INFLUENCE OF MACRO ECONOMIC FACTORS ON STRATEGIC PLANNING IN COMMERCIAL BANKS IN KENYA

BY

LENCER JUNE ACHILLAH

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2011
DECLARATION

I, the undersigned, do declare that this research proposal is my original work that has not been presented to any college, institution, or any university other than University of Nairobi for academic credits.

Signed: ____________________ Date: ______________

LENCER JUNE ACHILLAH

REG NO: D61/P/8863/2005

DECLARATION BY SUPERVISOR:

This is to declare that this proposal has been submitted for examination with my approval as the university supervisor.

Signed: ------------------------------- Date: -------------------------------

SUPERVISOR:

DR. Martine Ogutu
Senior Lecture
Department of Business Administration
School of Business
Nairobi
ACKNOWLEDGEMENT.

Most of all I would like to thank the Almighty God for his continuous care, guidance, strength and good health during my study period. I also wish to extend my gratitude to my family members for their endless support throughout this period. To my friends, colleagues, various Bank Staff and University of Nairobi fraternity who supported me in one way or the other I say thank you very much for the support.
DEDICATION.

I dedicate this work to my husband George obell and children Anorelle, Lulu and Hawi for their understanding and support during the study period.
ABSTRACT

To the best of the researcher’s knowledge, no study had been done on the effects of macroeconomic factor affecting strategic planning of commercial banks in Kenya. Other studies have been done to establish the effects of the factors independently but not macro economic factors as a whole. Due to various economic factors affecting the economy, Commercial Banks in Kenya need to place themselves strategically to be able to deal with these factors which have become very static.

This study aimed at getting detailed information regarding the effects of these macro economic factors on strategic planning. Questionnaires were used to be able to establish the effects of these factors. The respondents of this study were the senior staffs, who include top and middle level managers working at various Commercial Banks in Kenya. The interview guides were self administered to give the respondents time to respond to the questions at their convenience. The completed questionnaires were edited for completeness and consistency. A content analysis was employed.

The outcome study found that the banks employ various and different technics to be able to deal with the challenges posed by the effects of these macro economic factors. Most banks due to the sensitivity of the information given to a third party were not willing to give information required.

The banks therefore need to have spot on managers to be able to spot and deal with these challenges immediately they arise and are able to advice the top level managers on to the best policies to employ to enable them wave though the challenges faced.
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CHAPTER ONE: INTRODUCTION

1.1 Background of the Study

The motivation for this study was the perceived link between strategic planning, macroeconomic factors and firm performance and that if individual firm are properly managed then the economy as a whole will prosper. The argument is circular and it is difficult determining whether it is firms’ performances that cause changes in the economy or it is the economy that causes changes in firms. However the assumption in this study is that a manager’s endeavor is to realign his/ her firms operations to take advantages of changes in the environment. It has been empirically established that external environmental factors have impacted macro trends in corporate profitability.

Strategic management has been defined as the purposeful direction and natural evolution of enterprise (Rumel, Schandel, and Teace, 1995). Strategic management applies to all organizations where leadership can effect change. The concept of explicit strategic decision-making by business firms is relatively new and continually changing. Strategy is large scale, future oriented plans for interacting with the macroenvironment to achieve the corporate objective is therefore essential. In the management the financial and non-financial benefits of strategic management have been established empirically. The evidence is that successful firms reflect a more strategic orientation and a long term focus (David, 1999).

The word strategy comes from the Greek strategos, a word borrowed from the military general and combining stratos (the army) and ago (to lead) (Drucker, 1980). The primary tasks of strategic management are to understand the environment (internal and external), define organizational goals, identify options, make and implement decisions, and finally evaluate actual
performance. Therefore, strategic planning aims to exploit the new and different opportunities of tomorrow, in contrast to long-range planning, which tries to optimize for tomorrow the trends of today (Drucker 1980).

Economics is defined by Lila and Truett, (1987) as a science which is concerned with choosing among alternatives involving scarce resources. This further divided into Macro economic which is concerned with factors which affect a national economy and Micro factors which involves factors which affect individual economic units. In this study the linkage was mainly on the macro economic factors.

1.1.1 Strategic Planning

Strategic planning is an organization’s process of defining its strategy or direction (Pearce and Robinson, 2007). It involves an organization making decisions on allocating its resources to pursue its strategy, including its capital and people. Pearce and Robinson (2007) have defined strategic management as the set of decisions and actions that result in the formulation and implementation of plans designed to achieve a company’s objectives. Scan of environment is an important and integral part of strategic planning. There are various techniques and models which can be used in strategic planning. The first method are the SWOT analysis (Wheelen and Hunger, 1998), which involves checking the strength, weaknesses, opportunities, and threats of an organization. The other is PEST or STEP method which is applied to identify and assess political, economic, social, technological and scientific factors, which influence the explored object (Dagmar, 2006). The third method is STEERS analysis which is the socio-cultural, technological, economic, ecological, and regulatory factors that affects an organization. Lastly is
the EPISTEL which involves environment, political, informatics, social, technological, economic and legal. All these methods are assessments of current business environment.

Traditional long-range planning is based on the concept that planning consists of at least four key steps namely monitoring, forecasting, goal setting, and implementing which are intended to answer these questions namely; where is the organization now, where is it going, where does it want to go and what does it have to do to change where it is going to get to where it wants to go (Renfro 1980a and 1980b).

Planning is a management process is therefore concerned with defining goals for future organizational performance and deciding on the tasks and resources to be used in order to attain those goals (Silas Roberto de Souza, 2001). To meet the goals, managers may develop plans such as a business plan. Planning always has a purpose. The purpose may be achievement of certain goals or targets. The planning helps to achieve these goals or target by using the available time and resources. To minimize the timing and resources also require proper planning. It is also true that strategic planning may be a tool for effectively plotting the direction of a company; however, strategic planning itself cannot foretell exactly how the market will evolve and what issues will surface in the coming days in order to plan your organizational strategy (Silas Roberto de Souza, 2001). Therefore, strategic innovation and tinkering with the 'strategic plan' have to be a cornerstone strategy for an organization to survive the turbulent business climate.

1.1.2 Macro Economic Factors

Macro economic factors are derived from macroeconomics. Macroeconomics is the study of the overall aspects and workings of a national economy, such as income, output, and the
interrelationship among diverse economic sectors. According to Ahuja (2010), macro economic factors include economic growth captured by gross domestic product (GDP), interest rates, exchange rates and the inflation rate. Management must assess its company’s external environment that includes both the competitive and general contextual factors. Therefore the unique characteristic of strategic management is its external orientation. Macro economic factors have major impacts on how businesses operate and make decisions.

Chen, Roll and Ross (1986) identified the following macro-economic factors as significant in explaining firm performance (profitability) and subsequent the returns to investors as surprises in inflation, surprises in GNP as indicated by an industrial production index, surprises in investor confidence due to changes in default premium in corporate bonds and surprise shifts in the interest rates. However these are mainly economic factors. Accordingly, the present analysis has a main focus on identifying dominant macroeconomic factors for strategic planning and management.

1.1.3 Strategic Planning and Macro Economic Factors

In most organizations, managers would be interested in the link between macro economic factors and the performance of their firms. The prediction is that if such a link exists then the need to incorporate such factors in decision models arise in strategic planning. Macroeconomic trends are global (economy wide) factors that have the important characteristic of being able to shift customer patterns and priorities (Ahuja, 2010). For example a decline in gross domestic products could have adverse impact on the purchasing power of citizens and therefore demand for products and services. It is therefore, essential that management is provided with information which highlights the changes which occur, particularly in respect of the organization’s external
environment. The macro economic factors are useful in gauging the direction of the economy in which a firm operates. Because consumption patterns are affected by the relative affluence of various market segments, each firm must consider economic trends in the segments that affect its industry. The assumption in this study is that any change in such macro economic factors may affect the profitability of a bank through their influences on banks’ cash flow.

Those in charge of planning in the organisation must have the capacity to consistently spot these trends early, accurately analyze them and use the result of their analysis as decision making input. In most successful organisations managers keep a close eye on macroeconomic conditions and draw up strategic and operating plans that acknowledge them, as well as contingency plans to execute if some of fundamental assumptions subsequently turn out to be unattainable. In any case the number and nature of these factors is likely to change over time and between economies (Chen, Roll and Ross, 1986).

Unfortunately the vibrant, rapidly changing macroeconomic environment in which many organisations now operate mean that many of the underlying assumptions on which the original objectives were based may have become unachievable or irrelevant at a very early planning stage (Hossain and Monzur, 2010). A more outward and forward looking management process would enable the financial plan to be updated so that it remains relevant even though the competitive environment has changed significantly. This requires thorough understanding of macroeconomic (or the economics environment) environment. Management must assess its company’s external environment that includes both the competitive and general contextual factors (Hambrick, 1982).
1.1.4 Commercial Banks in Kenya

Currently there are forty four licensed commercial banks and one mortgage finance company in Kenya (CBK Annual report 2007). Nine of the banks are listed in the Nairobi Stock exchange. The banks are members of the Kenya Bankers Association are a joint lobby that deals with the issues affecting the banks. Commercial bank is an institution which accepts deposits, makes business loans, and offers related services. The activities of the commercial banks are in form of deposit accounts, such as checking, savings, and time deposit (Shambe, 2003). These institutions are run to make a profit and owned by a group of individuals or the government.

Deposit-taking institutions take the form of commercial banks, which accept deposits and make commercial, real estate, and other loans; savings and loan associations and mutual savings banks, which accept deposits and make mortgage and other types of loans; and credit unions, which are cooperative organizations that issue share certificates and make member (consumer) and other loans. While commercial banks offer other services to individuals, they are primarily concerned with receiving deposits and lending to businesses (Dikken and Hoeksema, 2001).

In the current climate, the importance of the role played by banks and other financial institutions as vehicles that enables economic growth at a macroeconomic level, and as a factor that support the progress of companies at a microeconomic level, is a subject of continual analyses from many different perspectives. It is the decline in the quality of assets as a result of defaulting borrowers that make one review strategic management approaches employed by the commercial banks. This cause of decline in the value of assets is explained by many bank executives in terms of credit risk. Credit risk is the probability that a bank may lend money to a customer who will
default. The belief is that default rates increase whenever there is a decline in performance in the economy as a whole (Barnhill and Maxwell, 2002 and Hou, 2002).

1.2 Statement of the Problem

Strategic planning and management of business is a response to the dynamic external environment with a view to striking a fit between the internal and external environments. A lot of literature has been written on the factors on the macro economic factors that affect businesses in general. The modern executive also must respond to the challenges posed by the firm’s immediate and remote external environment. This statement alone justifies a study of the implications of the external environment in the operations of a business. In all strategic planning and management of business is a response to the dynamic external environment with a view to striking a fit between the internal and external environments. This enables a firm to use its strengths and overcome its weaknesses with a view to exploiting the external opportunities and averting the threats. Some firms that make a response to the external factors as they encounter them; others anticipate the external factors and are well-equipped to brave the challenges of the external environment when confronted by them; while others give shape to the external environment as they lead in their respective business areas with creativity and innovation leaving competitors way behind. Furthermore different strategic approaches and emphasis translate into difference in organization performance.

The recent studies are therefore concentrated on the macro economic factors that are unique to certain businesses and sectors of the economy. Pearce and Robinson (1994) remarked that, “Managing activities internal to the firm is only part of the modern executive’s responsibilities”. In developed economies the models that banks employ incorporates macroeconomic systemic
factors, such as position in the business cycle, interest rate and exchange rate volatility and the monetary policy stance, when deriving a valuation of bank lending risks. Barnhill, Maxwell and Hou (2002). Bradford and Duncan(1999), Russel and Prince(1992) and Ogunmokun(1999), all have provided an insight on the effects of macroeconomic factors which were unique to the western and developed economies.

In this study attempts were made to explore competitive approaches of commercial banks in Kenya in relation to macro economic factors. Comparable claims of lack of consideration of macroeconomic forces in formulating corporate strategy can be made. With a focus on the firm and the top management team, the pre-conditions that shape or limit strategic options have not received adequate attention, although there are notable exceptions (Porter, 1996). Despite the awareness of the tumultuous uncertainty of macroeconomic factor that have changed the game for most organizations, little have been done on how commercial banks in Kenya deal with these challenges in strategic planning. To fill this gap, this study examined the importance that bank managers attach to the influence of country-level macroeconomic factors and whether they incorporate such factors in their strategic planning decision.

1.3 Objective Of The Study

The study seeks to determine the influence of macroeconomic factors on the strategic planning process in commercial banks in Kenya.
1.4 Importance of the Study

The findings of this study will be crucial benefit to the management of organizations in their need to determine what strategic management offers to the debate is a focus on the firm and its quest for success and a richer understanding of the effects of the macro-environment that contribute to a better understanding of a firm’s potential, as well as its boundaries.

Second are the policy makers who must assess the company’s external environment that includes both the competitive and general contextual factors. The management decisions are dependent on the environmental factors. These are factors which are beyond the controls of the managers and is important for the managers to be aware of the factors and how they can affect the various business operations and policies.

The third group to benefit is the government who can use the findings in assessing managerial capacity in commercial banks. The government through the central banks will access the influence of various factors that affects banks in form of borrowing and lending rate. Central bank can benefit from the study in determining the prevailing interest rates for the banks.

The last group is researchers and academicians who can also use this as a conceptual paper exploring the perceived relationship between micro and macro level economic performance by seeking the managers perception importance of macro economic variable as decision input, hopefully, it will generate further research proposals and hypotheses for testing.
CHAPTER TWO: LITERATURE REVIEW

2.1 Concept of Strategic Planning

Strategy is defined by McKinsey as "an integrated set of actions designed to create a sustainable advantage over competitors" and includes a description of the well-known "nine-box" matrix that formed the basis of McKinsey’s approach to business portfolio analysis. The assumption is that resources are scarce and that businesses have to compete for resources. At the same time all organizations face uncertain environments, because both product and technology life cycles are shortening relentlessly. It is important for businesses and their leaders to position their organizations strategically for competing successfully in the future. Mintzberg (1988) advice is that managers understand the dynamics of their industries and the trends in their external environments. Bradford and Duncan (1999) analyzed the external environment into six key areas: markets; competition; technology; supplier markets; the economy and regulations.

The primary role that the external environment plays on firm-level behavior and decision making is a major teaching topic in strategy but it has received limited theoretical and empirical development, with a few noteworthy exceptions (Teece, Pisano and Schuen, 1980). Strategy views the external environment in terms of the opportunities or threats it delivers to the firm. In this perspective environmental forces are believed to be more received than controlled.

In the work of Michael Porter, who explicitly addresses these issues in his Competitive Advantage of Nations (1991). On industry competition, Porter theorizes that determinants of productivity and growth are the result of different characteristics of the nation, some of which relate to the institutional environment in which firms are operating.
The external information is a key input in strategic decision-making. Pawar and Sharda (1997) and Ngamkroeckjoti and Johri, (2000) stress that information about competitors is merely one piece of all the relevant information useful to strategic managers and external information requirement must also address technology, success of competitors' products in the market and the whole environment, including economic, legal, cultural and demographic background.

Earlier studies emphasize on competitive intelligence. Competitive intelligence is a formalized process in organizations aiming to gather relevant information about competitors to enable the gathering firm stay one step ahead in middle- and long-range planning (Teo and Choo 2000, Ettore 1995).

There was a review studies by Russel and Prince (1992) on environmental scanning, thus tracing its emergence to 1960s, when company executives began to speak about it openly and it became part of strategic planning. Russel and Prince (1992) added that it was only in the 1980s that business intelligence systems and management information systems appeared, promising more effective use of external information. The incentive of this study is based on competitive intelligence large and interesting literature, specifically the assumption that firms responses to shifts in macroeconomic variables could vary from one firm to another.

Most executives see no reason to formalize environmental scanning activities McKenna's (1996) results demonstrate a clear doubt. They feel that when information is needed, the owner of the information is asked directly and “If he did not have the answer, it could not be that important”.

An environmental scanning done by Bournois and Romani (2000) examined French companies. The study is one of the most exhaustive and valuable. Some 5000 large companies were questioned, more than one fourth of whom answered. First, a definition of environmental scanning (economic intelligence) was asked for, and a synthesized definition was constructed: 'an organized activity of the group responsible for strategy, which improves a firm's competitiveness by gathering, processing and internally diffusing information, in order to rule the environment'. Five approaches were distinguished: environmental (ecology), strategic (teleology), stakeholders (psycho-socio-logy), tools (techno-logy) and networks (reti-logy). They reported that “Although most of the examined firms coped with world-wide competition and found environmental scanning important, they did not set it as strategic priority. They often lived business as a war, where the most common weapons are lobby, influencing, misinformation, but also engaging managers from business rivals, industrial espionage and computer attacks. Only one in twenty companies had intelligent systems”.

2.2 Strategic Planning Process

A key tool that can help an organization survive rapid change in the macro-environment is environmental scanning also called issues scanning or issues management. Unfortunately, the strategic plans of a number of firms are based on the predictive and mathematical models characteristics of long range planning (Michael Porter, 1985).
Issues-based strategic planning starts by examining issues and follows with identifying strategies to address the issues, followed by developing action plans to accomplish the strategies. Most businesses use the concepts of strategic planning to enhance their ability to steer a course in a changing external environment which provides the basis of a strategic planning process.

The goals-based model is the most common type of strategic planning model and starts with the development of a mission and vision statement. It consists of five critical stages namely, development of a mission and vision statement, situation analysis, setting strategic objectives, strategic analysis and finally the strategic choice (Pearce and Robinson, 1994).

2.2.1 Mission and Vision

Mission is a broad statement about its purpose, the reason for being, it also identifies the scope of its operation in product and market terms. Its often is expressed in the form of mission statement which conveys the sense of purpose. Vision on the other hand is the roadmap of an organizations future (Rumel, Schandel, and Teace, 1995).

2.2.2 Situation analysis

This comprises of external analysis and internal analysis. Changes in the external environment often present new opportunities and new ways to reach the objectives (Johnson and shools, 2002). This is also described by Pearce and Robinson (1994) as the second to the fourth stages of strategic management process. These processes includes developing a company profile that reflects its interval conditions and capabilities, assessing the company’s retrieval environment including the competitive and general contextual factors and lastly analyzing the company’s
options by matching the resources with the external environment in that order. Situation analysis seeks to understand the company’s current position using SWOT analysis (Wheelen and Hunger, 1998). This is the process of inspecting the business and its environment through the various dimensions of strength, weakness, opportunity and threat.

2.2.3 Setting Strategic Objectives

This involves selecting a set of long-term objectives and grand strategies that will achieve the most desirable options and develop annual objectives and short-term strategies that are compatible with the selected set of long-term objectives and grand strategies. This can also be at the corporate level or functional level. Whatever level of strategy, it must conform to the commonly used SMART criteria. According to Pearce and Robinson (1994) this mean that in the objective should be specific which means the objective should state exactly what is to be achieved. Measurable meaning it should be capable of measurement to determine whether or how far it has been achieved. Achievable given the circumstances in which the objective is set and the resources available to the business. Relevant to the people responsible for achieving them. Lastly time bound with a time frame in mind.

2.2.4 Strategic Analysis and Choice

Strategic analysis is identifying the company’s options by matching the resources with the external environment. Strategic choice is identifying the most desirable options by evaluating each option in light of the company’s mission and analyzing the company’s options by matching its resources with the external environment. Strategic choice is the process of picking one or various related options for implementation (Mintzberge, 1996). The strategic choice starts by
identifying the available option. The options are either long term or short term or both. The strategic choice should keep ahead of the influences of various factors that affect an organization. The influence of judgmental, wisdom and analytical skills are important at this state of strategic planning process.

2.3 Macroeconomic Factors

Often the biggest misses in bank strategy have little to do with the day-to-day management of the bank. Instead, these miscues often reflect the difference between actual and expected economic outcomes which drive the underlying success of our customers. Five aspects of the economy provide the strategic input to any tactical banking outlook. A review on each of these factors in turn with the goal of highlighting useful benchmarks to track actual and expected economic performance. These five aspects include inflation, Interest rates, growth and Exchange rate.

2.3.1 Inflation

A major impact on both financial theory and the practice of financial decision making has been the economic instability, especially in interest rates and prices. Interest rates and prices respond to changes in inflation. Inflation in the past few years has been a major macroeconomic problem. The management of inflation must be of utmost importance to bank managers. Macro economic instability has necessitated that expectations about the future rate of inflation be taken into consideration in making strategic decision(s) relating to the level of bank deposits and advances (Ahuja, 2010).
In general, “we believe that we are able to adjust prices to counteract the effects of increasing costs and generate sufficient cash flow to maintain our productive capacity” Pearce and Robinson,(1994). Inflation, as measured by the Consumer Price Index (CPI), provides a baseline for both business leaders and policymakers at the Central Bank and Treasury. The CPI simply measures the rate of increase in the prices of a fixed basket of goods. Rising inflation tends to lower the real value of money and thereby prompts the Central Bank to raise rates to slow the economy to slow inflation pressures. In recent months inflation has increased on a year-over-year basis. This has allowed the Central Bank to execute and maintain its easy monetary policy.

The possibility of inflation in our future is increasingly commanding the attention of investors and financial professionals alike, especially from a risk management standpoint. As measured by the Consumer Price Index (CPI), inflation could accelerate in the coming years as the government deficit expands and the shilling is subjected to increasing supply and diminishing demand, putting pressure on its purchasing power (Ahuja,2010). Analyzing potential inflation scenarios and determining solutions are two keys to successful bank and specifically investment management. Not surprisingly banks in developed countries have come up with strategic inflation opportunities fund designed for inflation protection. Banks require a unique strategy that actively seeks investment opportunities as inflation pressures increase.

Inflation isn’t just an exercise in risk management. It can also create tactical and strategic opportunities for knowledgeable investors, such as commercial banks, in “real” or “hard” asset classes including precious metals and other commodities and their related securities as well as in
inflation-indexed bonds, international bonds and currency trades (Ahuja, 2010). All these are of interest to commercial banks.

2.3.2 Interest Rates

Monetary policy sets the pace for short-term rates. These rates reflect the Central Bank’s twin goals of full employment and price stability. In the short-term, the Central Bank sets the funds rate as the benchmark rate to achieve its growth and employment goals. Longer-term, however, we suspect the Central Bank remains cautious on the inflation outlook and moves the funds rate to achieve its longer-run inflation target (Gavin and Hausmann, 1996). Longer-term interest rates reflect the influence of growth and inflation expectations as well as the balance of credit demand, especially to finance federal deficits, and the needed credit supply coming from abroad. Easy monetary policy in the form of low rates is used to increase demand for money and stimulate the economy (Gavin and Hausmann, 1996).

2.3.3 Growth (Gross Domestic Product, Gross National Product and Personal Income)

Gross Domestic Product is the money value of all final goods and services produced by a normal residents as well as non residents in the domestic territory of a country. Whereas Gross National Product is the total market value of all final goods and services produced in a year in a country. Also Personal income is the sum of all incomes actually received by all individuals during a given year (Ahuja, 2010).

Discerning where we are in the economic cycle and when trends begin to change is a core task of any strategic vision. The state of the economy drives top line revenue of the entire country. The overall pace of economic growth is most-often benchmarked as the year-over-year growth rate of real gross domestic product (GDP). On a monthly basis, the pace of employment growth
provides clues to the pace of GDP growth. Employment serves as the primary input to estimates of personal income. A second monthly gauge of GDP is industrial production, which serves as the primary gauge of the nation’s output (Hilbers, Lei and Zacho, 2001).

Recent economic weakness reflects the abrupt decline in consumer outlays and declining trade. Consumer spending is being hurt by income and labor market fundamentals. Household net worth has declined due to losses in equity markets and declining home values. Slower job and income growth will also curb consumers’ willingness to spend during the recovery in late 2009 and early 2010. The outlook is for several more quarters of negative growth and a slow, shallow recovery.

2.3.4 Exchange Rates

A crucial factor in the economic performance of the country is the volatility of foreign exchange rates. The value of the Kenyan Shilling relative to other major world currencies was seen as affecting decisions on many business transactions. The daily deterioration of the value provides less financial incentives for individuals and companies to purchase from foreign sources (Ahuja, 2010).

Exchange rates are one of the most complex prices in economics since the exchange rate is a relative price of one currency in terms of another. Therefore, the path of any exchange rate over time reflects the relative changes in interest rates and economic growth expectations between the two countries. For the bank’s customers, changes in the shilling’s value have a significant impact on the cost of imports and the competitiveness of exports abroad (Ahuja, 2010).
As you would expect, indicators for future values of the shilling would be any indicators of change in expected interest rates or growth rates between countries. For example, interest rate differentials between a country and most major foreign countries reflect the likely change in that country’s interest rates relative to interest rates abroad. A second influence is the current account deficit with reflects the relative flow of goods and financial capital. Unfortunately the deficit for developing countries is relatively large and likely to depress the value of the local currency over the long run.

2.4 Strategic Planning as an Influence of Banks Performance and Macroeconomic Factors

Various studies have been done to try and link banks performance and macro economic factors. Gavin and Hausmann (1996) pointed out that there are many ways in which macroeconomic developments can contribute to bank performance. They add that most of the literature seems to agree that macroeconomic factors play somehow a role in determining banking crises. A critical comment by Gavin and Hausmann (1996) is that empirical analyses clearly showed that early warning systems of pending bank failure, that include macroeconomic variables as predictors tend to perform better than those that only employ bank-specific variables. This comment confirms the importance of macroeconomic variables in strategic planning. There is no consensus on the macroeconomic variable that is better suited for being the preferred leading indicator of performance. Kaminsky and Reinhart (1996) used a sample of 20 countries in Asia, Europe, Latin America and Middle East in a study of the episodes of banking crises and balance of payments crises over the period 1970–1995, concluding that the causal pattern in the twin crises is not clear.
Regarding the influence of macro-variables as indicators of stability in the banking sector, Kaminsky and Reinhart (1996) examined the behaviour of 15 macroeconomic indicators, one at a time, in the two years prior to the crisis and found that recessionary conditions such as economic activity decline (decline in GDP), weakening of the export sector, high real interest rates and falling stock market usually precede banking as well as currency crises. Kaminsky and Reinhart (1996) add that “credit expansions, an abnormally high money growth and the decline in the terms-of-trade anticipate many of the banking crises”.

Hilbers, Lei and Zacho (2001) suggest why it is important that financial institutions such as banks monitor macroeconomic factors. Their study based on real estate, concludes that a downturn in residential property prices increases the probability of financial instability because borrowers find it difficult to pay interest on the money they borrowed. Again this is an example of the consequence of macroeconomic variable on performance of financial institutions. Hilbers, Lei and Zacho (2001) findings confirm that banks tend to lend more to real estate projects in periods of increasing property prices and economic boom, since the market value of collateral rises and the risk for lenders (commercial bank) decreases. The implication is that gains in house prices are associated with significant increase in nonfinancial sector’s indebtedness that, in turn, makes it more vulnerable to macroeconomic shocks. Furthermore an adverse movement in macroeconomic factors, e.g. increase in interest rate, the value of both bank’s own real estate assets and collateral will decrease, thus impairing the value of the bank

The study of Demirguc-Kunt and Detragiache (1998), was to identify the features of the economic environment in the periods preceding a banking crisis to identify the leading indicators
of decline in bank performance. They concluded that a low GDP growth, excessively high real interest rates and a high rate of inflation significantly increase the likelihood of decline in banks performance.

Other studies including one of Eichengreen and Arteta (2000), a sample of 75 emerging markets in the period 1975–1997 which considered a huge range of explanatory variables mentioned in previous works. Their findings confirm that macroeconomic factors such as unsustainable boom in domestic credit is a cause of financial distress and that macroeconomic policies leading to rapid lending growth and financial overheating adversely affect bank performance. Eichengreen and Arteta analyze (2000) point out that there is little evidence of any particular relationship between exchange-rate regimes and banking crises. These studies reinforce the belief that bank distress seems to be frequently associated with a fall in GDP growth, substantial swings in inflation, arise in real interest rates, a fall in asset prices, a dramatic change in the real exchange rate, the weakness of the firm and household sectors (GDP). Bank managers are therefore expected to monitor such variables. Hardy and Pazarbasioglu (1999) find that banking sector distress is often associated with a simultaneous fall in GDP growth, rise in interest rates and decline in the real exchange rate. However the use of macroeconomic variables as strategic planning and management variables depends on the availability of accurate and timely forecasts of the same variables (Bell and Pain, 2000). An economic perspective on strategic behavior stresses the impact of economic factors on firm behavior. For decision-makers, the five economic drivers of performance are not only changing over time but so is the interplay between these factors. These are the risks and rewards of strategic planning.
CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Introduction

This chapter sets out various stages and phases that will be followed in completing the study. It involves a blueprint for the collection, measurement and analysis of data. This section is an overall scheme, plan or structure conceived to aid the researcher in answering the raised research question (Rob, 2002). Therefore in this section the research identifies the procedures and techniques that will be used in the collection, processing and analysis of data.

3.2 Research Design

Research design is the plan and structure of investigation so conceived as to obtain answers to research questions. The plan is the overall scheme or program of the research (Rob, 2002). The that was used in this study is a survey design. Survey allowed collection of large amount of data from a sizable population for comparative purposes. The research problem is best tackled by use of a descriptive survey. Descriptive survey portrays an accurate profile of persons, events, or situations (Saunders, Lewis and Thornhill, 2003).

3.3 The Population

The population consisted of all commercial banks in Kenya registered with Central bank of Kenya as at 31st December 2009. A population is an entire group of individuals, events or objects having common characteristics that conform to a given specification (Mugenda & Mugenda 2003).
3.4 Data Collection

Data collection is however gathering of evidence in order to gain insight about a particular situation and answer questions that prompt undertaking the research (Kothari, 2004). The study used primary data collected through semi structured questionnaire to be administered on “drop and pick” basis and or via e mail to all banks managers. The questionnaires were targeted to the general managers and or managers in charge of policy and planning in all commercial banks. The advantages of a questionnaire are that is can cover a large number of people at relatively affordable cost. The questionnaire was structured into two parts. Part A covers the bio data of the bank and part B solicits for the information about the relationship of macroeconomic factors and the planning process of the banks’ operations.

3.5 Data Analysis

The study used descriptive statistics in analyzing the data. This involved the use of mean scores of respondents to determine intensity of use of the different strategies. According to Myer, M. (1997) the descriptive statistical tool helps the researcher to describe the data and determines the extent used. The opinions or attitudes of the respondents were captured on a five and six points scale and the following scheme used to interpret the responses. To establish the precision, consistency and stability of data capturing instrument, principal component analysis was used in establishing the relationship among variables. The standard measure of reliability in this study was Cronback’s co-efficient alpha.

The mean score for each variable score across respondents was calculated and used to rank the variables. The proposition is the mean capture the ranking of the item. Another representative measure which was used in this study is the mode. Standard deviation is used as a measure of
spread or level of agreement among the respondents about the mean, Bowen and Weisberg (1980).
CHAPTER FOUR: DATA ANALYSIS, INTERPRETATIONS AND DISCUSSIONS

4.1 Introduction

In this chapter the results of data analysis is presented. The research employed a questionnaire to determine the extent to which macroeconomic factors such as inflation, interest rate, gross domestic product and exchange rate are considered during the strategic planning process. Specific responses on various components of strategic planning in relation to macroeconomic variables were sought.

4.1.1 Response Rate

The study targeted senior staff in the various banks. This is because they have a better understanding of the banks’ policies and operations. Questionnaires were sent to forty four (44) banks as listed in the appendix 2. Only 19 banks responded, making a response rate of 44%. This response rate confirms that banks are reluctant discussing how they operate due to the sensitivity of their operations to the competitors and to the public.

4.2 Demographics

Only 17 banks discussed whether they are public or private. Nine banks (53%) are public where 8 (47%) are private. Only 15 of the respondents stated their year of incorporation. The average year of incorporation is 1964/65 around the year of independence with the oldest being incorporated in 1896 which is Kenya Commercial Bank followed by Grindlays Bank and the youngest being Bank of Africa that was incorporated in 2004.
On average the banks sample have 47 branches, with KCB reporting highest number of branches (165), while Development Bank of Kenya have the least branches (3). In addition to total assets at the disposal of the bank, number of employees can be used as a measure of the bank size. The average number of employees for all banks is 800. Development Bank of Kenya has the least number of employees (102) and KCB has the largest number of employees, 4950 in total. The correlation between the number of employees and number of branches is +0.736, i.e. as the number of branches is increasing so is the number of employees.

4.3 Summary and Interpretation of Findings

This chapter presents analysis and findings of the study as set out in the research methodology. The study findings are presented on to establish the macro economic factors that influence the strategic planning of commercial banks in Kenya. The data was gathered exclusively from the questionnaire as the research instrument. The questionnaire was designed in line with the objectives of the study.

4.3.1 Inflation and Aspects of Strategic Planning

Inflation commands attention of investors from a risk management perspective. This is because inflation reduces assets value. In Kenya inflation is on the run and banks are expected not to ignore its effects on performance. Inflation reduce asset values The respondents were asked to state the extent to which inflation impact on aspects of strategic planning, specifically: “To what extent does inflation affect each of the following aspects of strategic planning in your bank?” Their answers were based on a 5-point likert scale where: 1=Not at all; 2=Little extent;
3=Moderate extent; 4=Great extent; and 5=Very great extent. The results are summarized in table 1.

**Table 1: Inflation Effects On Strategic planning**

<table>
<thead>
<tr>
<th>Variable</th>
<th>Mean</th>
<th>Rank</th>
<th>Standard Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Duration of vision and mission</td>
<td>3.579</td>
<td>10</td>
<td>0.838</td>
</tr>
<tr>
<td>Breadth of vision and mission</td>
<td>3.526</td>
<td>11</td>
<td>0.964</td>
</tr>
<tr>
<td>Use of consultants in situation analysis</td>
<td>3.684</td>
<td>9</td>
<td>0.82</td>
</tr>
<tr>
<td>Extent of situation analysis</td>
<td>3.789</td>
<td>7</td>
<td>0.918</td>
</tr>
<tr>
<td>Number of strategic objectives</td>
<td>3.895</td>
<td>6</td>
<td>0.809</td>
</tr>
<tr>
<td>Duration of strategic objectives</td>
<td>4.053</td>
<td>4</td>
<td>0.621</td>
</tr>
<tr>
<td>Kind of strategic objectives</td>
<td>3.789</td>
<td>8</td>
<td>0.787</td>
</tr>
<tr>
<td>Data for strategic analysis</td>
<td>3.947</td>
<td>5</td>
<td>0.705</td>
</tr>
<tr>
<td>Duration of strategic analysis</td>
<td>4.105</td>
<td>3</td>
<td>0.658</td>
</tr>
<tr>
<td>Elaborate strategic analysis</td>
<td>4.158</td>
<td>2</td>
<td>0.501</td>
</tr>
<tr>
<td>Relevance of strategies</td>
<td>4.263</td>
<td>1</td>
<td>0.452</td>
</tr>
<tr>
<td>Average</td>
<td>3.890</td>
<td></td>
<td>0.734</td>
</tr>
</tbody>
</table>

The results show that inflation effects are not ignored by managers in deciding the relevance of strategies, as this item mean is the highest (4.263). Inflation is considered to a great extent as having influence in deciding relevance of strategies. This is not surprising given that inflation has been in the rise and is expected to increase in the near future and that Kenya has inflationary history, and that this country experienced the highest inflation of 33 percent in 1996. This is in line with the assertion that Central Bank of Kenya use government securities to control inflation and substantial amount of such securities are held by banks.
The other components of strategic plan that to a great extent requires considering the level of inflation are: elaborate strategic analysis (4.158), duration of strategic analysis (4.105) and duration of strategic objectives (4.053). The level of inflation just moderately influences the use of consultants (3.684). It is likely that the banks have employed economists to manage inflation.

Middle ranked strategic elements include data for strategic analysis (3.947), extent of situation analysis (3.789), and kind of strategic objectives (3.789). That the choice of data for strategic analysis is ranked at below great extent (4) imply difficulty in using inflation data at strategic planning stage. It appears that the duration of vision and mission and breath of vision and mission are too broad to be operationalised and linked to inflation.

In this sections standard deviations of most elements of strategic planning, which is a measure of agreement among respondents, are all below one suggesting convergence of rating. A standard deviation of one (1) and above is interpreted as divergence in rating.

4.3.2 Interest Rate Effect on Strategic Planning

Interest rate is a major variable to valuations of bank products such as advances and credit cards. Fluctuations in interest rates can make a difference when a bank’s customer is in credit card debt or is required to pay off a bigger amount of loan. Thus a bank’s interest rates can be variable or fixed. Variable rate protect banks against adverse movement in interest rate. The source of variation in interest rate can be inflation and/or movement in Central Bank of Kenya prime rate. That change in interest rates might adversely impact on bank performance mean that banks cannot ignore expected changes in interest rates at the strategic planning stage. The respondents were asked to state the extent to which interest rate impact on aspects of strategic
planning, specifically: “To what extent does interest rate affect each of the following aspects of strategic planning in your bank?” Their answers were based on a 5-point likert scale where: 1=Not at all; 2= Little extent; 3=Moderate extent; 4=Great extent; and 5=Very great extent. The results are summarized in table 2.

Table 2: Interest Rate Effects On Strategic Planning

<table>
<thead>
<tr>
<th>Variable</th>
<th>Mean</th>
<th>Rank</th>
<th>Standard Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Duration of vision and mission</td>
<td>3.474</td>
<td>11</td>
<td>1.124</td>
</tr>
<tr>
<td>Breadth of vision and mission</td>
<td>3.789</td>
<td>10</td>
<td>1.084</td>
</tr>
<tr>
<td>Use of consultants in situation analysis</td>
<td>3.842</td>
<td>6</td>
<td>0.765</td>
</tr>
<tr>
<td>Extent of situation analysis</td>
<td>3.947</td>
<td>4</td>
<td>1.079</td>
</tr>
<tr>
<td>Number of strategic objectives</td>
<td>3.842</td>
<td>7</td>
<td>1.015</td>
</tr>
<tr>
<td>Duration of strategic objectives</td>
<td>4</td>
<td>2</td>
<td>0.745</td>
</tr>
<tr>
<td>Kind of strategic objectives</td>
<td>4</td>
<td>3</td>
<td>0.816</td>
</tr>
<tr>
<td>Data for strategic analysis</td>
<td>4.053</td>
<td>1</td>
<td>0.78</td>
</tr>
<tr>
<td>Duration of strategic analysis</td>
<td>3.895</td>
<td>5</td>
<td>0.937</td>
</tr>
<tr>
<td>Elaborate strategic analysis</td>
<td>3.842</td>
<td>8</td>
<td>0.834</td>
</tr>
<tr>
<td>Relevance of strategies</td>
<td>3.842</td>
<td>9</td>
<td>1.167</td>
</tr>
<tr>
<td>Average</td>
<td>3.866</td>
<td></td>
<td>0.941</td>
</tr>
</tbody>
</table>

In table 2 highly rated strategic planning elements that require interest rate as input include data for strategic analysis a mean of 4.053, duration of strategic objectives (4), and kind of strategic objectives (4). This ranking confirms that banks strategically plan to manage interest rate risk.

Interest rate risk is the hazard to a bank’s earnings or bank’s capital arising from adverse changes of interest rates. It is the result of differences between the timing of rate changes and the timing
of cash flows (repricing risk); from changing rate relationships among yield curves that affect bank activities (basis risk); from changing rate relationships across the spectrum of maturities (yield curve risk); and from interest-rate-related options embedded in bank products (option risk) (Mishkin and Eakins, 2007).

The middle ranked elements of strategic planning include duration of strategic analysis (3.985), use of consultants in situation analysis (3.842), number of strategic objectives (3.842), elaborate strategic analysis (3.842), and relevance of strategies (3.842). However level of interest rate is an influencing variable in choices relating to these elements as their ranking is between moderate and great extent.

Lowly ranked elements in terms of influence of interest rate are breadth of vision and mission (3.789) and duration of vision and mission (3.474). It could mean that factors other than movements in interest rate shape both the breadth of vision and mission and duration of vision and mission within the banking industry.

4.3.3 Gross Domestic Effect on Strategic Planning

Gross domestic product is a measure of an economic activity of a country. Improvement in GDP, interpreted to mean economic growth, encourages banks to lend more, which translates into higher income for the banks thus improving the quality of assets held by the banks. The respondents were asked to state the extent to which Gross Domestic Product (GDP) impact on aspects of strategic planning, specifically: “To what extent does Gross Domestic Product (GDP) affect each of the following aspects of strategic planning in your bank?” Their answers were based on a 5-point likert scale where: 1=Not at all; 2= Little extent; 3= Moderate extent; 4= Great extent; and 5= Very great extent. The results are summarized in table 3.
The elements of strategic planning that are shaped by Gross Domestic Product (GDP) in the order in which GDP is considered an influencing variable include: Relevance of strategies (4.316); Breadth of vision and mission (4.053); Data for strategic analysis (4.053); Elaborate strategic analysis (4); and Duration of vision and mission - all these items are rated as on average, shaping strategic planning to a great extent. There appears to be a link between GDP and the aspects of vision and mission of banks. This is important considering that an aspect of mission statement is to describe the purpose of the organization, product, or service which is linked to GDP. The vision of a bank provide inspiration i.e. where are headed? and from these results it appears that part of the inspiration come from GDP. These links with GDP shows that strategies provide a pragmatic roadmap of how mission, vision, and goals will be accomplished over time.

Table 3: Gross Domestic Product Effects On Strategic Planning

<table>
<thead>
<tr>
<th>Variable</th>
<th>Mean</th>
<th>Rank</th>
<th>Standard Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Duration of vision and mission</td>
<td>4</td>
<td>5</td>
<td>0.816</td>
</tr>
<tr>
<td>Breadth of vision and mission</td>
<td>4.053</td>
<td>2</td>
<td>0.848</td>
</tr>
<tr>
<td>Use of consultants in situation analysis</td>
<td>3.737</td>
<td>10</td>
<td>1.046</td>
</tr>
<tr>
<td>Extent of situation analysis</td>
<td>3.789</td>
<td>9</td>
<td>0.787</td>
</tr>
<tr>
<td>Number of strategic objectives</td>
<td>3.842</td>
<td>6</td>
<td>0.898</td>
</tr>
<tr>
<td>Duration of strategic objectives</td>
<td>3.632</td>
<td>11</td>
<td>0.895</td>
</tr>
<tr>
<td>Kind of strategic objectives</td>
<td>3.842</td>
<td>7</td>
<td>0.958</td>
</tr>
<tr>
<td>Data for strategic analysis</td>
<td>4.053</td>
<td>3</td>
<td>0.705</td>
</tr>
<tr>
<td>Duration of strategic analysis</td>
<td>3.842</td>
<td>8</td>
<td>0.765</td>
</tr>
<tr>
<td>Elaborate strategic analysis</td>
<td>4.053</td>
<td>4</td>
<td>0.524</td>
</tr>
<tr>
<td>Relevance of strategies</td>
<td>4.316</td>
<td>1</td>
<td>0.582</td>
</tr>
<tr>
<td>Average</td>
<td>3.924</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Under this section the middle ranked elements of strategic planning include number of strategic objectives (3.842), kind of strategic objectives (3.842) and duration of strategic analysis (3.842), all rated as either moderate extent or great extent. The least ranked items are extent of situational analysis (3.789), use of consultants in situation analysis (3.737) and Duration of strategic objectives (3.632). In this section high rating of nearly all elements of strategic suggests that these GDP is a useful input to strategic planning process. In all GDP is a useful variable in aligning organizations mission, vision and goals.

4.3.4 Effects of Exchange Rate on Strategic Planning

Exchange rate affects most of business that export and import products and services. Most of these businesses affected by exchange rate fluctuations are customers of the banks. Banks too buy and sell foreign currencies. Therefore changes in exchange rates would affect the profitability of banks and value of banks assets i.e. exposes the bank exchange rate risks. Banks set up departments that manage exchange rate risks. The respondents were asked to state the extent to which exchange rate impact on aspects of strategic planning, specifically: “To what extent does exchange rate affect each of the following aspects of strategic planning in your bank?” Their answers were based on a 5-point likert scale where: 1=Not at all; 2= Little extent; 3=Moderate extent; 4=Great extent; and 5=Very great extent. The results are summarized in table 4.
Table 4. Effects of Exchange Rate on Strategic Planning

<table>
<thead>
<tr>
<th>Variable</th>
<th>Mean</th>
<th>Rank</th>
<th>Standard Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Duration of vision and mission</td>
<td>3.947</td>
<td>7</td>
<td>0.911</td>
</tr>
<tr>
<td>Breadth of vision and mission</td>
<td>4.105</td>
<td>4</td>
<td>0.658</td>
</tr>
<tr>
<td>Use of consultants in situation analysis</td>
<td>3.789</td>
<td>10</td>
<td>1.182</td>
</tr>
<tr>
<td>Extent of situation analysis</td>
<td>4.105</td>
<td>5</td>
<td>0.809</td>
</tr>
<tr>
<td>Number of strategic objectives</td>
<td>3.947</td>
<td>8</td>
<td>1.079</td>
</tr>
<tr>
<td>Duration of strategic objectives</td>
<td>3.789</td>
<td>11</td>
<td>1.182</td>
</tr>
<tr>
<td>Kind of strategic objectives</td>
<td>3.947</td>
<td>9</td>
<td>1.026</td>
</tr>
<tr>
<td>Data for strategic analysis</td>
<td>4.105</td>
<td>6</td>
<td>1.049</td>
</tr>
<tr>
<td>Duration of strategic analysis</td>
<td>4.158</td>
<td>2</td>
<td>0.765</td>
</tr>
<tr>
<td>Elaborate strategic analysis</td>
<td>4.158</td>
<td>3</td>
<td>0.688</td>
</tr>
<tr>
<td>Relevance of strategies</td>
<td>4.421</td>
<td>1</td>
<td>0.507</td>
</tr>
<tr>
<td>Average</td>
<td>4.043</td>
<td></td>
<td>0.896</td>
</tr>
</tbody>
</table>

The elements of strategic planning that are natured by exchange rate in the order in which exchange rate is considered an influencing variable include: relevance of strategies (4.421); duration of strategic analysis (4.158); elaborate strategic analysis (4.105); breadth of vision and mission (4.105); extent of situation analysis (4.105); and data for strategic analysis (4.105) - all these items are rated as on average, shaping strategic planning to a great extent. The standard deviations for most of the items are below one (1) suggesting high convergence in respondents’ rating. Under this section the rest of the elements of strategic planning ranking range between moderate extents to great extent: duration of vision and mission (3.497); number of strategic objectives (3.497); and kind of strategic objectives (3.497). The least ranked elements include Use of consultants in situation analysis (3.789) and Duration of strategic objectives (3.789). Given the high rating one can conclude that exchange rate is an important decision variable during strategic.
CHAPTER FIVE: SUMMARY, CONCLUSION AND RECOMMENDATION

5.1. Summary of Findings

This chapter presented the summary of key data findings, conclusion drawn from the findings highlighted and recommendation made there-to. The conclusions and recommendations drawn are in quest of addressing the research question or achieving at the research objective which is to determine the influence of macroeconomic factors on the strategic planning process in commercial banks in Kenya.

5.1.1 Effects of Inflation

High and volatile inflation have a range of economic and social costs. Inflation leads to a rise in general price level so that money loses its value and as a result the real value of savings is severely reduced. This reduces deposit, the amount that commercial banks can advance and the default rate by borrowers; ultimately impairing the bank’s profitability. In all inflation can disrupt operations of commercial banks. Budgeting becomes difficult because of uncertainty created by rising inflation of both prices and cost. This explains the importance attached to inflation by banks during strategic planning stage. However banks seem not to hire consultants to manage inflation, but that cannot be interpreted to mean that inflation does not have damaging effects on banks. It is possible that they have full time staff in charge of monitoring inflation. The impact of inflation on mission and vision aspects is relatively lowly rated. It is possible that a bank’s mission and vision does not generally change over time, and the need to link them to
inflation is not required. It is also possible that banks fail to align their mission, vision, goals and strategies.

### 5.1.2 Effects of Interest rates

Interest rates are important for banks when they act as leaders banks charge interest on advances and also pay interest deposit. When banks give out loans they have to bear risk as some borrowers default. When interest rates increases the value of security (assets) declines thus exposing the banks to losses. As a result of inflation, by the time borrower pay back their loans, the purchasing power of that asset might have decreased.

Economic theory tells us that when there is an increase in demand for credit and mortgages, then interest rate will increase and when there is a decrease in demand, there is a decrease in the rates. But an increase in supply of credit forces interest rates to drop since banks have more money to lend. Only supply and demand affect interest rates because during inflation any period people tend to need more money and banks will respond by raising interest rates. Banks have therefore got to manage interest rates, more so if they expect interest rate to rise. Again this explains the importance attached to inflation by banks during strategic planning stage.

### 5.1.3 Effects of Gross Domestic Product (GDP)

GDP is the measure most often used to assess the economic well-being of a country. Besides measuring the pulse of a country, it is the figure used to compare living standards in different countries. Growth in GDP means growth trade export and imports alike. The banks are likely to see increase both foreign exchange and lending business. This explains the strong link between
GDP and most of elements of strategic planning. In fact most elements of strategic planning are believed to be effected by GDP.

5.1.4 Effects of Exchange Rates

Exchange rate is a significant determinant of bank profitability and therefore is expected to impact on strategic planning choices. This is because exchange rates directly affect the performance of banks with foreign currency transactions and foreign operations. Exchange rates also affect banks indirectly through their influence on the extent of competition and the demand for loans. Again nearly all elements of strategic planning is influenced by exchange rates. Specifically bank have to minimize the exchange rate risk exposure.

5.2. Conclusion

Researchers that have clearly posited that macroeconomic conditions play a vital role in determining the fate of the banks operating therein include Gambs (1977), Ogunleye (1995), and Demirgüç-Kunt and Huizinga (1999). Such findings indicate the dependence of strategic planning on macroeconomic conditions. This is because strategic planning is a systematic effort to produce fundamental decisions and actions that shape and guide what a business organization is, what it does, and why it does it. The major objective of strategic planning is to develop a map by which to manage an organization's positioning. But only profitable and financially sound businesses survive.

Excellent strategic planning is a good indicator of a bank’s profitability and financial strength. It is therefore a reasonable requirement that elements of strategic planning and factors that
influence the direction of each element is identified. This study is about the impact of macroeconomic factors on elements of strategic planning.

The findings confirm potential consideration of macroeconomic factors during strategic planning process. The approved strategic plan will serve as blue print of the bank agenda for the next five years. However circumstances are not static, particularly in relation to macroeconomic factors such inflation, interest rates, gross domestic product and exchange rates thus the need to review and monitor strategic plan so as to keep it relevant.

All the elements of strategic plans are on average, at the minimum to a moderate extent and at maximum to a great extent influenced by the four macroeconomic variables identified in this study. The finding is a pointer that top management in these banks provides sufficient time and other resources to focus on changes in the macroeconomic. It also means that the banks in do scenario analysis e.g. interest rates changes for the term transformation between deposit and advances as well as the effect of fixed interest rates and variable interest rates on bank performance. The scenario analysis enables banks to know whether their strategic objectives are attainable under different economic conditions. Specifically banks forecast and analyze the impact of macroeconomic factors to its business planning. At the end of it, the best strategic alternative would have been identified.

5.3. **Recommendation and Policy Implication**

Management of exchange rate is a topical issue in Kenya. The Kenya shilling is weak relative to other currencies. This requires that commercial banks come up with strategies that protect them
from adverse movements in exchange rates. Evidence indicates that there is a significant and economically important negative relationship between inflation and banking sector development for economies with runaway inflation rates that negatively impact on bank performance Huybens and Smith (1999, 1998). It is important that inflation is closely monitored. Commercial banks will have to develop macroeconomic and forecasting systems for various sectors of the economy. Alternatively they can obtain appropriate software for macro-economic models. They can do this individually or sponsor a research institute to do the forecasting of macroeconomic variables. The challenge is designing effective forward looking policies.

5.4 Limitations of the Study

One limitation of this survey using questionnaire is the low response rate. Secondly questionnaire makes it difficult examining complex issues and opinions. It is difficult being certain whether the questionnaire is filled by the person meant to fill it.

5.5 Suggestions for further research

This kind of research can be done, not using a questionnaire but by way of content analysis or experimental analysis or empirical and largely quantitative in nature.

The banks can take or sponsor research on that built the capacity of bank managers to incorporate macro-economic variables in their decision model at strategic planning stage.

The other type of research could be to determine and evaluate how bank managers actually respond to changes in macro-economic variables at strategic planning stage. It is important determining the effect of exchange rate on various components of strategic planning.
REFERENCES


APPENDICES

Appendix 1: Research Questionnaire

Part A: Organizational Profile

1. Name of company.

2. Year of establishment.

3. Ownership; Private ltd [ ] Public ltd [ ]

4. Incorporation; Local [ ] Foreign [ ]

5. Years of operations in Kenya.

6. Size (Number of Branches).

7. Size (Number of Employees/Personnel).

8. Kind of services; Corporate banking [ ] Personal banking /retail [ ]

Part B: Macro economic Factors and Strategic Planning

In each of the following questions rate your answers on a 5-point scale where: 1=Not at all 2=Little extent 3=Moderate extent 4=Great extent and 5=Very great extent.

1.1 To what extent does inflation affect each of the following aspects of strategic planning in your bank?

<table>
<thead>
<tr>
<th>Aspect</th>
<th>1</th>
<th>2</th>
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1.2 To what extent does interest rate affect each of the following aspects of strategic planning in your bank?

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1.3 To what extent does Gross Domestic Product (GDP) affect each of the following aspects of strategic planning in your bank?

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1.4 To what extent does exchange rate affect each of the following aspects of strategic planning in your bank?

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Thank you so much for your time
Appendix 2: List of All Commercial Banks in Kenya.

1. African Banking Corporation Limited
2. Bank of Africa Kenya Ltd
3. Bank of Baroda (K) Ltd.
4. Bank of India
5. Barclays Bank of Kenya
6. CFC Stanbic bank
7. Chase Bank
8. Citibank N.A. Kenya
9. City Finance Bank Ltd
10. Jamii Bora Bank
11. Cooperative Bank of Kenya
12. Charterhouse Bank Ltd
13. Commercial Bank of Africa
15. Credit bank limited
16. Development Bank
17. Diamond trust bank
18. Dubai Bank
19. Eco Bank
20. Equatorial Bank
21. Family Bank
22. Fidelity Bank ltd
23. Fina Bank limited
24. First Community Bank
25. Giro Bank limited
26. Gurdian Bank Ltd
27. GULF Bank
28. Habib Bank AG Zurich
29. Habib Bank limited
30. Housing Finance
31. I&M Bank
32. Imperial Bank (K) Ltd
33. Kenya Commercial Bank
34. K-Rep Bank
35. Middle East bank
36. National Bank of Kenya
37. NIC Bank
38. Oriental Bank
39. Paramount Bank
40. Prime Bank Limited
41. Standard Chartered Bank
42. Transitional bank
43. UAB
44. Victoria bank