STRATEGIC PLANNING AND EFFICIENCY OF THE BANKING SECTOR: A CASE OF KENYA COMMERCIAL BANK LIMITED

BY

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DECLARATION

This research project is my original work and has never been submitted for examination to any other University.

Signature…………………………….. Date………………………………

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D61/60875/2011

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

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ABSTRACT

This study was undertaken with the primary purpose of determining if there was any correlation between strategic planning and the level of efficiency of firms in the banking industry. To accomplish this task, data were collected from seven (7) senior staffs (Managers, Directors and Supervisors) of Kenya commercial bank, KECOM House who are involved in strategy formulation and implementation. The study collected qualitative primary data by use of an interview guide. The interview guide contained open ended questions to enable the researcher gather as much data as possible from the respondents. Content analysis was employed in analyzing the data that were collected from the respondents. This involved a careful study of the responses and making inferences on the relationship between strategic planning and efficiency in the banking sector.

Three main issues outstanding concerning the findings establishing this relationship are: **1)** factors that influence strategic planning in the banking industry, **2)** factors that established relationship between strategic plans and level of efficiency in the Banking industry and **3)** staff capacity building and achievement of management performance targets. Major factors found are: Actions of Competitor Banks, Benchmarking with the best performers in the industry and activities/process and regulations/laws that impact the strategic planning at KCB and improved efficiency. These activities/process and regulations/laws include: information delivery, technological advancement, new service/product & client taste and government regulations/laws and political environment.

Accordingly, improve efficiency at the Kenya commercial Bank which involves cost management has been facilitated by management strategic plan but cost management is not only about reducing expenses. It is about proper allocation of resources, human resource development, employee’s performance targets and market expansion.

The study further established that a well formulated, implemented and evaluated strategic plan facilitate efficiency in the banking sector and other industry. Findings further indicate how banks and other organizations can make any necessary changes to ensure harmony between its strategic plans and the level of efficiency. KCB and other banks will also be able to find out how strategic planning affects the efficiency of their operations.

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ACRONYMS OR ABBREVIATIONS

KCB---Kenya Commercial Bank

BRIC COUNTRIES---Brazil, Russia, India and China

CBK---Central Bank of Kenya

SWOT--------------------------------------- Strengths, Weaknesses, Opportunities, and Threats

ICBC---Industrial and Commercial Bank of China

HSBC--- Hong Kong and Shanghai Banking Corporation

CHAPTER ONE

INTRODUCTION

1. 1 Background of the Study

Banks have an important role in an economy: they are intermediaries between people with shortages and surpluses of capital. Their products include savings, lending, investment, mediation and advice, payments, guarantees, and ownership and trust of real estate. These core activities generate two principal sources of income: interest earnings and provision earnings. In the first case, a bank is working on its own behalf and risk; and in the second case on behalf of and at the risk of its clients. It is usual to distinguish between different banking departments such as investment banking, commercial banking, corporate banking, private banking, trade finance, electronic banking, securities, financing and loans, savings and so on. Some banks specialize in one or more of these areas. Universal banks usually cover all activities. Organization is environmental dependent and environment serving. An organization has to develop competitive strategy to out compete the competitors. Strategy links organization to the environment. To achieve its objective the organization chooses strategies that align them properly with environment. This is aimed at avoiding any mismatch between the organization and the environment. This in turn leads to effect on the efficiency and performance of the organization.

The choice of strategies to employ at a given time is informed by different factors within and without the organization. Different firm's strategies differ from organization to another which is influenced by the external and internal factors. Major factors include firm and industry factors. There have been conflicting views on which factors are more important than the other in influencing strategy .The firm characteristics view which is supported by resource based view of strategy has dominated in theoretical and empirical literature. The choice of strategy is an important step in the strategy development process. Since the beginning of the deregulation of financial institutions in the early 1980's the role of management within the financial institutions has changed significantly. The aspect of planning has been identified as extremely important in determining the growth and success of virtually all businesses. This study was undertaken to examine the relationship of strategic planning to the efficiency and financial performance of banks.

Strategic planning is key in the overall performance of the organization. The strategy chosen is dependent on various contingent factors. The environment influences the link between strategy and performance. The combination of the various factors contributes to the strategies selected which influence the performance of the organization. Different measures of Strategic planning give the variation in efficiency and performance. Strategy may be deliberate or emergent. Deliberate strategy is more applicable in large organization like banks. This is because such organizations have the strategic planning process involving strategy formulation, implementation, evaluation and control. They have formal strategic planning as opposed to small scale business organization which to a great extent employs informal strategic planning process. These small businesses strategy are therefore more of emergent than deliberate. The basis of this paper focuses on the banking sector since they should have well documented strategic planning clearly stipulating vision, mission, objectives, strategy choice, strategy implementation, evaluation and control.

According to Nickols (2008) the term strategy originated from the military realm where it was used to refer to a general plan of attack or defense. Typically, this involves arrangements made before actually engaging the enemy and intended to disadvantage that enemy. In this context, strategy is concerned with the deployment of resources. In civilian terms, this amounts to the "allocation" of resources. Tactics is the companion term and it refers to actions formulated and executed after the enemy has been engaged — "in the heat of battle," as it were. Tactics, then, is concerned with the employment of resources already deployed. In the civilian sector, this equates to operations in the broad sense of that term. Generally speaking, tactical maneuvers are expected to occur in the context of strategy so as to ensure the attainment of strategic intent. However, strategy can fail and, when it does, tactics dominate the action. Thus it is that, whether on the battlefield or in business, the realized strategy is always one part intended (the plan as conceived beforehand) and one part emergent (an adaptation to the conditions encountered).

Porter (1980) wrote a book about Competitive Strategy. He defined competitive strategy as "a broad formula for how a business is going to compete, what its goals should be, and what policies will be needed to carry out those goals." Chandler (1962) in his book Strategy and Structure did a classic study of the relationship between an organization's structure and its strategy. As a result, he defined strategy as "the determination of the basic long-term goals and objectives of an enterprise, and the adoption of courses of action and the allocation of resources **for carrying out these goals."**

1.1.1 The Concept of Strategic Planning

Strategy is a useful concept, even in all its many variations. Strategic planning is a useful tool that helps in the management of an enterprise, especially if the strategy and strategic plans can be successfully deployed throughout the organization. Senior managers are conferred with the responsibility of making strategic decisions within organizations. For most established firms, this can easily amount to 80 percent of the action. In other words, "strategic issues," regardless of their importance, typically consume no more than 20 percent of the organization's resources even though they take up 80 percent of top management's time and attention (Nickols, 2008).

Strategy is a word with many meanings and all of them are relevant and useful to those who are charged with setting strategy for their corporations, businesses, or organizations (Nickols, 2008). There are as many definitions of the term strategy as the authors themselves. Another definition about strategy was given by Anthony (1965). In his book "Planning and Control Systems" he quotes Kenneth Andrews' definition of strategy as the "the pattern of objectives, purposes or goals and major policies and plans for achieving these goals stated in such a way as to define what business the company is or is to be in and the kind of company it is or is to be."

Finally, Kenneth Andrews, a long-time Harvard professor and editor of the Harvard Business Review, published the first edition of The Concept of Corporate Strategy in 1971 and updated it in 1980. His published definition of strategy took this form in the 1980 edition: "the pattern of decisions in a company that determines and reveals its objectives, purposes or goals, produces the principal policies and plans for achieving those goals, and defines the range of businesses the company is to pursue, the kind of economic and human organization it is or intends to be, and the nature of the economic and non-economic contribution it intends to make to its shareholders, employees, customers, and communities."

There is broad agreement among nonprofit leaders and experts that strategic planning is a critical component of good management and governance. Planning helps assure that an organization remains relevant and responsive to the needs of its community, and contributes to organizational stability and growth. It provides a basis for monitoring progress, and for assessing results and impact. It facilitates new program development. It enables an organization to look into the future in an orderly and systematic way. From a governance perspective, it enables the Board to set policies and goals to guide the organization, and provides a clear focus to the Executive Director and staff for program implementation and agency management (Nickols, 2008).

McKay, E. G. (2001) refers Strategic planning as the process by which leaders of an organization determine what it intends to be in the future and how it will get there. This implies that they develop a vision for the organization's future and determine the necessary priorities, Procedures, and operations (strategies) to achieve that vision. Included are measurable goals which are realistic and attainable, but also challenging. They argue that the emphasis of strategic planning is on long-term goals and strategies, rather than short-term. Strategic planning assumes that certain aspects of the future can be created or influenced by the organization. Strategic planning is ongoing and it more less a process of self-examination, the confrontation of difficult choices, and the establishment of priorities.

1.1.2 The Concept of Efficiency

Efficiency is related to the ability to produce a result with minimum effort or resources. It measures how close a production unit gets to its production possibility frontier, which is composed of sets of points that optimally combine inputs in order to produce one unit of output. Efficiency can easily be look at as the relationship between inputs and outputs. In essence, efficiency indicates how well an organization uses its resources to produce goods and services. Thus, it focus on resources (inputs) and services (outputs and the rate (productivity) at which the inputs are used to produce or deliver the output. Economic Efficiency is increased by a gain in units of output per unit of input.

Following Harker and Zenios (2000), the drivers of bank performance are grouped into three broad categories: strategy, execution of strategy, and environment. The articulation of a strategy is a key driver for success in dynamic, competitive environments like that of the financial services industry. The main strategic choices a bank face concern product mix, client mix, geographical location, distribution channels, and form of organization. Choosing a product mix not only defines the strategy of the institution in providing services but is also a strategic decision in risk management. It is in effect the choice of financial risks the institution plans to manage. A strategy can be implemented through human resource management, use of technology, and process design. The environmental factors that explain efficiency are information technology, client tastes, and regulation. Banks try to influence environmental factors through lobbying activities, marketing efforts, research and development.

1.1.3 Overview of the Global Banking Sector

The global Banking sector suffered a profound and traumatic shock in September 2008 when US investment bank Lehman Brothers collapsed. As market players withdrew from the financial system, credit dried up and world trade collapsed, there was a real and immediate fear that the world was heading for a repeat of the Great Depression of the 1930s. Two years on and there is growing optimism that both the world economy and the banking industry are recovering from the impact of the financial crisis. But it is equally clear that the financial world has changed permanently, both in terms of who holds the balance of power within global industry and how banks will be allowed to operate in future (Pennington and Thornton, 2010). Pennington and Thornton (2010) further argue that those banks operating in emerging markets are now well capitalized and well-funded and big enough to be able to compete directly against their western counterparts in the global marketplace. They cite the two largest banks by market capitalization as Chinese banks - ICBC and China Construction Bank. Although the third place is taken by a British bank, HSBC, it is largely an Asian operation. A league table, compiled by Bloomberg in April, shows that Citi, once the world's largest bank, comes in at fifth, while banks from Brazil, Russia and India - the other members of the BRIC grouping alongside China - are all in the top 25. They also indicate that, banks in emerging markets have a greater potential for growth because of the relatively immature development of their domestic financial markets. Consultancy firm McKinsey estimates that 2.2 billion out of the 2.5 billion people globally who do not use a bank live in Africa, Asia, Latin America and the Middle East. This offers huge potential for expansion based on innovations such as mobile phone banking and microfinance lending.

Bradesco has opened a floating branch on a riverboat on the Amazon River system, the first of its kind in the world, as well as an outlet in Heliopolis, the largest slum in the Brazilian city of Sao Paulo (McKinsey Quarterly, 2010).

1.1.4 The Banking Sector in Kenya

The Banking industry in Kenya is governed by the Companies Act, the Banking Act, the Central Bank of Kenya Act and the various prudential guidelines issued by the Central Bank of Kenya (CBK). The banking sector was liberalized in 1995 and exchange controls lifted.

The CBK, which falls under the Minister for Finance docket, is responsible for formulating and implementing monetary policy and fostering the liquidity, solvency and proper functioning of the financial system. As at December 2008 there were forty six banking and non-bank institutions, fifteen micro finance institutions and one hundred and nine foreign exchange bureaus. The banks have come together under the Kenya Bankers Association (KBA), which serves as a lobby for the banking sector's interest's .The KBA serves a forum to address issues affecting members. Over the last few years, the Banking sector in Kenya has continued to growth in assets, deposits, profitability and products offering. This growth has been mainly underpinned by an industry wide branch network expansion strategy both in Kenya and in the East African community region as well as automation of a large number of services and a move towards emphasis on the complex customer needs rather than traditional 'off-the-shelf banking products.

Players in this sector have experienced increased competition over the last few years resulting from increased innovations among the players and new entrants into the market. Some of the main challenges facing the Banking sector today include; new regulations such as the Finance Act 2008, which took effect on 1 January 2009 requiring banks and mortgage firms to build a minimum core capital of KShs 1 billion by December 2012. This requirement is aimed at transforming small banks into more stable organizations. The implementation of this requirement poses a challenge to some of the existing banks and they may be forced to merge in order to comply. The other challenge is the global financial crisis experienced in late 2008 which has had effects on the banking industry in Kenya especially in regard to deposits mobilization, reduction in trade volumes and the performance of assets. The most recent challenge is the rising inflation that saw the central bank increase its base lending rates to 18% down from 12%. This has forced banks to review their rates upwards thus scaring away borrowers (Price Waterhouse coopers report, 2009).

1.1.5 Kenya Commercial Bank Limited

The establishment of Kenya Commercial bank (KCB) can be traced back to 1896 when its predecessor, the National Bank of India opened an outlet in Mombasa. In the year 1904, the Bank extended its operations to Nairobi, which had become the Headquarters of the expanding railway line to Uganda. In 1958 Grindlays Bank merged with the National Bank of India to form the National and Grindlays Bank. After independence the Government of Kenya acquired 60% shareholding in National & Grindlays Bank in an effort to bring banking closer to the majority of Kenyans. In 1970, the Government acquired 100% of the shares to take full control of the largest commercial bank in Kenya by then. This development resulted to the renaming of the National and Grindlays Bank as Kenya Commercial Bank.

The bank continued to expand by acquiring Savings & Loan (K) Ltd in 1972. The aim of the acquisition was to have a company that specialized in mortgages. In 1997 KCB started a regional expansion programme by opening a wholly owned subsidiary, Kenya Commercial Bank (Tanzania) Limited which was incorporated in Dar-es-Salaam, Tanzania to provide banking services and promote cross-border trading. The expansion was later extended to Southern Sudan, Rwanda and Uganda. These ambitious expansions were in line with the bank's corporate vision of becoming the preferred financial solutions provider in Africa with a global reach.The government of Kenya's shareholding in the bank currently stands at 17.74% after offloading the rest through several rights issues (www.kcbbankgroup.com, 2012). As of September 2011, KCB Group was the largest financial services organization in East Africa, with an estimated asset valuation in excess of US$3 billion (KES:322 billion), and shareholders' equity in excess of US$412 million (KES:41 billion). KCB Group has the widest network of banking outlets comprising over 222 branches and over 400 automated teller machines in Kenya, Burundi, Rwanda, South Sudan, Tanzania and Uganda. In March 2011, media reports indicated that the group was pursuing expansion plans to the Democratic Republic of the Congo, Ethiopia and Zambia.

1.2 Research Problem

Deregulation, consolidation and disintermediation are trends that have spurred a broad and long strand of academic research into the competitiveness, stability and efficiency of banks and banking markets (Berger, Hunter and Timme, 1993). Regardless of how well they reap the fruits of an optimal size and/or product mix, banks still can benefit most from what is measured as 'best-practice', given their size and product mix. The potentially lower costs and higher profits can give banks a cutting edge and are an important indicator of their competitive pressures and incentives (Bos and Kool, 2004). Bos and Kool (2004) further indicate that almost all efficiency studies are implemented under the maintained hypothesis of a common efficient frontier. This assumption typically remains untested. In many individual studies, however, the heroic nature of the assumption is obvious. Often, large (multinational) banks and bank holding companies established in different countries and operating in various geographical and product markets are compared in such efficiency studies. Clearly, the legal, institutional and macroeconomic conditions of their country of origin and of the markets they operate in may considerably differ and have a significant impact on (in) efficiency estimates.

A number of studies have been carried out in the area of strategy and efficiency but majority focused on cross-country comparisons of bank efficiency (Berg et al, 1993; Fecher and Pestieau, 1993; Vander Vennet, 1994; Berg et al., 1995; Allen and Rai, 1996; Ruthenberg and Elias, 1996; Pastor et al., 1997; Altunbas and Chakravarty, 1998; Vander Vennet, 1999). Due to the consciousness of the bias that may occur in this type of cross-border bank efficiency comparison, more subsequent studies to incorporate country-specific environmental conditions emerged. Some of these studies include: Dietsch and Lozano-Vivas, 2000; Chaffai et al., 2001; Lozano-Vivas et al., 2001; Sathye, 2002; Grigorian and Manole, 2002; Lozano-Vivas et al., 2002). For instance, Dietsch and Lozano-Vivas (2000) emphasized that the assumption of a common frontier could yield misleading efficiency results of firms from different countries as such approaches do not control for cross-country differences in regulatory, demographic, and economic conditions that are out of bank's management control.

Despite the large number of studies that have focused on efficiency as mentioned above, it is clear that there is no known study that has addressed the relationship between strategic planning and efficiency among banking institutions in Kenya. In order to cover this research gap, this study will investigate how strategic planning impacts on efficiency in Kenya Commercial Bank Limited. The study findings will be representative of the Kenyan banking industry and to some extend the global banking sector. The study will therefore seek to answer the following research questions. What are the factors that influence strategic planning in the banking industry using KCB in Kenya as a case study? What is the relationship between strategic planning and the level of efficiency in the banking industry?

1.3 Research Objectives

This research aimed at achieving the following objectives

i. To establish the factors that influence strategic planning in the banking industry using KCB in Kenya as a case study.

ii. To determine the relationship between strategic plans and level of efficiency in the Banking industry.

1.4 Value of the Study

Strategic planning is an important survival tool for organizations and organizations which do not embrace it may end up being extinct from business. The findings of this study will be of significant to the following:

Kenya Commercial Bank and Organizations in Kenya

Enable organizations not only in the banking industry but also in the other sectors in Kenya to better understand the role strategic planning plays in the improving efficiency. The findings of the study will also assist Kenya commercial bank to better understand how its strategic plans affect the level of efficiency in service delivery. This may be one way through which the bank can make any necessary changes to ensure harmony between its strategic plans and the level of efficiency. Banks will find out how strategic planning affects the efficiency of their operations.

Banks and Organizations in Liberia

Organizations including banks in my country (Liberia) would benefit by better understanding how its strategic plans affect the level of efficiency in service delivery and operational efficiency. This includes the way through which the banks in Liberia can be able to make any necessary changes to ensure harmony between its strategic plans and the level of efficiency.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter reviews various studies that have been conducted in the area of strategic planning in banks and its effect on efficiency. The review includes empirical studies and theories that have done in strategic planning in the banking sector as well as identifying the knowledge gaps that exist.

2.2 Strategic Planning

According to Geiss (2003), strategic planning is long-range planning. However, it goes beyond just the aspect of long-range planning for an organization to develop a process whereby the organization looks at its resources and the environment and then tries to determine where the organization should be going in the next three to five year time frame. One of the most common definitions of strategic planning is stated by Vancil and Lorrange (1975, p. 81 - 90). They state that it is a process using a time horizon of several years, whereby management reassesses its current strategy by looking for opportunities and threats in the environment and by analyzing the company's resources to identify its strengths and weaknesses. Harrington and Harrington (1995, pp. 88, 89), further assert that the real purpose of strategic planning is to determine the external focus of a business in terms of customers served and value provided, along with identifying the areas in which the organization must excel in order to be successful. A well-crafted plan can provide the road map to success and let every individual know how they can contribute to the results. The planning process itself can be a great contributor to the development of new ideas and competitive insights, develop the process of buy-in and management commitment, and also be an integral part of the communications and mobilization effort.

According to Bryson(1995, p. 23),the 10 steps necessary for successful strategic planning are as follows: Initiate and agree upon a strategic planning process; identify organizational mandates; clarify organizational mission and values; assess the organization's internal and external environments to identify Strengths, Weaknesses, Opportunities, and Threats (SWOT); identify the strategic issues facing the organization; formulate strategies to manage these issues; review and adopt the strategic plan or plans; establish an effective organizational vision; develop an effective implementation process and reassess strategies and the strategic planning process.

Chandler (1962), argues out that the concern of the strategic decision-making processis the long-term health of the organization. The strategic plan is the first of threemajor components of the integrated planning process. The strategic plan establishes the basic nature and direction of the organization. Chandler further states that development of the strategic plan requires involvement andcommitment of the chief executive officer or key decision-maker, and eventuallymanagers throughout the organization must become involved and committed to support the total organizations efforts**.**

2.3 Firms Efficiency

Assessing the efficiency of firms is a powerful means of evaluating performance of firms, and the performance of markets and whole economies. There are several types of efficiency, including allocative and productive efficiency, technical efficiency, 'X' efficiency, dynamic efficiency and social efficiency.

Allocative efficiency occurs when consumers pay a market price that reflects the private marginal cost of production. The condition for allocative efficiency for a firm is to produce an output where marginal cost, MC, just equals price, P.

Productive efficiency occurs when a firm is combining resources in such a way as to produce a given output at the lowest possible average total cost. Costs will be minimized at the lowest point on a firm's short run average total cost curve. This also means that ATC = MC, because MC always cuts ATC at the lowest point on the ATC curve.

Technical efficiency relates to how much output can be obtained from a given input, such as a worker or a machine, or a specific combination of inputs. Maximum technical efficiency occurs when output is maximized from a given quantity of inputs. The simplest way to differentiate productive and technical efficiency is to think of productive efficiency in terms of cost minimization by adjusting the mix of inputs, whereas technical efficiency is output maximization from a given mix of inputs.

X efficiency is a concept that was originally applied to management efficiencies by Harvey Leibenstein in the 1960s. The concept can be applied specifically to situations where there is more or less motivation of management to maximize output, or not. X efficiency occurs when the output of firms, from a given amount of input, is the greatest it can be. It is likely to arise when firms operate in highly competitive markets where managers are motivated to produce as much as possible.

Dynamic efficiency-The concept of dynamic efficiency is commonly associated with the Austrian Economist Joseph Schumpeter and means technological progressiveness and innovation. Neo-classical economic theory suggests that when existing firms in an industry, the incumbents, are highly protected by barriers to entry they will tend to be inefficient. Schumpeter argued that this is not necessarily the case; indeed, firms that are highly protected are more likely to undertake risky innovation, and generate dynamic efficiency. Firms can benefit from two types of innovation: 1**.** Process innovation occurs when new production techniques are applied to an existing product. For example, this is common in the production of motor vehicles with firms constantly looking to develop new methods and production processes.

2. Product innovation occurs when firms generate new or improved products. For example, this is common in many consumer product markets, including electronics and communications.

Social efficiency exists when all the private and external costs and benefits are taken into account when producing an extra unit. Private firms only have an incentive consider external costs into account if they are forced to internalize them through taxation or through the purchase of permit to pollute.

The turmoil in the financial markets, coupled with the economic downturn, is fundamentally altering the financial services environment. In this new world, improving operating efficiency has become a competitive necessity. But while financial firms have typically moved quickly to reduce costs when the business cycle is contracting, far too often these efforts have been quickly forgotten when business picks back up (Deloitte, 2009). Improving efficiency has long been a challenge for the financial services industry, but cost management is not only about reducing expenses. It is about generating more revenue per unit of cost. U.S. banks vary widely in their commitment to cost management, and their commitment tends to be more cyclical than sustaining (Deloitte, 2009).

Banks' ability to perform efficiently – to obtain accurate information concerning its customers' financial prospects and to write effective contracts and to enforce them – depends in part on the property rights, legal, regulatory, and contracting environments in which they operate. Such an environment includes accounting practices, chartering rules, government regulations, and the market conditions (e.g., market power) under which banks operate. Differences in these features across political jurisdictions can lead to differences in the efficiency of banks across jurisdictions. The operating environment can also influence the external and internal mechanisms that discipline bank managers. Internal discipline might be induced or reduced by organizational form, ownership and capital structure, governing boards, and managerial compensation. External discipline might be induced or reduced by government regulation and the safety net, capital market discipline (takeovers, cost of funds, stakeholders' ability to sell stock (stock price)), managerial labor market competition, outside block holders (equity and debt), and product market competition (Demirgüç et al, 2007; Berlin and Mester, 1999; La Porta et al, 2002).

2.4 Empirical Review

Several studies such as those by Ansoff (1988) and by Layton (1991) showed that a formal strategic planning system was an important factor in leading to corporate success, as measured by financial performance. Other researchers of the strategic planning activity such as Watts (1987) and Malik and Karger (1975) have reported conflicting evidence which both supports and refutes the significance of a formal strategic planning process on the corporate success of an organization.

Many other contributors to the planning literature, such as Steiner (1979) and Drucker (1974) agree that a formal planning system is an important factorleading to corporate success. (Success is typically defined in terms of financial performance in the business community). As these major writers indicated, planning is an important factor of corporate success. The saying that, if youdon't know where you are going, any road will lead you there, illustrates thatneed for planning, as a business must know where it is going.

Deloitte (2009) conducted a study on improving efficiency in banks. The study focused on the approaches that banks can use in increasing efficiency. It was established that banks that generally maintained a consistent approach to efficiency improvement also enjoyed superior stock-price growth in addition to being better prepared to organically fund investments. Banks that effectively manage their operating costs will likely have more room to maneuver during the current credit crisis than banks that do not.

Landi and Venturelli (2008) also carried out a study on the determinants and effects of diversification strategy on efficiency of the European banks. The study focused on the need to look closely at the determining factors and economic effects of diversification in the financial sector stems from two main types of reasons. Firstly the banking diversification is taking on an increasingly important role the magnitude of which is difficult to assess without first defining and classifying the main business areas of financial intermediation. Secondly the expansion of banks' activity towards the insurance services and the securities industry has important implications in terms of concentration and stability of financial systems. The study established that regardless of size, can achieve significant cost advantages due to the growth of fee-based services. In particular we find that for a given level of gross income, banks which depend less on interest income show a lower (higher) level of operating costs (gross profits). What proportion of these diversification advantages is related to the higher profitability of non-traditional activities (like asset management and investment banking) or to economies of joint production, it is up to further research to establish.

As strategic management developed as an area of academic study, interest in companies' strategic planning practices waned. By the 1980s empirical research in strategic planning systems focused upon just two areas: the impact of strategic planning on firm performance and the role of strategic planning in strategic decision making. The first area spawned many studies but no robust findings. Ramanujam and Camillus (1986: 347) observed: The results of this body of research are fragmented and contradictory, while Boyd's (1991) survey concluded: the overall effect of planning on performance is very weak.

Another well-known management writer Ansoff (1988) indicated that the prescriptions which have been developed for strategic planning were based upon three underlying assumptions. First, reasonable people will do reasonable things, and that managers will therefore welcome new ways of thinking and will cooperate wholeheartedly. The second assumption was that the key problem in strategy was to make the right decision and that existing operation implementation system and procedures would effectively translate strategic decisions into actions. The third basic assumption was that strategic formulation and strategic implementation are sequential and independent activities.

In keeping with the theme of a turbulent environment and the need to anticipate change, Gebelein (1993), stated that structural changes often take place much faster than expected. The strategic choices that companies make now will limit choices and raise new strategic issues in the future. In short, an industry's structure must be continually analyzed, and plans must be created or modified in response to market changes. Ruocco and Proctor (1994) argue that when an organization engages in strategic planning that a structured approach to the process is recommended over the unstructured or informal approach to long-range planning. They also noted that the perceptions of the senior management team involved in the strategic planning process were a critical component in the success of the planning process.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter discusses the methodology that the researcher employed in the study. The methodology includes the research design, data collections and data collection instruments as well as the data analysis techniques that were used to analyze the data.

3.2 Research Design

The researcher conducted a case study of Kenya Commercial Bank limited (KCB). According to Yin (2003) a case study design should be considered when the focus of the study is to answer "how" and "why" questions; when one cannot manipulate the behaviour of those involved in the study; when there is need to cover contextual conditions if they are relevant to the phenomenon under study or when the boundaries are not clear between the phenomenon and context.

3.3 Data Collection

KCB has more than 170 branches throughout Kenya, making it the largest banking network in the region. It has the largest number of own-branded ATMs in Kenya. The study collected data from seven (7) senior staffs (Managers, Directors and Supervisor) of Kenya commercial bank, KECOM House who are involved in strategy formulation and implementation. There are currently 10 departments at the KENCOM house. The researcher picked senior staffs from various departments. Qualitative primary data were collected for the study. The primary data were collected by use of an interview guide. The interview guide contained open ended questions to enable the researcher gather as much data as possible from the respondents. There were two sections in the interview guide: The first section contained questions on the factors that influence the strategic planning process in KCB and the second section contained data on the relationship between strategic planning and efficiency in KCB. The managers are considered as a reliable source of data since they are involved in the day to day strategic decision making process in the bank.

The interview guide used content validity. This involved logical analysis and critical examination of items in the interview guide. The managers of KCB were interviewed to validate the interview guide. Reliability implies that a measuring instrument should be able to give reliable and stable results. If it is reliable other researchers should be able to come to the same results if they use the same method. To determine the reliability, a pre-test was done on a few selected managers.

3.5 Data Analysis

The study collected qualitative data. The researcher employed content analysis in analyzing the data that were collected from the respondents. This involved a careful study of the responses and making inferences on the relationship between strategic planning and efficiency in the banking sector. The researcher then presented them in a manner that did not change their original meaning as given by the respondents. The data were analyzed according to each objective of the study.

CHAPTER FOUR

DATA ANALYSIS, FINDINGS AND DISCUSSION

4.1 Introduction

This chapter provides an analysis of the data that were used to assess the relationship of strategic planning to the level of efficiency and performance of banking industry, in particular the Kenya commercial bank. This relationship was assessed by establishing the factors that influence strategic planning in the banking industry using KCB as a case study and by determining the relationship between strategic plans and level of efficiency in the Banking industry. Content analysis is employed in analyzing the data that were collected from the respondents, that involved a careful study of the responses and making inferences on the relationship between strategic planning and efficiency in the banking sector. Last is a discussion of the findings.

4.1.1General Information

Table 1 shows the different Headquarters managers at the Kenya Commercial Bank KECOM House that provided responses through interview. It also indicates their positions and responsibilities of these managers. The study collected data from seven (7) senior staffs (Managers) of Kenya commercial bank, KECOM House who are involved in strategy formulation, implementation and evaluation.

Table 4.1- Managers, Positions and Responsibilities

MANAGERS	POSITIONS	RESPONSIBILITIES
David Kitheke	Strategy Manager	-development, formulation, implementation and periodic review of the strategic plan -development of key strategic project and business cases
W. O. M	Senior Manager Forensic Service Audit	-investigate electronic based fraud
Moni N. L	Customer Care Consultant Manager	-conduct in-depth analysis of product performance -provide timely accurate and responsive service to

		customers -manage customers relationship to enhance better growth - manage customers feedbacks and ideas on improvement in customer service -capturing, analysing and evaluating customers complaint or correspondence
Winifred Molu	Cash Manager	-in charge of cash and other back office operations -supervise 30 tellers
M. A. O	Manager	-authorizing transactions and supervisor
R. W. M.	Manager	-managing the bank asset book

Source: 2012 research

The respondents as indicated in table 1 are senior staffs (Managers) of Kenya commercial bank; KECOM House who are involved in strategy formulation, implementation and evaluation. The strategic roles play by theses manager place them in the best position in providing the responses and making inferences on the relationship between strategic planning and efficiency in the Kenya Commercial Bank.

Table 4.2 - Types of efficiency and respondent relationship in regard to the position they occupy.

TYPES OF EFFICIENCY	**DESCRIPTION**	**RESPONDENT**
Allocative efficiency	-occurs when consumers pay a market price that reflects the private marginal cost of production.	1. David Kitheke -Strategy Manager 2. M. A. O - Manager
Productive efficiency	-occurs when a firm is combining resources in such a way as to produce a given output at the lowest possible average total cost.	1. Moni N. L - Customer Care Consultant Manager
Technical efficiency	-relates to how much output can be	1. David Kitheke

	obtained from a given input, such as a worker or a machine, or a specific combination of inputs.	-Strategy Manager 1. Moni N. L - Customer Care Consultant Manager
X efficiency	-applied specifically to situations where there is more or less motivation of management to maximize output, or not. X efficiency occurs when the output of firms, from a given amount of input, is the greatest it can be.	1. David Kitheke -Strategy Manager
Dynamic efficiency	-means technological progressiveness and innovation.	1. Winifred Molu - Cash Manager 2. R. W. M - Manager 3. W. O. M -Senior Manager Forensic Service Audit

Source: 2012 Research

As indicated above, line managers interviewed during the study have responsibilities in ensuring that the different types of efficient outputs are realise in the activities of the bank. Table 3 below provide the rate of responses to the number of questions in section **A** and section **B** of the interview guide. The rate of response imply that the interviewer satisfactorily gather the required information from KCB management to establish the relationship between strategic planning and efficiency.

Table 4.3 – Rate of responses to Interview Guide

Respondent	**Total No. of questions**	**No. Completed**	**No. Uncompleted**	**Percentage**
Moni N. L - Customer Care Consultant Manager	13	12	1	92.3%%
David Kitheke – Strategy Manager	13	13	0	100%
Winifred Molu – Cash Manager	13	13	0	100%
W. O. M – Senior Manager Forensic Service Audit	13	13	0	100%

M. A. O – Manager	13	12	1	92.3%
R. W. M – Manager	13	11	2	84.6%
AVERAGE RATE OF RESPONSE				94.87%

Source: 2012 Research

4.1.2 - Strategic Planning Process at KCB

All of the respondents indicated that the strategic planning process at the Kenya Commercial Bank follow the steps in the strategic planning process that include formulating, implementing and evaluation of the strategic plan. It entails specifying the organization's mission, vision and objectives, developing policies and plans, often in terms of products and services, which are designed to achieve these objectives, and then allocating resources to implement the policies and plans, products and services.

4.1.3 Factors Influencing Strategic Planning Process at KCB

The strategic planning process also considered factors that influence strategic planning at the Kenya Commercial Bank. Some major factors provided by respondents are provided in the tables below. These factors include: Actions of Competitor Banks, Benchmarking with the best performers in the industry and activities/process and regulations/laws that impact the strategic planning at KCB and improved efficiency to include: information delivery, technological advancement, new service/product & client taste and government regulations/laws and political environment.

Table 4.4 – Actions of Competitor Banks

RESPONDENT	RESPONSES
Moni N. L - Customer Care Consultant Manager	-Actions such as competitor developing new products or services can influence the strategic plan by: a) Instituting product or service redesign that improve products or service delivery. b) creation of new product or service to meet customer taste and demand

David Kitheke – Strategy Manager	a) analyzing our competitor product or service which is a part of environmental scanning where in most cases found the early part of our strategic planning b) analysis revolved around financial performance, tariffs and regional expansion
Winifred Molu - Cash Manager	a)seeing completion as a game, we match our products or services with those of our competitor and strategize to surpass their product or service delivery b) help us modify our strategy to ensure we deliver to and beyond our customers expectation
W. O. M - Senior Manager Forensic Service Audit	a) product reposition to ensure sustainable competition and efficiency
M. A. O - Manager	a) stimulate research on competitor products or services that will result in the provision of improve products or services for customers b) research on the development of new product or service
R. W. M - Manager	a) stimulate the strategic plan to modify old product or service or create new product or service delivery

Source: 2012 Research

Different areas have been Benchmark with the best performers in the industry. Areas benchmarked with best performers in the Industry included: customers service (including product and service delivery), Information technology (IT), Staff Motivation, Staff Qualification, Credit Application process (Loaning), Account opening process and Cheque clearing process. Others areas benchmarked are: Electronic banking services Treasury rates, Profitability and Turnaround Time (TAT). Benchmarking with the best performers in the above mention areas in the industry influence the strategic planning process at Kenya Commercial Bank as provided by respondents are indicated below in table six (5).

Table 5 – Strategic Plan and Benchmarking with Best Performers in the Industry

RESPONDENT	**RESPONSES**	**AREAS BENCHMARKED**
Moni N. L - Customer Care Consultant Manager	-help management to plan and determine which area is best practice and thus minimize on it -help management to plan and prioritize their opportunities in the market - help management to plan and initiate a culture of change like through the sale stimulation program which increase efficiency and market shares.	a) customers service (including product and service delivery) b) Information technology (IT) c) Staff Motivation d) Staff Qualification, e) Credit Application process (Loaning) f) Account opening process g) Cheque clearing process h) Electronic banking services i) Treasury rates j) Profitability k) Turnaround Time (TAT).
David Kitheke – Strategy Manager	- help management to plan and set challenging targets on customers orientation activities, loan processing and turnaround time activities. - help management strategic plan to set achievable targets and provide guide to achieving the targeted plan	
Winifred Molu - Cash Manager	- help management review her strategic plan and prevent re-occurring of failure in management strategy -influence management strategic plan to set guidelines for better performance than competitors	
W. O. M - Senior Manager Forensic Service Audit	- help management to plan to increase in efficiency and profitability - help management to plan to improve its turnaround time (TAT)	
M. A. O - Manager	- help management to research on competitor programs and strategize to provide an improve alternative.	
R. W. M - Manager	- help management to strategize in maintaining the market share and keeping the institution in a competitive position.	

Source: 2012 Research

It was also noted that changes in the following activities/process and regulations/laws impact the strategic planning at KCB and improved efficiency. These include: information delivery, technological advancement, new service/product & client taste and government regulations/laws and political environment. Table 6 provided information from four (4) respondents which represent more than 60% of the respondents on how the above activities impact strategic planning and improve efficiency. The remaining three (3) respondents provided similar issues as provided by the four (4) respondents views that are consider.

Table 6 A – Activities and Regulations Impact on strategic planning and efficiency

RESPONDENT: Moni N. L - Customer Care Consultant manager

	ACTIVITIES OR REGULATIONS	**RESPONSES**
6A.1	Information Delivery	a) help management strategy leading to inflow of customers and awareness of the bank in the market b) information delivery by mobile phones have increase awareness of our products and services and enhance banking efficiency c) improve and effective media communication system has enhance management communication strategy through the media.
6A.2	Technological Advancement	a) help management strategy leading to mobile banking, internet banking and diaspora banking c) the bringing into existence of roadmaps/ strategies which lead to improve efficiency
6A.3	Government Regulations/laws and Policies	a) changes in government policies like base lending rate impact our strategic plan leading to adjustment in bank lending rate b) changes like inflation also lead to changes in base lending rate for loans -regular adjustment are made without impacting our market share negatively
6A.4	New Product Service & Client Taste	a) for example, with the introduction of mobile money banking most banks lost their customers b) KCB management strategize to partner with mobile service provider to introduced mobile banking to continual meeting our customer taste.

Source: 2012 Research

Table 6 B – Activities and Regulations Impact on strategic planning and efficiency

RESPONDENT: David Kitheke – Strategy Manager

	ACTIVITIES OR REGULATIONS	**RESPONSES**
6B.1	Information Delivery	a) Changes in IT platform of information delivery had impacted the strategy planning process at KCB like the case of internet banking, mobile phone messages, etc. b) Management strategy led to the revamping of the bank communication system and restructuring of the internal and corporate communication department. c) Opening of the bank contact center
6B.2	Technological Advancement	a)has revised processing activities at the bank b)enhance the Information technology work c)has promoted self-service procedures (do it yourself service)
6B**.3**	Government Regulations/laws and Policies	a)help management strategize against more regional risk measures b)government regulations encourage frequent risk based reports (strategic risk reporting) c)management strategize to the adoption of new laws that enhance banking efficiency; eg: AML/KYL
6B.4	New Product Service & Client Taste	a)management strategic focus on areas like mobile, internet and agency banking b) management strategic focus on recruiting skills personnel and training and development of existing staff c) management strategic focus creating new opportunities for business growth

Source: 2012 Research

Table 6C – Activities and Regulations Impact on strategic planning and efficiency

RESPONDENT: Winifred Molu - Cash Manager

	ACTIVITIES OR REGULATIONS	**RESPONSES**
6C.1	Information Delivery	a) To enhance communication efficiency management strategy encourage open communication channel from bottom to top and vice versa. b) Serve as channel for management to received feedbacks and positively improve on areas of criticism to promote efficiency.
6C.2	Technological Advancement	a) management strategy is generally perused through technological advancement to ensure compliance and efficiency

		b) keep management inform of the latest banking system
6C.3	Government Regulations/laws and Policies	a) government policies through the Central Bank of Kenya gear toward protecting it citizens, ensure markets break even and prevent money launder affect management strategic plan b) Change of government and the political environment affect the bank strategic plan especially when public fund were not utilized accountably.
6C.4	New Product Service & Client Taste	a) Management strategy that focuses on the creation of new products and services will usually excite customers. This ensures growth in customer base. There is also variety of products and services for customers to choose from and enhance efficiency

Source: 2012 Research

Table 4.6 D – Activities and Regulations Impact on strategic planning and efficiency

RESPONDENT: R. W. M - Manager

	ACTIVITIES OR REGULATIONS	**RESPONSES**
6D.1	Information Delivery	a) Management strategy is enhance by the use of modern information delivery system eg: emails, mobile phones and mobile banking.
6D.2	Technological Advancement	a)Technological advancement has created new products and services for the bank eg: internet banking, mobile banking, etc.
6D.3	Government Regulations/laws and Policies	a)government policies such as Central Bank of Kenya lending rate affect management strategy
6D.4	New Product Service & Client Taste	a)management strategy on saving time and cost required the introduction of an efficient system delivery of new products and services, eg: phone transaction, ATM transaction, etc.

Source: 2012 Research

4.1.4 Relationship between Strategic Planning and the level of Efficiency at KCB

Assessing the efficiency of firms is a powerful means of evaluating performance of firms, and the performance of markets and whole economies. Accordingly, improve efficiency at the Kenya commercial Bank which involves cost management has been facilitated by management strategic plan but cost management is not only about reducing expenses. It is about proper allocation of resources, human resource development, employee’s performance targets and market expansion.

Strategic planning is helpful in management cost reduction because strategic planning initiatives have in their nature ethicizing components which help in cost reduction. Table 7 indicates findings on the cost reduction process at KCB as the result of strategic planning.

Table 7 – Cost Reduction due to Management strategic Plan at KCB

RESPONDENT	**AREAS OF COST REDUCTION**	**RESPONSES**
Moni N. L - Customer Care Consultant Manager	NIL	NIL
David Kitheke – Strategy Manager	1) branch consumable 2) infrastructure servicing and maintenance 3) research programs	a) increase in revenue without a proportional increase in cost such as agency banking and mobile banking b) utilization of share serve center released staff from different units which reduce cost and improve efficiency c) Implementation of a new core banking system allowed for greater functionality at lower cost.
Winifred Molu - Cash Manager	1) operational cost 2) financial cost 3) reputational cost	a) strategic planning is helpful in management cost reduction. management strategy to measure individual performance through the balance score card which instill discipline amongst the stakeholders of the bank asset and improve efficiency b)every individual will strive to work in line with management strategic plan in order to score the highest mark on the balance score card thus improve efficiency at the bank
W. O. M - Senior Manager Forensic Service Audit	1)procurement cost 2)finance cost 3)business	1) Strategic planning is helpful in management cost reduction in that it enable management to anticipate actual cost thus eliminate ad-hoc cost which are wasteful and improve efficiency
M. A. O - Manager	NIL	NIL
R. W. M - Manager	1) staff cost 2) operational cost	a) Strategic planning is helpful in management cost reduction in saving time and other operational cost

Source: 2012 Research

Allocation of resources at the Kenya Commercial bank as indicated by the respondents is depended upon and facilitated by the strategic plan of the bank. Table 8 below show how the bank is able to better utilize the resources to their disposal thereby reducing cost and enhancing efficiency.

Table 8 – Strategic Planning and Resource Utilization at KCB

RESPONDENT	RESPONSES
Moni N. L - Customer Care Consultant Manager	a) human resources capacity at the bank is better utilize by sale stimulation programmes b)resources are maximize by allocating it to priority areas that enable the bank reach their goal and enhance efficiency
David Kitheke - Strategy Manager	- resources at the bank is being properly utilize by: a) allocating resources to product and service management at the lowest best cost which lead to high productivity and return on asset b)better staffs and equipment's allocation to manage old and new businesses
Winifred Molu - Cash Manager	-making optimum use of available resources -ensuring re-ordering levels are maintained
W. O. M - Senior Manager Forensic Service Audit	- resources at the bank is being properly utilize by: a) planning for the improvement in process re-engineering b) planning better staff allocation c) planning better allocation of resources for the different program
M. A. O - Manager	- strategic planning enable the bank to better utilization resources by: a) Deploying staff according to their present knowledge and achieving optimum output. b) allocating resources equitably to cover gaps while aiming for good performance
R. W. M - Manager	NIL

Source: 2012 Research

4.1.5 Human Resource Capacity Building and Achieving Employee Performance Targets

Human resource capacity building and relating employee achievement to performance targets is a part of management strategy at the Kenya Commercial Bank as management enhance efficiency. The development of the human resource capital at the bank is part of management strategic plan and this enable the bank to:

a) develop future skillful and knowledgeable employee to promote continuity of growth and efficiency

b) facilitating skill gaps training for employees in new areas of business to promote effectiveness and efficiency

c) promote high performance on the job that enable employees to meet performance targets

d) guiding the hiring and recruitment process considering competence and ability to perform

Management strategy in relating employee achievement to performance targets is a part at the Kenya Commercial Bank strategic plan to ensure efficiency at the bank. Strategic plans that ensure the achievement of performance targets enable management to:

a) have a blue print of what the organization expectation or target performance

b) measure employees performance

c) motivate employees through rewards for good performance

d) meet targets and if possible exceed

e) link plans to specific personnel and department in meeting performance targets

f) clearly communicate performance targets

g) achieve higher profitability and maintain its market share

4.1.6 Market Expansion resulting from Strategic Planning and Efficiency

Accordingly, as the result of its strategic plans and increase level of efficiency, the bank started a regional expansion programme in 1997 by opening a wholly owned subsidiary, Kenya Commercial Bank (Tanzania) Limited which was incorporated in Dar-es-Salaam, Tanzania to provide banking services and promote cross-border trading. The expansion was later extended to Southern Sudan, Rwanda and Uganda. These ambitious expansions were in line with the bank's corporate vision of becoming the preferred financial solutions provider in Africa with a global reach. The government of Kenya's shareholding in the bank currently stands at 17.74% after offloading the rest through several rights issues (www.kcbbankgroup.com, 2012). As of September 2011, KCB Group was the largest financial services organization in East Africa, with an estimated asset valuation in excess of US$3 billion (KES: 322 billion), and shareholders' equity in excess of US$412 million (KES: 41 billion). KCB Group has the widest network of banking outlets comprising over 222 branches and over 400 automated teller machines in Kenya, Burundi, Rwanda, South Sudan, Tanzania and Uganda. The group is pursuing expansion plans to the Democratic Republic of the Congo, Ethiopia and Zambia.

4.2 Discussion of Findings

Three issues were outstanding concerning the findings establishing the relationship between strategic planning and efficiency in the banking sector. The main issues establishing this relationship are: **1)** factors that influence strategic planning in the banking industry, **2)** factors that established relationship between strategic plans and level of efficiency in the Banking industry and **3)** staff capacity building and achievement of management performance targets. The study finds that to establish the relationship between strategic planning and the efficiency level in industry like the banking industry these outstanding issues are consider highly.

Findings shows that satisfactory and sufficient information were gather from respondents as indicated by the rate of responses in table 3 which implied that the interviewer satisfactorily gather the required information from to establish the relationship between strategic planning and efficiency in the banking sector. Out of the total seven managers targeted to be interview which constituted 100% of targeted respondents all answer at least 80% of more of the questions asked during the interview.

The outstanding issues from all of the respondents indicated that the strategic planning process at the Kenya Commercial Bank follow the steps in the strategic planning process that include formulating, implementing and evaluation of the strategic plan. Following these steps in the process of planning ensure efficiency in the bank operation. It entails specifying the organization's mission, vision and objectives, developing policies and plans, often in terms of products and services, which are designed to achieve these objectives, and then allocating resources to implement the policies and plans, products and services.

The findings show that the strategic planning process at KCB considered factors that influence strategic planning at the Kenya Commercial Bank. Major factors found are: Actions of Competitor Banks, Benchmarking with the best performers in the industry and activities/process and regulations/laws that impact the strategic planning at KCB and improved efficiency. These activities/process and regulations/laws include: information delivery, technological advancement, new service/product & client taste and government regulations/laws and political environment.

Findings show that as an institution in the banking industry, KCB management strategic plan is influenced by the competition or actions of competitors in the industry. Porter's in his 1980 book (Competitive Strategy: Techniques for Analyzing Industries and Competitors) develops The Five Forces Model. Porter applied microeconomic principles to business strategy and analyzed the strategic requirements of industrial sectors, not just specific companies. The five forces are competitive factors which determine industry competition and include: supplier’s power, rivalry within an industry, substitute products, customers or buyers power, and new entrants. Collectively, the five forces affect prices, necessary investment for competitiveness, market share, potential profits, profit margins, and industry volume which influence the formation of an entity strategic plan.

Outcome from the findings in table - 4 indicated many ways in which competitor’s bank actions influence the strategic planning process in the banking sector which pushes banks to review its strategic plan in order to obtain efficiency. A review of management strategic plan often leads to: creation of new product or service to meet customer taste and demand, instituting product or service redesign that improve products or service delivery, product reposition to ensure sustainable competition and efficiency, help us modify our strategy to ensure we deliver to and beyond our customers expectation, research on the development of new product or service, analysing our competitor product or service which is a part of environmental scanning where in most cases found the early part of our strategic planning and analysis revolved around financial performance, tariffs and regional expansion.

According to Harrington, H.J. and Harrington, J.S. (1996), Benchmarking is a continuous process of comparison, projection and implementation. It involves comparing your organization with others, discovering and projecting best trends in practices, and meeting and exceeding the expectations of those watching you. . It will identify your strengths and weaknesses, and help you to prioritize your improvement activities. Outstanding in the findings of the study in table -5 are different areas Benchmark with the best performers in the industry and influence it has on management strategic plan. From findings, the banks can increase their level of efficiency benchmarking because it helps management in the following ways:

1) To plan and determine which area is best practice and thus minimize on it

2) To plan and prioritize their opportunities in the market

3) To plan and initiate a culture of change like through the sale stimulation program which increase efficiency and market shares.

4) To plan and set challenging targets on customers orientation activities, loan processing and turnaround time activities.

5) Help management strategic plan to set achievable targets and provide guide to achieving the targeted plan

6) Help management review her strategic plan and prevent re-occurring of failed strategy

7) Influence management strategic plan to set guidelines for better performance than competitors

8) Help management to strategize in maintaining the market share and keeping the institution in a competitive position

9) Help management to research on competitor programs and strategize to provide an improve alternative.

10) Help management to plan to increase in efficiency and profitability

The study outcome show in table 6 that changes in the following activities/process and regulations/laws such as advancement in information delivery, technological advancement, introduction of new service/product & client taste and government regulations/laws and political environment impact the strategic planning banks and improved efficiency. Findings in table 6 A, B, C & D represent the expected outcome as the result of the impact of the above mentioned on a bank strategic plan leading to banking efficiency. Banks guided by strategic plan that are impacted by these are expected to increase in their level of efficiency and meet their performance targets.

Accordingly finding in table 7 shows that improve efficiency in the banking sector that involves cost management has been facilitated by management strategic plan but cost management is not only about reducing expenses. It is about proper allocation of resources, human resource development and employees performance targets and market expansion. According to Accenture consulting, technology and outsourcing, in this difficult economic environment, there is great urgency to reduce costs and improve efficiency. Financial institutions like banks need to take a more strategic approach by viewing cost-cutting as part of a broader efficiency effort. Balancing short-term tactical cost reductions with longer-term strategic cost initiatives will leave banks much better positioned for future high performance.

Human Resource Management is important for banks because banking is a service industry. Management of people and management of risk are two key challenges facing banks. How you manage the people and how you manage the risks determines your success in the banking business. Efficient risk management may not be possible without efficient and skilled manpower (Dr. K C Chakrabarty, Mumbai, 1 June 2012). As the finding indicates, for a bank to continual to increase in efficiency, management strategic plan should include the development of human capital of future skillful and knowledgeable employee to promote continuity in growth and efficiency. Human capital development therefore enable banks to: develop future skillful and knowledgeable employee to promote continuity of growth and efficiency, b) facilitating skill gaps training for employees in new areas of business to promote effectiveness and efficiency, c) promote high performance on the job that enable employees to meet performance targets, d) guiding the hiring and recruitment process considering competence and ability to perform. Additionally, the study reveals that setting employee’s performance targets ensure efficiency at bank. Performance targets enable management to: a) have a blue print of what the organization expectation or target performance, b) motivate employees through rewards for good performance, c) meet targets and if possible exceed, d) link plans to specific personnel and department in meeting performance targets, e) clearly communicate performance targets and achieve higher profitability and maintain its market share.

CHAPTER FIVE

SUMMARY CONCLUSIONS AND RECOMMENDATIONS

5.1 Summary of the Project

This paper is a case study which sought to establish the relationship between strategic planning and efficiency in the banking sector. Despite the large number of studies that have focused on efficiency as mentioned earlier in this paper, it is clear that there is no known study that has addressed the relationship between strategic planning and efficiency among banking institutions in Kenya. In order to cover this research gap, this study investigated how strategic planning impacts on efficiency in Kenya Commercial Bank Limited. The study focus on Kenya commercial bank and the findings are representative of the Kenyan banking industry and to some extend the global banking sector.

The research was designed to pick senior staffs from various departments. Qualitative primary data were collected for the study. The primary data were collected by use of an interview guide. The interview guide contained open ended questions to enable the researcher gather as much data as possible from the respondents. All the usable responses to the questionnaires were analyzed to make the findings presented in this report.

The study further established that a well formulated, implemented and evaluated strategic plan facilitate efficiency in the banking sector and other industry as in the case of the Kenya Commercial bank. The ambitious expansions of the bank are in line with the bank's corporate vision in its strategic plan of becoming the preferred financial solutions provider in Africa with a global reach. As of September 2011, KCB Group was the largest financial services organization in East Africa, with an estimated asset valuation in excess of US$3 billion (KES: 322 billion), and shareholders' equity in excess of US$412 million (KES: 41 billion). KCB Group has the widest network of banking outlets comprising over 222 branches and over 400 automated teller machines in Kenya, Burundi, Rwanda, South Sudan, Tanzania and Uganda. The group is pursuing expansion plans to the Democratic Republic of the Congo, Ethiopia and Zambia.

5.2 Conclusions

Due to the important role Banks play in the economy, they serve as intermediaries between people with shortages and surpluses of capital. Their products include savings, lending, investment, mediation and advice, payments, guarantees, and ownership and trust of real estate. These core activities generate two principal sources of income: interest earnings and provision earnings. In the first case, a bank is working on its own behalf and risk; and in the second case on behalf of and at the risk of its clients. An organization has to develop competitive strategy to out compete the competitors in the industry. This in turn leads to effect on the efficiency and performance of the banks**.** The choice of strategies to employ at a given time is informed by different factors within and without the organization. Different firm's strategies differ from organization to another which is influenced by the external and internal factors. Strategic planning is key to the overall performance of the organization. Different measures of Strategic planning give the variation in efficiency and performance.

Strategy is a useful concept, even in all its many variations. Strategic planning is a useful tool that helps in the management of an enterprise, especially if the strategy and strategic plans can be successfully deployed throughout the organization. Efficiency is related to the ability to produce a result with minimum effort or resources. It measures how close a production unit gets to its production possibility frontier, which is composed of sets of points that optimally combine inputs in order to produce one unit of output. Efficiency can easily be look at as the relationship between inputs and outputs. In essence, efficiency indicates how well an organization uses its resources to produce goods and services.

The study investigated how strategic planning impacts on efficiency in Kenya Commercial Bank limited. The studies review various studies that have been conducted in the area of strategic planning in banks and its effect on efficiency. The review includes empirical studies and theories that have done in strategic planning in the banking sector as well as identifying the knowledge gaps that exist. The study; focusing on Kenya commercial bank endeavor to answer the following research questions: What are the factors that influence strategic planning in the banking industry using KCB in Kenya as a case study? What is the relationship between strategic planning and the level of efficiency in the banking industry?

The findings of this study enable organizations not only in the banking industry or in Kenya but also in the other sectors or countries like Liberia to better understand the role strategic planning plays in the improving efficiency. The findings of the study can also assist Kenya commercial bank and other organization to better understand how its strategic plans affect the level of efficiency in service delivery. This may be one way through which the bank can be able to make any necessary changes to ensure harmony between its strategic plans and the level of efficiency. KCB and other banks will also be able to find out how strategic planning affects the efficiency of their operations.

Three issues were outstanding concerning the findings establishing the relationship between strategic planning and efficiency in the banking sector. The main issues establishing this relationship are: **1)** factors that influence strategic planning in the banking industry, **2)** factors that established relationship between strategic plans and level of efficiency in the Banking industry and **3)** staff capacity building and achievement of management performance targets. The study finds that to establish the relationship between strategic planning and the efficiency level in industry like the banking industry these outstanding issues are consider highly.

The study further established that a well formulated, implemented and evaluated strategic plan facilitate efficiency in the banking sector and other industry as in the case of the Kenya Commercial bank. The ambitious expansions of the KCB bank are in line with the bank’s corporate vision in its strategic plan of becoming the preferred financial solutions provider in Africa with a global reach.

5.3 Policy Recommendations

There is need that banks and other organizations including public and private institutions should have a strategic plan which guides the organization operations in achieving its aims and objectives. According to Geiss (2003), strategic planning is long-range planning. However, it goes beyond just the aspect of long-range planning for an organization to develop a process whereby the organization looks at its resources and the environment and then tries to determine where the organization should be going in the next three to five year time frame.

Organizations to include public and private institutions should establish a management team to monitor and evaluate its strategic plan if it should run efficiently and meet performance target. Regular evaluation should be carryout after the completion of every phase of the plan. In the case of private institution like banks a department or division should be created, the same can be done in public institution.

Every nation or state should establish a management team to monitor and evaluate its strategic plan if it should run efficiently and meet performance target. Regular evaluation should be carryout after the completion of every phase of the plan.

Since the operational activities are facilitated by human capital, organizations in both public and private sectors should arm for training and professional development of its staffs to equip them with the requisite skills and knowledge to perform efficiently and meet performance targets.

5.4 Limitations of the Study

This study has several limitations that make the finding not foolproof.

The study did not cover in full the more than hundred branches of the Kenya commercial Bank in Kenya. The study was only limited to KCB senior managers at the headquarters branch, KENCOM House. A wider study is required to incorporate other branches in other to confirm these findings.

The study considered only one bank (KCB) in the banking sector focus on how strategic planning impact its operations efficiency and did not consider the operations of other banks.

The findings that reflect the operational efficiency of the Kenya commercial Bank are for a specific period in time, that is, the time growth up to the time when the interview were conducted. Strategic management is itself a highly dynamic activity dictated by the ever changing factors in a business internal and external strategic environment. The situation might have changed to the better or the worse even soon after the conduct of the interview. That is likely not to be captured by the results of the analysis.

There are other factors that could perhaps influence an organization strategic plan in establishing the relationship between strategic planning and efficiency. The factors captured in this study were from operational activities at the Kenya commercial Bank.

5.5 Suggestions for Further Research

The findings of this study can be improved if for example more branches of KCB are consider for the research or other banks in the industry are considered for research. The study can be repeated some other time later to assess the changes that might have occurred since this study was done.

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