STRATEGY - STRUCTURE AND ORGANIZATIONAL PERFORMANCE AT OLD MUTUAL KENYA

BY

MUTAHI CHRISTINE WANJIRU

UNIVERSITY OF NAIROBI
LOWER KABETE
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DECLARATION

This research project is my original work and has not been presented for a degree in any other university

Signed.......................................   Date.10/11/2012................................

Mutahi Christine Wanjiru
D61/60204/2010

This project has been submitted for examination with my approval as the university supervisor.

Signed.......................................   Date.10/11/2012..............................

Dr. Zack B.Awino, PhD.

Senior Lecturer,

School of Business

University of Nairobi

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DEDICATION

To my parents Dr. and Mrs. Mutahi who prayed for me all along while instilling in me the value of education. To my siblings for your continued inspiration. To my husband Tim for patience, understanding and a lot of support when I undertook the course and to my mother in love, Mrs. Kajume, who spurred me to press on when I felt like giving up. To my friend Priscilla with whom we strived hard to complete the journey. To my daughter Natasha, you are the wind beneath my wing!

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ABSTRACT

Many researchers and executives have viewed fit as a key to organizational survival and high performance. Economic challenges, especially in times of globalization, force companies to adapt and react to market influences and changes; they have to optimize their procedures, and strategies to maintain their competitive advantage. Typically, the term fit refers to the ability to maintain strong connections between organizational strategy, structure and process. However, in the strategic management literature, the term itself has been used to refer to the fit of strategy to resources and capabilities, the fit of strategy with structure, the fit of strategy or structure to environment, and/or the fit of the firm to corporate strategy or structure. The study examined the fit between strategy and structure at Old Mutual Kenya and the effect of that relationship on organizational performance over a period of time. Data was collected through guided face to face interviews with selected top managers. The findings indicated that a relationship between strategy and structure did exist and that the alignment of both variables affected organizational performance. There were some lags cost of implementation, technological challenges and risk analysis on business impact. However, the study revealed that structures alone without emphasis on correct qualifications and experience are not enough to implement strategy. Organizational design therefore plays an important role in the strategy structure relationship and organizational performance. Organizations which are able to achieve a fit between strategy and structure will then have improved organizational performance hence achieving their overall objectives, while those that do not have a fit are vulnerable to competition and internal inefficiencies.

CHAPTER ONE: INTRODUCTION

1.1 Background of the study

The challenges of modern business environment and fast changing global economy demands high productivity, speed and flexibility for organizations that seek to thrive. In order to achieve the required efficiency and effectiveness, organizations must change their structure strategically. This can be achieved by retaining the best of their traditional structures while embracing radically new structures that leverage the human capital and adds value to the customers. (Pearse and Robinson, 2011)

Organizational design can be considered to be a strategic tool for executing business strategy. The management should consider it pertinent in designing structures that enable implementation of strategic goals in order to suit the demand of its market place, customers and business model. With increased competition, rapid technological advancement, shifting economic regulations and increased demand on price competitive advantage, most companies have been compelled to review their business strategies. The magnitude speed and impact of change are greater than ever before, new production processes and services have emerged. (Burnes, 2004)

Organizational structure can be a source of competitive advantage if designed in a way it competes with other organizations. Strategy structure alignment is a systematic methodology for designing these capabilities in a fully rational and informed way. Studies indicate that managers must pay close attention to structure when elaborating the strategic plans, failure to take structure into account will lead to organizational redundancy. (Chandler, 1962; Child, 1975)

The researcher will be studying the strategy and structure relationship at Old Mutual Kenya, which falls under the financial services industry with an offering in insurance, investment services, fund management services and stock brokerage services.

1.1.1 Concept of Strategy

The top management of an organization is concerned with the selection of a course of action from among different alternatives to meet the organizational objectives. The process by which objectives are formulated and achieved is known as strategic management and strategy acts as the means to achieve the objective. Strategy is the grand design or an overall 'plan' which an organization chooses in order to move or react towards the set of objectives by using its resources. Strategies most often devote a general programme of action and an implied deployed of emphasis and resources to attain comprehensive objectives. An organization is considered efficient and operationally effective if it is characterized by coordination between objectives and strategies. There has to be integration of the parts into a complete structure. Strategy helps the organization to meet its uncertain situations with due diligence. Without an appropriate strategy effectively implemented, the future is always dark and hence, more are the chances of business failure.

In management, the concept of strategy is taken in broader terms. According to Glueck, "Strategy is the unified, comprehensive and integrated plan that relates the strategic advantage of the firm to the challenges of the environment and is designed to ensure that basic objectives of the enterprise are achieved through proper implementation process"

However, various experts do not agree about the precise scope of strategy. Lack of consensus has led to two broad categories of definitions: strategy as action inclusive of objective setting and strategy as action exclusive of objective setting. In 1960's, Chandler made an attempt to define strategy as "the determination of basic long term goals and objective of an enterprise and the adoption of the courses of action and the allocation of resources necessary for carrying out these goals"

Michael Porter has defined strategy as "Creation of a unique and valued position involving a different set of activities. The company that is strategically positioned performs different activities from rivals or performs similar activities in different ways." The people who believe this version of the definition call strategy a unified, comprehensive and integrated plan relating to the strategic advantages of the firm to the challenges of the environment.

1.1.2 Organizational Structure

The structure of an organization affects what it can do well. For example, an informal organization with open communication and few controls is often very good at innovation and research. On the other hand, an organization with clear departmental boundaries, strict controls and detailed procedures for operations is often extremely effective at producing cost-effective products of high quality and reliability. An organization has to examine its structure to decide what kinds of operations it will be good at; or decide on a strategy and adapt the structure to suit the competitive strengths it needs to be successful.

One can define an organizational structure as a system of tasks, reporting relationships and communication linkages. The purpose of the organizational structure is to direct resources according to plans and schedules facilitate information flow and provide an intrinsic level of control. The arrangement of functions within an organization is important. There is also usually an evolution of structure over the history of an organization. Mintzberg (1983) describes five basic organizational structures: The simple structure with direct supervision. The 'machine bureaucracy' with standardization of work processes, The professional bureaucracy with standardization of skills, The divisionalised form with standardization of outputs and Adhocracy, with mutual adjustment of staff to one another. Traditional organization structures allow the grouping of people and jobs together into work units on the basis of the classical principle of division of labour. These work units are linked together in a coordinated manner within the larger organization.

This is the process of departmentalization which has traditionally resulted in functional, divisional and matrix structures. Organizational structures based on function allocate resources to activities which can be grouped on the basis of function, such as accounting or engineering. Organizational structures based on divisions allocate resources on the basis of broader dimensions such as location or outputs. Organizations evolving from single to multi-country operations often expand by establishing new divisions in the new location, which are usually mini-versions of the parent company.

Robbins, Waters-Marsh et al. (1994) suggest that traditional organizational structures can also be defined in terms of complexity, centralization and formalization. Complexity involves how differentiated or broken down into parts activities are within an organization. They can be differentiated horizontally, vertically or spatially. Horizontal differentiation refers to the number of different specializations and subcultures within an organization. Vertical differentiation refers to the depth of hierarchy within an organization, the layers of supervisors and managers that exist between top management and workers. Spatial differentiation refers to how physically or geographically spreads out people are within an organization.

Centralization refers to the degree to which decision making is concentrated at one point in the organization. Formalization refers to what Stoner et al. (1985) call standardization which means the degree to which jobs have been routinised and prescribed. One such innovation is network structures which operate with a central core that is linked through networks of relationships with outside contractors and suppliers of essential services. In recent times, the internet has contributed substantially to establishing network structures, which are sometimes referred to as virtual organizations. A structure that might be considered a variation on a network structure is what Mintzberg (1983) called an adhocracy—the term being a combination of ad hoc to indicate reactive behaviour and bureaucracy to indicate structure. Adhocracies come into being when people agree to work together for the duration of a specific project.

1.1.3 Fit between Strategy and Structure

The extent to which the activities of a single organization or of organizations working in partnership complement each other in such a way as to contribute to competitive advantage. The benefits of good strategic fit include cost reduction, due to economies of scale, and the transfer of knowledge and skills.

The success of a merger, joint venture, or strategic alliance may be affected by the degree of strategic fit between the organizations involved. Similarly, the strategic fit of one organization with another is often a factor in decisions about acquisitions, mergers, diversification, or divestment. Strategic fit exists when value chain of different business are related. When these different value chains allow transferring skills and expertise from one business to other, and their combined performances work to reduce cost.

Strategy primarily refers to the roadmap laid out by an organization. The principal objective of strategy is to ensure that an organization achieves the set targets in order to sustain and grow in an increasingly competitive world. On the other hand, a structure is the manner in which the internal resources of a company get connected with each other. More specifically, structure is concerned with different groups that can be formed within an organization. For example, an organization having a functional structure will operate through the different functions such as marketing, finance, and manufacturing. Strategy is the main driver that decides the structure an organization.

In case the structure of a company is not synchronized with its strategy, then the company may not be able to achieve the set targets. For example, a company with a diversified product portfolio and has a functional structure (organized as per various functions such as marketing, finance and operations) will not be able to compete effectively in each of the product categories. As a result, the company may start losing the market share of its products. Evidently, structure plays a critical role in the accomplishment of an organization's overall strategy. Another notable aspect is that both strategy and structure need to be continuously inter-linked in order to achieve desired results.

1.1.4 Financial Services Industry

In Kenya, the financial services industry comprises of six major sectors namely: Banking and Finance, Investments, General Financial Services, Insurance Agencies and Broking, Stock broking and Development Corporations. There exists numerous interlinks between the sectors, with many institutions offering services in two or more sectors. Banks will have insurance brokerage units, stock brokerage departments and investment services.

In other cases, the holding company for the particular institution may be a development corporation. This acts as a parent company with subsidiaries in various sectors such as a microfinance institution, a stock brokerage, an insurance brokerage and several others. This leads a thin line in determining which sector a group of companies may fall in.

1.1.5 Old Mutual Kenya Group

Old Mutual was founded in 1845 in South Africa through the formation of the 166-member Mutual Life Association of Cape of Good Hope, with no initial capital other than the premiums of its first policyholders. Old Mutual Plc remains a strong brand, well capitalized and operates worldwide in over 33 countries employing over 55,000 people in insurance, asset management and banking. The focus for Old Mutual Plc continues being on capital and liquidity management, streamlining the portfolios of the businesses, growing the long term insurance and saving business, driving operational efficiencies and growing the African businesses.

Old Mutual operations started in Kenya in the late 1920's and were directed from Salisbury (now known as Harare) until 1930, when a branch was established in Nairobi. Old Mutual acquired BarclayTrust Investment Services Limited and changed its name to Old Mutual Asset Managers (Kenya) Limited. Old Mutual Kenya is 100% owned by Old Mutual Plc. Old Mutual Kenya in turn owns 100% of Old Mutual Asset Managers (OMAM) Kenya. Old Mutual Kenya operates under four segregated companies namely: Old Mutual Asset Managers (OMAM) Kenya Limited, Old Mutual Life Assurance Company (OMLAC) Limited, Old Mutual Investment Services (OMIS) Limited and Old Mutual Securities Limited

1.2 Research Problem

Various studies have drawn attention to the relationship between strategy and structure with no firm basis emerging to settle the issue of causal direction or to affirm their relationship's effects on organizational performance. The importance of fitting a company's structure to its strategy was initially highlighted by Chandler (1962). Chandler investigated several organizations and found that in most successful industrial organizations, strategy leads to the performance only through diversified structure, the multidivisional form.

Old Mutual has undergone numerous changes since inception including strategic, structural, operational and technological among others. Among the major changes, has been the turnaround strategy which affected operational and technological areas in order to improve efficiency and effectiveness. The turnaround strategy brought about changes which included technological upgrades of the IT systems, regional expansion increasing the company's branch network, an intensive brand campaign to increase awareness about company.

Strategy structure fit has been a major topic of research in management and organizational analysis. Aosa (1992) concluded that strategy and structure are in a reciprocating relationship. He further noted that there are certain characteristics of this relationship that are peculiar to organizations in Africa. Ciano (2006) studied strategy structure relationship in KPLC and found out that indeed there was a relationship despite the lag between the two variables. Muthoka (2008) reviewed strategy structure relationship in multinational banks operating in Kenya.

Ogollah and Awino (2009) looked at the broader configuration of structure, strategy, environment and performance. Thagana (2010) studied the strategy structure and performance across processing companies operating in the metropolitan area. Otieno (2011) studied the strategy-structure alignment at KCB and concluded that sometimes changes in strategies do not have any impact in structure especially when it does not involve major alteration in business processes and functions.

Corporate strategies and structure have been analyzed as major variables to influence corporate performance in management and organizational studies. However, their relationships in terms of which variables are leaders and followers, as well as choices of variables to configure them are controversial. It is against this background that the researcher has sought to study the relationship between strategy and structure and its effect on performance at Old Mutual Kenya to try and fill the void in the knowledge gap. The study will be guided by the question, "does strategy and structure fit always affect organizational performance?"

1.3 Research Objectives

The researcher aims to:

(i) Determine the relationship that exists between strategy and structure at Old Mutual Kenya.

(ii) Identify how strategy and structure relationship affects performance at Old Mutual Kenya.

1.4 Value of the Study

To identify structure strategy fit process hence management will gain better understanding of the strategies adopted and relevance of structure in supporting those strategies. They will also build a more elaborate relationship/structure in order to achieve the organizational objectives. Management will also be informed of longterm strategic plans and how the structure will sustain the strategies to maximize performance.

The study will assist researchers to find out whether strategy structure relationship affects performance of organizations. They can further use the findings to identify factors affecting the strategy structure fit as well as other variables.

The study is also aimed at assisting the policymakers in the government in formulation and legislation of relevant policies in assisting firms modify and realign their strategy structure linkages for better fit.

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CHAPTER TWO: LITERATURE REVIEW

2.1 Introduction

This chapter focuses on the information from other researchers who have carried out their research in the same field of study. Areas covered include strategy, organizational structure and design, concept of fit within the strategy structure framework and the effect of that relationship to organizational performance.

2.2 Concept of Strategy

A strategy is a plan for interacting with the competitive environment to achieve organizational goals. Generally, organizational science researchers do not consider goals and strategies to be interchangeable. Instead, a goal defines where the organization wants to go, and strategy defines how the organization will get there (Chaffee, 1985; Mintzberg, 1978). Researchers have developed classifications called typologies to provide operational definitions of business-level strategy. Two widely used typologies are Porter’s (1980) Generic Strategies and the Miles and Snow (1978) Typology.

Porter (1980) conceptualized that organizations cope with competitive forces by using certain generic strategic approaches to outperform other firms. Porter (1980) designated these strategic approaches as three generic strategies: (1) overall cost leadership; (2) differentiation; and (3) focus. According to Porter (1980), no organization can successfully perform at an above-average level by trying to be all things to all people.
Porter (1980) proposes that management must select a strategy that will allow an organization to attain a competitive advantage.

The strategy that management chooses depends on the organization's strengths and its competitor's weaknesses. When an organization sets out to be the low-cost producer in its industry, it is following a cost-leadership strategy. Organizations can achieve a cost advantage by efficiency in operations, economies of scale, technological innovation, low-cost labor, or preferential access to raw materials. An organization that seeks to be unique in its industry in ways that are widely valued by buyers is following a differentiation strategy. It might emphasize high quality, extraordinary service, innovative design, technological capability, or an unusually positive brand image. The key is that the attribute chosen must be different from those offered by rivals and significant enough to justify a price premium that exceeds the cost of differentiating. Porter's (1980) first two generic strategies (overall cost leadership and differentiation) seek to achieve a competitive advantage in a broad range of industry segments.

The focus strategy aims at either a cost advantage (cost focus) or differentiation advantage (differentiation focus) in a narrow segment. Thus, management will select a segment or group or segments in an industry (such as product variety, type of end buyer, distribution channel, or geographical location of buyers) and tailor a strategy to serve them at the exclusion of others. The goal is to exploit a narrow segment of a market. Research suggests that a focus strategy may be the most potent for a small business firm. This is because a small business does not have the economies of scale or internal resources to successfully pursue one of the other two strategies (Zahra, 1993).

The Miles and Snow (1978) typology is based on three premises. The first is that over a period of time successful organizations develop a systematic, identifiable approach to environmental adaptation as they focus on three types of problems: (1) an entrepreneurial problem that deals with the definition of market-product domain; (2) an engineering problem involving the organization's technical problem; and (3) an administrative problem arising from structure and process issues. The second premise is that four identifiable strategic orientations exist within an industry: Defenders, Prospectors, Analyzers, and Reactors. According to Miles and Snow (1978), Defenders emphasize a narrow domain by controlling secure niches in their industries. They engage in little or no product/market development and stress efficiency of operations. Prospectors constitute the other end of the continuum; they constantly seek new opportunities and stress product development. Analyzers exhibit characteristics of both Defenders and Prospectors.

Finally, Reactors do not follow a conscious strategy and are viewed as a dysfunctional organizational type. The third premise of the Miles and Snow (1978) typology is that the Defender, Analyzer, and Prospector strategies, if properly implemented, can lead to effective performance. Much depends on the internal consistency among the three elements of the adaptive cycle. Each type emphasizes different functions to produce a set of sustainable, distinctive competencies. The Reactors lack a coherent strategy.

Therefore, the Miles and Snow (1978) typology proposes that Defenders, Analyzers, and Prospectors will outperform the non-adaptive Reactors. A number of researchers state their preference for using Miles and Snow's strategy types because it is the only typology that characterizes an organization as a complete system and it provides a useful format for studying successful implementation of different strategies (Conant, Mokwa & Varadarjan, 1990; Croteau & Bergeron, 2001; Hrebiniak & Snow, 1980; Lengnick-Hall, 1992; McDaniel & Kolari, 1987; Zahra & Pearce, 1990).

2.3 Organizational Structure and Design

Organizational structure has been defined and classified in a number of ways in the literature. A very simple way of describing organizational structure differentiates between organizations on the dimension of centralization or decentralization (Ghoshal et al., 1994). A second approach categorizes multinational corporations into "pure" structures, including worldwide functional, international division, worldwide product division, geographic region, and matrix. The differences in these types lie primarily in the relationship of a foreign operation to the corporate head office (Habib and Victor, 1991). Another scheme classifies organizational structure into functional, project, and matrix categories. A fourth approach is the mechanistic organic continuum of structures (Burns and Stalker, 1961). Each of these methods in some way differentiates organizations in terms of how tasks are allocated among organizational units and how decision-making authority is specified.

The structure of an organization has historically revolved around multiple issues, including bureaucracy, size, centralization, and technology. Complexity is the term that tends to sum up the structural differences among organizations. The complexity of an organization encompasses labor division, hierarchical levels, processes, and communication patterns and has been acknowledged as having a significant influence on the understanding of structural conditions, internal processes, and external relationships of organizations (Aldrich, 1999; Hall, 1999). Complexity encompasses many subparts of an organization and therefore requires examination of several components simultaneously. However, despite the multidimensionality and difficulty with organizational complexity as a concept, it does convey a simple image as it pertains to coordination, cooperation and control. In other words, as the complexity of an organization increases, the ability to coordinate, influence cooperation, and/or maintain control of independent organizational components becomes increasingly difficult.

Organizational complexity has been typically viewed in terms of expansiveness. Expansiveness is defined here as the size and scale of the organization in terms of employees, buildings, types of organizations, and geographic locations. It basically represents the level of tangible resources available to the focal organization or its personnel and physical capacity. This concept differs from the typical conceptualization of size in that it not only includes size according to the number of persons within the organization or the market share of the firm, but also other aspects like physical space, availability of discretionary resources, and input and output factors (Kimberly, 1976).

Size, in many forms, has been a long-term element of study in organizations (Hofer, 1975; Kimberly, 1976) and has been largely used as a proxy for complexity, formalization, or centralization (Hall, 1999). Advantages of having both large and small size have been shown. Large size allows for economies of scale, increased brand recognition, and market power (Hambrick, MacMillan, & Day, 1982), while small size is typically seen as being equated with greater flexible, increased speed, and a higher risk-taking propensity (Chen & Hambrick, 1995; Fiegenbaum & Karnani, 1991; Hitt, Hoskisson, & Harrison, 1991). The success of a firm therefore lies not in the size of the firm but in how and where the organization competes. In other words, different strategies are required for less expansive organizations to compete with more expansive organizations, given a particular industry (Woo & Cooper, 1981).

Although structural complexity has historically been studied in terms of actual physical structures and processes, the modern age has ushered in a new era where virtual structures can be just as important and complex as physical structures. While the level of expansiveness is primarily concerned with the physical and quantifiable, inter-organizational relationships (IORs) are more focused on the organizational structure that extends beyond the focal organizations. Two primary factors impact whether or not a IOR arrangement is going to be a success or failure. First, the type of relationship must be considered; different forms of IORs exist and make a distinct difference on how goals are achieved. The second factor is the number of relationships the organization is involved in. It takes much more time and resources to manage multiple relationships than just one or two. (Oliver, 1991).

Further, as the number increases, the likelihood that some of the focal organization's stakeholders will have conflicting interests also increases. This argument assumes that organizations make decisions based partially on which IORs to become involved with and that relationships are developed at multiple levels differing in both the degree of relationship sophistication (, relationship type) and the number of organizations involved. This structural element is termed "level of linkages" and primarily refers to the number and/or tightness of IORs in which the focal organization is involved. There are numerous types of integrative IORs that follow both tight and loose coupling including formal contracts, alliances, joint ventures, acquisitions, and mergers. The degree to which organizations are involved with these many types of IORs demonstrates the overall "virtual" structure of the organization. (Barringer & Harrison, 2000)

2.4 Strategy and Structure Fit

Burton and Obel (1998), and Baligh, et al (1996) developed a multidimensional contingency approach that relates organizational size, climate, strategy, technology, environment, and leadership preferences to organizational structure and design to assure an efficient, effective and viable organization. It is a systems model, which incorporates a simultaneous multidimensional concept of fit as discussed by Drazin and Van de Ven (1985). The basis for the model is an information processing perspective (Galbraith, 1973, 1974, Arrow, 1974, Tushman,1988) where the organization is designed so that the information processing demands are aligned with the information processing capacity of the organization.

Burton and Obel (1998, p, 15 – 18) develop four types of fit: Situational Fit, Contingency Fit, Design Parameter Fit, and Total Fit. Situational fit requires that the design situation or factors are congruent. Basically, this states that the firm's environmental, technological, strategic, and management situations are aligned.

Contingency fit is the traditional fit notion among the multiple variables in the organizational design and a set of contingency factors. Design parameter fit is the internal consistency among the structural dimensions. a non-formalized structure fits with a results based incentive system. Total fit is simultaneous realization of these three fit criteria and obtains if no misfit exists, (Burton and Obel, 1998). Miller (1992) discussing external vs. internal fit argues that it may be difficult concurrently to obtain the different kinds of fit and a sequential approach may be needed to obtain total design fit. This may include "periodical disrupting the harmony" to adjust to changes in the situation while more generally "striving for harmonious alignment".

"Fit" has generally been invoked with respect to the relationship between strategy and structure (Galbraith, 1977; Galbraith and Kazanjian, 1986; Miles and Snow, 1984). The basic idea is that strategy and structure should be consistent. The implication of the fit paradigm is that there are certain combinations of strategy or structure variables that are more "appropriate". A strategy-structure fit implies that certain forms of structure are better for implementing certain forms of strategies than others.

Fit can also be thought of as a process of aligning the organization with its environment, where strategy is the alignment mechanism. Moreover, a firm that exhibits a fit between its strategy and structure can be expected to perform better than a firm that does not exhibit a strategy-structure fit (Miles and Snow, 1984). It is interesting to note that this expectation of greater performance under “fit” conditions appears to be an implicit assumption; consequently, performance is often excluded from models in a good deal of the research in this area (Parthasarthy and Sethi, 1992).

Venkatraman and Camillus (1984) and Drazin and van deVen (1985) indicated it originally appeared in contingency theory studies, which assume, “[. . .] that context and structure must somehow fit together if the organization is to perform well” (Drazin and van de Ven, 1985, p. 514). Conceptualizing fit is not straightforward as fit refers to matching (Venkatraman and Camillus, 1984) or consistency (Doty et al., 1993) among aspects of context and organization. Miller (1992) distinguished between external (“environmental”) fit linking environment to structure, and “internal” fit linking structure to processes.

The strategy literature generally discusses fit between a firm’s strategy and the environment in which it operates (Lawless & Finch, 1989; Lukas, Tan, & Hult, 2001), while organizational theory literature considers organizational form and fit (Burns & Stalker, 1961). Strategy–environment fit and structure–environment fit have shown to have individual effects on performance, with the presence of both being optimal. Thus, from a contingency theory approach, it is argued that the impact of strategy on performance varies across different levels or types of structure in a given environment.

Internal fit, conversely, involves organizational structure, systems, people, and culture, which can be important determinants of organizational success given their appropriate recognition, use, and sustainability (Barney, 1991). These components of an organization should fit with the strategy if high competitive advantage is to be achieved. The basic premise is that structural components of an organization must fit with strategic components and the tighter the fit, the greater the synergy and subsequent performance. From this standpoint, fit is a relationship between two or more independent variables of strategy and/or structure.

2.5 Effects of Strategy Structure Fit on Organizational Performance

Two sets of pervasive arguments exist among contingency theorists with respect to how fit affects performance. One such argument suggests that a one-best strategy-structure arrangement exists to fit a given industry environment (Dill, 1958; Hage & Aiken, 1970; Lawrence & Lorsch, 1969; Lorsch & Morse, 1974). The other argument is that organizational effectiveness results in fitting certain characteristics to contingencies that reflect the situation of the organization (Burns & Stalker, 1961; Galbraith, 1973; Pugh et al., 1969). These contingencies include the environment (Burns & Stalker, 1961), organizational size (Child, 1975), and strategy (Ansoff, 1988; Chandler, 1962; Datta, 1991; Seth, 1990).

Many strategy studies found significant business performance relationships with both external and internal fit (Venkatraman and Prescott, 1990; Powell, 1992; Naman and Slevin, 1993; Yin and Zajac, 2004; Olson et al., 2005). However, Habib and Victor (1991) and Barth (2003) found no definite support to hypotheses that firms with higher strategy-structure fit outperformed firms with lower strategy-structure fit. They both suggested that capabilities such as experience and change ability might lead to financial or business performance benefits that were higher than the benefits achieved by simply adhering to theoretical profiles of strategy and organization.

Another group of researchers have conceptualized that fit occurs with the organization's external environment as the driving force and that managers seek to align and integrate their internal processes with the organization's external domain (Covin&Slevin, 1991; Govindarajan, 1988; Naman&Slevin, 1993;Venkatraman, 1989; Venkatraman & Prescott, 1990) to maintain or improve effectiveness. An overriding premise from these perspectives of fit is that certain moderating factors may affect an optimal strategy-structure match and that organizations with a certain strategy-structure configuration may have a higher or lower performance than do other organizations with similar strategy-structure configurations (Dess, Lumpkin & Covin, 1997; Dess et al., 1995; Langnick-Hall, 1992).

CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Introduction

This chapter describes the research design and data collection methods as well as the techniques for data analysis that were used. Being a case study design, the data used was qualitative and content analysis was preferred due to the use of probing to enable the research to gain an in depth analysis of the subject.

3.2 Research Design

The research design was a case study. A case study allowed for in depth investigation and stresses contextual analysis of fewer events or coordination and their interrelationship. It generated new understandings, explanations or hypotheses. Case studies involve collecting empirical data from a small number of cases.

A case study was appropriate as it involves a careful and complete observation of a social unit: a person, institution, family, cultural group or entire community and emphasizes depth rather than breadth of study (Kothari, 1990). The researcher believed that a narrower focus would achieve greater depth thereby providing an in-depth understanding of the strategy structure relationship.

3.3 Data Collection

Qualitative data was used in this study and was collected mainly through the use of interview guide, hence primary data. The methodology involved a face to face interview guide to gather data from selected top managers. The managers interviewed included the Commercial Director, the Human Resources Manager and the Head of Distribution.

Face to face interview enabled probing where necessary, and thus increased the response rate. It contained both closed and open ended questions. Secondary data was extracted from the company profile, financial statements as well as from the periodic bulletins.

3.4 Data Analysis

The study used content analysis technique to analyze the data. This technique entailed use a set of categorization for making valid and replicable inferences from data to their context, (Baulcomb, 2003). According to Mugenda and Mugenda (1999), content analysis involves in depth probing of objects, items or things that comprise the study. Holsti (1969) offers a broad definition of content analysis as any technique for making inferences by objectively and systematically identifying specified characteristics of messages. In this case the researcher analyzed the presence, meanings and relationships of such words and concepts, then made inferences about the messages and even the culture and time of which these are a part.

Qualitative content analysis is an approach to documents that emphasizes the role of the researcher in the construction of the meaning of and in texts. There is an emphasis on allowing categories to emerge out of data and on recognizing the significance for understanding the meaning of the context in which an item being analyzed (and the categories derived from it) appeared (Bryman, 2004).

CHAPTER FOUR: DATA ANALYSIS AND INTERPRETATION OF RESULTS

4.1 Introduction

The chapter summarizes the data findings together with their interpretation. It looks at the changes in strategy and structure together with other mediating factors within a period of study and thereafter examines if indeed there was any relationship between strategy – structure and the organization performance.

4.2 Changes in Strategy

Old Mutual Kenya is a wholly owned subsidiary of Old Mutual plc, an international financial services company, with expanding operations in life assurance, asset management, banking and general insurance. Old Mutual operations started in Kenya in the late 1920's and were directed from Salisbury until 1930, when a branch was established in Nairobi.

Major reforms have taken place in the organization over the years, with the key highlights being in the last decade. These reforms have had direct impact on business operations and processes. Some non-core activities were outsourced and existing roles restructured. New subsidiaries were acquired and a countrywide branch expansion undertaken.

In December 1968, Kenya's Minister of Finance, Mr. James Gichuru, revealed that Old Mutual was investing approximately Pounds 800, 000 a year in Kenya. In 1973, the Government of Kenya changed the country's income legislation.

With effect from 1 January 1974, it abolished the substantial tax concessions on retirement annuity premiums, reduced the tax concessions on life assurance premiums and increased the taxation by non-domestic life offices. This made life assurance operations for non-domestic companies in Kenya unattractive hence ceasing writing New Business, and became a closed fund.

A Strategic decision was taken to open Old Mutual offices in Kenya again. The Life Assurance Company opened its doors to New Business in 1995 and dynamic growth was witnessed year on year thereafter. Old Mutual Investment Services (Kenya Limited) was then formed in 1997. Old Mutual Asset Managers (OMAM) was established in 1997 and started operations in April 1998 specializing in fund management of institutional assets. In December 2002, OMAM acquired the Investment Services arm of Barclays Kenya, significantly increasing market presence in the industry. This made Old Mutual the largest private Asset management company in Kenya with 30 billion assets under management.

In 2009, Old Mutual embarked on a turnaround strategy to position for long term growth and profitability by expanding distribution channels, launching new innovative products and stabilizing existing operations. This followed a major shift in the organization due to operational inefficiencies, regulatory challenges as well as technological inefficiencies. The turnaround strategy included stabilizing and streamlining the existing operations, expanding the branch network and a brand campaign to conclude the process.

The main area of concern was turning around the company from loss making to profitability while maintaining client focus. The vision of the company being *"To become our customers' most trusted savings and wealth management partner in East Africa"* whose delivery was now being threatened by the growing public concern due to poor financial performance, operational inefficiency and ineffectiveness. The key pillars to deliver the strategy of "*building a long term savings, protection and investment group in East Africa by leveraging on our capabilities in the Global group. We will focus, drive and optimize our businesses to enhance the value for customers and shareholders.*

New objectives were needed to ensure that random forces do not determine the organization direction and progress and hence they formed the basis for the implementation of strategies. These objectives included: Deliver against the turnaround plan, Develop the customer proposition and experience, Expand the national & regional reach to access clients, Develop a culture of excellence with people and Deliver shareholder value and extract value from an East Africa growth story.

The vision and mission have changed slightly over the years though the key emphasis remains on growth. The current vision is "*To be our Customers' most trusted partner-passionate about helping them achieve their lifetime financial goals*". This is because the company has realized that the business environment is changing with the consumer becoming more aware of their choices and inorder to move forward and remain relevant while achieving its objectives, new strategies have to be adopted guided by the new vision.

The turnaround strategy saw the acquisition of a new retail IT platform which was implemented in the second half of 2011. This greatly assisted in streamlining operations whilst increasing efficiency and redefining the customer experience. Expansion of the distribution channels was also undertaken during this period and it saw the company open 11 new branches throughout the country as well as getting into a working relationship with Posta Corporation of Kenya to use the post offices as satellite branches. This was done because the earlier focus of the organization (before 2007) was largely on the upper income market thus realization that as the Kenyan economy continues to grow, there was potential in the middle income segment. The company then undertook right sizing by employing new talents and redeploying other staff. This was particularly important to ensure that appropriate advice is given to clients while achieving sales efficiencies. This also meant hiring new advisors and training them on selling the brands and the promise of a better future. The brand campaign also took place at the same time inorder to restore the public confidence.

In line with the growth strategy, in 2010 Old Mutual acquired a controlling stake at Reliable Securities Services which was renamed to Old Mutual Securities. Old Mutual has continued to be at forefront with new product innovations to keep the customer satisfied with the offering. The latest innovation in July 2012 was the launch of the first ever mobile phone linked investment platform dubbed “i-INVEST”. According to Old Mutual Kenya’s Managing Director, Tavaziva Madzinga, i-INVEST is part of Old Mutual’s strategic direction to venture into new, innovative and exciting products for our client base. It offers customers the opportunity to operate a Unit Trust account from the convenience of their mobile phones making it the first ‘paperless’ unit trust product.

Mr Madzinga added that i-INVEST acts as a substantial value-add to their client network as it will help in the growth and penetration of investment services through a new delivery channel, the mobile phone. According to him, this further shows Old Mutual Kenya's commitment to making a difference in the lives of Kenyans by helping them achieve their financial goals through more accessible investments.

Strategic change can be incremental or radical, where implementing small incremental change is relatively simple. Radical strategic change is however more complex and challenging since it involves major shifting from the past. This was experienced while implementing the new retail IT platform which required massive resources in terms of shareholder capital injection, managing live client data as well workforce rightsizing as a result of the efficiencies brought about by the system.

Communicating the changes to staff during such radical changes is important as it affects the implementation process. When corporate objectives and strategies are clearly understood by managers and staff, it translates to a smoother implementation phase. According to Janet Thuo, the Human Resource Business Partner at Old Mutual, changes are communicated to staff through induction training for new staff, informal staff meetings with top management, internal communications department which does email bulletins to staff on a weekly basis. Other means of communicating changes include the staff newsletters and through business unit heads.

4.3 Changes in Structure

Old Mutual Kenya organizational structure is mapped to the global structure. However, some roles are unique to the Kenya market and thereby it allows for flexibility. The structure mainly changed during the turnaround strategy due to the challenges necessitating the turnaround. The key shifts in the business environment included regulatory challenges, technology, need for growth, and business expansion among others. The initial structure was lean and specific to each subsidiary company largely informed by span of control and centralization. This meant that a lot of emphasis was on tasks and functions with less customer service and processes. It also resulted in a lot of duplication of roles, silo mentality with some managers seeking to create little empires of their own, which translated into the customer getting confused.

During the turnaround phase, new appointees were hired at the group executive level to provide the much needed skills and to strengthen the executive team while continuously strengthening the middle management for succession planning. This also entailed implementing performance management as well as talent management aligned to the Old Mutual Group practices and international best practice.

The current structure adopted in 2010 is customer centric embedded to ensure that the client requirements were addressed in a structured and holistic manner while creating operational efficiencies. This means the client does not see the various subsidiary companies but they see Old Mutual solutions. The structure has client facing personnel which include the financial advisors, relationship managers, business development managers, customer solutions, marketing and public relations departments.

The client facing personnel then represents the Old Mutual Solutions as a whole which include long term savings and insurance, unit trusts, asset management and stock brokerage. At the back office is the service delivery team which includes Information Technology and Operations. Finally the shared services include Human Resources, Finance and Actuarial, Legal and Risk services.

4.4 Relationship between Strategy and Structure and effect on organizational performance

Prior to 2008, the organizational structure was greatly influenced by traditions with a lot emphasis on tasks and functions. The influence of strategy on structure was viewed to be minimal prior to 2008 given the differences among the business managers then. Strategic change was therefore not addressed and hence made the organization have a mechanistic structure which neglected the customer and ignored the changing business environment.

Old Mutual Kenya has successfully initiated a turnaround business strategy to position for long-term growth and profitability by expanding distribution channels, launching new innovative products and stabilizing existing operations. In 2010 the company realized an improvement in its revenues through new client acquisition, a sign that indicated some positive result from the turnaround strategy. In 2011, the company recorded a 40 per cent business growth in 2011, defying a volatile environment marked by high interest rates, high inflation and a decline in the stock markets.

The improvement in results was attributed mainly to an extension in Old Mutual's distribution network and strategic partnership with the Postal Corporation of Kenya (PCK). Growth has been experienced in the business written in the life assurance company as well as the number of customers. The funds under management in the asset management company have also grown over the last 3 years, with profitability improving in the last two years.

Technology was identified as one of the major factors that influenced strategy structure relationship and effect on organizational performance. The relationship between ICT and strategy is important in addressing how information processing capability has been coopted into business to improve its competitive advantage and the customer experience. Flatter structures have emerged as a result of technology that have reduced processing time and improved system efficiency. The current cloud computing system has minimized operational costs and improved turnaround time while ensuring proper control. These efficiencies in turn result to improved profitability and delivery of the organizational objectives.

Organizational culture can also influence the alignment process where it is a strength if it rhymes with the strategy but can also delay implementation if it a bad culture. The 3 year turnaround strategy from 2008 had a lot of emphasis on improving the customer experience. Culture change is a long process of changing behavior and values, structure and systems, and is unlikely to deliver changes in strategy if used alone. Key changes should be linked to the company vision and mission as well as the organizational values.

Old Mutual's values include Integrity, Accountability, Respect and Pushing beyond Boundaries. There exists a code of ethics within which all employees must operate, failure to which they can lose their employment. The organization also has key pillars which include: Passionate about customers, exceptional at delivery and responsibility to stakeholders. Implementing strategy and structural adjustments requires sensitivity to the interaction between changes necessary to implement the new strategy or structure and the fit between these changes and organizational culture.

4.5 Discussions

The study sought to determine relationship between strategy and structure and effect on organizational performance. Organizational restructuring has been ongoing at Old Mutual since 2008. The restructure was in line with the turnaround strategy which aimed to position for long-term growth and profitability by expanding distribution channels, launching new innovative products and stabilising existing operations. It therefore appears that strategy in this case influences structure and the relationship further affects organizational performance as evidenced in the growth of business in 2011.

Strategic position is however concerned with the impact of strategy of other mediating factors including internal and external resources, competencies and expectations of stakeholders. Mckinsey 7's framework states that strategy implementation is normally accomplished by modifying the following: resource allocations, structure, system, skills, culture, staff and processes.

Environmental turbulence and their impact on organization together with available resources and competencies determine competitive advantage which can be utilized to minimize the effects of internal weaknesses and external threats. It is the responsibility of the management to identify key companies and strategies and allocate resources in order to leverage on competitive advantage.

Contingency theory is emerging as an important organizing concept in organizational research including strategic management. This concept's relevance to strategic management research stems from a view that strategy concept relates to the efficient alignment of organizational resources and capabilities with environmental opportunities and threats (Andrews, 1980; Bourgeois, 1980; Schendel and Hofer, 1979). It is therefore widely accepted that organization success depends on the fit between structure and strategy with other mediating factors also coming in.

CHAPTER FIVE: SUMMARY, CONCLUSION AND RECOMMENDATION

5.1 Introduction

This chapter summarizes the findings of the study discussed in the previous section. It also provides a conclusive overview on the relationship between strategy and structure based on the study. In this chapter, issues that have constrained the study are analyzed and suggestions are presented for further studies.

5.2 Summary and findings

The study revealed the relationship between strategy and structure and effect on organizational performance. Old Mutual has grown over the last 10 years to be a market leader in the financial industry offering the customer a one stop shop experience for long term savings and investment solutions. It has grown from task and function based organization to strategy driven business entity. It has effectively reviewed operating systems and the number of employees to reduce operational costs and increase efficiency and profitability. The main strategy has been growth with a customer focus and this has been directed towards product innovation, market share growth, new markets and technology. This is in spite the stiff competition towards low cost products, mass market and technological efficiency. The company has adopted incremental changes in the structure to match its changing strategies.

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There are some forms of structures that do not support business strategies and therefore it is important to have structures that are consistent with strategies being implemented. The current structure is designed to improve the customer experience and maximize value from the customers through improved product quality, shortened processes and a one stop shop for excellent services. It also ensures efficient distribution of all the organization's solutions by having a client facing team as opposed to each function having its own teams. This structure has also enabled growth across the organization by allowing for cross selling among the clients given the sales team sells all the product ranges. This has also eliminated confusion among the clients, as they see only one brand, Old Mutual instead of the numerous products from the various associated companies.

5.3 Conclusions

The study revealed that indeed there is a relationship between strategy and structure at Old Mutual and that the relationship affects organizational performance. There are slight lags though mainly from cost of implementation, technological challenges and risk analysis on business impact. However, structures alone without emphasis on correct qualifications and experience are not enough to implement strategy. Organizational design therefore plays an important role in the strategy structure relationship and organizational performance.

With the competitive business environment, growing consumer awareness and improved knowledge and information process, there is more uncertainty than ever. Therefore organizations should build flexibility into the strategy process, with initiatives from which best choices shall be made adaptable to the new environment.

5.4 Limitations of the study

The major limitation was to obtain the main players in the transformation process due to some having left the organization. This may have affected the nature and quality of the responses as well as taking caution due to the company's confidentiality clauses.

The study was restricted to Old Mutual Kenya. Being just one organization, the study may have been limited in scope which hindered in depth interrogation of the impact of mediating factors in the alignment process.

5.5 Recommendation for further research

The study could be conducted in other financial institutions to test their strategy structure fit alignment and effect on organizational performance given their external and internal environment. Culture and technology have also emerged as crucial determinants of the alignment and would thus form a basis a finer study to analyze their impact on the strategy structure relationship.

A further study on organizational design and the fitness of strategy and structure could also be analyzed to explore further the effects it has on the strategy structure relationship within organizations.

5.6 Implication of the study on Policy, Theory and Practice

Findings of the study indicate it would be helpful if the regulators could formulate legislation of relevant policies in assisting firms in specific industries like financial services modify and realign their strategy structure linkages for better fit.

Environmental turbulence and their impact on organization together with available resources and competencies determine competitive advantage which can be utilized to minimize the effects of internal weaknesses and external threats. It is the responsibility of the management to identify key companies and strategies and allocate resources in order to leverage on competitive advantage.

The study further revealed that structures alone without emphasis on correct qualifications and experience are not enough to implement strategy. Organizational design therefore plays an important role in the strategy structure relationship and organizational performance. Organizations which are able to achieve a fit between strategy and structure will then have improved organizational performance hence achieving their overall objectives, while those that do not have a fit are vulnerable to competition and internal inefficiencies.

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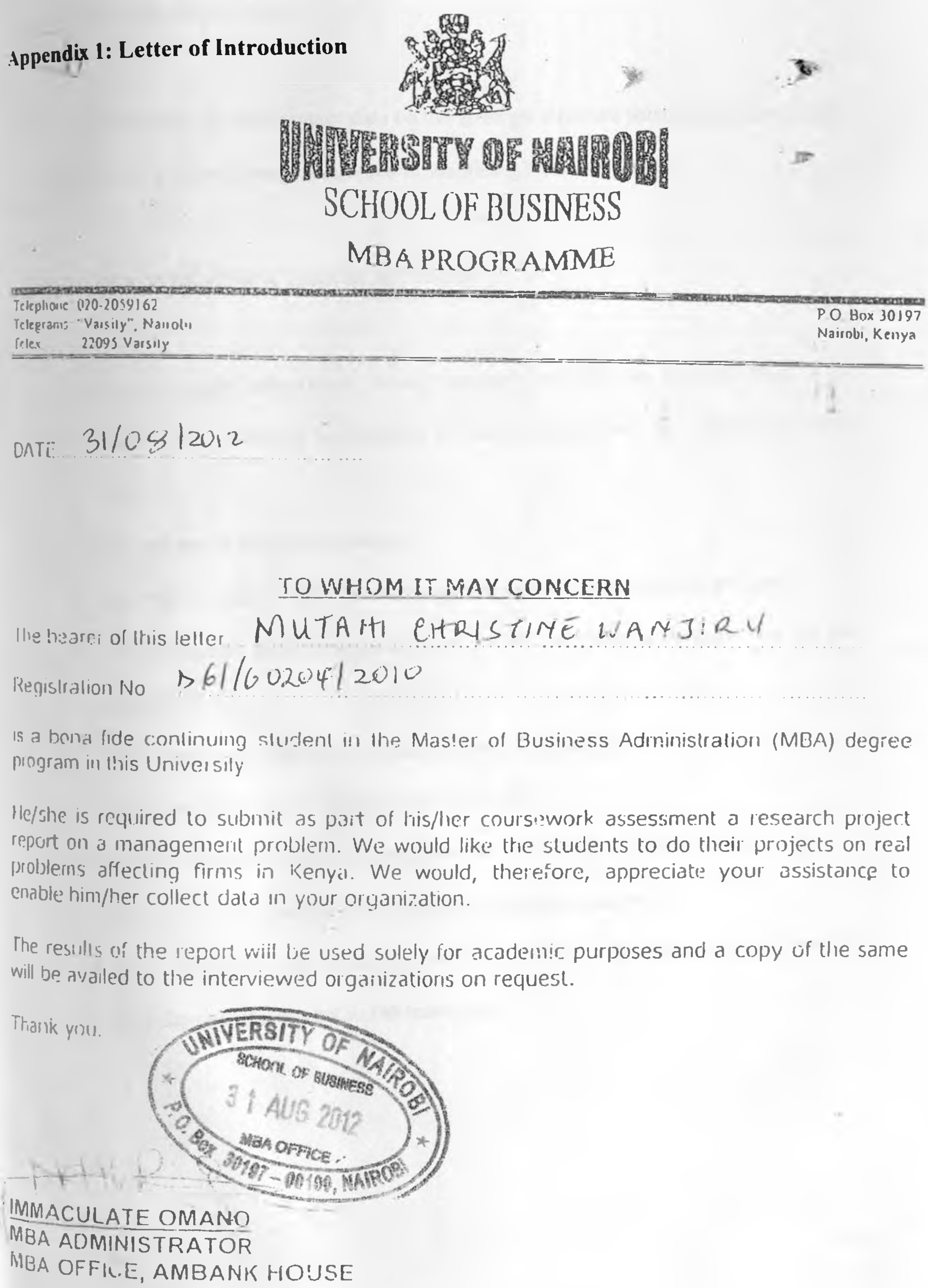
APPENDICES

Appendix 1: Letter of Introduction



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MBA PROGRAMME

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

P.O. Box 30197
Nairobi, Kenya

DATE 31/08/2012

TO WHOM IT MAY CONCERN

The bearer of this letter MUTAHI CHRISTINE WANJIRU

Registration No D61/60204/2010

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
31 AUG 2012
MBA OFFICE
P.O. Box 30197 – 00100, NAIROBI

IMMACULATE OMANO
MBA ADMINISTRATOR
MBA OFFICE, AMBANK HOUSE

Appendix 2: Interview Guide

This is an interview guide to collect data on the strategy structure relationship within Old Mutual and the various strategies adopted in sustaini, business growth.

SECTION A: ORGANIZATION STRATEGY

1. Does your organization have business strategy (ies) and if so, what are they?
2. Please give a detailed explanation of the stratégies and how they have been drawn.
3. How are you implementing them?
4. How often do you review your strategy and who is involved in the process?
5. Briefly describe how the core business of Old Mutual has changes over the last few years.
6. What would you consider as the key drivers for change?
7. How were the changes communicated to staff
8. Has Old Mutual changed or reemphasized its strategy in past few years?
9. Have the Vision and Mission changed during the same period?
10. What changes in the business market, customer or government directives may have changed the market in the recent past?

SECTION B: ORGANIZATIONAL STRUCTURE

1. How would you describe the corporate structure of Old Mutual?
2. How many restructurings have you had since 2000?
3. What triggered the changes in the structure?
4. What forms of change were undertaken?
5. After the changes in structure, how can you describe the new structure?

SECTION C: RELATIONSHIP BETWEEN STRATEGY AND STRUCTURE

1. What would you describe as the major milestone of Old Mutual and the investment sector since 2000 to date?
2. Why do you consider these as the major changes?
3. Who are the main stakeholders in Old Mutual?
4. What is your vision and mission?
5. How have you achieved your mission over the last decade?
6. Have you reviewed your mission and vision to address any of these changes?
7. What are the major factors that influence strategy and structure in your organization?
8. What is the impact of environment on strategy and structural design you have adopted?
9. Briefly describe the impact of technology on strategy and structure of your organization?
10. What process was used to draw the current or earlier structures?

11. What are the major factors that influence the type of structural configuration in your organization?

12. Is the same structural design applied in all subsidiaries?

13. Are there are any structural barriers that affect implementation of the organization's strategies?

14. Can you share with me how the organization strategies have influenced the structure?

15. In your own opinion can you say how the structure has influenced the choice of strategy?

16. Do you think structure is sufficient enough to support the business strategies?

17. What are some of the constraints you have encountered in aligning structure and strategy?

OLD MUTUAL

Appendix 3: Letter approving Data Collection

University of Nairobi
School of Business
MBA Programme
Ambank House
Nairobi

TO WHOM IT MAY CONCERN

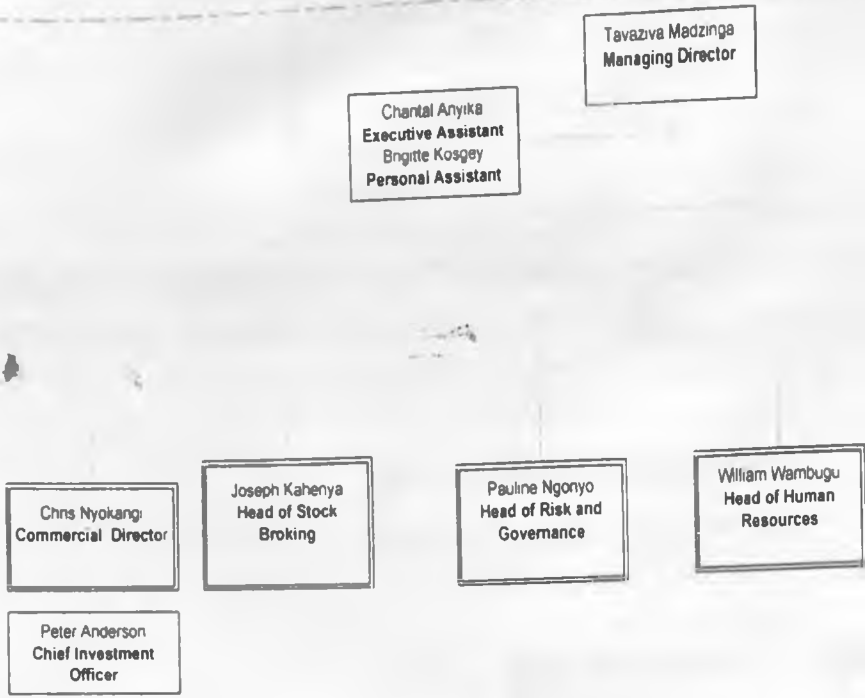
RE: MUTAHI CHRISTINE WANJIRU

This is to confirm that the above referenced person has been authorized to collect data at Old Mutual Kenya for purposes of her MBA research project at your university.

For and on behalf of
OLD MUTUAL KENYA

JANET THUO
HUMAN RESOURCES BUSINESS PARTNER

EXCO
Organizational Structure



Tavaziva Madzinga
Managing Director

Chantal Anyika
Executive Assistant
Brigitte Kosgey
Personal Assistant

Chris Nyokangi
Commercial Director

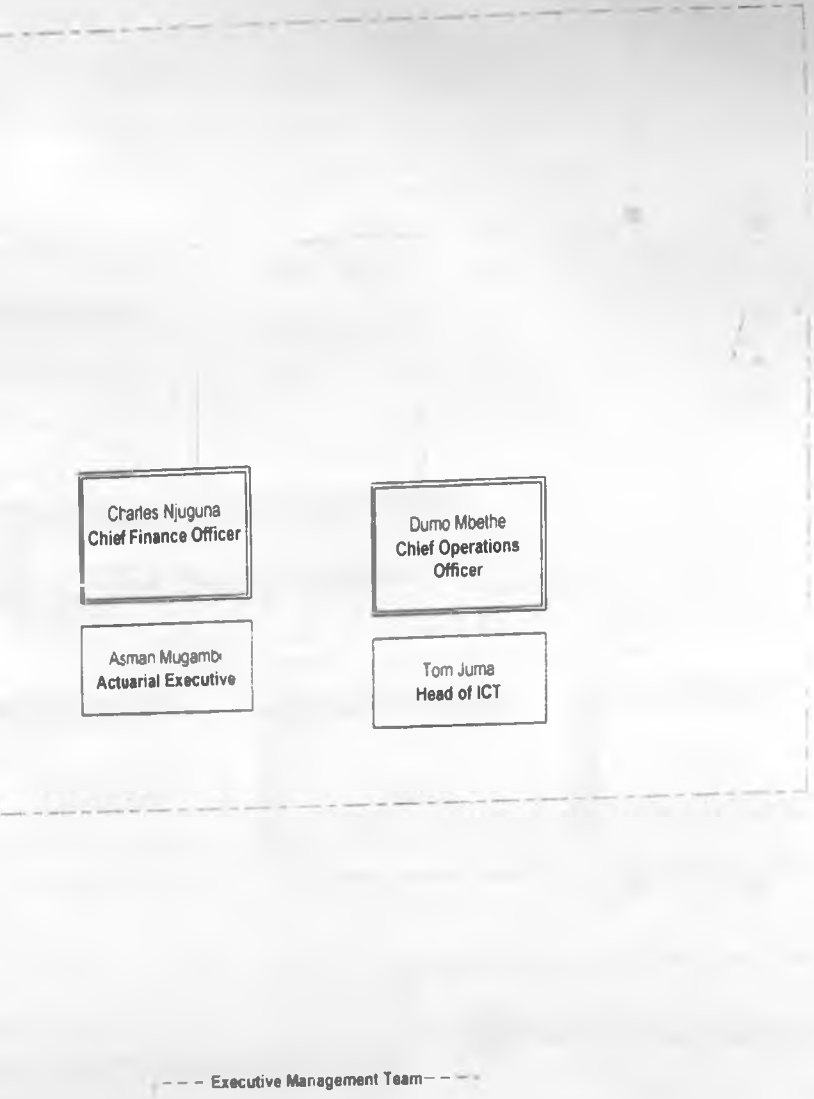
Peter Anderson
Chief Investment Officer

Joseph Kahenya
Head of Stock Broking

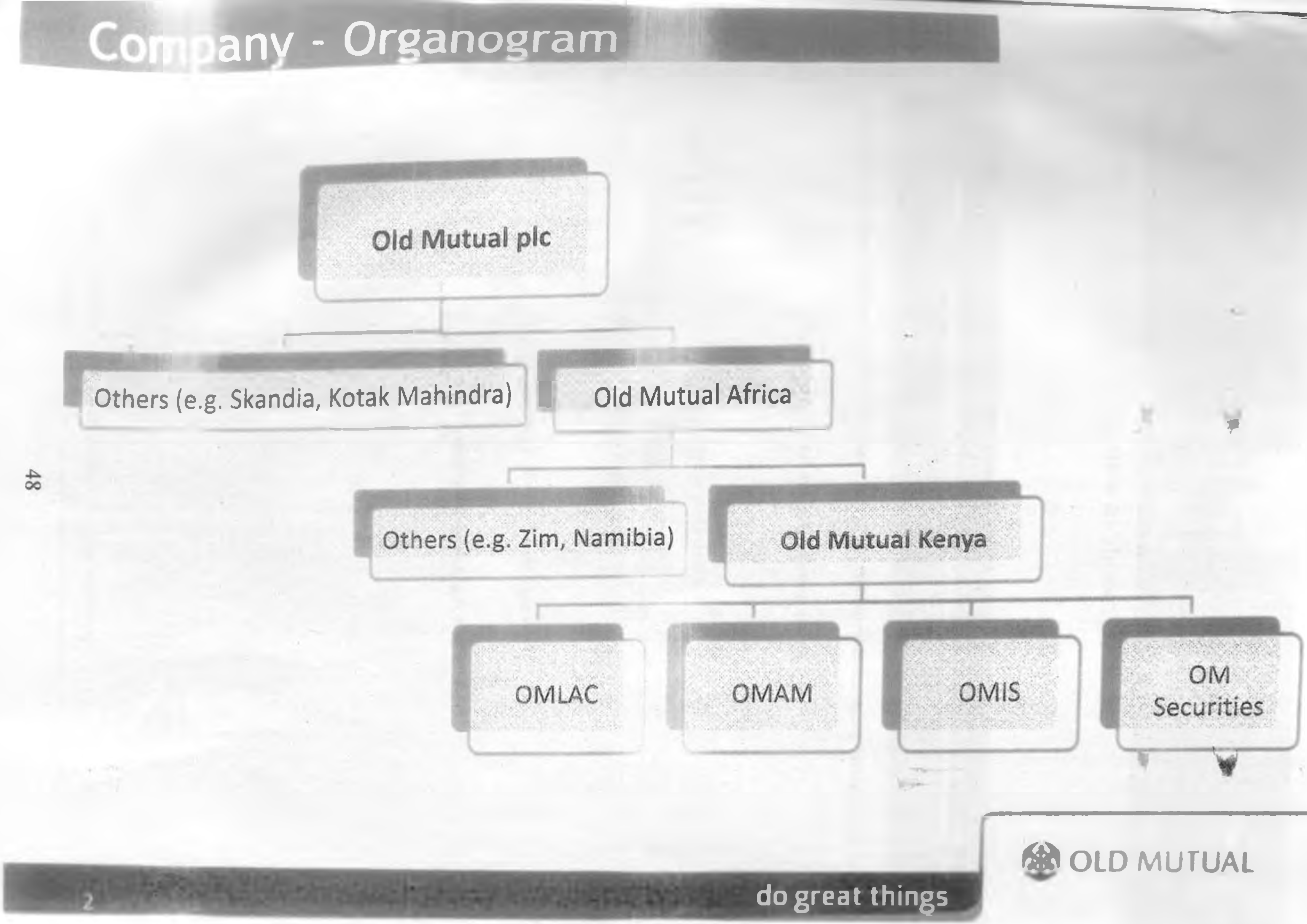
Pauline Ngonyo
Head of Risk and Governance

William Wambugu
Head of Human Resources

Appendix 4: Organizational Structure


Charles Njuguna
Chief Finance Officer
Dumo Mbethe
Chief Operations Officer
Asman Mugambi
Actuarial Executive
Tom Juma
Head of ICT
Executive Management Team

Appendix 4: Organizational Structure



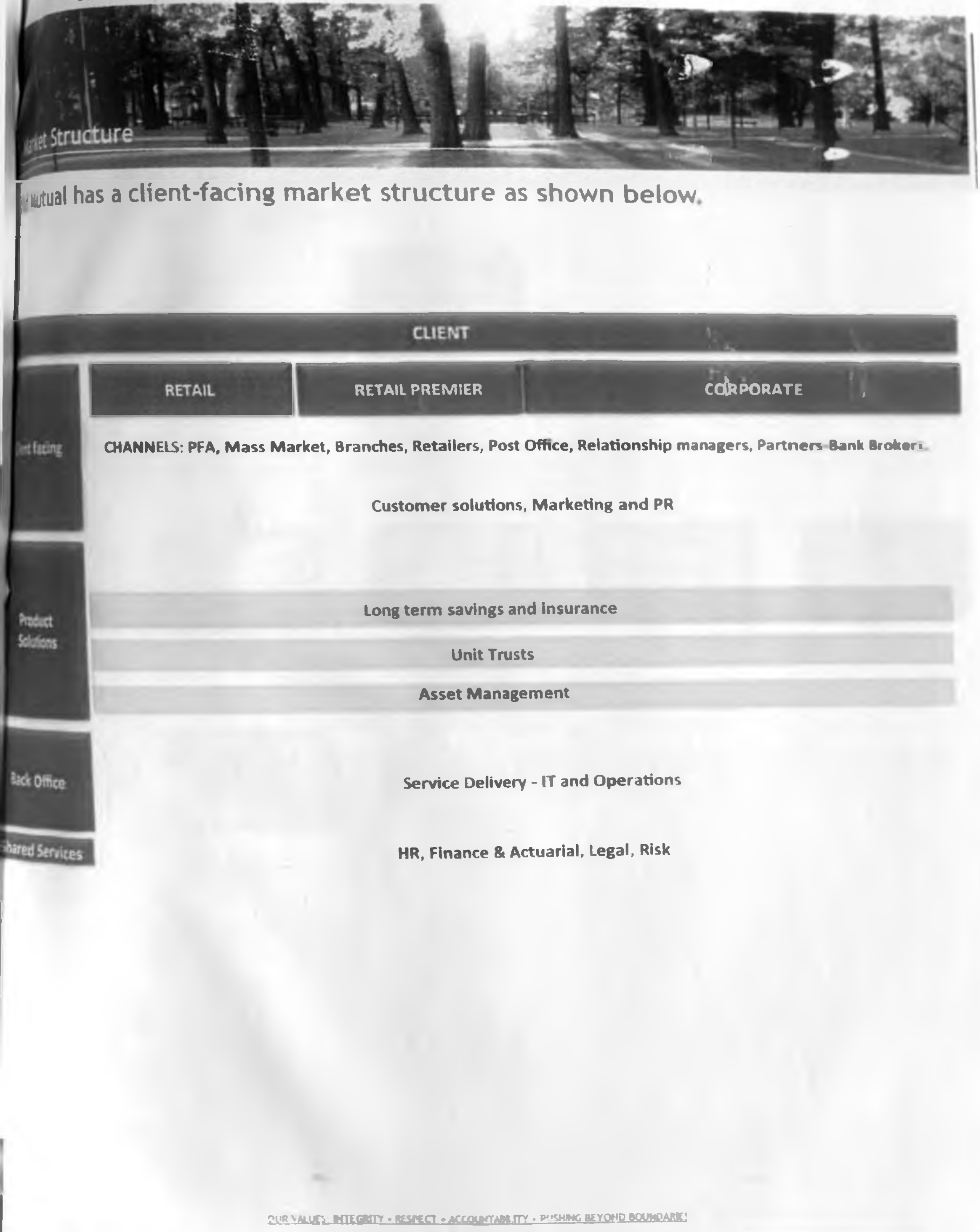
Company - Organogram

- Old Mutual plc
  - Others (e.g. Skandia, Kotak Mahindra)
  - Old Mutual Africa
    - Others (e.g. Zim, Namibia)
    - Old Mutual Kenya
      - OMLAC
      - OMAM
      - OMIS
      - OM Securities

OLD MUTUAL

do great things

Appendix 4: Organizational Structure



Mutual has a client-facing market structure as shown below.

CLIENT

ent facing

RETAIL | RETAIL PREMIER | CORPORATE

CHANNELS: PFA, Mass Market, Branches, Retailers, Post Office, Relationship managers, Partners-Bank Brokers.

Customer solutions, Marketing and PR

Product Solutions

Long term savings and insurance

Unit Trusts

Asset Management

Back Office

Service Delivery - IT and Operations

hared Services

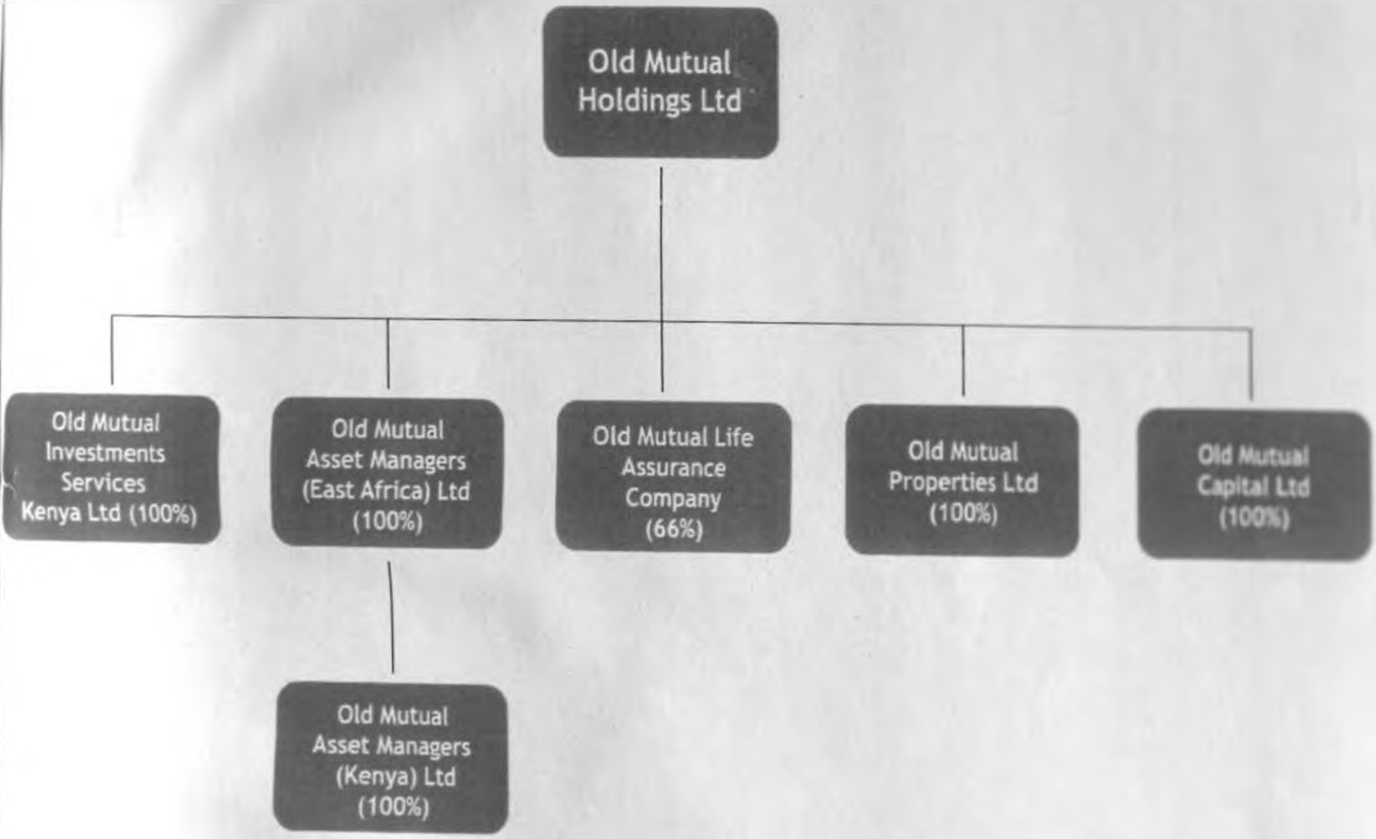
HR, Finance & Actuarial, Legal, Risk

OUR VALUES: INTEGRITY • RESPECT • ACCOUNTABILITY • PUSHING BEYOND BOUNDARIES

Appendix 4: Organizational Structure

Old Mutual Kenya

Old Mutual Kenya Ownership Structure



Old Mutual Holdings Ltd

Old Mutual Investments Services Kenya Ltd (100%)

Old Mutual Asset Managers (East Africa) Ltd (100%)

Old Mutual Life Assurance Company (66%)

Old Mutual Properties Ltd (100%)

Old Mutual Capital Ltd (100%)

Old Mutual Asset Managers (Kenya) Ltd (100%)