

**STRATEGY IMPLEMENTATION, INTEREST RATES CAPPING
AND PERFORMANCE OF COMMERCIAL BANKS IN KENYA**

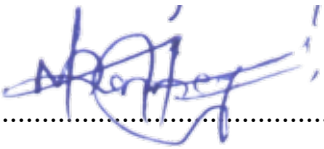
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DECLARATION

This research project proposal is my original work and has not been submitted for examination in any other university.


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

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ABBREVIATIONS AND ACRONYMS

CBK	Central Bank of Kenya
CBR	Central Bank Rate
GDP	Gross Domestic Product
KBRR	Kenya Banks Reference Rate
PWC	Price Water House Coopers

ABSTRACT

The study objective of this study was to determine the effect of interest rate capping on the relationship between strategy implementation and performance of commercial banks in Kenya. The theoretical foundation for this study was cognitive theory, evolution theory and Resource based view theory. This investigation utilized a descriptive design and cross sectional survey. The target population for the study constituted of the remaining forty (40) commercial banks and one (1) licensed mortgage financial institution with branches in Mombasa County, Kenya. Due to the size of the population for the study, a census survey approach was adopted for study sample size. Therefore, the sample for the study was all the management level employees in all the commercial banks in Mombasa. Data collection tool was structured questionnaire. To summarize the data, descriptive statistics were used. The study adopted Baron and Kenny (1986) three-step regression model to establish the effect of interest rate capping on the relationship between strategy implementation and performance of commercial banks. The study found that Strategy implementation is statistically significant to performance of commercial banks in Mombasa County. The study further revealed that Strategy implementation had significant positive relationship with performance of commercial banks in Mombasa County. The study also found that upon introduction of interest rate capping, strategy implementation is mediated by interest rate capping significantly, influencing performance of commercial banks in Mombasa County negatively. The study concludes that increasing the mediating effect of interest rate capping on strategy implementation will lead to decrease in performance of commercial banks in Mombasa County. The study recommends management of the commercial banks to conduct in-depth research on the strategies that can be implemented in their organizations to increase its performance. The study also recommends banks to establish organizational culture that will boost its performance; commercial banks in Kenya should adopt an adjustable and dynamic organizational culture so as to ensure successful strategy implementation. The banks can also embrace Reward and Recognition system that will motivate employees therefore increasing their performance which will in turn increase the performance of

the bank. The government to review the policies on interest rate capping to ensure they are favorable to both the bank and its customers; this will increase performance of the bank and therefore increase general performance of the country's economy.

CHAPTER ONE: INTRODUCTION

1.1 Background of the Study

Strategy implementation as defined by Miller and Dess (1996) is the efforts of organizations that aimed to transform strategic intentions into organizational performance. Hill et al. (2007) defined strategic implementation as the ability of an organization to effectively execute its chosen strategies by crafting viable organizational structures and control systems. A monetary policy restricting the level of interest rate that financial institutions can set for advances and deposits is defined as an interest rate. Dewatripont and Tirole (1994) observed that interest rate caps are justifiably utilized to protect consumers in economies whereby the market power lies in the hands of financial institutions. The performance of an organization as explained by Combs et al., (2005), is the production benefit that results from the organization utilizing its attributes to necessitate activities that will take advantage of its business environment.

The theories that were used were cognitive theory, Resource based view theory and evolution theory. The significance of cognitive theory lies in its relationship to information processing by organizations. Organizations approach information processing through use of top- down approach where cognitive structures generated from experience affect organizations' abilities analytically make use of new data and information (Abelson & Black, 1986) or theoretical approach that information itself shapes organizations' response to it. (Nisbett & Ross, 1980). The resource-based view theory dissects how the organization utilizes resources at its disposal to achieve competitive advantage and sustainable growth. Based on evolution theory, the business environment of organizations influence their performance and thus an effective organization is one that takes advantage of its business environment (Porter, 1985, Kempner & Hewkins, 1968).

Commercial banks' key source of profitability is through interest income earned by charging a higher rate of interest than the rate they pay for funds borrowed through Advancing credit in the form of overdrafts, bank loans, mortgages and credit card facilities (Business intelligence Q2, 2009). Consequently, Interest rate-capping affects this profitability system adopted by commercial banks by reducing the profit margin. It reduces the interest income while increasing the cost of funds and overheads.

1.1.1 Strategy Implementation

Strategy implementation encompasses the steps undertaken to achieve organizational goals by executing organizational plans and strategies while focusing on the totality of the decisions and activities of the organization after environmental analysis and identifying strategic issues and goals (Wheelen & Hunger, 2012). Strategy Implementation is thus primarily operational and focuses on efficiency by managing efforts during the performance and requires coordination among the human capital achieved through special motivation and leadership skills (David, 2013).

Pryor et al. (2007) noted that for enhanced performance to be achieved through introduction of a new or emergent strategy, implementation requires a balanced interplay of strategy, organization structure and organization culture. Strategy greatly determines organization structure; organization structure influences organization culture; and organization culture drives results. His observation was informed by research done by Kaplan, (2005) who observed that organization structure is vital in Strategy implementation, it is the construction of how responsibilities and human capital are specialized and allocated together with the command chain and span of control. The structures, if efficiently and effectively applied, optimizes organization performance.

David (2003) emphasizes that policies, annual objectives, management of conflict, resistance to change, resource allocation, organization structure, and organizational culture should always be considered during the strategic implementation stage.

1.1.2 Interest Rate Capping

Interest rate capping is a monetary policy, which restricts financial institutions from charging more than a certain level of interest rate on advances. Previous research has linked the use of interest rate caps by different countries to promote economic or political plans (Demitriades et al.2001).

In 2013, forty percent of member countries of the World Bank had imposed interest rate ceiling on advances. Majority of these countries were in southern African countries and in Latin speaking countries in the Americas and the Caribbean countries, accounts for 50% and 40% of all the countries in respective regions with only East Asia having 40% interest rate caps. In countries like the Bahamas, Australia, the United States and Canada also used interest rate caps (Mbengue, 2013).

In Kenya, the Banking (Amendment) ACT, 2016 capped banks' lending interest rates to four(4) per cent above the Central Bank Rate (CBR) and the minimum rate of interest on deposits at seventy (70) percent of the base rate. (section 36 (4) of the Central Bank of Kenya Act defines Central Bank Rate (CBR) as the lowest interest rate that the central bank of Kenya charges on advances to commercial banks in Kenya. The central bank rate is determined based on the Taylor Rule based on the responsiveness of the nominal interest rate to changes in inflation, gross domestic product and other economic conditions. (Taylor, J. 1993).

1.1.3 Organizational Performance

Organization performance is the attained results visa vie targets set by the organization. It is because of the ability of organization's to nurture and utilize its competencies to achieve its operational goals (Griffin, 2006). It is measured in both monetary and non-monetary terms to ascertain the level of performance of an organization based on key performance indicators (Lawrimore & Noble, 2009).

Financial ratios account form a considerable portion of parameters used when it comes to measurement of Performance of commercial banks. This ratios include return on investment, net income, deposit growth and return on shareholder equity (Hopkins & Hopkins, 1997). Financial and non-financial indictors can be employed to measure performance (Rowley, 2011).Mishra (2006) noted that employee productivity is used as measure of performance especially in the service sector as it is a reflection of an employee's efforts distinct from deviations in product and capital markets.

This study adopted the tier ranking system indicators used by the CBK to rank Kenya's commercial banks as indicators of performance. In Kenya, commercial banks are categorised into three, Tier one, Tier two and Tier Three depending on the weighted composite index for assets, capital and reserves, deposits, number of loans and accounts for deposits. Profitability as an indicator will also be utilized to provide comprehensive information regarding the performance of Kenya's commercial banks. CBK report (2016)

1.1.4 Strategy Implementation and Organizational Performance

Strategy implementation is application of the core competencies of an organization to enable it turn its plans as well as strategies into practice to achieve the objective of the company (Kotler et al. 2001). It involves distinguishing the strategic decisions, actions and dealings required to accomplish the tasks. the main administrative tasks for strategic implementation are developing an optimal organization structure; availing required resources; compensation systems that will motivate the human capital to achieve the objectives and strategy of the organization; putting in place back end support systems; and offering strategic guidance (Barnet, 2007).

Procedures and guidelines adopted by an organization has been demonstrated to greatly affect the performance of an organization by affecting implementation of strategies; (Levenson, Van der Stede, & Cohen, 2006). During the design process, organizational performance must be included as it is a fundamental fragment (Pride and Ferrell, 2003).

1.1.5 Interest Capping, Strategy Implementation and Organizational Performance

Many countries for various reasons have adopted interest rate capping as a viable monetary policy. Among the justifications for utilization of interest rate capping is the extortive exploitation of consumers by charging them high lending rates. Interest rate capping will thus set equitable interest rates for advances hence help protect public interest. It is this premise that Thailand used to set interest rate ceiling laws for low-income borrowers to ensure financial inclusion access to advances for development. This ideology is also shared by Zambia who introduced the interest rate caps to enhance access to the underserved and mitigate default risk due to over indebtedness and high interest. Interestingly, it was observed that interest rate caps may prevent social harm by limiting impaired and low-income consumers access to credit (Office of Fair Trade report, 2010).

Miller (2013) observed that Interest caps are used to support correct market disequilibrium in specific industries or sector of the economy thus an helpful mechanism that provides short-term credit until it is sustainable to support itself. These market failures result from information asymmetries due to adverse selection and moral hazard, which leads to an inability of financial institutions to properly categorize risk levels of its clients. Interest caps are also used to steer funds to a potentially strategic investment in the country. For effective strategy implementation, an organization must build an optimal organization structure; provide adequate resources; set up efficient internal support systems; offer strategic leadership and mold the corporate culture (Barnet, 2007).

Organizational performance uniqueness to an organization is brought by the strategic choices that an organization makes. (Steers, 1975). Thus, Procedures and guidelines adopted by an organization has been demonstrated to greatly affect the relationship between implementation of strategies and performance of organizations (Levenson, Van der Stede, & Cohen, 2006).

1.1.6 Commercial Banks in Kenya

Currently, there are 42 commercial banks in Kenya that are fully licensed, one licensed mortgage financial institution and seven authorized non-operating holding companies in Kenya (CBK report, 2016). Two of the licensed commercial banks have been placed under receivership and they are; Imperial bank Limited and Chase Bank (K) limited also one bank is under statutory management and it is charterhouse Bank Limited. There are three main categories of commercial banks in Kenya and they are; Tier one, Tier Two and Tier Three and this is dependent on their weighted composite index for net assets, capital and reserves, customer deposit, the loan volume and deposits accounts.

Between the years 2011 and 2015, total loan books of commercial banks of Kenya grew at a Customer Acquisition Growth Rate of 16% and the earnings from lending was Kshs. 273.11 billion, accounting for 60% of the total income made during the year 2015 (CBK report, 2016). The Central Bank of Kenya introduced the Kenya Banks Reference Rate (KBRR) In July 2014 across the banking sector as a uniform base-lending rate to enable consumers compare the pricing of advances. This resulted to reduction of the average lending rates from 20.3% to 15.2% as at May 2015 (CBK report, 2015).

Despite the success of these strategies, there were still some commercial banks that charged more than thirty percent interest on advances. This led to enactment of the Banking (Amendment) ACT 2016 on August 2016. The ACT introduced a new base rate being the Central Bank Rate (CBR). It capped banks' lending interest rates to four per cent above the Central Bank Rate (CBR) and the minimum rate of interest on deposits at seventy (70) percent of the base rate.

With interest rate caps, the consequence of loan provisioning has been highlighted immensely. An account that falls into watch leaves only a minute profitability level for banks. Further the CBK has been categorical that no bank will be allowed to arbitrarily introduce new products in the market or hike fees without the requisite approvals. It is important to note as well that loan delinquency increased from an industry average of 5.2% to 7.9% (CBK report, 2016).

1.2 Research Problem

Daft (2012) through an empirical cross sectional research established that implementation of strategies is related with formulation of strategies and performance of an organization. Strategy implementation is an ongoing process of constant learning, experimentation and risk taking. As explained by Combs et al. (2005), performance of an organization is the production benefit that results from the organization utilizing its attributes to necessitate activities that will take advantage of its business environment. Interest rate capping successfully controlled the financial institutions in the Republic of Korea for the period 1956 to 1994 (Demitriades & Luintel 2001).

Although the use of this monetary policy control has been declining over the past several decades, the financial crisis of 2008 reopened this debate while searching for a tool to protect consumers. This led to El Salvador, the Kyrgyz Republic and Zambia introducing interest rate ceilings while Japan has imposed austeric caps. Considerable attention has been given on the effect strategy implementation on organization performance (Osama Isaac et al, 2016) and importance of organization change capabilities (Tony & Robert, 2005) but little is known on the effect specific external environmental changes in an industry on strategy implementation approaches of the organizations in the industry.

Currently, Kenya has 42 licensed commercial banks (CBK report, 2016). Two of the licensed commercial banks are in receivership, which are Imperial bank Limited and Chase Bank (K) limited in addition, there is one bank that is under statutory management and is charterhouse Bank Limited. Chortareas et al. (2012) researched on the various aspects between bank performances, regulatory policies as well as supervisory policies for some European banks for the period between 2000 and 2008 and concluded that strengthening of official supervisory powers and capital restrictions can enhance banks operations efficiency. In addition, supervisory interventions as well as regulatory policies might lead to high levels of inefficiency. Pasiouras, Tanna and Zopounidis (2009) focused on the impact that regulations had on banking efficiency in which their findings were that efficient banks were not necessarily efficient in profit

generation.

Waseem and Abdul (2014) in their study sought to determine the effect changes in interest rate have on banks profitability using Askari Bank, Bank Alflah, Faysal Bank and MCB Bank Ltd commercial banks in Pakistan, found that an indirect relationship between bank's profitability and interest rate. They concluded that it was due to the huge banking interest rate spread that existed in Pakistan enabled banks to absorb any changes in the interest rates hence the reason for the strong negative link between the rate of interest and banks profitability. Ellison and Forster (2006) researched the effects interest rate ceiling have by tracking the evidence on the impacts of regulation and protection of customers in Australia's credit market. Their empirical evidence unequivocally showed that ceilings of interest rate only affected customer credit supply and price to borrowers that are high risk.

Maina (2016) studied impacts of regulatory enforcement on the link between strategic decision and Kenya's commercial banks performance. From the findings, she noted that Interest rate capping, liquidity management and the supervisory powers enforced were the most influential regulatory move that was perceived to influence commercial bank performance in Kenya. Most of the researches have focused on the impact of interest rate caps on the economy and financial inclusion, little is known about the effect that interest capping has on strategy implementation and performances of commercial banks.

Considering the aggressive loan marketing strategy that Kenya's commercial banks had implemented in the past decade, this research aimed to establish the effect of interest rate capping on the relationship between strategy implementation and performance of commercial banks in Kenya.

1.3 Research Objective

To determine the effect of interest rate capping on the relationship between strategy implementation and performance of commercial banks in Kenya.

1.4 Value of the Study

The study findings are practical to policy makers and the government as they analyze the effect of interest rate capping as a monetary tool on the players in the financial sector that it aims to shape and safeguard its citizens and thus develop policies that ensures its goals are attained while spurring economic growth and stability.

This Study will also benefit the academic community by adding to the body of knowledge on strategic issue management and its theories namely; cognitive theory, evolution theory and resource based view theory. It is hoped that the study will stimulate further learning on sustainable strategic management of companies in a turbulent environment.

Commercial Bank's executives will benefit as the study provides supplementary information on the effect of regulatory changes on the business dynamics and the importance of strategic issue management to ensure that implemented strategies achieve their intended goal. The conclusion of the study will also be of assistance to members of the public providing an in-depth assessment of positions adopted by commercial banks in Kenya in regards to interest rate capping and the changes that have come with it.

CHAPTER TWO: LITERATURE REVIEW

2.1 Introduction

The study reviews literature that relates with the study topic in this chapter. The first section presents theoretical foundations of the study and the second section is an assessment of empirical literature. The later section of the chapter presents conceptual framework of the study that shows the relationships between the independent, intervening and dependent variables of the study.

2.2 Theoretical Foundation of the study

There are a number of theories that relate with the effect of interest rate capping. The theoretical foundation for this study will be cognitive theory, evolution theory and Resource based view theory.

2.2.1 Cognitive Theory

Psychologists attempt to explain human behaviour by understanding their thought processes through cognitive means. The assumption in this theory is that thoughts are the primary determinants of emotions and behaviour. In attempts to answer the questions about variability of organizations' strategies researchers started to study the first primary source of strategic decisions; the strategists. In order to explain personal and, consequently organization behaviour, researchers drew a lot of knowledge from cognitive theory.

Walsh (1995) describes this theory through the use knowledge structure. He describes it as the observation and interpretation of an environment through organized knowledge about an information environment. In the dynamic business environment, organizations interpret information about their business environment to attain survival or competitive advantage by employing data mining structures.

He goes further to state that the psychological research has so far shown that processing of information is affected in predictable ways by knowledge structure. By assessing the

actions of an organization we will be able to shed light on how they perceive their business environment.

2.2.2 Evolution and Revolution Theory

Management thinkers (Porter, 1985, Kempner & Hewkins, 1968) have adopted the Evolution and revolution theory due to its perspective based on Darwin's theory, which suggested that through changes, mutation or transformation an organism is able to adapt to harsh environmental changes to avoid becoming extinct. They observe that Organizations are the same as organisms in that they are influenced by their environment, and thus if they failed to adopt to the changes in the business environment through continuous organizational change they would erode their competitive advantage to their competitors and forced to shut down.

Schumpeter (1950) observed that since changes in business environment is not gradual but radical in nature in form of changes in policy, intense business rivalry like espionage or entry of a viable competitor in the market making the existing businesses to become insolvent and thus new organizations take their place. This was a different view compared to his earlier view on the same matter in 1934 by advocating that existing firms could survive the radical changes in the business environment through proactively innovating products and services.

2.2.3 Resource Based-View

Edith (1959) attributed growth of organizations, to the manner in which they employed their resources. She argued that that an organization is made up of a collection of productive resources contributing towards competitive advantage in the organization by making them available and exploiting them advantageously. Rubin (1973) argued that Instead of merely possessing resources, organizations must utilize them to make them useful.

(Wernerfelt, 1984) advocates that resources and products have a mutual relationship in that, it is by use of resource to generate products that organizational performance is

driven thus, he concluded that organizations may outperform their competition by identifying and acquiring strategic resources that are critical to sustained competitive advantage.

Prahalad and Hamel (1990) argued that management through exploitation of the organizations' core competences, have to be innovative while developing products for the organizations to perform. Barney (1991) and Dierickx and Cool (1989) emphasized that these resources had to be inimitable, non-substitutable, valuable and rare for competitive advantage and improved organizational performance to be achieved. Mahoney and Pandain (1992) affirmed that organizations can attain competitive advantage because they have distinctive competences of effectively utilizing their resources by allocating them productively to attain financial goals.

2.3 Empirical studies

Chortareas et al. (2012) examined the various aspects between bank performances, regulatory and supervisory policies for some European banks for the period between 2000-2008. Their investigations revealed that strengthening of official supervisory powers and capital restrictions can improve the efficiency of banks operations. The beneficial results of official supervisory powers and capital restrictions on banks' productivity are more defined in countries with advanced institutions.

A research carried out on the effects of change in interest rate and profitability of Askari Bank, Bank Alflah, Faysal Bank and MCB Bank Ltd commercial banks in Pakistan, Waseem and Abdul (2014) found that profitability of the bank and its interest rate were indirectly related. The study found that interest rate and profitability of commercial banks had negative correlation (-0.69) thus they concluded that it was due to the huge banking interest rate spread that existed in Pakistan enabled banks to absorb any changes in the interest rates hence the reason for the strong negative link between banks profitability and interest rate.

Ellison and Forster (2008) researched on the impact of interest rate upper limit by tracking the evidence from credit market in Australia. Their empirical evidence unequivocally showed that that interest rate upper limits impacted supply of credit and its price to customers in favor of borrowers that were considered to be high risk. This was in line with a study done in the USA (US National Commission on Consumer Finance, 1971) on credit prices for personal auto loan and cash loan in states where there were rate ceilings and those that had no rate ceilings. The study established interest rate ceiling had no effect on the credit prices of personal auto loan and cash loan. The same study was repeated in United Kingdom by Policis (2004) for the UK Department of Trade and Industry and yielded the same results. Base on the fact that interest rate ceiling were found to have no direct influence, it signified that other variables were in place to cancel out the changes brought by interest rate capping. The researchers did not follow through to ascertain these variables so as to generate a far-reaching conclusion on the matter.

Maina (2016) studied impacts of regulatory enforcement on the link between strategic decision and Kenya's commercial bank performance. It was evident that strategic decisions affected performance of the banks through the top management commitment, decision making approach and support in implementation of strategic decisions. From the inferential statistics, regulatory enforcement was found to have moderating influence on the link between banks performance and strategic decisions. While strategic decisions affects commercial banks performance in Kenya the relationship is not that simple since strategic decisions have to be executed for them to have an impact on organizational performance. The study therefore only researched on one aspect of strategy implementation and thus not comprehensive.

D'Souza (2016) published a special report that sort to shed a light on influence of interest rate caps in Kenya on the strategies that the commercial banks. She noted that the spreads for commercial banks in the East African region had been at an average net interest margin of 7.4% financial year 2015. Six Tier 1 banks recorded a net interest margin of 9.2%. The researcher speculated that the capping interest rates would result into adoption of different strategies, including volume over margin and increased

lending causing a significant rise in Non-Performing Loans and consequently, increased investment in loans processing and provisions. This will result in long turnaround time on applications and selective lending. These strategies would result in erosion of the profit margin for the banks thus, reduced lending as commercial banks re-evaluate their strategies. On the other hand, she believed that a mergers, acquisition and strategic partnerships in banking sector might happen, as banks with limited capital may need to adjust depending on the transformations in the business environment to avoid losses and ensure their survival. As this was an article and not a research paper, D'Souza did not obtain data to investigate the validity of her predictions.

Muriuki (2017) studied the effects interest rate caps have on commercial banks performance using the case of commercial banks in Mombasa County. The study focused on three dimensions to measure the influence. The dimensions were interest caps on loans, interest caps on deposit and interest caps on mortgages. Through a descriptive research, the regression analysis done exhibited positive correlation between interest capping and financial performance. In addition, interest rate capping could explain 53.5% variation in performance of the selected commercial banks suggesting that the other 46.5% is attributed to other factors that were not discussed in the study. Considering the marginal level of R-Square value, it shows that other variables might be at play in determining Kenya's commercial banks performance.

2.4 Conceptual Framework and research Gaps

The study pursued the effect of interest rate capping on the relationship between strategy implementation and performance of commercial banks. The figure 4.1 below show the variables.

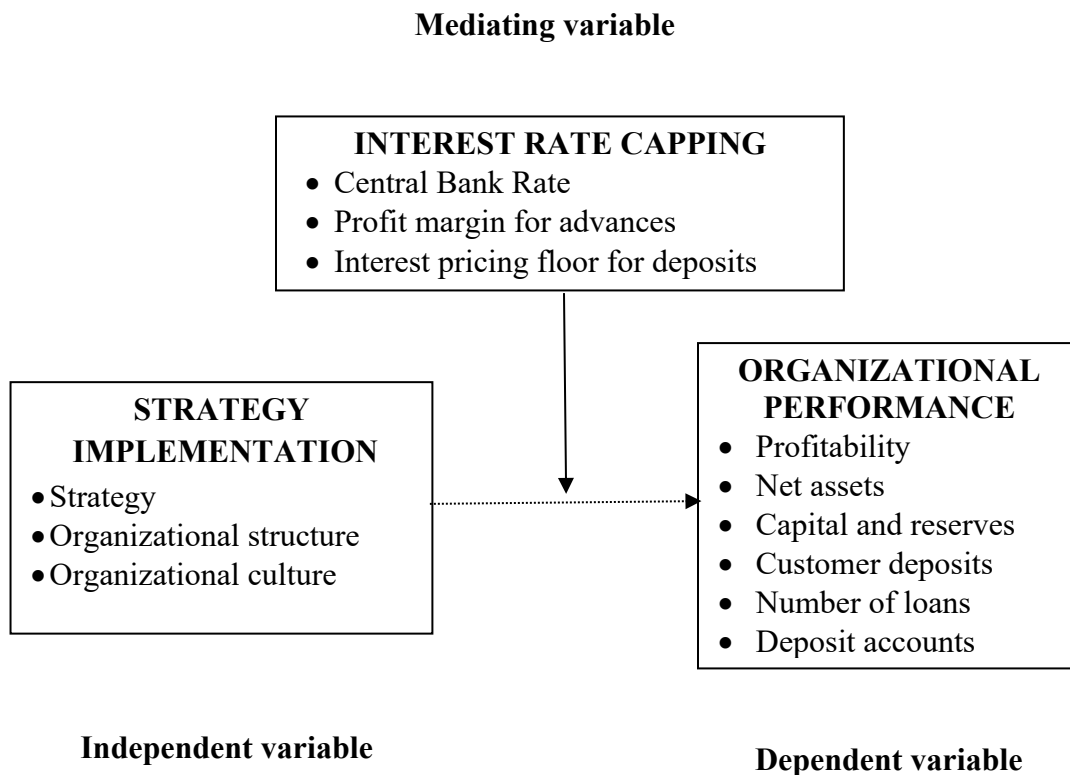


Figure 4.1: Conceptual Framework

The independent variable is strategy implementation. The key variables for Strategy implementation are strategy, organization culture and organization behaviour (Prof. Nicola Shadbolt, 2016).

Interest rate capping is a mediating variable on the relationship between strategy implementation and organizational performance. This study aimed to establish the degree of this influence. The two forms interest rate capping in Kenya is capped based on the Central Bank Rate (CBR) as the base rate. It capped banks' lending interest rates to four per cent above the Central Bank Rate (CBR) and the minimum rate of interest on deposits at seventy (70) percent of the base rate. (Banking (amendment) Act, 2016).

The dependent variable is performance of commercial banks in Kenya. The tier ranking system indicators used by the CBK to rank commercial banks in Kenya was adopted as the performance indicators. The ranking uses weighted composite index of net assets, capital and reserves, customer deposits, number of loans and deposit accounts. Profitability will also be included to provide comprehensive information on performance (CBK report, 2016).

CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Introduction

This part illustrates the approach utilized to undertake the investigation. It is an elaborate description of the procedures employed during collection, processing and analysis of data. This part of the investigation hence outlines the research design, the study population, sampling design, data collection techniques, and data analysis technique put in place.

3.2 Research Design

It refers to both the outline of the investigation problem, the framework, arrangement of the links among investigation variables and the blueprint of study to be employed in gathering the empirical evidence on those links. This investigation utilized Descriptive cross sectional survey research design was adopted. This research design was considered suitable in determining the effect of interest rate capping on the relationship between strategy implementation and banks performance in terms of their objective fulfillment in a specific period of time.

Descriptive cross sectional research design purposes to explain a phenomenon based on the nature of the problem being investigated. It tries to sort out the existence and magnitude of independent variables upon a dependent variable at a given point in time (Veal, 2005).

3.3 Population of the Study

The study targeted commercial banks in Kenya. The Central Bank of Kenya credit survey (2018) indicates that as at December 31st 2016, there were a total of forty two (42) commercial banks in Kenya and one (1) licensed mortgage financial institution. Charterhouse Bank Limited is currently under statutory management and two of the licensed commercial banks are in receivership, namely; Imperial bank Limited and Chase Bank (K) Limited.

Consequently, the target population for the study constituted of the remaining forty (40) commercial banks and one (1) licensed mortgage financial institution with branches in Mombasa County, Kenya. Due to the size of the population for the study, a census survey approach was adopted for study sample size. Therefore, the sample for the study was all the management level employees in all the commercial banks in Mombasa (Orodho, 2004).

3.4 Operationalization of the research study

The study pursued the effect of interest rate capping on the relationship between strategy implementation and performance of commercial banks. The table 4.1 below show the variables, indicators and source that informed the study.

Variable	Indicators	Source
Strategy implementation	Strategy, organization structure and organization culture	Pryor et al. (2007)
Interest rate capping	Central Bank Rate, profit margin for advances and pricing floor for deposits	Banking (Amendment) Act 2016, and Taylor, J. (1993)
Organizational Performance	Profitability, Net assets Capital and reserves, Customer deposits, Number of loan and Deposit accounts	(CBK report, 2016)

Table 4.2: Operationalization of research study

3.5 Data Collection

Primary data was used. This is because, it allowed the researcher to have high control of the information gathered, focus on specific issues that are of interest to the study and control the research design used. Data collection tool was structured questionnaire. The questionnaire was self-administered to the respondents. According to Creswell (2012) a questionnaire as a form used to information from participants about a phenomenon (Babbie & Mouton, 2001) enabling the researcher to obtain a representative sample of the population for generalization purposes (Bless & Higson-Smith, 1995).

Questionnaires enable participants to provide a write evidence of their opinion or facts (Bassey, 1990).

Structuring of the questionnaire was done in such a way that it comprised of two parts. The first section was the general information of the bank; the second section covered the effects interest rate capping has on the relationship between strategy implementation and commercial banks performance.

3.6 Data Analysis

Before analyzing the data, it was checked for completeness. To summarize the data, descriptive statistics were used. The study adopted Baron and Kenny (1986) three-step regression model to establish the effect of interest rate capping on the relationship between strategy implementation and performance of commercial banks. By determining significance of the coefficients of the variables, R and its Significance, R², F and its significance and finally establish the F-change and its significance.

The three steps regression analysis used the below formulas;

$$\text{i) } Y = \alpha + \beta_1 X + e$$

$$\text{ii) } Y = \alpha + \beta_1 X + \beta_2 M + e$$

$$\text{iii) } Y = \alpha + \beta_1 X + \beta_2 M + \beta_3 X.M + e$$

Where;

Y = Organizational performance

X = Strategy implementation

M = Interest rate capping

β_1 = regression coefficient of X when predicting Y

β_1 = regression coefficient of M when predicting Y

β_3 = regression coefficient of X and M interaction to predict Y

α = Constant

e = Error term

CHAPTER FOUR: DATA ANALYSIS, RESULTS AND DISCUSSION

4.1 Introduction

Data collected is analyzed in details in this chapter. sorting and coding of the data was done in excel and SPSS. Tables, figures and percentages were used in summarizing and presenting the data. The gathered data was summarized and presented in forms of percentages, tables, pie charts and figures.

4.2 Response Rate

Selected sample for the study was all 41 management employees of commercial banks having branches in Mombasa County out of which 39 were reached. The rate of response was 95.1%. As Mugenda and Mugenda (2008) explained, the acceptable response rate is that of 50% and above and, if the response rate is above 70% it is excellent. Our rate of response was therefore considered excellent and suitable for analysis and reporting as shown in Table 4.2

Table 4.2: Response rate

Response	Frequency	Percent
Returned	39	95.1
Unreturned	2	4.9
Total	41	100.0

4.3 Demographic Information

In this section, the study provides general information of te respondents and the banks used in the study.

4.3.1 Length of Operation in the Bank

Banks length of operation in Mombasa County was sought and the findings were presented in Figure 4.3.

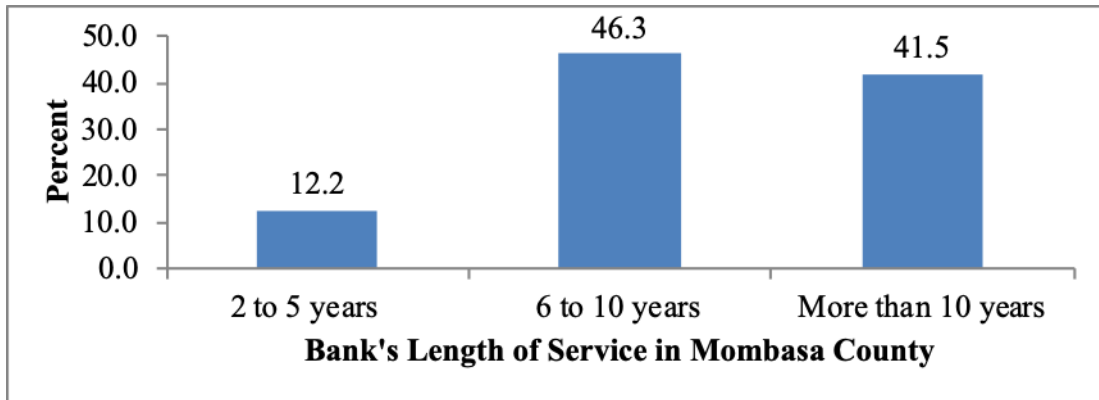


Figure 4.3: Banks' Length of Operation in Mombasa County

As seen in Figure 4.1, 46.3% of the respondents indicated that their banks have operated for 6 to 10 years, 41.5% had operated more than 10 years, and 12.2% operated for 2 to 5 years. This is an indication that the banks have operated in the county long enough to provide the information needed for the study. Majority of the banks had operated for 6 to 10 years.

4.3.2 Banks' Ownership Structure

The study was interested in determining the ownership structure of the bank. Figure 4.4 shows the findings.

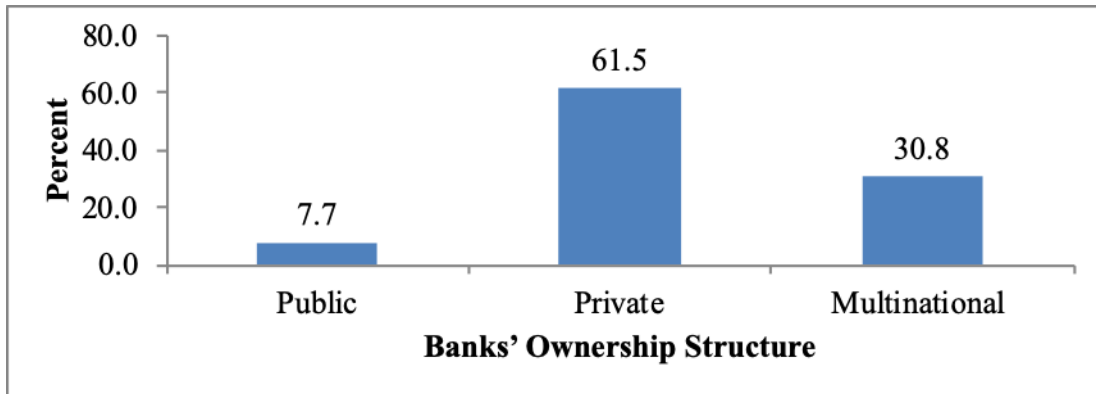


Figure 4.4: Ownership Structure of the Bank

From the findings in Figure 4.4 61.5% of the respondents indicated that their banks were privately owned, 30.8% indicated they were multinational and 7.7% were public. This is an indication that the banks used in the study were of different ownership structure and the study was able to collect information from them. Majority (61.5%) of the banks were privately owned.

4.3.3 Banks Tier

The tier category of the bank was sought and figure 4.5 presents the findings obtained..

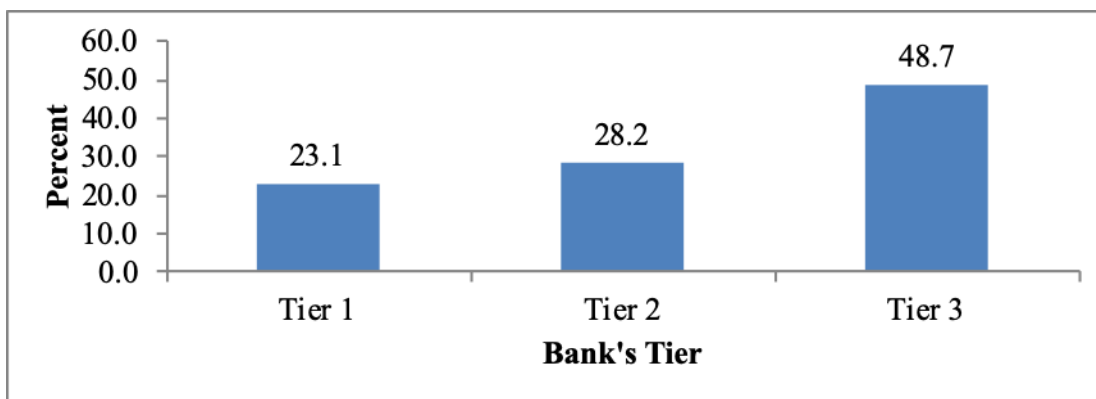


Figure 4.5: Banks Tier

From the findings in Figure 4.5, 48.7% of the respondents indicated that their banks were ranked in Tier 3, 28.2% indicated theirs was in Tier 2 and 23.1% indicate theirs was in Tier 1. This is an indication that the study used respondents from banks ranked in the three different Tiers. Most (48.7%) of the banks were in Tier 3.

4.4 Descriptive Statistics

This section of the study presents the findings on second part of the questionnaire that comprised on the Likert scale questions. Respondents were asked to give their level of agreement with various statements using the scale 1 - Strongly Disagree, 2 – Disagree, 3 - Partially agree, 4 – Agree and 5 - Strongly Agree. Subsections below presents the findings.

4.4.1 Strategy Implementation

Respondents gave their level of agreement with statements on strategy implementation practices in their bank before and after interest rate capping.

4.4.1.1 Before Interest Capping

In this section, the respondents gave their views on measures of strategy implementation and the results were presented in the tables below.

Table 4.3: Strategy

	1	2	3	4	5	Mean	Std. Dev.
1. Product and services in my bank are developed based on the current market trends	1	1	1	29	6	3.929	1.269
2. Financial resources in my bank are allocated based on the organizational goals and objectives	1	1	3	29	4	3.857	1.261
3. In my bank, the customer segment to be focused on are selected after an in-depth analysis	0	1	3	32	3	3.829	1.404
4. Technology adopted by my bank is selected after extensive consideration	3	1	1	31	3	3.753	1.343
5. The number of branches opened or maintained by my bank are continuously evaluated for achievement of organizational goals	1	1	4	31	1	3.750	1.342

The findings in table 4.3, show that the respondents were in agreement that product and services in their bank are developed based on the current market trends as shown by a mean of 3.929, financial resources in their bank are allocated based on the organizational goals and objectives as shown by a mean of 3.857, in my bank, the customer segment to be focused on are selected after an in-depth analysis as shown by a mean of 3.829, technology adopted by their bank is selected after extensive consideration as shown by a mean of 3.753, the number of branches opened or maintained by their bank are continuously evaluated for achievement of organizational goals as shown by a mean of 3.750.

Table 4.4: Organization structure

	1	2	3	4	5	Mean	Std. Dev.
The Chain of command is well defined in my bank	1	1	3	28	6	3.893	1.193
The Span of control in my bank has been communicated to all managers	1	1	3	31	3	3.821	1.336
The operations of the company is Centralized	1	0	4	28	6	3.929	1.193
There is Specialization and formalization of tasks in my bank	1	1	1	31	4	3.893	1.337
Departmentalization is used in carrying out functions in my bank	0	1	1	33	3	3.964	1.480

The findings in table 4.4, show that the respondents were in agreement that the operations of the company is Centralized as shown by a mean of 3.929, departmentalization is used in carrying out functions in their bank as shown by a mean of 3.964, the Chain of command is well defined in their bank as shown by a mean of 3.893, and that there is specialization and formalization of tasks in their bank as shown by a mean of 3.893 and the Span of control in their bank has been communicated to all managers as shown by a mean of 3.821.

Table 4.5: Organization culture

	1	2	3	4	5	Mean	Std. Dev.
1. Vision of my bank is defined and communicated	1	1	1	33	1	3.821	1.490
2. The Core Values of my bank are articulated and cascaded	0	1	1	32	4	3.964	1.405
3. My Bank has set Rules and norms in relation to acceptable behaviour	1	0	1	33	3	3.929	1.484
4. A Reward and Recognition system in my bank is set and used	1	1	1	32	3	3.857	1.411
5. The Skills and traits valued in my bank are well established	1	1	1	29	6	3.729	1.269

From the findings in table 4.5, the respondents were in agreement that the Core Values of their bank are articulated and cascaded as shown by a mean of 3.964, their Bank has set Rules and norms in relation to acceptable behaviour as shown by a mean of 3.929, a Reward and Recognition system in their bank is set and used as shown by a mean of 3.857, vision of their bank is defined and communicated as shown by a mean of 3.821, and the Skills and traits valued in their bank are well established as shown by a mean of 3.729.

4.4.1.2 After Interest Capping

Respondents gave their level of agreement on different statements that relate with various measures of strategy implementation after interest rate capping was introduced. The results were as presented in the Tables below.

Table 4.6: Strategy

	1	2	3	4	5	Mean	Std. Dev.
1. Product and services in my bank are developed based on the current market trends	1	1	1	17	19	4.342	1.148
2. Financial resources in my bank are allocated based on the organizational goals and objectives	2	2	3	15	17	4.138	0.998
3. In my bank, the customer segment to be focused on are selected after an in-depth analysis	1	1	2	17	17	4.250	1.059
4. Technology adopted by my bank is selected after extensive consideration	2	1	3	16	16	4.099	0.969
5. The number of branches opened or maintained by my bank are continuousl	1	2	6	16	14	4.059	0.873

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The findings in Table 4.6 showed that respondents agreed that product and services in their bank are developed based on the current market trends as shown by a mean of 4.342, In their bank, the customer segment to be focused on are selected after an in-depth analysis as shown by a mean of 4.250, allocation of financial resources in the bank are based on the organizational goals and objectives as shown by a mean of 4.138, technology adopted by their bank is selected after extensive consideration as shown by a mean of 4.099, and that the number of branches opened or maintained by their bank are continuously evaluated for achievement of organizational goals as shown by a mean of 4.059.

Table 4.7: Organization structure

	1	2	3	4	5	Mean	Std. Dev.
1. The Chain of command is well defined in my bank	1	1	2	15	20	4.309	1.116
2. The Span of control in my bank has been communicated to all managers	1	1	3	16	17	4.224	1.024
3. The operations of the company is Centralized	2	1	4	14	18	4.197	1.025
4. There is Specialization and formalization of tasks in my bank	1	2	1	17	18	4.276	1.106
5. Departmentalization is used in carrying out functions in my bank	1	1	1	19	17	4.322	1.121

The findings in Table 4.7 showed respondents concurred that departmentalization is used in carrying out functions in their bank as shown by a mean of 4.322, the Chain of command is well defined in their bank as shown by a mean of 4.309, there is Specialization and formalization of tasks in their bank as shown by a mean of 4.276, the Span of control in their bank has been communicated to all managers as shown by a mean of 4.224, and that the operations of the company is Centralized as shown by a mean of 4.197.

Table 4.8: Organization culture

	1	2	3	4	5	Mean	Std. Dev.
1. Vision of my bank is defined and communicated	1	2	1	20	16	4.217	1.083
2. The Core Values of my bank are articulated and cascaded	1	1	1	19	18	4.355	1.147
3. My Bank has set Rules and norms in relation to acceptable behaviour	1	1	1	21	16	4.316	1.134
4. A Reward and Recognition system in my bank is set and used	1	1	2	18	16	4.197	1.036
5. The Skills and traits valued in my bank are well established	1	1	2	17	19	4.355	1.144

The findings in Table 4.8 show that the respondents were in agreement that the Core Values of their bank are articulated and cascaded as shown by a mean of 4.355, the Skills and traits valued in their bank are well established as shown by a mean of 4.355, their Bank has set Rules and norms in relation to acceptable behaviour as shown by a mean of 4.316, vision of their bank is defined and communicated as shown by a mean of 4.217, and that a Reward and Recognition system in their bank is set and used as shown by a mean of 4.197.

4.4.2 Interest Rates Capping

Respondents were asked to indicate the level to which they agree with the statements on implementation of interest rate capping in their bank.

Table 4.9: Interest Rates Capping

	1	2	3	4	5	Mean	Std. Dev.
1. All the credit advances in my bank are pegged on the central bank rate (CBR)	2	1	2	18	16	4.191	1.033
2. All deposit interest rates in my bank are pegged on the central bank rate (CBR)	1	1	1	19	17	4.349	1.132
3. All credit advances in my bank are charged at four (4) percent above the Central Bank Rate	1	0	1	23	15	4.322	1.161
4. Interest on deposits in my bank are set at a minimum of seventy (70) percent of the Central bank rate	1	1	1	15	21	4.368	1.196

The findings in Table 4.9, reveal that the respondents were in agreement that Interest on deposits in my bank are set at a minimum of seventy (70) percent of the Central bank rate as shown by a mean of 4.368, all deposit interest rates in their bank are pegged on the central bank rate (CBR) as shown by a mean of 4.349, all credit advances in their bank are charged at four (4) percent above the Central Bank Rate as shown by a mean of 4.322, and that all the credit advances in their bank are pegged on the central bank rate (CBR) as shown by a mean of 4.191.

4.4.3 Organizational Performance

Respondents gave the level to which their bank achieved the following statements relating to performance of the bank before and after interest rate capping. The respondents used the scale of 1-To a Great negative Extent, 2-To a small negative Extent, 3-Not at all, 4-To a small positive Extent and 5-To a Great positive Extent. The results before capping were as shown in Table 4.10.

1. *Before Interest Rate Capping*

Respondents gave the level to which their banks performed in various areas before interest rate capping. The results are as shown in Table 4.10.

Table 4.10: Organizational Performance before Interest Rate Capping

	1	2	3	4	5	Mean	Std. Dev.
1. Growth in Profitability	2	2	3	13	19	4.178	1.049
2. Growth in Net assets	1	1	3	15	19	4.263	1.089
3. Growth in Capital and reserves	2	1	4	13	18	4.125	1.002
4. Growth in amount of Customer deposits	2	1	2	13	22	4.336	1.205
5. Growth in the size of loan book	1	1	3	15	19	4.263	1.089
6. Growth in number of Deposit accounts	1	1	3	16	17	4.191	1.010

The findings in Table 4.10 show respondents were of the view that their banks performed to a small positive extent in Growth in amount of Customer deposits as shown by a mean of 4.336, Growth in Net assets as shown by a mean of 4.263, Growth in the size of loan book as shown by a mean of 4.263, Growth in number of Deposit accounts as shown by a

mean of 4.191, Growth in Profitability as shown by a mean of 4.178, and Growth in Capital and reserves as shown by a mean of 4.125.

4.4.3.2 After Interest Rate Capping

The level to which bank have achieved the following statements relating to performance of the bank after interest rate capping was sought. Table 4.11 presents the findings.

Table 4.11: Organizational Performance after Interest Rate Capping

	1	2	3	4	5	Mean	Std. Dev.
1. Growth in Profitability	21	13	3	0	2	1.698	0.264
2. Growth in Net assets	18	15	3	2	1	1.781	0.263
3. Growth in Capital and reserves	19	14	3	2	1	1.736	0.249
4. Growth in amount of Customer deposits	6	4	10	17	2	3.128	0.672
5. Growth in the size of loan book	19	14	4	2	0	1.706	0.274
6. Growth in number of Deposit accounts	1	1	15	21	1	3.495	0.941

The findings in Table 4.11 show respondents stated that after the introduction of interest rate capping, there was Growth in number of Deposit accounts to a small positive Extent as shown by a mean of 3.495, there was no growth in amount of Customer deposits as shown by a mean of 3.128, growth in Net assets was to a great negative extent as indicated by a mean of 1.781, growth in Capital and reserves was to a great negative extent with a mean of 1.736, growth in the size of loan book was to a great negative extent with mean of 1.706, and finally growth in Profitability was to a great negative extent with mean of 1.698.

e. Regression Analysis

The study computed the three-step regression model to establish the effect of interest rate capping on the relationship between strategy implementation and performance of commercial banks. The results were as presented in the subsections below.

4.5.1 Effect of Strategy Implementation on Performance of Commercial Banks

The study conducted regression analysis between Organizational performance and Strategy implementation. First, the model summary which presented adjusted R-square was used to determine the amount of variation in organization performance that could be explained by Strategy implementation. Significance of the model was determined using ANOVA and lastly, coefficients were used to test the research hypothesis. The results were as shown in Table 4.12.

Table 4.12: Regression Analysis on Strategy Implementation

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate		
1	.721 ^a	.520	.456	0.03946		
a. Predictors: (Constant), Strategy Implementation						
ANOVA ^a						
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	18.192	1	18.192	24.642	.007 ^b
	Residual	27.315	37	0.738		
	Total	45.507	38			
a. Dependent Variable: Performance of Commercial Banks						
b. Predictors: (Constant), Strategy Implementation						
Coefficients ^a						
Model		Unstandardized Coefficients		Standardized Coefficients	Sig.	
		B	Std. Error			
1	(Constant)	0.787	0.161		.001	
	Strategy Implementation	0.386	0.084	0.371	.007	
a. Dependent Variable: Performance of Commercial Banks						

From the model summary, R^2 value was found to be 0.520. This suggests that there was 52% change in Performance of commercial banks, as a result of changes in changes of Strategy Implementation. The remaining 48% suggest there are other factors that can explain variation of Performance of commercial banks in Mombasa County.

ANOVA was used to test the significance of the model. From the findings, the p-value was 0.001. The significance of the model was tested at 95% confidence interval. Therefore, the p-value (0.001) was less than the selected level of significance (0.005) suggesting significance of the model. The f-calculated (24.642) value was significant. From the f-distributions table, the F-critical value was 4.105. Since the F-critical value was less than the F-calculated ($24.642 > 4.105$) it implied that the model was reliable in predicting the performance of commercial banks in Mombasa County.

The following regression equation was fitted from the coefficients table;

$Y = 0.787 + 0.386X + \epsilon$. This suggests that a unit increase in Strategy implementation will lead to an increase in performance by 0.386 units. The findings also show that if Strategy implementation are held to a constant zero they will significantly ($p=0.007$) influence performance of commercial banks in Mombasa County by 0.787 units.

4.5.2 Mediating Effect of Interest Rate Capping on the Effect of Strategy Implementation on Performance of Commercial Banks

The study sought to determine the mediating effect interest rate capping on effect of strategy implementation on performance in commercial banks in Mombasa County. This was conducted in two stages; the first stage involved running the regression analysis between strategy implementation, interest rate capping and organizational performance and the second stage involved running strategy implementation with mediating effect of interest rate capping and organizational performance. Table 4.13 presents the results

Table 4.13: Mediated Regression Models

Model Summary						
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate		
1	.795 ^a	.632	.521	0.17688		
2	.720 ^b	.518	.677	0.01704		
a. Predictors: (Constant), strategy implementation, interest rate capping						
b. Predictors: (Constant), strategy implementation, interest rate capping, strategy implementation*interest rate capping						
ANOVA^a						
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	23.345	2	11.673	11.308	.009b
	Residual	37.162	36	1.032		
	Total	60.507	38			
2	Regression	25.002	3	8.334	12.962	.001 ^c
	Residual	22.504	35	0.643		
	Total	47.506	38			
a. Dependent Variable: Performance of Commercial Banks						
b. Predictors: (Constant), strategy implementation, interest rate capping						
c. Predictors: (Constant), strategy implementation, interest rate capping, strategy implementation*interest rate capping						
Coefficients^a						
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	0.918	0.101		9.089	0.001
	Strategy implementation	0.474	0.056	0.395	8.464	0.004
	Interest rate capping	-	0.045	-0.332	-	0.007
2	(Constant)	0.372			8.267	
	(Constant)	0.711	0.092		7.728	0.003
	Strategy implementation	0.221	0.029	0.208	7.621	0.026
	Interest rate capping	-	0.067	-0.437	-	0.011
	Strategy implementation* Interest rate capping	0.554	0.003	0.016	8.269	0.031
a. Dependent Variable: Performance of Commercial Banks						

From the model summary, R² value for the relationship between Strategy Implementation and interest rate capping and Performance of Commercial Banks was 0.632. This suggests that there was 63.2% change in Performance of commercial banks in Mombasa County, Kenya, as a result of changes in changes of Strategy Implementation and interest rate capping. The other 36.8% suggest that there are other factors that can be used to explain variation in Performance. Upon introduction of interest rate capping as moderating factor R² decreased to 0.518. This suggests that when interest rate capping is

introduced as moderating factor, 51.8% variation in organizational performance of commercial banks in Mombasa County could be attributed to strategy implementation. Therefore, interest rate capping was not a good mediator for performance of commercial banks.

The significance of the two models were 0.009 and 0.001 which are below the selected level of significance (0.05). The F-calculated values were 11.308 and 12.962. The f-critical values obtained from the f-tables were 3.259 and 2.874 for the 1st and 2nd models respectively. The F-critical values were less than the F-calculated values. Therefore both models can be used to predict organizational performance.

From the coefficients, the first regression model between strategy implementation, interest rate capping and organizational performance of Commercial Banks was;

$$Y = 0.918 + 0.417X - 0.372M + e.$$

The equation shows that when strategy implementation and interest rate capping are held to a constant zero, they significantly ($p=0.001$) influence performance of commercial banks in Mombasa County by 0.918 units. When interest rate capping is held constant, a unit increase in strategy implementation significantly (0.004) influence performance of commercial banks by 0.417 units and when strategy implementation is held constant, a unit increase in interest rate capping significantly (0.007) influence performance of commercial banks by -0.372 units.

The second model (moderated multiple regression model) involved running strategy implementation and organizational performance with mediating effect of interest rate capping and the equation model was as follows; $Y = \alpha + \beta_1X + \beta_2M + \beta_3 X.M + e$. Where Y was the dependent variable (Organizational performance), X- strategy Implementation, M was Interest rate capping, and β_{1-3} are regression coefficients and α is the constant. From the regression findings in Table 4.13, the regression model became;

$$Y = 0.711 + 0.221X - 0.554M + 0.025X.M + e$$

From the equation above, holding strategy implementation and interest rate capping constant, the variables will significantly influence organizational performance of commercial banks in Mombasa County by 0.711 units. Strategy implementation will influence performance of commercial banks in Mombasa County by 0.221 units if the rest of the variables are held constant. When the rest of the variables are held constant, interest rate capping will influence performance of commercial banks in Mombasa County -0.554 units. The study also found that when strategy implementation is mediated by interest rate capping it significantly influence performance of commercial banks in Mombasa County 0.025 units.

CHAPTER FIVE: SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This part focused on the summary, conclusion and the recommendations of the study. The researcher then outlines the recommendations for further investigations.

5.2 Summary

This section presents the summary of the major findings of the study.

5.2.1 Strategy Implementation

Indicators of strategy implementation that were used were; Strategy, organization structure and organization culture. In regard to strategy, the study found that product and services in the bank are developed based on the current market trends, financial resources in banks are allocated based on the organizational goals and objectives, in banks, customer segment to be focused on are selected after an in-depth analysis, technology adopted by banks is selected after extensive consideration, the number of branches opened or maintained by banks are continuously evaluated for achievement of organizational goals. The study further established that after the introduction of interest rate capping, the banks did not change their strategies but rather directed more focus to their implementation.

Regarding, organization structure, the study established that the operations of the company is Centralized, departmentalization is used in carrying out functions in banks, the Chain of command is well defined in banks, and that there is specialization and formalization of tasks in banks and the Span of control in their bank has been communicated to all managers. The study also established that after the introduction of interest rate capping, the banks improved some of their organizational structures like well defining chain of demand and task specialization and formalization.

With respect to organization culture, the study established that the Core Values of banks are articulated and cascaded, Banks have set Rules and norms in relation to acceptable behaviour, a Reward and Recognition system in banks is set and used, vision of banks is defined and communicated, and the Skills and traits valued in banks are well established. The study further established that after interest rate capping was introduced, more banks became more serious in practicing their organizational cultures.

5.2.2 Interest Rates Capping

The study found that Interest on deposits in banks are set at a minimum of seventy (70) percent of the Central bank rate, all deposit interest rates in banks are pegged on the central bank rate (CBR), all credit advances in banks are charged at four (4) percent above the Central Bank Rate, and that all the credit advances in banks are pegged on the central bank rate (CBR).

5.2.3 Organizational Performance

The study found that, before the introduction of interest rate capping, Growth in amount of Customer deposits in banks was small but positive, Net assets grew to a small positive extent, Growth in the size of loan book was positive but to a small extent, number of Deposit accounts grew positively, Profitability had a positive growth, and Growth in Capital and reserves was also to a small positive extent.

The study further established that, with the introduction of interest rate capping, performance of the bank, measures using various measures, declined. Specifically, Growth in number of Deposit accounts increased to a small positive, there was no growth in amount of Customer deposits, growth in Net assets was to a great negative extent, growth in Capital and reserves was to a great negative extent, growth in the size of loan book was to a great negative extent, and finally growth in Profitability was to a great negative extent.

5.3 Conclusion

The study sought to establish the effect of interest rate capping on the relationship between strategy implementation and performance of commercial banks in Kenya. The study found that Strategy implementation is statistically significant to performance of commercial banks in Mombasa County. The study further revealed that Strategy implementation had significant positive relationship with performance of commercial banks in Mombasa County.

The study also found that upon introduction of interest rate capping, strategy implementation is mediated by interest rate capping significantly, influencing performance of commercial banks in Mombasa County negatively. The study therefore concludes that increasing the mediating effect of interest rate capping on strategy implementation will lead to decrease in performance of commercial banks in Mombasa County.

b. Recommendations

The study found that strategy implementation has positive effect on performance of commercial banks in Mombasa County. The study therefore recommends management of the commercial banks to conduct in-depth research on the strategies that can be implemented in their organizations to increase its performance.

The study also recommends banks to establish organizational culture that will boost its performance; commercial banks in Kenya should adopt an adjustable and dynamic organizational culture so as to ensure successful strategy implementation. The banks can also embrace Reward and Recognition system that will motivate employees therefore increasing their performance which will in turn increase the performance of the bank.

The study found that interest rate capping has a negative effect on performance of commercial banks. The study therefore recommends the government to review the policies on interest rate capping to ensure they are favorable to both the bank and its

customers; this will increase performance of the bank and therefore increase general performance of the country's economy.

The study also recommends management of commercial banks in Kenya to ensure that there exists effective top-bottom and bottom-top communication; this can be ensured by having effective organizational structure that facilitates all forms of communication. This would go a long way in improving performance of commercial banks.

c. Suggestions for Further Studies

The main objective of this study was to establish the effect of interest rate capping on the relationship between strategy implementation and performance of commercial banks in Mombasa County. The study recommends further studies to be conducted on the effect of the interest rate capping on the general economy performance.

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APPENDICES

Appendix (i): Research Questionnaire

INTRODUCTION

The questionnaire here-under seeks to collect data on **the effect of interest rate capping on the relationship between strategy implementation and performance of commercial banks in Mombasa County**. Kindly provide honest answers to each question while following the guidelines given. The main purpose of this study is for academic reason and therefore the information you provide will be treated with utmost confidentiality and will be used solely for academic purpose.

INSTRUCTIONS:

Check (√) appropriately on the box that matches your response and in places where banks are provided kindly fill with appropriate information.

SECTION A: Profile of the Bank

1. What is the name of your bank? _____
2. Indicate the length of time your bank has been operational in Mombasa.
 Less than 1 year
 2 to 5 years
 6 to 10 years
 More than 10 years
3. Indicate the ownership structure of the bank?
 Public
 Private
 Multinational
4. Your bank is currently ranked in which Tier?
 Tier 1
 Tier 2
 Tier 3

SECTION B: STRATEGY IMPLEMENTATION, INTEREST RATES CAPPING AND PERFORMANCE OF COMMERCIAL BANKS IN KENYA

a) STRATEGY IMPLEMENTATION

Indicate your level of agreement with the following statements that relate with **strategy implementation practices in your bank before and after interest rate capping**. Use the following scale:

- 1 - Strongly Disagree**
- 2 - Disagree**
- 3 - Partially agree**
- 4 - Agree**
- 5 - Strongly Agree**

I. BEFORE INTEREST CAPPING

i) Strategy:

Statement	Response				
	1	2	3	4	5
6. Product and services in my bank are developed based on the current market trends					
7. Financial resources in my bank are allocated based on the organizational goals and objectives					
8. In my bank, the customer segment to be focused on are selected after an in-depth analysis					
9. Technology adopted by my bank is selected after extensive consideration					
10. The number of branches opened or maintained by my bank are continuously evaluated for achievement of organizational goals					

ii) Organization structure:

Statement	Response				
	1	2	3	4	5
6. The Chain of command is well defined in my bank					
7. The Span of control ni my bank has been communicated to all managers					
8. The operations of the company is Centralized					
9. There is Specialization and formalization of tasks in my bank					
10. Departmentalization is used in carrying out functions in my bank					

iii) Organization culture

Statement	Response				
	1	2	3	4	5
6. Vision of my bank is defined and communicated					
7. The Core Values of my bank are articulated and cascaded					
8. My Bank has set Rules and norms in relation to acceptable behaviour					
9. A Reward and Recognition system in my bank is set and used					
10. The Skills and traits valued in my bank are well established					

II. AFTER INTEREST CAPPING

i) Strategy:

Statement	Response				
	1	2	3	4	5
6. Product and services in my bank are developed based on the current market trends					
7. Financial resources in my bank are allocated based on the organizational goals and objectives					
8. In my bank, the customer segment to be focused on are selected after an in-depth analysis					
9. Technology adopted by my bank is selected after extensive consideration					
10. The number of branches opened or maintained by my bank are continuously evaluated for achievement of organizational goals					

ii) Organization structure:

Statement	Response				
	1	2	3	4	5
6. The Chain of command is well defined in my bank					
7. The Span of control ni my bank has been communicated to all managers					
8. The operations of the company is Centralized					
9. There is Specialization and formalization of tasks in my bank					
10. Departmentalization is used in carrying out functions in my bank					

iii) Organization culture

Statement	Response				
	1	2	3	4	5
6. Vision of my bank is defined and communicated					
7. The Core Values of my bank are articulated and cascaded					
8. My Bank has set Rules and norms in relation to acceptable behaviour					
9. A Reward and Recognition system in my bank is set and used					
10. The Skills and traits valued in my bank are well established					

b)INTEREST RATES CAPPING

Give the level to which you agree with the following statements on implementation of **interest rate capping** in your bank. Use the scale:

1 - Strongly Disagree

2 - Disagree

3 – Neither agree or disagree

4 - Agree

5 - Strongly Agree

Statement	Response				
	1	2	3	4	5
5. All the credit advances in my bank are pegged on the central bank rate (CBR)					
6. All deposit interest rates in my bank are pegged on the central bank rate (CBR)					
7. All credit advances in my bank are charged at four (4) percent above the Central Bank Rate					
8. Interest on deposits in my bank are set at a minimum of seventy (70) percent of the Central bank rate					

c) ORGANIZATIONAL PERFORMANCE

Give the extent to which your bank achieved each of the following statements that relate with performance of your bank before and after interest rate capping.

i) BEFORE INTEREST RATE CAPPING

To a Great negative Extent	To a small negative Extent	Not at all	To a small positive Extent	To a Great positive Extent
1	2	3	4	5
7. Growth in Profitability				<input type="checkbox"/>
8. Growth in Net assets				<input type="checkbox"/>
9. Growth in Capital and reserves				<input type="checkbox"/>
10. Growth in amount of Customer deposits				<input type="checkbox"/>
11. Growth in the size of loan book				<input type="checkbox"/>
12. Growth in number of Deposit accounts				<input type="checkbox"/>

ii) AFTER INTEREST RATE CAPPING

To a Great negative Extent	To a small negative Extent	Not at all	To a small positive Extent	To a Great positive Extent
1	2	3	4	5
1. Growth in Profitability				<input type="checkbox"/>
2. Growth in Net assets				<input type="checkbox"/>
3. Growth in Capital and reserves				<input type="checkbox"/>
4. Growth in amount of Customer deposits				<input type="checkbox"/>
5. Growth in the size of loan book				<input type="checkbox"/>
6. Growth in number of Deposit accounts				<input type="checkbox"/>

Appendix (ii): List of Commercial Banks in Kenya

	LICENSED COMMERCIAL BANKS
1	African Banking Corporation Ltd.
2	Bank of Africa Kenya Ltd.
3	Bank of Baroda (K) Ltd.
4	Bank of India.
5	Barclays Bank of Kenya Ltd.
6	Citibank N.A Kenya.
7	Commercial Bank of Africa Ltd.
8	Consolidated Bank of Kenya Ltd.
9	Credit Bank Ltd.
10	Co-operative Bank of Kenya Ltd.
11	Development Bank of Kenya Ltd.
12	Diamond Trust Bank (K) Ltd.
13	DIB Bank Kenya Ltd.
14	Ecobank Kenya Ltd.
15	Equity Bank Ltd.
16	Family Bank Ltd.
17	Guaranty Trust Bank (Kenya) Ltd.
18	First Community Bank Ltd.
19	Guardian Bank Ltd.
20	Gulf African Bank Ltd
21	Habib Bank A.G Zurich.
22	I & M Bank Ltd.
23	Jamii Bora Bank Ltd.
24	KCB Bank Kenya Ltd.
25	Middle East Bank (K) Ltd.
26	Mayfair Bank Ltd.
27	National Bank of Kenya Ltd.
28	NIC Bank Ltd.
29	M Oriental Bank Ltd.
30	Paramount Bank Ltd.
31	Prime Bank Ltd.
32	Standard Chartered Bank (K) Ltd.
33	SBM Bank (Kenya) Ltd.
34	Spire Bank Ltd.
35	Sidian Bank Ltd.
36	Stanbic Bank Kenya Ltd.
37	Trans-National Bank Ltd.
38	Victoria Commercial Bank Ltd.
39	UBA Kenya Bank Ltd.
40	HFC Ltd.

Source: Central bank of Kenya website: www.centralbank.go.ke/commercial-banks/