Licensed commercial banks in Kenya as outlined by CBK as at 2018 (refer to appendix 1). All of them were surveyed hence there was no need for sampling. The researcher used census survey so as to obtain various responses.

3.4 Data Collection

All the 42 commercial banks were surveyed. This led to enhanced accuracy and elimination of assumptions that arise as result of sampling. The research included both primary and secondary data. Primary data was collected using questionnaires. The questionnaires were distributed through email because it was believed that they had higher rates of returns and had lower item non-response as well as more complete answers to open ended questions. Other questionnaires were self-administered. Interview method was also applied, both personally and through the telephone interview for the top management. The questionnaire contained similar questions for all the respondents and they had open-ended questions, closed ended and also likert scale type of questions.

3.5 Data Analysis

Analysis of the data was done through descriptive statistics which involved summarization and organization of the collected data so that it can be easily understood. The researcher applied Measures of Frequency that is Count, Percent, and Frequency which showed how often a response is given. The data was also subjected to the Measures of Central Tendency that is the Mean, Median, and Mode. This helped to establish the average or most commonly indicated response.
The study also used Statistical Package for Social Sciences version 20 to help in analyzing data. Quantitative and qualitative techniques were used in undertaking data analysis. This analytical instrument was chosen as it had qualities of being precisely clear and enables ease of understanding and interpretation. In order to establish the influence strategy implementation and external environment had on the commercial banks’ performance, the following multiple regression model was used:

\[ Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \varepsilon \]

Where \( Y \) = Performance of banks

\( \beta_0 \) = Regression constant (y-intercept)

\( X_1 \) = Strategy Implementation

\( X_2 \) = External Environment

\( \varepsilon \) = Error term
CHAPTER FOUR

DATA ANALYSIS, RESULTS AND DISCUSSION

4.1 Introduction

The chapter presents the interpretation and presentation of the research findings. The study focused on investigating how strategy implementation and external environment affected performance in commercial banks in Kenya. Frequency tables and figures were used for data presentation. The number of respondents that were targeted was 42 in total whereby the same number of questionnaires were distributed 31 out of the total 42 questionnaires were returned filled appropriately. This accounted to 74% rate of response. Mugenda Mugenda (2009), contends that a response rate of 50% was considered good to draw conclusions from, 60% was okay and above 70% was considered excellent. Frequency tables and figures were used by the researcher for data presentation. The findings anticipated to answer the research question raised. The data that was collected was coded and analyzed and then reports produced in form of tables and figures which was explained in prose.

4.2 The Respondents Demographics

The study found it important to establish the respondents’ demographic information since it establishes the basis to which the study can gather applicable and credible information. For analysis purposes, this information was crucial it provided the reference point for categorizing the various outputs depending on their acquisition and respondents.
4.2.1 Highest level of Education

The respondents were asked to provide a response regarding the highest level of academic qualification they had achieved. The results is as illustrated in the table 4.1.

<table>
<thead>
<tr>
<th>Table 4.1 respondents Education level</th>
<th>Frequency</th>
<th>Percent</th>
<th>Valid Percent</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Undergraduate</td>
<td>17</td>
<td>54.8</td>
<td>54.8</td>
<td>54.8</td>
</tr>
<tr>
<td>Valid Graduate</td>
<td>14</td>
<td>45.2</td>
<td>45.2</td>
<td>100.0</td>
</tr>
<tr>
<td>Total</td>
<td>31</td>
<td>100.0</td>
<td>100.0</td>
<td></td>
</tr>
</tbody>
</table>

Source: Research Data 2018

The table 4.1 show most (55%) of the respondents had acquired a university degree to be their highest academic qualification while 45% had a postgraduate qualification being their highest level of education. This illustrates that high literacy levels among employees working at commercial banks therefore having the ability to adopt to wide range of strategic issues facing the firm and formulate strategies that aim of making better business performance to survive in competitive environment it operate on.

4.2.2 Employee Work Length

The study’s respondents were top level managers in the institutions. They responded to questions regarding strategy implementation and the external environment. These key respondents were used because they were best placed to respond to all the issues regarding the variables of the study.

<table>
<thead>
<tr>
<th>Table 4.2 employee work length</th>
<th>Frequency</th>
<th>Percent</th>
<th>Valid Percent</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>less than 5 years</td>
<td>7</td>
<td>22.6</td>
<td>22.6</td>
<td>22.6</td>
</tr>
<tr>
<td>5-10 years</td>
<td>24</td>
<td>77.4</td>
<td>77.4</td>
<td>100.0</td>
</tr>
<tr>
<td>Total</td>
<td>31</td>
<td>100.0</td>
<td>100.0</td>
<td></td>
</tr>
</tbody>
</table>

Source: Research Data 2018
The table 4.2 indicates most of the respondents having had a tenure of more than five years. Specifically, 77.4 percent of the respondents had tenure of more than 5 years in the organizations while 22.6 percent had tenure of less than 5 years. It is assumed that staff who have stayed longer in the organization are more knowledgeable about organizational processes, systems, and history as well as performance trends. Newbert (2008) recommends that researchers should carefully select respondents who have deep understanding of their contexts. From the outcomes in Table 4.2 it can be concluded this study’s respondents were well placed to respond to statements presented to them.

4.3 Bank’s Length of Operation

Respondents were asked to respond with regards to the period their organizations had been in operations. Age is used in research to measure organizational maturity and is generally expected to influence various managerial practices within the organizations (Muchemi, 2013).

Table 4.3 Period of Bank Operation

<table>
<thead>
<tr>
<th></th>
<th>Frequency</th>
<th>Percent</th>
<th>Valid Percent</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>5-20 years</td>
<td>9</td>
<td>29.0</td>
<td>29.0</td>
<td>29.0</td>
</tr>
<tr>
<td>over 20 years</td>
<td>22</td>
<td>71.0</td>
<td>71.0</td>
<td>100.0</td>
</tr>
<tr>
<td>Total</td>
<td>31</td>
<td>100.0</td>
<td>100.0</td>
<td></td>
</tr>
</tbody>
</table>

Source: Research Data 2018

The table 4.3 indicates that majority of the institutions had been operational for a period of more than 20 years old with a representation of 71 percent while 29 percent had been in operations for more than five years and up to 20 years. Age of organizations is strongly related to organizational maturity. It can thus be argued that nearly 95 percent of the state
corporations had been in existence for over 10 years meaning the variables under study had matured within them.

### 4.4 Strategy Implementation

The respondents were asked their view on a number of aspects on strategy implementation. Table 4.4 shows the summary of the study findings on the practice of implementation of strategy.

**Table 4.4 Strategy Implementation**

<table>
<thead>
<tr>
<th></th>
<th>Mean</th>
<th>Std. Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>To what extent does your organization practice Strategy implementation</td>
<td>4.5484</td>
<td>.50588</td>
</tr>
<tr>
<td>To what extent does strategy implementation affect organizational performance</td>
<td>4.3548</td>
<td>.66073</td>
</tr>
<tr>
<td>To what extent does strategy implementation affect employee performance</td>
<td>4.6774</td>
<td>.47519</td>
</tr>
<tr>
<td>Valid N (listwise)</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: Research Data 2018

The table 4.4 illustrates the responses on the extent to which the respondents’ respective institutions practice strategy implementation where the responses were positive with a mean of 4.5484 and a SD of 0.5059. Regarding the extent to which strategy implementation affects firm performance, the responses generated a mean of 4.3548 with a standard deviation of 0.6607. The respondents also had a positive response on whether strategy implementation affected performance of employees where it posted a mean of 4.6774 with a standard deviation of 0.4752.
4.5 External Environment and Performance

The external environment was the moderating variable in this study. Operationalization of the variable was achieved by focusing on the factors of the external environment. The Respondents were asked to show to what extent environmental factors affected implementation of strategy in their respective organizations.

**Table 4.5: External Environment Factors**

<table>
<thead>
<tr>
<th></th>
<th>N</th>
<th>Mean</th>
<th>Std. Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Political Factors</td>
<td>31</td>
<td>2.0323</td>
<td>.91228</td>
</tr>
<tr>
<td>Economic Factors</td>
<td>31</td>
<td>4.6129</td>
<td>.49514</td>
</tr>
<tr>
<td>Social Factors</td>
<td>31</td>
<td>3.9355</td>
<td>.67997</td>
</tr>
<tr>
<td>Technological factors</td>
<td>31</td>
<td>4.6774</td>
<td>.47519</td>
</tr>
<tr>
<td>Ecological factors</td>
<td>31</td>
<td>1.3226</td>
<td>.47519</td>
</tr>
<tr>
<td>Legal Factors</td>
<td>31</td>
<td>4.7742</td>
<td>.49730</td>
</tr>
<tr>
<td>Valid N (listwise)</td>
<td>31</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: Research Data 2018

The table 4.5 presents the findings on factors of external environment that affect strategy implementation. The findings indicate that Economic, technological and legal factors had the highest effect on strategy implementation with means of 4.6129, 4.6774 and 4.7742 with standard deviations of 0.4951, 0.4752 and 0.4973 respectively. Social factors had considerable effect with a mean of 3.9355 and standard deviation of 0.4973. The factor with minimal effect was political with a mean of 2.0323 and a standard deviation of 0.91228.
4.6 Strategy Implementation and Performance

The respondents were asked to show to what extent implementation of strategy had influenced some aspects of organization’s performance as illustrated on the table 4.6.

Table 4.6: Strategy implementation and performance indicators

<table>
<thead>
<tr>
<th></th>
<th>N</th>
<th>Minimum</th>
<th>Maximum</th>
<th>Mean</th>
<th>Std. Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>reduced customer complains</td>
<td>31</td>
<td>3.00</td>
<td>5.00</td>
<td>4.2581</td>
<td>.68155</td>
</tr>
<tr>
<td>turnaround time</td>
<td>31</td>
<td>2.00</td>
<td>5.00</td>
<td>4.3548</td>
<td>.75491</td>
</tr>
<tr>
<td>Customer retention</td>
<td>31</td>
<td>4.00</td>
<td>5.00</td>
<td>4.2581</td>
<td>.44480</td>
</tr>
<tr>
<td>positive customer feedback</td>
<td>31</td>
<td>2.00</td>
<td>4.00</td>
<td>2.7097</td>
<td>.97275</td>
</tr>
<tr>
<td>improved Internal Processes</td>
<td>31</td>
<td>4.00</td>
<td>5.00</td>
<td>4.6129</td>
<td>.49514</td>
</tr>
<tr>
<td>Risk Management</td>
<td>31</td>
<td>4.00</td>
<td>5.00</td>
<td>4.8710</td>
<td>.34078</td>
</tr>
<tr>
<td>CSR</td>
<td>31</td>
<td>3.00</td>
<td>5.00</td>
<td>4.2258</td>
<td>.56034</td>
</tr>
</tbody>
</table>

Source: Research Data 2018

The table 4.6 presents findings on implementation of strategy and its effect on commercial banks’ performance. The findings show that most of the respondents indicated that strategy implementation minimized customer complains to a great extent presented by mean score of 4.2581 and a standard deviation of 0.6816, respondents indicated as well that implementation of strategy influenced turnaround time and customer retention to a great extent depicted by mean values of 4.3548 and 4.2581 with standard deviation of 0.7549 and 0.4448 respectively. Likewise, respondents were of the opinion that strategy implementation influenced customer perceptions and improved internal processes with a mean of 2.7097 and 4.6129 and standard deviations of 0.9728 and 0.4951 respectively. Finally, respondents opined that strategy implementation influence risk management and CSR to a great extent as shown by mean of 4.8710 and 4.2258 with standard deviations of 0.34078 and 0.56034 respectively.
4.7 Regression Analysis

In order to test the relationship strategy implementation and external environmental factors had on the financial performance of the banks, a regression analysis was used to determine the significance of the relationship that exists.

Table 4.7 ANOVA

<table>
<thead>
<tr>
<th>Model</th>
<th>Sum of Squares</th>
<th>df</th>
<th>Mean Square</th>
<th>F</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Regression</td>
<td>14.072</td>
<td>2</td>
<td>4.901</td>
<td>406.106</td>
<td>.000(^b)</td>
</tr>
<tr>
<td>Residual</td>
<td>1.098</td>
<td>28</td>
<td>.012</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>15.800</td>
<td>30</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

a. Dependent Variable: performance
b. Predictors: (Constant), External Environment, Strategy Implementation
Source: Research Data 2018

The table 4.7 illustrates the analysis of variance between the variables. The ANOVA analysis was used to determine the significance of the regression model where an f-significance value of p lower than 0.05 was established. This indicates that the model adopted was statistically significant in the prediction of how external factors influenced the financial performance of commercial banks. This confirms that the likelihood of getting wrong predictions from the regression model is less than 0.05 probability of predicting wrongly. This consequently means that the regression model has a confidence level of above 95% hence high reliability of the results.

Table 4.8 Model Summary

<table>
<thead>
<tr>
<th>Model</th>
<th>R</th>
<th>R Square</th>
<th>Adjusted R Square</th>
<th>Std. Error of the Estimate</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>.965(^a)</td>
<td>.930</td>
<td>.928</td>
<td>.10985</td>
</tr>
</tbody>
</table>

a. Predictors: (Constant), External Environment, Strategy Implementation
Source: Research Data 2018
The table 4.8 presents the model summary. It was established that strategy implementation, performance contracting and external environment jointly explained 93 percent (R² = 0.930) of organizational performance while other variables explained the remaining 7 percent. The regression model was significant at F ratio = 406.106 with a p-value of 0.000. Since the calculated p-value was lower than 0.05, it meant that the model was robust enough to explain the relationship between the predictor and dependent variables.

Table 4.9 Coefficients

<table>
<thead>
<tr>
<th>Model</th>
<th>Unstandardized Coefficients</th>
<th>Standardized Coefficients</th>
<th>t</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>B</td>
<td>Std. Error</td>
<td>Beta</td>
<td></td>
</tr>
<tr>
<td>1</td>
<td>(Constant)</td>
<td>.392</td>
<td>.155</td>
<td>2.521</td>
</tr>
<tr>
<td></td>
<td>Strategy Implementation</td>
<td>1.047</td>
<td>.135</td>
<td>.876</td>
</tr>
<tr>
<td></td>
<td>External Environment</td>
<td>.397</td>
<td>.199</td>
<td>.303</td>
</tr>
</tbody>
</table>

a. Dependent Variable: performance
Source: Research Data 2018

The table 4.9 illustrates the coefficients generated from the analysis. The model shows that a unit change in strategy implementation and external environment will result in organizational performance changing by factors of 1.047 and 0.397, respectively. This notwithstanding, the research findings indicate the presence of a significant correlation between Strategy implementation and external environmental and performance of commercial banks in Kenya.
4.8 Discussion of Results

**Objective one:** To establish the effects of strategy implementation on performance of commercial banks of Kenya. The research aimed to find out how strategy implementation and the external environment affected performance in commercial banks operating in Kenya. Centered on the research findings relative to the first objective which was to determine the effects of strategy implementation on performance, conclusions were drawn from the study that implementation of strategy has a significant impact on performance of commercial banks in Kenya where they employ various indicators like number of customer complaints, turnaround time for bank services, customer retention rates, customer perceptions, and efficiency of banks’ internal processes, awareness of risk and management as well as frequency in conducting CSR activities. These findings are in line with Harrington (2006) who argued that implementation of strategy was an iterative process of adopting strategies, policies, programs as well as action plans that enable organizations to exploit the resources at its disposal as well as pursue emergent opportunities present in the competitive environment and enhance its performance.

**Objective two:** To establish how the external environment affect strategy implementation in commercial banks in Kenya. The moderating influence of the external environment was also evident whereby its factors were cited to be one of the significant determinant in strategy implementation and performance. These findings support the postulations of the open systems theory that organizations are dependent on occurrences within the external environment.
Further, the results support the findings by Hambrick (1982) who established that environmental dimensions have a relationship with firm performance. The results further support those of Huber (2011) who established that strategy implementation influence on organizational performance is subject to occurrences in the external environment. However, the results contradict Machuki and Aosa (2011), who established that external environment did not have statistical significant influence on performance. These results contradict those of Canon and John (2007) and Murgor (2014), who established that complexity, did not exhibit a significant relationship with performance. Mintzberg et al (1998b) as quoted by Burns (2009) contended the importance of all members of the organization sharing common view of its purpose and direction that provides information and guidance in decision-making and also actions. On the same, the study concluded that strategy implementation improves corporate image, business excellence and operations management.

**Objective three:** To establish the moderating effect of external environment on the link between strategy implementation and performance of commercial banks in Kenya. The study was to establish ways in which the moderating variable, which is external environment affected the relationship between strategy implementation and performance. The outcomes of this study show that influences from the external environment affect relations between strategy implementation and performance of commercial banks organizational performance. It could therefore mean that commercial banks operating in Kenya have a participatory approach in strategy formulation and implementation. The results further support those of Huber (2011) who established that strategy
implementation influence on organizational performance is subject to occurrences in the external environment.

According to Messah and Kariuki (2011), organizations operate in a dynamic as well as turbulent settings which are converted into complex, multidimensional and interlinked streams of initiatives. These has an impact on work, organizational designs, allocation of resources, systems and procedures during strategy implementation thus leading to variations in performance.

The significant influence of external environment on performance could likely be because of how strategy is implemented in commercial banks in Kenya. According to Mason (2007) organizations that survive in turbulent and radical environment-such that it does not have a negative impact on them- use more disruptive, fast and radical strategies and implement them in a democratic as well as bottom-up approach.
CHAPTER FIVE
SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction
This chapter presents summary of the study with regards to effects of strategy implementation and external environment on commercial banks’ performance in Kenya, the conclusions as well as recommendations are also addressed. The chapter is thus organized into summary of the study, the conclusion and also the recommendations for further research.

5.2 Summary of the Study
The objectives of this study was to establish the effect of strategy implementation in commercial banks operating in Kenya as well as determine the effect of the external environment on implementation of strategy and the banks’ performance. To achieve this, specific objectives were developed. Conceptualization of the relationship was done and set out in a conceptual framework. Collection of data was done using a semi structured questionnaire on the concepts to test these relationships. The data was later cleaned, sorted, edited, analyzed and presented.

Findings of the study reflected a significant relationship that existed between implementation of strategy and the performance of an organization. The study observed that changes in the external environment factors was statistically significant thus having an effect on firm performance during the implementation of strategies. These factors include political, economic, social- cultural influence, emergence of new technology as well as changes in the external regulations.
The study found that the combined effect of external environment dimensions had significant effects on the strategy implementation and varied across the industry context. These results are supported by empirical studies by Nadkami and Barr (2008) who established that timing of strategic implementation to major strategies varies across the industry context and that the variations are tied to environmental scanning by industries. The same findings are supported by Bain (1956) who contended that the managers monitor external environment changes which influences the timing and effectiveness of strategy implementation.

5.3 Conclusion of the Study

The study sought to find out the effect of strategy implementation and external environment to commercial banks’ performance in Kenya. Based on the research findings in relation to specific objective, the study concluded that strategy implementation influences organization performance where organization use various non-financial measures to access their performance. Banking industry environment is very dynamic and competitive, therefore, banks have to develop strategies to enable them remain competitive. However, banks will attain success only when there is a sound strategy formulation and excellent strategy implementation. Implementation of strategy is vital yet challenging due to the required time and efforts which is longer than formulation, involves more stakeholders and greater task complexity, it is influenced by a variety of factors and it is very sensitive to the context in which it is being practiced.
The findings of the study indicated that the external environment had a noteworthy moderating impact on the relationship between implementation of strategy and organizational performance. Additionally, the external environment significantly and positively affected the relationship between implementation of strategy and performance. Looking at the respondents’ replies, there is a likelihood that commercial banks have conducted a comprehensive scan on the environment which results to a reliable SWOT analysis results and precise map of stakeholders. Mapping of the institutions’ stakeholders has led to better relationships thus the positive impact of complexity. Implementation of strategy in an organization does not have to be negatively affected by the external environment. Therefore, the linkage between external environment and strategy implementation cannot be ignored.

5.4 Recommendation of the Study

Findings from the research show that strategy implementation and the external environment have an impact on the commercial banks’ performance in Kenya. Centered on the research findings, recommendations are thus made that best practices that were identified in the process of implementation of strategy ought to be done while putting into consideration the effects of external environment so as to encourage superior performance and grow the confidence level the public has in the industry as whole. Policy makers could enforce best practices like developing of formal guidelines to the process and establishment of key performance indicators to increase level of success of banks in implementing strategy.
In order to remain competitive and increase the success rate in implementing strategies banks could opt to hire consultants to advice on their implementation of strategy. It is essential for banks to recognize that the process of strategy implementation is influenced by a variety of factors and how they respond to them could lead to the factors either acting as impediments or success factors.

5.5 Limitations of the Study

Data collection was done using structured questionnaires which had closed and also open ended questions. This meant that there was a limit on the responses that could be given on the closed ended questions because the respondent is forced to respond within the confines of the question. This limitation was however mitigated by the researcher through ensuring that the questions were well thought out and comprehensive enough to address the critical components of the research objectives.

The research put focus on the executive team to be respondents due to their likelihood to have the required data needed. Most of them had very busy days and scheduling suitable timings was a challenge, in some instances we had to keep rescheduling the meeting. However, the study eventually managed to obtain information from the key decision makers of the banks.

5.6 Areas for Further Research

This research was a survey that focused on ways in which strategy implementation and the external environment affected commercial Banks, performance; where the use of questionnaires limited the respondents in expression.
Thus, there is a need to conduct a similar study using an interview schedule and focusing on all the banks in order to carry out an in-depth analysis. Further research is also recommended on other factors that are considered to affect strategy implementation in organizations so that both the negative as well as the positive sides can be established reliably. Further research is also suggested on impact of implementation of strategy on the performance of the organization by focusing on other sectors other than banking industry so as to depict consistent statistics that explains the true situation across all sectors.
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Powell, T. C. (1992), Strategic Planning as Competitive Advantage, Strategic Management Journal, 13(7), 551-558


APPENDICES

Appendix I: Introduction Letter

UNIVERSITY OF NAIROBI
SCHOOL OF BUSINESS

Telephone: 020-2059162
Telegrams: "Varsity", Nairobi
Telex: 22095 Varsity

P.O. Box 30197
Nairobi, Kenya

DATE 26/11/2018

TO WHOM IT MAY CONCERN

The bearer of this letter GLADYS TEGEK
Registration No. DG1/81207/2015

is a bona fide continuing student in the Master of Business Administration (MBA) degree program in this University.

He/she is required to submit as part of his/her coursework assessment a research project report on a management problem. We would like the students to do their projects on real problems affecting firms in Kenya. We would, therefore, appreciate your assistance to enable him/her collect data in your organization.

The results of the report will be used solely for academic purposes and a copy of the same will be availed to the interviewed organizations on request.

Thank you.

UNIVERSITY OF NAIROBI
SCHOOL OF BUSINESS

20 NOV 2018

PROF. JAMES M. NJIHIA
DEAN, SCHOOL OF BUSINESS
Appendix II. Questionnaire.

Please give answers in the spaces provided and tick (✓) the box that matches your response to the question where applicable.

PART A: RESPONDENT PROFILE

1. Name of the bank……………………..

2. What is your designation in the bank……………….

3. Length of service within the organization?
   - Less than 5 years [ ]
   - 5-10 years [ ]
   - Over 10 years [ ]

4. How long has the bank been in operation?
   - Under 5 years [ ]
   - 5-10 years [ ]
   - 15-20 years [ ]
   - Over 20 years [ ]

5. Level of Education?
   - Graduate [ ]
   - Undergraduate [ ]
PART B: STRATEGY IMPLEMENTATION IN THE BANK

6. Does your organization practice strategy implementation?

Yes [ ] No [ ]

7. To what extent does strategy implementation affect performance in your organization?

Not at all [ ] Small extent [ ] Moderate extent [ ] High extent [ ] Very high extent [ ]

8. Do you think strategic implementation has enhanced employee performance in your organization?

Yes [ ] No [ ]

9. Which external environments factors have been favorable to your organization during strategy implementation process in your organization?

Key: 1 = Not at all; 2 = Small extent; 3 = Moderate extent; 4 = High extent; 5 = Very high extent.

<table>
<thead>
<tr>
<th>External environment factors</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
</tr>
</thead>
<tbody>
<tr>
<td>Political factors</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Economical factors</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Social factors</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Technological factors</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Ecological factors</td>
<td></td>
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<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Legal factors</td>
<td></td>
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<td></td>
<td></td>
</tr>
</tbody>
</table>

10. Strategy Implementation refers to the execution of the plans and strategies, so as to accomplish the long-term goals of the organization.

Please indicate to what extent your firm has achieved the following non-financial performance measures. Use the key below and TICK (✓) as appropriate
Key: 1 = Not at all; 2 = Small extent; 3 = Moderate extent; 4 = High extent; 5 = Very high extent.

<table>
<thead>
<tr>
<th>Firms performance measures</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
</tr>
</thead>
<tbody>
<tr>
<td>Customer complaints have reduced significantly in the last 3 years</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Customers are satisfied with the turnaround time for banks services such disbursement of loans</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>The bank retain its customers compared to its peers in the same industry</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>The firm conducts regular customer satisfaction surveys and receives positive feedback</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>The firm internal processes have improved significantly for the last 3 years.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>The firm is conscious of risk management.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>The firms conduct regular corporate social responsibilities (CSR)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

11. What is the banks profit growth rate for the last 3 years?

**Below 10% [ ]**

**11-30%, [ ]**

**31-60% [ ]**

**61-100% [ ]**

Thank you for your time and cooperation
Appendix III: List of Licensed Commercial Banks in Kenya

1. African Banking Corporation Limited
2. Bank of Africa Kenya Limited
3. Bank of Baroda (K) Limited
4. Bank of India
5. Barclays Bank of Kenya Limited
6. Stanbic Bank Kenya Limited
7. Charterhouse Bank Limited
8. Chase Bank (K) Limited
9. Citibank N.A Kenya
10. Commercial Bank of Africa Limited
11. Consolidated Bank of Kenya Limited
12. Cooperative Bank of Kenya Limited
13. Credit Bank Limited
15. Diamond Trust Bank Kenya Limited
16. Ecobank Kenya Limited
17. Spire Bank Ltd
18. Equity Bank Kenya Limited
19. Family Bank Limited
20. Fidelity Commercial Bank Limited
21. First Community Bank Limited
22. Guaranty Trust Bank (K) L.T.D
23. Giro Commercial Bank Limited
24. Guardian Bank Limited
25. Gulf African Bank Limited
26. Habib Bank A.G Zurich
27. Habib Bank Limited
28. Imperial Bank Limited
29. I & M Bank Limited
30. Jamii Bora Bank Limited
31. KCB Bank Kenya Limited
32. Middle East Bank (K) Limited
33. National Bank of Kenya Limited
34. NIC Bank Limited
35. M-Oriental Bank Limited
36. Paramount Bank Limited
37. Prime Bank Limited
38. Sidian Bank Limited
39. Standard Chartered Bank Kenya Limited
40. Transnational Bank Limited
41. UBA Kenya Bank Limited
42. Victoria Commercial Bank Limited

Source: CBK 2018 directory.