

**STRATEGIC RESPONSES, EXTERNAL ENVIRONMENT  
CHANGES AND PERFORMANCE OF NCBA BANK OF KENYA**

**BY**

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**A RESEARCH PROJECT SUBMITTED IN PARTIAL  
FULFILLMENT OF THE REQUIREMENTS FOR THE AWARD OF  
THE DEGREE OF BUSINESS ADMINISTRATION FACULTY OF  
BUSINESS AND MANAGEMENT SCIENCE  
UNIVERSITY OF NAIROBI**

**2022**

## DECLARATION AND APPROVAL

I, Irene Muthoni Kaburia, hereby declare that this MBA research project title “Strategic Responses, External Environment Changes and Performance of NCBA Bank of Kenya” is my novel conceptualization and has not been presented to any university, college or institution for conferment of any degree, diploma or certificate

Signature 

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MBA PROGRAM

## SUPERVISOR APPROVAL

This research project prepared by Irene Muthoni Kaburia titled “Strategic Responses, External Environment Changes and Performance of NCBA Bank of Kenya” has been handed in for an assessment with my endorsement as the appointed university supervisor.



Signed:

Date: 1<sup>ST</sup> DECEMBER 2022

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## DEDICATION

This project is dedicated to my dad Moses Kaburia who constantly reminded me to always aim higher and may his soul rest in eternal peace. My mum Josephine Kaburia who instilled the value of education in me and has always been very proud of my academic achievements. My children Moise Munene, Marcel Murimi, and Manuel Mwenda, for unwavering support throughout this study, may you go beyond this.

## ACKNOWLEDGEMENT

I am grateful to my Almighty God for the gift of life. I am indebted to my supervisor, Prof. James Gathungu for his incredible guidance throughout this project. To management of NCBA Bank Limited, thank you for your support during my data collection exercise. To my family, thank you for your support and care during this time. God Bless you all.

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## **LIST OF ABBREVIATIONS**

<b>CBA</b>	-Commercial Bank of Africa
<b>DevOPs</b>	-Distributed Development and Operations
<b>CBK</b>	- Central Bank of Kenya
<b>NIC</b>	-National Industrial credit bank
<b>RBV</b>	-Resource Based View
<b>SACCO</b>	- Saving and credit Cooperative Societies

## ABSTRACT

Banks such as NCBA bank in Kenya operate in an ever changing external environment that informs the deployment of strategic responses. The inquiry was mainly aim at finding how strategic plans and response influence banks in the country and it involved a case study of NCBA. It also reviewed external environment changes and how this affects firm success. Interview was schedule from 15 managers. Collected Data was analyzed through Content analysis is a data analysis technique. From the results, the study established that NCBA Bank operate in an ever change external environment. Bank responds to change in external environment through deploying various strategies. NCBA Bank Limited adopted strategic collaboration, Mergers and acquisition strategy, Strategic positioning, deployed differentiation, adaptability strategies by resource reconfiguration, foster organizational learning and knowledge management, recovery strategy, strategic outsourcing, deployed rationalization strategy and diversification strategy in response to change in external environment. Strategic responses to change in external environment were found to contribute to bank performance. Bank collaboration merger of bank branches promoted the success of the firms as well as resulted into increase in bank deposit, increase customer to more than 100% rate. The interviewees explained that differentiation strategies increasing customer retention rate up to 87% while product diversification through bancassurance increase bank market share to 60%. Through strategic positioning as strategic responses to change in external environment, the bank focused on customer through customer centric culture approach, deployed corporate and asset banking through expertise approach and rescaling of retail banking distribution. Merger and acquisition were found to contribute to increase in bank's asset base by 12% and customer deposit rose by 11%. The adoption of the digitalization strategy as adaptive strategy influence increase in lending volume increased by 35% and as well as bank increase lending capacity increasing a single borrower Limit from 8Billion to 16Billion, operating income rose up by 6% and bank increase profitability level by more than 102 for a period of three years. Strategic responses adopted by the Bank reported increased in profit to sh1.29 Billion as customer revenue grew, reduction in operation cost as mergers and acquisition foster integration efficiencies and synergies, reduction of earning per share for ordinary share, the bank increase capital base and increase investments, increased product per customer from 1.7 to 2, the bank recorded increase in profit level by, operating income increased, core capital raised to KES 64.8 billion. The study concluded that strategic responses adapted by NCBA Bank Contributed to bank performance. The study recommends that for commercial banks to continue operate in an ever change external environment, management should deploy resources in formulation and implement of strategic responses to achieved expected performance.

# CHAPTER ONE: INTRODUCTION

## 1.1 Background of the study

The external environments in which organizations operate are constantly changing (Murphy, 2010). Change in external environment is characterized by advanced technology, change in firm level competition, and change in the regulation frameworks, globalization, and high complexities in the organizational trade link and dynamic economic environment that influence the operations of the business. The change in external environment has an effect on the operations of the organization due to the resource link between the business and its environment (Machuki and Aosa, 2011). In order for the company to be profitable and sustainable in the face of the external environment's turbulence, it is necessary for the organization to adopt ways to slow down those changes. The strategic responses will ensure adjustments and allow shifts in the operations of the organization (Hoskisson, 2011). Commercial banks are operating in complex external environment. Strategic response to ever changing external environment is a firm's game plan for achieving performance.

This study is anchored on resource based view (RBV) developed by Edith Penrose's in the late 1950s, and supported by Worthington & Edwards in understanding strategic management in 1980s (Worthington & Edwards, 2000) and contingency theory by Fiedler (1964). Firms with substantial assets and capabilities have a competitive advantage and achieve expected performance level. Resource-based view theory predicts that firm's strategic responses to change in external environment gain competitive advantage and achieve higher performance (Richard, 2000). The study will also be

grounded on contingency theory assumes that the capacity of directors to impact organizational performance is limited by natural elements and organizational factors (Carpenter & Golden, 2007).

The Commercial Banks operating in Kenya have to cope with ever changing external environmental characterized by inflation, technological advancement, competition, political change and constant regulatory demands. The Kenyan banks operate in an ever changing external environment and hence adopt some strategic responses to enable a smooth running in the banking market. Survival in such a chaotic environment requires banks such as NCBA Bank Limited to adopt strategic responses mainly anchored on their respective strategic management blue print. This raise concerns on the extent to which strategic responses adopted by commercial banks in response to change in external environment influence performance of NCBA Bank in Kenya.

### **1.1.1 Strategic Responses**

When an environment changes, businesses adopt methods known as strategic responses. According to Johnson and Scholes (2005), it is strategy that helps firms to maintain lead in their market. In order to implement strategic responses, companies must adapt their technique to the environment and furthermore to update their inside ability to match this procedure. the more prominent how much change in factors such as governmental regulations and technology and the greater the number of the environmental factors that that should be thought of, the higher the degree of environmental turbulence (Drucker, 2007)

Banks also faces industrial level external environment both at national and international level and included change in technology, competition and regulation framework. When the macro environment is evaluated in terms of the opportunities or challenges it presents to the enterprise, the macro and industrial environments play a key role in establishing the strategic actions that firms should adopt (Kazmi, 2002). Assuming the corporation is attempting to take advantage of these dynamics, these opportunities and threats should be managed, if at all possible. This focus on the external environment determines the institutional context in which strategy is implemented as well as how that context develops, evolves, and transforms businesses and what they do (Certo, 2007). Hammond and Grosse (2003) opined that change in external environment is inevitable and financial institutions ought to be flexible in developing strategic responses that match the change in external environment to achieve performance.

According to Carpenter and Golden (2007), it is strategic plans and ability to adapt in changing environment that allow firms to manage their operations and improve their success. Firms with long term plans review their environment and find ways of improving their operations. The best way to manage changes in the environment is to adopt different plans. This is the basis of strategic responses and it promotes the success of firms in almost all conditions (Kazmi, 2002).

### **1.1.2 External Environment**

External environment is characterized by globalization, immense development in innovation, political and monetary moves, and changes in cultural qualities, rivalry, fluctuating client and supplier demands, legal reforms among others. Pindiche (2013) clearly states that microenvironment level influences the clients/buyers, providers,

merchants and contenders who are the fundamental market players. Organizations need to project and respond strategically to changes in the microenvironment to outdo those of their competitors. Flexible organizations adapt to the micro environment by investing in research and development to achieve economies of scale (Kadocsa & Francsovcics, 2011; Isoraite, 2009).

Research and development programs often materialize into innovative products, brands and technologies leading to flexibility and adaptability to turbulent environmental changes (Goldsmith & Mechling, 2008). On the other hand, macroeconomic levels are made up of PESTEL (political, economic, social, technical, and legal reforms) that have a daily impact on enterprises. Components of macro environment do not emerge in the same direction and with the same intensity and therefore have adverse effects on company operations (Pindiche, 2013). In this regard, the impact of political waves, the influence of economic factors and social factors, technological advancements and regulation cannot be underestimated.

From the viewpoints of Kadocsa and Francsovcics (2011), firms need to work in areas and conditions where they can monitor their operations. This means that the operational conditions require adoption of SWOT tools in finding challenges and ensuring that the firm goals are achieved. With proper analysis of the environment and some of the changes affecting the firm, it is possible to achieve set long term goals and values. This is possible through coordination of various stakeholders (Goldsmith & Mechling, 2008).

### **1.1.3 Organizational Performance**

Possibly one of the most important constructs in management research is organizational performance. The idea of organizational performance is dependent on the premise that an organization is a deliberate relationship between practical resources, such as human, physical, and financial resources, in order to achieve a shared perspective (Carton, 2004). Organizational performance is the company's capacity to accomplish its main objective through effective management, significant administrative strengths, and a resolute commitment to obtaining results. Ibarra (2005) suggested that organizations delivering services must expand their assessment of efficiency from the ordinary organization situated viewpoint to a double organization client viewpoint. This expanded methodology can assist with accommodating struggles or influence collaborations between further developing help service quality and boosting service productivity (Huang & Tung, 2001).

In the corporate, commercial, and industry sectors, measuring an organization's performance is seen as a complicated concept that occurs at several levels of sectorial organization (Carton, 2004). In Banking sector organizational performance is measured using financial and non-financial performance indicators. Financial performance measure include returns and profitability level while non-financial measure include asset base, customer base, management efficiency and number of customers.

Analysis of a study by Carton (2004) confirmed that output in firms are based on effort apply. This means that success and value in the firm can be achieved through effort and collaboration. The level of success and output can be seen in terms of profits. There are also conditions where sales volumes can show the increase in value in firms (Huang & Tung, 2001). However, proper management of performance and general output in firms



require good strategies and plans that consider the conditions of operations and the assets available at hand.

#### **1.1.4 Commercial Banking in Kenya**

Kenya has both privately and publicly held commercial banks that process credit, receives deposits and provides other monetary services such international banking, document collection, and trade financing (Central Bank of Kenya, 2011). The Central Banks of the jurisdictions (countries) in which commercial banks operate authorize and control them (CBK, 2021).

The challenges in the world have led to different changes in bank value. This includes the 2020 outbreak and other past crisis. Small banks can become more stable businesses with the support of this rule. Some of the current banks are having trouble with this requirement's execution. As a result, commercial banks must strategically respond to the effects of changing environments in order to remain competitive (CBK, 2021).

#### **1.1.5 NCBA Bank Kenya**

Upon approval on September 30, 2019, Commercial Bank of Africa (CBA) and National Industrial Credit Bank (NIC) merged to form NCBA Bank, Kenya.

Licensed by the financial organization of Kenya, banking company of continent Ltd. (CBA) is one in all massive banks in Kenya. Since its inaugural creation in African nation in 1967, the bank has provided financial services for over fifty years. The main target of CBA is on large partnerships, NGOs, strategic missions, foundations, and in private command shoppers with sturdy financial positions. Additionally, to having

locations in Rwanda, Uganda, and Tanzania, CBA maintains thirty four branches in Kenya. The bank provides a spread of economic products, comparable to credit facilities, investments, and savings accounts. Mshwari and Fuliza are 2 of CBA' primary monetary product (NCBA Bank, 2021)

In order to operate as a non-financial entity, Mercantile Credit Company Limited and Standard Bank Limited formed the National Industrial Credit Bank (NIC) in 1959. The bank has been operating as a commercial bank in accordance with Kenya's central bank regulations. The bank operates in Tanzania and Uganda in addition to Kenya, where it has 42 locations. CBA and NIC merged their operations forming NCBA in 2018, a move that was expected to increase synergy, widen the scale of operations so as to attain superior performance (NCBA Annual Report, 2022).

## **1.2 Research Problem**

Strategic responses allow an organization to counter the dynamisms in the environment that may create redundancy when not effectively addressed (Drucker, 2007). Given the fact that firms may not have a direct influence in the forces within its external environment, a change in such surroundings may have an adverse effect on survival and ultimate performance of the firm if not well countered (Pindiche, 2013). As such, strategic responses are expected to play an important role in countering the changes in the external environment of the firm that may adversely affect overall performance of the firm (Hoskisson, 2011).

Commercial banks are operating in an increasingly disruptive environment forcing them to come up with fresh methods to boost their capability and competitiveness. An

organization's survival or success depends on its capacity to utilize response strategies to counter change in external environment (Grant, 2002). Effective strategic decisions developed in response to change in external environmental influence competitive advantage in banking sector organizations (Weor & Katuse, 2018).

In the past few years, the Kenyan banking sector has undergone a paradigm shift due to change in banking sector external environment. These modifications to the business environment result in commercial banks to implement of strategic responses such as mergers and acquisitions, improve distribution channels, utilization of innovations, geographical diversification, consolidation (73.91%), customer base diversification (69.57%), the increased emphasis on non-interest income (56.52%), changed their business orientation and deployment of technology in banking service delivery. Despite NCBA Bank operating in an ever changing external environment in Kenya, empirical studies that establish the extent the bank achieve the targeted performance goals as a result of adopted response strategies to changes in the external environment.

Several studies have been done on determine how strategic plans, the environment and other factors influence the success of firms. In a study done by Daugherty and Droge (1990) in France on the importance of strategies, the authors noted that strategy promote success of firms in the long run. The study was based on multiple firms. However, data was collected among managers. The inquiry supported the view that firms should consider different plans in their major operations. However, this study was done in France and it cannot work well in Kenya.

In the United States, especially in Texas, Cascio (2002) reviewed how effective structure and plans can help achieve success in firms. The inquiry was based on one company in

the region. The author noted that plans are the main reasons why some firms value and operations are success. The inquiry suggested the need for firms to adopt new plans and restructure their operations after every three years to improve their value. However, this study was done in the USA and it may not apply in the local context. In addition, the study was also done in late 2002 and it cannot apply today.

In a study done by Erasmus et al. (2000) in South africa, especialy on how human respurce plans and strategic systems affects the suces of firms, it was noted that firms must find ways of motivating their workers. This is one of the strategies common among NGOs. With well rewarded workers, firms are able to manage their environment and enjoy success. However, this study only focus on human resource plans and ignored other important plans. The study also focus only within firms in South Africa.

Local studies such as Awero (2011) examined Post Bank's strategic responses to the competitive environment in Kenya and found that innovation and the introduction of automated banking systems were used to address issues with inflation, political unpredictability, technological advancements, and a negative corporate image. Murimi (2020) established that NCBA Bank's adopted strategic responses due to change in external environment, while Ndung'u, Machuki and Murerwa (2014) assessed strategic responses to changes in economic environment adopted by commercial banks in Kenya. Muriuki (2016) found that multinational commercial banks in Kenya used cost leadership, differentiation, and focus strategies as forms of competitiveness to survive the market. There is no study that has linked strategic responses to change in external environment to performance of commercial banks in Kenya. The study sought to answer

the questions, what are the effects of strategic responses and external environment changes on performance of NCBA Bank of Kenya?

### **1.3 Research Objectives**

The study sought to establish the effects of strategic responses and external environment changes on performance of NCBA Bank of Kenya.

### **1.4 Value of the Study**

This study would contribute to understanding how response strategies to changes in external environmental changes influence NCBA Bank PLC performance and banking institutions in Kenya. Commercial banks are exposed to external environmental conditions. Management at NCBA Bank PLC have to seek strategic responses to be in a position of achieving success and profitability level as expected. The findings of this study would enhance insight into contribution of responses strategies for banks survival and attainment of performance goals.

The policy makers in banking sector especially the Central banks of Kenya, The Kenya Bankers association and directors in commercial banks will gain insight on the extent strategic responses contribute to competitiveness in banks in developing countries like Kenya. This would inform their insight in development of policy framework in promoting strategic responses in commercial banks to position bank develop appropriate strategic policies to respond to changing in external environment. This study would also contribute to development of theoretical foundation on how commercial banks responds to those changes in external environmental and enables adoption of suitable responses strategies for the survival of the firm and improvement in performances.

## **1.5 Chapter Summary**

This section provides an overview of the study in terms of the background and definition of terms. Analysis of the context as well as brief view of theories is also provided. The review also provides research problem and how it relates to the study question. In addition, objectives of the study are provided and value of the study

## **1.6 Organization of the Project**

The project is based on five main chapters. Chapter one mainly delves on introduction. Second one is one literature review while the third one provides research methodology. Data analysis and presentations of the findings is on the fourth chapter. Finally, the last chapter provide summary and conclusion as well as some of the implications of the study.

## **CHAPTER TWO: LITERATURE REVIEW**

### **2.1 Introduction**

Here, the theoretical framework on how firm's respond to such environmental challenges is included. The chapter begins by looking at the theories advanced on strategic responses and organizational performance focusing on banking institutions.

### **2.2 Theoretical Foundation**

According to a number of theories, a firm will achieve its performance goals if the right choices are made in light of competition at all levels. The current study is founded on a resource-based perspective and contingency theory.

#### **2.2.1 Resource Based Theory (RBT)**

The RBT asserts that businesses are collections of resources. All of the inputs that enable a firm to function and carry out its strategies are referred to as firm resources. Resources for a company may be physical or immaterial, created within the company or purchased from the market (Hall, 1992). Stock of readily available resources that a company owns or controls is referred to as assets (Schumaker, 2005). Strategic resources are those resources that are unique to a corporation that are valuable, rare, and difficult to imitate. They provide rents and give a company a competitive edge and improve firm performance (Barney, 2001). Resources are deemed valuable when they help a business develop or put into action plans that boost output, take advantage of market possibilities, or fend off potential threats (Barney, 2001).

The theory clearly states that by using organizational resources, one would be able to analyse one's resources and financial capacity to implement response methods that would be regarded appropriate in responding to altering environmental changes. Commercial banks in Kenya as banking institutions operates in an ever changing external environment and as the theory state, the banks need to define its resources in strategic response such as adaptability to cope with the volatile external environment and ultimately achieve its organizational performance goal.

This model is relevant in this inquiry since it provide ways through which managers can use resources in managing their plans and operations. Moreover, the analysis is based on the view that firms can use their assets to achieve success (Barney, 2001). As such, managers should review their resources and use them to achieve the plans. This is imperative for success in almost all firms.

### **2.2.2 Contingency Theory**

According to the contingency theory, organizational and environmental circumstances limit managers' power to influence organizational outcomes (Carpenter & Golden, 2007). Occurrence of change in external environment influence management decisions in response to remain in business and achieve performance. Various strategies such as innovation, marketing and employee competences are deployed in an effort to achieve competitive advantage. Furthermore, according to the theory, each of the subsystems is subject to a wide range of change. Each should be created such that it fits the environment it will be used in and is consistent with the others (Mentzer, 2001).



According to the hypothesis, a thinner organizational structure and less bureaucracy promote flexibility and make it easier for internal organizational processes to adapt to their surroundings. According to Zsolt (2012), contingency theory may be applied both inside and outside of organizations, which supports the study. According to the contingency theory, several strategic choices could be successful in a chaotic environment depending on the situation (Dobak, 2006). This can be regarded as one of the main insights of the theory because it tries to show that different environments require different strategic decisions and that these decisions depend on the perception and background orientation of the management rather than promoting organization management principles that are universally applicable.

Typically, the model is applicable here since it provides ways of explaining why some firms adopt flexible systems in their operations. The model supports the need for flexibility in operations and this is important in the long term management of firms (Mentzer, 2001). The model indicates that managers have the role to review their operations to achieve success.

### **2.3 Strategic Responses and External Environment Changes**

Global trends have had adverse effect. Choosing response strategies that will be adopted during disruptive external environment is a multiple criteria problem that includes both tangible and intangible determinants for a banking institution to survive. Strategic choice also indicates that managers have inadequate capabilities and the knowledge assess the extent of external environment change. Kariuki (2014) looked at the competitive techniques utilized by Kenyan commercial banks to draw in corporate clients.

Commercial banks are significantly affected by disruption in the external environment (Chiteli, 2013). In order to compete in the same market space, new markets with diverse market participants require the development of new products and services as well as new market tactics (Kim & Mauborgne, 2005). Zimbabwe banking sectors faced disruptions due to increase in banking regulations, hyperinflation, globalization, and foreign exchange and poor economic performance (Grant, 2010).

Technological advancement affects all banking sectors in an economy. In Developing countries, technology is at its developing stages and hence disruptive of banking operations in developing. Adapting a strategy to the environment and redesigning internal capabilities are both necessary components of strategic responses for a company. A strategy gap develops when a company's strategy is not in line with its external environment. A capacity gap develops when an organization's internal capabilities do not match its strategy.

Under differentiation strategy, organizations gain competitive advantage by emphasizing in high quality services/products, extra ordinary service innovation, technological capability and brand image. Firm's Flexibility enables adaptation of the firm (Mugo, Wanjui & Ayodo, 2012). Firms that are currently using efficient just-in-time, zero-stock, and tight-flow organizational and management approaches, which can make them brittle, are expected to be adaptable for economic reasons. At the corporate level, it usually involves expanding into a lucrative industry outside the purview of the current business unit.

## **2.4 Review of Related Studies**

According to environmental determinism, good management is selecting the plan that will work the best given the environmental, technical, and human factors. From this perspective, the organization that adapts to the environment the best will be the most successful. Many firms depend on the nature of the environment. This is important for their success. Managers need to consider changes where they operate.

The rising quantity of atmosphere amendment and therefore the forceful nature of those changes particularly those regarding political and technology results to environmental turbulence and this makes it more and more tough to spot causes and predict results of competitive initiatives with cheap certainty. Pearson II, Robinson and Mital, (2008) viewed the firm's external environment as factors on the far side the management of the firm that influences its alternative of direction and action, structure structure and internal processes reach competitive advantage and performance goals. Musomba (2012) opined that strategic responses in Kenya industrial banks are decided by change in info technology, organizational culture, business competition, structure resources and prime management preferences. As results strategic responses wanted to alter banks reach performance and property competitive advantage.

Further Mugo, Wanjui and Ayodo, (2012) observed that Equity Bank in Kenya, used product differentiation strategies to achieved the expected profitability level. This was an indicator that responding to change in external environment plays a role in improving competitiveness of the banks in the banking sector. Above all, the organization's dedication to efficiency and promotion of cooperation across various departments in

pursuit of efficiency goals is what will allow the organization to continue operating in the ever-changing environment.

An empirical study by Takoy and Machuki (2018) assessed the relationship between environmental determinism and strategic choice among licensed banks in South Sudan. The multi-case research design was deployed. Cross-case and intra-case content analysis technique was used in analyzing data. From the results, change in environmental determinants is investable and hard to predict challenging the application of strategic plans. The study revealed that bank restructuring, remodeling and deployment of entrepreneurial design were strategic choices adopted by banks for survival and achievement of banks' performance. The study did not focus on the extent the strategic responses adopted due to change in environment contributed to banks' performance motivating the undertaking of the current study.

Kimaiyo and Kagwe (2018) conducted research to determine the impact of response strategies to changes in the external environment on performance of state commercial corporations in Kenya. Descriptive survey research was deployed where the population of the study was 33. Questionnaire was used to gather primary data. Regression analysis was done to establish the relationship that existed between the selected study variables. The study revealed that staff restructuring, innovativeness, collaboration and downsizing as strategic responses to change in external environment influenced performance measured through lowering costs of service delivery and increase pension payout.

Murimi and Gathungu (2020) did a study to examine strategic responses to disruption of external environment and performance of commercial banks focusing. The study focused on a case study of NCBA. The change theories of Lewin and Lippitt served as the study's

foundation. A descriptive case study approach was used and data collected through interview schedule from head of departments and branch manager sat NCBA Bank Headquarters in Nairobi. Data analysis was done using content analysis technique and presented in thematic framework based on the research objectives. From the results, the study revealed that adopting appropriate learning culture, effective communication, strategic innovativeness and strategic alliances impacted positively on bank's performance. The current study concentrated on strategic responses to changes in the external environment.

Mwangi (2007) assess strategic responses to change in external environment adopted by East African Breweries Limited (EABL). The study used a case study approach. Data collected from managers was analyzed using content analysis technique and results presented in prose form. The study established that EABL faced stiff competition from local and international breweries, change in customer preferences and changes in government regulations that influenced the companies in adopting new product development, innovative and organizational restructuring in an effort to remain competitive and survive forces on external environment.

Weor and Katuse (2018) investigated the impact of response strategies on gaining a competitive advantage in Kenyan commercial banks. Correlation research design was used where a target population of 1530 managers from 43 banks was used. Data was collected using questionnaire from a sample of 317. Data analysis was done using descriptive and regression analysis. The findings revealed that capitalizing on knowledge management, operational strategies, dynamic capabilities and asset based strategies in the banking sector were not statistically significant in predicting competitive advantage. The

strategic responses focused in the study were not aligned to change in external environment and survey research designed was used.

Ndung'u, Machuki and Murerwa (2014) examined the strategic responses to changes in economic environment adopted by banks in Kenya . The study deployed descriptive survey study design. A proportion of 35 banking institutions was used. Structured questionnaire was used to collected data administered to bank managers. The study revealed that the commercial banks adopted retrenchment strategies, innovativeness and market expansion to realized competitive advantage.

Wairugi and Wanjira (2017) focused on a case study of Equity Bank Limited sought to establish the extent competitive advantage is achieved due to deployment of strategic responses to changes in external forces in commercial banks in Kenya. The study focused on a case of Equity Bank Limited. The descriptive cross section survey design was used in this investigation. Bank branches served as the analysis's unit of analysis. The study population constituted of 38 managers from the Equity Branches in Nairobi County. Primary data from the study were gathered through structured questionnaires. Data analysis methods including descriptive and inferential techniques were employed. The study found that strategic positioning; outsourcing of strategic operations segmentation of market as well as strategic alliances influence achieved competitive advantage at Equity Bank Limited in Kenya

**Table 2. 1: Summary of Empirical studies and Research Gaps**

The study	Methodology	Key Results/Findings	Research Gap	Focus of the Study
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Effectofstrategiccha ngemanagementprac ticesonperformanceo fNCBABankPLC,K enya(Murimi,2020)	Descripti ve case study approach	adopting appropriate learning culture, effective communication, strategic innovativeness and strategic alliances impacted positively on bank's performance	Thestudyfocusedonstrategi cchangemanagementpractic esonperformanceofNCBA BankPLC,Kenya	The current study focused on strategic responses to changes in external environment.
Influenceofresponse strategiesongainingc ompetitiveadvantage incommercialbanksi nKenya(Weor and Katuse,2018)	Descripti ve survey research design	The results found that capitalizing on knowledge management, operational strategies, dynamic capabilities and asset based strategies influence competitive advantage in banks	The strategic responses focused in the study were not aligned to change in external environment and survey research designed was used.	The study focused on a case study and assessing strategic responses to external environments on NCBA Bank performance
Todeterminetheinflu enceofenvironmental determinismonstrate gicchoiceamongsele	Multiple cases	The study revealed that bank restructuring and adaptation to environmental changes	Focused on environmental determinism on strategic choice among selected commercial banks	The study failed to link strategic responses to bank performance

Strategic responses to changes in economic environment adopted by commercial banks in Kenya (Ndung'u, Machuki and Murerwa, 2014)	Descriptive survey research design	The study revealed that the commercial banks adopted retrenchment strategies to lower operating costs and divestment of non-core assets.	The study focused on retrenchment strategies as strategic responses to economic changes in operating costs and divestment of non-core assets.	The study failed to link strategic responses to changes in economic environment.
Effect of strategic responses on competitive advantage of commercial banks in Kenya focusing on a case study of NCBA	Descriptive cross section survey design	The study revealed that strategic positioning, strategic outsourcing, market segmentation and mergers and acquisitions were deployed to achieve competitive advantage.	The study focused on strategic responses to strategic positioning, strategic outsourcing, market segmentation and mergers and acquisitions.	The current study focused on strategic responses and NCBA bank performance.

Source: Researcher (2022)

## 2.5 Chapter Summary

Strategic responses adopted by banking institutions have a potential of fostering survival and achieving of competitive advantage of organization in a disruptive external environment and achieving expected performance goals. This view is anchored on resource based view and contingency theory that utilization of strategic responses influenced by external changes in the market place in an effort to survive and achieve expected performance level (Mwangi, 2007; and Ndung'u, Machuki and Murerwa, 2014). Empirical studies such as Takoy and Machuki (2018) revealed external environment characterized by changes in political affairs, legal aspects, competition, economic factors, technological changes and socio-cultural factors are difficult to predict and for banking institutions to survive have to formulate strategies in responses. Kimaiyo and Kagwe (2018) and Weor and Katuse (2018) observed that strategies responses to change in



external environment such as strategic innovativeness, collaboration and restructuring as well as entrepreneurial adaptation influence performance in commercial banks and commercial state corporations in Kenya. The study deployed a descriptive survey research design in assess effect of response strategies by commercial banks to only one aspect of change in external environment, economic changes in Kenya.

## **CHAPTER THREE: RESEARCH METHODOLOGY**

### **3.1 Introduction**

Methodology is importance in research. In this section, research design will be described and choice justification of its choice provided. The chapter also presented the data collection, data collection instrument and data analysis.

### **3.2 Research Design**

This study adopted a case study design. Kothari (2014) identified that case study as a portrayal of a circumstance including issues that needed to be resolved. A case study entails researching one company, interviewing one or more respondents, and gathering in-depth data to better comprehend a situation or phenomenon rather than generalizing it. The target population was 15 managers and head of departments working in the NCBA Bank Limited in Kenya (NCBA, 2022).

### **3.3 Data Collection**

The interview schedule was used because it helps in collection of insightful information that could not be collected using a questionnaire (Kothari, 2014). The interviewees of the study were the 15 managers in the head office NCBA Kenya. These included financial manager, marketing manager, operation manager, ICT manager, Credit manager, human resource manager, customer service manager and relationship manager. It is appropriate to collect qualitative data on strategic response to change in external environment and NCBA performance.

### 3.4 Operationalization of Variables.

In an effort to establish the link between variables, variables were operationalized, results from the measurement scale weighted and analyzed statistically to determine the validity of the measuring scale results and, ultimately, to draw a conclusion about the link between the dependent and independent variables.

### 3.4 Operationalization of the Study Variable

Table 3.1 is a summary of the operationalization of the study variables.

**Table 3.1: Operationalization of the Study Variable**

Variable	Operational Indicators	Measurement	Measurement scale	Data collection tool	Data analysis
Strategic Responses	<ul style="list-style-type: none"> <li>• Strategic Collaboration</li> <li>• Mergers and acquisition</li> <li>• Strategic positioning</li> <li>• Differentiating strategy</li> <li>• Adaptability strategies</li> </ul>	Nominal scale	Nominal	Interview guide	Content analysis

External Environment Change	<ul style="list-style-type: none"> <li>• Technological advancement</li> <li>• Competition</li> <li>• Regulatory demands</li> <li>• Dynamic economic</li> <li>• Globalization</li> </ul>	Nominal scale	Nominal	Interview guide	Content analysis
Performance of NCBA Bank of Kenya	<ul style="list-style-type: none"> <li>• Profitability</li> <li>• Sales growth</li> <li>• Asset Base</li> <li>• Customer Base</li> <li>• Branch Networks</li> </ul>	Nominal scale	Nominal	Interview guide	Content analysis

**Source: Researcher (2022)**

### **3.5 Data Analysis**

The collected data was processed through assessing their completeness and listing the data according to the study themes. The data was then analyzed using content analysis technique. The data was presented in prose form and interpreted for ease of indicating the implication of the findings in relation to the study objectives, strategic response to change in external environment on organizational performance in NCBA Bank Limited.

# **CHAPTER FOUR: DATA ANALYSIS, RESULTS AND DISCUSSION**

## **4.1 Introduction**

The chapter presents results and discussion of the findings as set out in the research methodology. The results are presented on the strategic responses to change in external environment adopted by NCBA Bank of Kenya. The primary data was gathered exclusively from interview schedule.

## **4.2 Response Rate**

The researcher collected data using interviewee schedule from eleven interviewees out of the targeted 15 interviewees. The bank has 15 key strategic divisions from where the interviewees were drawn from. These included strategic corporate division, finance, human resource, operation, credit unit, audit, account, digital business, Diaspora, global market, marketing, communication and citizenship, asset and business solution, regional business development and retail section. Data was collected from all the 12 units from the head of each strategic division except, corporate, audit and communication and citizenship unit. This constituted 12 a response rate of eighty percent.

## **4.3 Change in External Environment facing NCBA Bank in Kenya**

Interviewees were requested to indicate the change in economic environment in which NCBA Bank operate in. The bank was indicated to have been operating in an ever changing economic environment characterized by raising inflation rate in the economy has diminished disposable household income, change in consumer spending patterns,

market liberalization, increase interest rate and changes in foreign exchanges. The interviewees noted that change in economic environment influence bank to adapt and deploy strategic responses to sustain bank operation and achieve expected performance goals.

Change in social cultural factor has a significant impact on the operation of the commercial Banks. The interviewees were requested to indicate change in social cultural areas in which the NCBA Bank operates in. From the results, the interviewees indicate bank has experience consumer change in taste for banking products and services, there is change in consumer attitude, change in population and population demographic all which have impacted on operations of the bank and informs adoption of strategic responses for sustainability, achieving competitive advantage and attain expected performance level.

On political factor, the interviewees indicated that political affairs keep changing as politicians often interferes with operations of the bank. The interviewees indicated that after electioneering period, there is a new government that often changes monetary policies such as interest rates and politicians formulate legislations in an effort to control operation of the Bank like capping the amount to be transacted by a single customer. The interviewees indicated that during electioneering period, the bank experience political conflicts that affect their core business as the bank reduce lending, experience low savings and deposit. The interviewees explained that the political conflicts and political instability are related to huge risk of systemic banking crisis as the country experience lower economic activities, higher non-performing loans and lower bank liquidity

On changing customer lifestyle, the interviewees noted that customers today know what they need and need it done right. The interviewees indicated that the middle class customers have high appetite for spending and value for their family hence become loyal to the bank if they perceive the bank offer quality banking services. The interviewees indicated that brand attitude toward bank product costs, value and quality influence bank operations. The interviewees further indicated that change in customer-bank relationships, reliability and timeliness in provision of banking services as well as recovery of errors influence strategic responses in the bank to continue operating in the market.

NCBA Bank is regulated by the government through Central Bank of Kenya. On legal factors, interviewees indicated that NCBA Bank operate under banking legal and regulatory framework. The Bank was said to operate under constitution of Kenya 2010, operate under Central Bank of Kenya Act (2015), Banking Act foreign exchange guidelines among other regulations. The interviewees indicate that bank had to adhere to prudential guidelines under strict supervision of the Central Bank.

On technological changes, the interviewees indicated that NCBA continue to experience emergence in new technologies that create bank opportunities as well as threats. The interviewees indicated that emergence of mobile banking technologies; electronic money transfer, internet technologies and technological apps have influence operations of the bank. The interviewees indicated that the Bank continue to experience technological revolutionary as artificial intelligence and Machine learning had led to adoption of big data, application programming interface (APIs)cloud computing, evolving technological payment. The interviewees opined that advance in technological had influence

occurrence of cyber security and cyber banking risks and third part risk given the high dependency on technological solution providers for innovations.

#### **4.4 Strategic Responses to change in external Environment at NCBA Bank Limited**

##### **4.4.1 Strategic Collaboration as Strategic Responses to change in external Environment at NCBA Bank Limited**

Interviewees were requested to indicate how strategic collaboration was deployed by NCBA Bank Limited in response to change in external environment. From the finding, NCBA collaborate with Safaricom in empowering bank customer access banking services that is bank loans, savings and deposits as the bank respond to stiff competition from other commercial banks, Microfinance, Saving and Credit Cooperative Society as well as fintech companies.

The interviewees also indicated that NCBA Bank collaborate with Twiga Food and Isuzu in financing commercial truck to boost affordability and safe delivery of fresh produce to retailers across East African region. Also, the bank collaborates with Saving and credit Cooperative Societies (SACCOs) in an effort expand banking services, acquire more customer, increase lending volume and mobilize savings. This promoted the success of the firm.

##### **4.4.2 Mergers and acquisition as Strategic response to change in external environment**

Interviewees were requested to indicate how NCBA Bank responded to change in external environment through merger and acquisition. From the finding, NCBA Bank merged NIC Bank and CBA subsidiaries across the region in response to turbulent year 2020 due to global financial crisis and covid-19 pandemic. The Bank was found to have



merged thirteen banking system in an effort to achieve cost efficiency. The new and improved app has also incorporated biometric log-in to further secure customer transactions.

#### **4.4.3 Strategic positioning Adopted by as Strategic response to change in external NCBA Bank**

The interviewees indicated that NCBA Bank deployed Customer Centric Culture where the bank focuses on the need of the customers through offering exceptionally innovative financial products and services from personal banking products such as customer deposit segment to scalable business banking solutions such as payment of bills, foster financing technology, communication, energy, oil and gas, manufacturing and real estate, transport and logistics, education, health and public institutions.

The interviewees also indicate that the bank adopted corporate banking and asset finance-build industry expertise to offer the best asset financing banking services in the banking market. The expertise enhances bank capability in offering competitive asset finance banking and becoming the best bank in asset financing. Through asset financing positioning, the bank was found to deepen its leadership position in corporate and asset finance segment in banking industry. Also, interviewees indicated that NCBA Bank Limited launch a very short time, 15 second conditional approval for online asset finance, loan application, launch auto equity and log book loans, digital, offer digitized online insurance premium financing, reduction of TAT to three hours in an effort to stamp corporate and asset financing leadership segment in the market

The interviewees also indicated that NCBA Bank deploy scaling of retail banking as it fosters expansion of distribution of banking products and services in stiff competition in banking sector. The bank was indicated to increase digital transformation through digitizing core banks, reposition and scale loop, developing up fintech in an effort to capture new market and opportunities Brand positioning was said to be a strategic response adopted at NCBA bank due to increasing change in external environment. The interviewees indicated that adopt distinguished brand known for customer experience to retain old customers and attract new one. The interviewees also indicated that the bank is building on brand recognition, globalization investments and marketing campaign through well design system in an effort to enhance customer experience. Further, interviewees also indicated that NCBA Bank deployed branch networks across the country in an effort to bring services closer to customers and achieve competitive advantage, attract more customers and grow it volume of deposits

#### **4.4.4 Deployment of differentiating strategy as strategic Response to change macro environment**

Differentiation strategy is a competitive strategy that NCBA Bank has adopted in response to ever changing external environment. The interviewees indicated that management at NCBA Bank has deployed product differentiation strategies in response to stiff banking competition, change in technology and ever changing legal and regulatory framework. This was executed through developing and offering new low cost banking products and services. The interviewees opined that NCBA offer the best asset financing, low cost business overdraft, stock and equity loans, and low cost construction credit. The Bank was found to deploying unit banking products such as equity loan

offered by share investment club credit and well as low cost plot purchase loan. Also, the interviewees indicated that NCBA bank venture into non core business operations such as Bank assurance to a large extent in differentiating products in an effort to meet customer demand.

The interviewees further indicated that NCBA Bank was offering financial products and services at a price lower than competitors. This constituted low cost differentiation strategies that has attracted many customers, achieve competitiveness making the bank the largest in term of customer base. This is important towards achieving success in the firm.

#### **4.4.5 Strategic Response through adaptability strategies to change in External environment**

Adaptability strategies are deployed by commercial banks in response to disruptive external environment for instance emergence of disruptive technology in banking sector. The interviewees indicated that management at NCBA bank found it necessary to adopt adaptability strategies through resource reconfiguration, foster organizational learning and knowledge management. This resulted into deployment of digital banking strategy where the bank fast responds to building relationship with its customer by partnering with Safaricom to offer digital banking services through M-Shwari and Fuliza products to provide customer with working capital, make it easier for customer to access fund. Through digital strategy, the bank was reported to offer traditional banking services on the digital channels influencing achievement of cost efficiency in banking service delivery.

The interviewees also indicated that bank deployed innovation strategy as an adaptive strategy in response to change in external environment. The NCBA bank was reported to designing a banking system on a distributed Development and Operations (DevOPs) model to empower customer through digital platforms and enable real-time access to financial services. The interviewees also indicated that NCBA form partnership as an adaptive strategy with Huawei's MuRong Technology in building core banking system that enabled the bank to overcome high traffic customer interactions, enhance technical support for banking services and products and improve system real time response in serving customers.

#### **4.4.6 Other Strategies has NCBA bank Kenya adopted to respond to Changes in the Environment**

Interviewees were requested to indicate other strategies being deployed by NCBA Bank limited in response ever changing external environment. The bank was found to deploy recovery strategy through elevation of downside risk, strengthening external headwinds risks in response to low interest regimes implemented by the government. The other response strategy adopted by the NCBA Bank was rationalization strategy. The interviewees indicated that NCBA Bank deployed rationalization made strategically by merging former NIC bank and CBA Bank branches in response to complete mergers of NIC and CBA Bank and disruptive Covid-19 pandemic.

Also, the interviewees indicated that the other strategic response adopted by NCBA Bank due to change in external environment was strategic outsourcing. The interviewees explained that in an effort to reduce operation cost, NCBA management resulted to outsourcing non core banking functions such as provision of ATMs services, regulatory

compliance, cash management services, loan underwriting and IT services. The interviewees also indicated that the Bank adopted diversification as the NCBA Bank increase its lending to the government as it invests in risk free securities such as Treasury bonds and treasury Bills

#### **4.5 Strategic Responses to change in external Environment and performance at NCBA bank Kenya**

Interviewees were requested to indicate how various strategic responses to change in external environment influence performance of NCBA Bank Limited. The interviewees explained that collaboration merger of bank branches and post-merger consolidation of its mobile banking channels under the NCBA into mobile app resulted into increase in bank deposit, increase customer to more than 100% rate. The interviewees explained that differentiation strategies increasing customer retention rate up to 87% while product diversification through bancassurance increase bank market share to 60%

Through strategic positioning as strategic responses to change in external environment, the bank focused on customer through customer centric culture approach, deployed corporate and asset banking through expertise approach and rescaling of retail banking distribution. These interviewees indicated contributed to increase in bank's asset base by 12% and customer deposit rose by 11%. Digitalization strategy as adaptive strategy influence increase in lending volume increased by 35% and as well as bank increase lending capacity increasing a single borrower Limit from 8Billion to 16Billion, operating income rose up by 6% and bank increase profitability level by more than 102 for a period of three years.

Through mergers and acquisition strategy, the Bank reported increased in profit to sh1.29 billion as customer revenue grew, reduction in operation cost as mergers and acquisition foster integration efficiencies and synergies. The interviewees also indicated that through capital conservation strategy through reduction of earning per share for ordinary share, the bank increase capital base and increase investments. Through product differentiation as a strategic response to change in external environment, the interviewee ported that bank increased product per customer from 1.7 to 2. The interviewees indicated that through strategic collaboration, merger and acquisition, differentiation strategies and adaptability strategies, the bank recorded increase in profit level by, operating income increased by 41%, increased asset base and strengthened capital position. The results demonstrated that strategic responses to change in external environment adopted by NCBA Bank Limited contributed to bank performance.

#### **4.6 Discussion of the Results**

The study found that NCBA Bank operate in an ever change economic environment characterized by raising inflation rate in the economy has diminished disposable household income, change in consumer spending patterns, market liberalization, increase interest rate and changes in foreign exchanges.

The results demonstrated that NCBA operate in social cultural environment where it experiences consumer change in taste for banking products and services, change in consumer attitude, change in population and population demographic all which have impacted on operations of the bank and informs adoption of strategic responses for sustainability, achieving competitive advantage and attain expected performance level. The Bank was found to operate in ever changing political environment characterized by

changes monetary policies such as interest rates and politicians formulate legislations in an effort to control operation of the Bank like capping the amount to be transacted by a single customer. The results demonstrated that political conflicts and political instability were linked to huge risk of systemic banking crisis as the country experience lower economic activities, higher non-performing loans and lower bank liquidity

On changing customer lifestyle, the study established that Bank experience change in demographic factors especially middle class customers has high appetite for spending and value for their family hence become loyal to the bank if they perceive the bank offer quality banking services, brand attitude toward bank product costs, value and quality influence bank operations and change in customer-bank relationships, reliability and timeliness in provision of banking services as well as recovery of errors influence strategic responses in the bank to continue operating in the market. The results also indicated that NCBA Bank is regulated by the government through Central Bank of Kenya as it comply with banking legal and regulatory framework under constitution of Kenya 2010, comply with Central Bank of Kenya Act (2015), Banking Act foreign exchange guidelines among other regulations.

On technological changes, NCBA content with emergence in new technologies that create bank opportunities as well as threats. The emergence of mobile banking technologies; electronic money transfer, internet technologies and technological apps have influence operations of the bank. Bank continue to experience technological revolutionary as artificial intelligence and Machine learning had led to adoption of big data, application programming interface (APIs)cloud computing, evolving technological

payment heightening occurrence of cyber security and cyber banking risks and third part risk given the high dependency on technological solution providers for innovations.

#### **4.6.1 Linkage to Theories**

The study findings supported the theories of the study. The inquiry supported the RBV model and noted that firms can use assets and plans to improve their success. The results revealed that NCBA Bank Limited in response to change in external environment through strategic collaboration. The NCBA Bank was found to collaborate with Safaricom in empowering bank customer access banking services that is bank loans, savings and deposits as the bank respond to stiff competition from other commercial banks, Microfinance, Saving and Credit Cooperative Society as well as fintech companies. The NCBA Bank collaborate with also Twiga Food and Isuzu in financing commercial truck to boost affordability and safe delivery of fresh produce to retailers across East African region. Also, the bank collaborates with Saving and credit Cooperative Societies (SACCOs) in an effort expand banking services, acquire more customer, increase lending volume and mobilize savings. The bank was using its assets in promoting its success and this is important.

The inquiry also supported the contingency theory and it was evident that flexible systems promoted the success of the firm. Mergers and acquisition strategy was adopted by NCBA Bank in response to external environment and this was a case of contingency plan to promote value. NCBA Bank post- merged NIC Bank and CBA subsidiaries across the region in response to turbulent year 2020 due to global financial crisis and covid-19 pandemic and influence achieving of the bank profitability level. Strategic positioning was deployed in response to ever changing macro environment. From the



findings, NCBA Bank was found to have deployed Customer Centric Culture strategy focusing offering exceptionally innovative financial products and services from personal banking products such as customer deposit segment to scalable business banking solutions such as payment of bills, foster financing technology, communication, energy, oil and gas, manufacturing and real estate, transport and logistics, education, health and public institutions. The results also indicated bank resulted into corporate banking and asset finance-build industry expertise to offer the best asset financing banking services to customers. Through asset financing positioning, the bank was found to deepen its leadership position in corporate and asset finance segment in banking industry. Through strategic positioning, the NCBA Bank Limited launched a 15 second conditional approval for online asset finance, loan application, launch auto equity and log book loans, digital, offer digitized online insurance premium financing, reduction of TAT to three hours in an effort to stamp corporate and asset financing leadership segment in the market. This is a good case study of the application of contingency theory.

#### **4.6.2 Linkage to Other Studies**

The findings were supported by Weor and Katuse (2018) that capitalizing on knowledge management, operational strategies, dynamic capabilities and asset based strategies in the banking sector were not statistically significant in predicting competitive advantage. NCBA Bank deployed scaling of retail banking as it fosters expansion of distribution of banking products and services in stiff competition in banking sector. The bank increased digital transformation through digitizing core banks, reposition and scale loop, developing up fintech in an effort to capture new market and opportunities. Brand positioning was executed as NCBA bank, distinguished brand known for customer

experience to retain old customers and attract new one, developed brand recognition, brand networking, globalization investments and marketing campaign through well design system in an effort to enhance customer experience. The finding concurred with Wairugi and Wanjira (2017) that that Equity Bank Limited in Kenya achieved competitive advantage by heavily utilizing strategic positioning, strategic outsourcing, market segmentation, and mergers and acquisitions.

The results is similar to Grossman and Hart (2002) and it was evident that differentiation strategy is a competitive strategy that NCBA Bank has adopted in response to ever changing external environment. The interviewees indicated that management at NCBA Bank has deployed product differentiation strategies in response to stiff banking competition, change in technology and ever changing legal and regulatory framework. This was executed through developing and offering new low cost banking products and services. The interviewees opined that NCBA offer the best asset financing, low cost business overdraft, stock and equity loans, and low cost construction credit. The Bank was found to deploying unit banking products such as equity loan offered by share investment club credit and well as low cost plot purchase loan. Also, the interviewees indicated that NCBA bank venture into non core business operations such as Bank assurance to a large extent in differentiating products in an effort to meet customer demand. The interviewees further indicated that NCBA Bank was offering financial products and services at a price lower than competitors. This constituted low cost differentiation strategies that has attracted many customers, achieve competitiveness making the bank the largest in term of customer base.

The analysis is seen in Anderson (2010) who noted that adaptability strategies are deployed by firms in response to disruptive external environment for instance emergence of disruptive technology in banking sector. The interviewees indicated that management at NCBA bank found it necessary to adopt adaptability strategies through resource reconfiguration, foster organizational learning and knowledge management. This resulted into deployment of digital banking strategy where the bank fast responds to building relationship with its customer by partnering with Safaricom to offer digital banking services through M-Shwari and Fuliza products to provide customer with working capital, make it easier for customer to access fund. Through digital strategy, the bank was reported to offer traditional banking services on the digital channels influencing achievement of cost efficiency in banking service delivery.

The results also found that NCBA bank deployed innovation strategy as an adaptive strategy in response to change in external environment. Being innovative, the bank designed a banking system on a distributed Development and Operations (DevOPs) model to empower customer through digital platforms and enable real-time access to financial services. Through partnership with Huawei's MuRong Technology the Bank built core banking system that enabled the bank to overcome high traffic customer interactions, enhance technical support for banking services and products and improve system real time response in serving customers. This is in line with Machuki and Murerwa (2014) who noted that commercial response strategies to achieve financial returns and sustain competitiveness in the market.

The study established that other strategic responses adopted by the bank due to change in external environment were recovery strategy through elevation of downside risk,

strengthening external headwinds risks in response to low interest regimes implemented by the government, deployed rationalization strategy by merging former NIC bank and CBA Bank branches in response to complete mergers of NIC and CBA Bank and disruptive Covid-19 pandemic. Also, the Bank deployed strategic outsourcing strategy where the Bank outsourced non core banking functions such as provision of ATMs services, regulatory compliance, cash management services, loan underwriting and IT services. Diversification strategy was also implemented as the NCBA Bank increase its lending to the government as it invests in risk free securities such as Treasury bonds and treasury Bills

From the results, the study revealed that strategic responses to change in external environment influence performance of NCBA Bank Limited. Bank collaboration merger of bank branches and post-merger consolidation of its mobile banking channels under the NCBA into mobile app resulted into increase in bank deposit, increase customer to more than 100% rate. The interviewees explained that differentiation strategies increasing customer retention rate up to 87% while product diversification through bancassurance increase bank market share to 60%.

This confirms views by Erasmus et al. (2000) who noted that through strategic positioning as strategic responses to change in external environment, firms can achieve customer centric culture approach, deployed corporate and asset banking through expertise approach and rescaling of retail banking distribution. Merger and acquisition were found to contribute to increase in bank's asset base by 12% and customer deposit rose by 11%. The adoption of the digitalization strategy as adaptive strategy influence increase in lending volume increased by 35% and as well as bank increase lending

capacity increasing a single borrower Limit from 8Billion to 16Billion, operating income rose up by 6% and bank increase profitability level by more than 102 for a period of three years.

The results supported Eby et al. (2009) who noted that strategic responses adopted by the firms can promote their success in terms of as customer revenue grew, reduction in operation cost as mergers and acquisition foster integration efficiencies and synergies. The Bank also reported reduction of earning per share for ordinary share, the bank increase capital base and increase investments. Through product differentiation as a strategic response to change in external environment, bank increased product per customer from 1.7 to 2, the bank recorded increase in profit level by, operating income increased by 41%. The results demonstrated that strategic responses to change in external environment adopted by NCBA Bank Limited contributed to bank performance.

# **CHAPTER FIVE: SUMMARY, CONCLUSIONS AND RECOMMENDATIONS**

## **5.1 Introduction**

The chapter presents summary, conclusion and recommendations. The chapter also present limitation faced in the process of undertaking the study and finally the suggestion for area for further research.

## **5.2 Summary of the Study**

From the results, the study established that NCBA Bank operate in an ever changing external environment. This constituted change in economic environment brought about by change in inflation rate in the economy, consumer spending patterns, market liberalization, increase interest rates and changes in foreign exchanges. There was also change in social cultural environment where it experienced consumer change life style, taste for banking products and services, change in consumer attitude, change in population and population demographic all which have impacted on operations of the bank and informs adoption of strategic responses for sustainability, achieving competitive advantage and attain expected performance level. The Bank was found to operate in ever changing political environment characterized by changes monetary policies such as interest rates and politicians formulate legislations in an effort to control operation of the Bank like capping the amount to be transacted by a single customer. The results demonstrated that political conflicts and political instability were linked to huge risk of systemic banking crisis as the country experience lower economic activities, higher non-performing loans, and lower bank liquidity.

Change in technological factor was featured by emergence in new technologies that create bank opportunities as well as threats. Bank continue to operate in an ever technological revolutionary as artificial intelligence and Machine learning had led to adoption of big data, application programming interface (APIs) cloud computing, evolving technological payment heightening occurrence of cyber security and cyber banking risks and third part risk given the high dependency on technological solution providers for innovations.

Bank responds to change in external environment through deploying various strategies. NCBA Bank Limited adopted collaborate with Safaricom in empowering bank customer access banking services that is bank loans, savings and deposits as the bank respond to stiff competition , collaborate with also Twiga Food and Isuzu in financing commercial truck to boost affordability and safe delivery of fresh produce to retailers across East African region and bank collaborate with Saving and credit Cooperative Societies (SACCOs) in an effort expand banking services, acquire more customer, increase lending volume and mobilize savings. Mergers and acquisition strategy was deployed as NCBA Bank post-merged NIC Bank and CBA subsidiaries across the region in response to turbulent year 2020 due to global financial crisis and covid-19 pandemic.

Strategic positioning was deployed in response to ever changing macro environment. From the findings, NCBA Bank was found to have deployed Customer Centric Culture strategy focusing offering exceptionally innovative financial products and services from personal banking products such as customer deposit segment to scalable business banking solutions such as payment of bills, foster financing technology, communication, energy, oil and gas, manufacturing and real estate, transport and logistics, education, health and

public institutions. The also bank resulted into corporate banking and asset finance-build industry expertise to offer the best asset financing banking services to customers. Through asset financing positioning, the bank was found to deepen its leadership position in corporate and asset finance segment in banking industry. Through strategic positioning, the NCBA Bank Limited launched a 15 second conditional approval for online asset finance, loan application, launch auto equity and log book loans, digital, offer digitized online insurance premium financing, reduction of TAT to three hours in an effort to stamp corporate and asset financing leadership segment in the market

NCBA Bank deployed scaling of retail banking as it fostered expansion of distribution of banking products and services in stiff competition in banking sector. The bank increased digital transformation through digitizing core banks, reposition and scale loop, developing up fintech in an effort to capture new market and opportunities. Brand positioning was executed as NCBA bank, distinguished brand known for customer experience to retain old customers and attract new one, developed brand recognition, brand networking, globalization investments and marketing campaign through well design system in an effort to enhance customer experience.

The finding also revealed that the bank deployed differentiation of banking products and services in response to ever changing external environment. NCBA Bank offered new low cost banking products and services, well designed asset financing, low cost business overdraft, stock and equity loans, and low cost construction credit, offering unit banking products such as equity loan offered by share investment club credit and well as low cost plot purchase loan.



In an effort to survive the volatile external environment, the bank adopted adaptability strategies by resource reconfiguration, foster organizational learning and knowledge management. This resulted into deployment of digital banking strategy where the bank fast responded to building relationship with its customer by partnering with Safaricom to offer digital banking services through M-Shwari and Fuliza products to provide customer with working capital, make it easier for customer to access fund. NCBA bank deployed innovation strategy as an adaptive strategy in response to change in external environment deploying distributed Development and Operations (DevOPs) model to empower customer through digital platforms and enable real-time access to financial services and formed partnership with Huawei's MuRong Technology the Bank built core banking system that enabled the bank to overcome high traffic customer interactions, enhance technical support for banking services and products and improve system real time response in serving customers.

The study established that other strategic responses adopted by the bank due to change in external environment included recovery strategy through elevation of downside risk, strengthening external headwinds risks in response to low interest regimes implemented by the government, deployed rationalization strategy by merging former NIC bank and CBA Bank branches, strategic outsourcing of non core banking functions such as provision of ATMs services, regulatory compliance, cash management services, loan underwriting and IT services and diversification strategy was also implemented as the NCBA Bank increase it lending to the government as it invest in risk free securities such as Treasury bonds and treasury Bills

Strategic responses to change in external environment were found to contribute to bank performance. Bank collaboration merger of bank branches and post-merger consolidation of its mobile banking channels under the NCBA into mobile app resulted into increase in bank deposit, increase customer to more than 100% rate. The interviewees explained that differentiation strategies increasing customer retention rate up to 87% while product diversification through bancassurance increase bank market share to 60%. Through strategic positioning as strategic responses to change in external environment, the bank focused on customer through customer centric culture approach, deployed corporate and asset banking through expertise approach and rescaling of retail banking distribution. Merger and acquisition were found to contribute to increase in bank's asset base by 12% and customer deposit rose by 11%. The adoption of the digitalization strategy as adaptive strategy influence increase in lending volume increased by 35% and as well as bank increase lending capacity increasing a single borrower Limit from 8Billion to 16Billion, operating income rose up by 6% and bank increase profitability level by more than 102 for a period of three years. Strategic responses adopted by the Bank reported increased in profit to sh1.29 billion as customer revenue grew, reduction in operation cost as mergers and acquisition foster integration efficiencies and synergies, reduction of earning per share for ordinary share, the bank increase capital base and increase investments, increased product per customer from 1.7 to 2, the bank recorded increase in profit level by, operating income increased, core capital raised to KES 64.8 billion.

### **5.3 Conclusions of the Study**

From the summary, the study concluded that the NCBA Bank operate in an ever change external environment. This was evidenced as the bank operate in economic environment

that was characterized change in inflation rate, ever changing consumer spending patterns, market liberalization, change in interest rate and changes in foreign exchanges rate. The bank also operates in an environment featured by change in social cultural environment as consumer change life style keep changing, taste for banking products and services, change in consumer attitude, customer beliefs and change in population demographic features. The Bank faced changes in political factors characterized by political conflicts and instability, electioneering, changes monetary policies such as interest rates and politicians formulate interest capping. The bank was also found to operate in ever changing technological and legal and regulatory environment

In an effort to achieve sustainability, gain competitive advantage as well as achieved expected performance goals, the NCBA Bank responds to change in external environment through deploying various strategies. The study concluded NCBA Bank Limited adopted strategic collaboration with Safaricom in empowering bank customer access banking services that is bank loans, savings and deposits as the bank respond to stiff competition, collaborate in asset financing in the case of Twiga Food and Isuzu . The Banks also deployed mergers and acquisition strategy was deployed as NCBA Bank post-merged NIC Bank and CBA subsidiaries across the region and merged mobile banking channels under the NCBA into mobile app to deliver merger cost synergies.

The study established that strategic positioning was deployed in response to ever changing macro environment implemented through Customer Centric Culture strategy focusing offering exceptionally innovative financial products and services , offering corporate banking and asset finance-build industry expertise, launching a 15 seconds conditional approval for online asset finance, loan application, launch auto equity and log

book loans, digital, offer digitized online insurance premium financing , reduction of TAT to three hours in an effort to stamp corporate and asset financing leadership segment in the market .In conclusion, NCBA Bank implemented scaling of retail banking as it foster expansion of distribution of banking products and services in stiff competition in banking sector, digital transformation through digitizing core banks, reposition and scale loop, developing up fintech in an effort to capture new market and opportunities, brand positioning was executed as NCBA bank strategically position as through enhancing customer experience. From the results, the study concluded that product differentiation enabled the bank to offer new low cost banking products and services, well designed asset financing, low cost business overdraft, stock and equity loans, and low cost construction credit, offering unit banking products such as equity loan offered by share investment club credit and well as low cost plot purchase loan.

The study also concluded that through resource reconfiguration, foster organizational learning and knowledge management the bank strengthened its adaptability response to change in external environment. Deployment of digital banking strategy where the bank fast respond to building relationship with its customer by partnering with Safaricom to offer digital banking services, deployed innovation strategy that yielded into distributed Development and Operations (DevOps) model empowering customer through digital platforms and enable real-time access to financial services and forming partnership with Huawei's MuRong Technology the Bank built core banking system that enabled the bank to overcome high traffic customer interactions, enhance technical support for banking services and products and improve system real time response in serving customers hence survive impact created by change in external environment..

The study concluded that there are numerous ways through which the bank responded to change in the external environment. This included recovery strategy through elevation of downside risk, strengthening external headwinds risks in response to low interest regimes implemented by the government, rationalization strategy by merging former NIC bank and CBA Bank branches, strategic outsourcing of non-core banking functions such as provision of ATMs services, regulatory compliance, cash management services, loan underwriting and IT services and diversification strategy where the bank invest in risk free securities such as Treasury bonds and treasury Bills

The study concluded that strategic responses to change in external environment were found to contribute to bank performance. Through for instance, NCBA Bank collaboration and post-merger consolidation of its mobile banking channels under the NCBA into mobile app resulted into increase in bank deposit, increase customer to more than 100% rate. Through differentiation strategies, bank increased customer retention rate while product diversification through bancassurance increase bank market. Strategic positioning contributed to increase in customer based, increase in customer deposit, increase bank lending volume and improve bank profitability. Through merger and acquisition strategic responses bank reported increase in bank's asset base and customer deposits. Adaptability strategy influence increase in lending volume increase, increase lending capacity, increase in operating income and bank increase profitability. Strategic responses adopted by the Bank reported increased bank's profit, customer revenue grew, reduction in operation cost, increase capital base and increase investments, increased market share as product per customer.

#### **5.4 Recommendations of the Study**

The study recommends that for commercial banks to continue operate in an ever change external environment, management should deploy resources in formulation and implement of strategic responses. Change in external environment is characterized by change in economic environment, change in social cultural environment, changes in political factors and change technological and legal and regulatory environment. The change in external environment could affect the survival and performance of commercial banks necessitating the implementation of strategic responses such as strategic collaboration

- i. The study recommend that Bank should deploy strategic positioning as response to ever changing macro environment through customer centric culture and digitalization of banking products and services focusing on offering exceptionally innovative financial products and services, timely conditional approval for online asset finance, loan application, launch auto equity and log book loans, digital, offer digitized online insurance premium financing to achieve expected performance goals.
- ii. The bank recommend that banks should also deploy product differentiation in response to change in external environment as this would enabled the banks to offer new low cost banking products and services, well designed asset financing, low cost business overdraft, stock and equity loans, and low cost construction credit, offering unit banking products such as equity loan offered by share investment club credit and well as low cost plot purchase loan contributing to performance of the banks.

- iii. The study recommend that commercial banks should deploy adaptability strategy through resource reconfiguration, enhanced organizational learning and knowledge management the bank strengthened it adaptability response in building relationship with it customer by partnering with Safaricom to offer digital banking services, deployed innovation strategy that yielded into distributed Development and Operations (DevOPs) model empowering customer through digital platforms and enable real-time access to financial services and forming partnership with Huawei's MuRong Technology to achieve bank performance.
- iv. From the conclusion, the study recommend that commercial banks should formulate and deploy strategic responses such as strategic collaboration, product differentiation, mergers and acquisition, strategic positioning, adaptability strategies, diversification as well as strategic outsourcing. This would contribute to achievement of performance goals. This was evidenced from the study as NCBA Bank reported increase in performance measured using market share as bank reported increase volume of deposit, increase customers, bank increased customer retention rate, increase in lending volume and improve bank profitability, increased lending capacity, increased operating income customer revenue grew and reduction in operation cost as well as increased capital base.

## **5.5 Implications of the Study**

### **5.5.1 Implication for Theory**

The study adds unto the existing literature. The current study brought into light the relationship between influences of strategic responses to change in external environment

on performance in commercial banks, NCBA Bank of Kenya. The study has revealed that strategic responses to change in external environment contributed to performance of NCBA Bank of Kenya. Strategic response resulted into increased product per customer, the bank recorded increase in profit level, operating income increased, increased bank total assets, strengthened core capital position and increased liquidity ratio.

### **5.5.2 Implication for Practice**

This study may contribute to understanding how strategic responses to changes in external environmental changes influence performance of at NCBA Bank PLC and commercial banks in general in Kenya. Commercial banks are exposed to external environmental conditions. Management commercial banks can seek more strategic responses to ever changing external environment to foster banks sustainable competitiveness and performance.

### **5.5.3 Implication for policy**

Through the findings of the study, management of Central banks of Kenya, and Ministry of treasury would gain insight on the extent strategic responses contribute to performance of commercial banks in Kenya. This would inform their insight in development of policy framework in promoting strategic responses in commercial banks to position bank develop appropriate strategic policies to respond to changing in external environment. of strategic responses to sustain and influence achievement of banks' performance goals. Central Banks of Kenya together with Ministry of treasury should sought effective policy framework that would ease implementation of strategic responses such as bank strategic



collaboration, strategic positioning, bank differentiation, merger and acquisition, bank rationalization and adaptability

### **5.6 Limitations of the Study**

The study collected data from senior's managers and had of departments in NCBA Bank Limited. Some of the interviewees were resisting to offering required information. The researchers informed them that the information they would provide would be held confidential and will only be used for academic purpose only.

The study also faced a limitation where some interviewees were in fear that they should not provide such information without permission from the management. The research sought permit from the bank management as well as from the university to be allowed to conduct data collection. The researcher ensured the right of the interviewees were respected and this participation in the study allowed by the management.

The collection of the data was done post Covid-19 pandemic and Ministry of Health guidelines in force. The selected interviewees were resisting participating citing the measures are reason behind it. The research ensures every participant was sanitized, wear mask and ensured social distance.

### **5.7 Suggested Areas for Further Study**

The study focused on establishing strategic responses to change in external environment adopted by NCBA Bank of Kenya and to determine influence of strategic responses and external environment changes on organizational performance of NCBA Bank of Kenya. This study was done using a case study approach. A further study should be carried out using multi-case analysis and descriptive survey approach to provide broad based views

on the influence of strategic responses to change in external environment on performance of commercial banks.

The study was done using a Local Bank. A further study should be carried to determine influence of strategic responses and external environment changes on performance of a multinational or foreign commercial bank such as Stanbic Bank. This would validate the findings of the current study.

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## APPENDICES

### Appendix II: Introduction Letter From University



**UNIVERSITY OF NAIROBI**  
**FACULTY OF BUSINESS AND MANAGEMENT SCIENCES**  
**OFFICE OF THE DEAN**

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Telegrams: "Varsity",  
Telephone: 020 491 0000  
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Mobile: 254-724-200311

P.O. Box 30197-00100, G.P.O.  
Nairobi, Kenya  
Email: [fab-graduatesstudents@uonbi.ac.ke](mailto:fab-graduatesstudents@uonbi.ac.ke)  
Website: [business.uonbi.ac.ke](http://business.uonbi.ac.ke)

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Our Ref: D61/36518/2020

October 24, 2022

#### TO WHOM IT MAY CONCERN

RE: **INTRODUCTION LETTER: IRENE MUTHONI KABURIA**

The above named is a registered Master of Business Administration Student at the Faculty of Business and Management Sciences, University of Nairobi. She is conducting research on: **"Strategic Responses to External Environment Change on Performance of NCBA Banks of Kenya."**

The purpose of this letter is to kindly request you to assist and facilitate the student with necessary data which forms an integral part of the Project.

The information and data required is needed for academic purposes only and will be treated in **Strict-Confidence**.

Your co-operation will be highly appreciated.

A handwritten signature in black ink, appearing to read 'Philip Mukola'.

**PHILIP MUKOLA (MR.)**  
**FOR: ASSOCIATE DEAN, GBS & R**  
**FACULTY OF BUSINESS AND MANAGEMENT SCIENCES**

PM/ml

## Appendix II: Interview Guide

### Section A: Change in external Environment facing Commercial banks in Kenya

1. Explain how the following external environment has changes in commercial Banks in Kenya

a) Economic changes.....

b) Social cultural  
change.....

.....

c) Political issues  
.....

d) Changing lifestyles  
.....

e) Legal changes  
.....

f) Technological changes  
.....

**Section B: Strategic Responses to change in external Environment at NCBA Bank Limited**

2 Explain how your bank has adopted collaboration with its stakeholders in response to change in macro environment

3 Discuss how NCBA bank Kenya has adopted mergers and acquisition with the other stakeholders in response to change in external environment

4 Describe how NCBA bank Kenya adopt strategic positioning in order to enhance its operation in the market

5. Explain the extent to which NCBA bank Kenya adopt differentiating strategy to achieve the goal set in ever change macro environment

6. Discuss how NCBA bank Kenya had adopt adaptability strategies to exploit emerging opportunities in the macro environment


7. In your own opinion, what other strategies has NCBA bank Kenya adopted to respond to changes in the environment?


**Section C: Strategic Responses to change in external Environment and Organizational performance at NCBA bank Kenya**

8. In your own opinion, explain how various strategic responses to change in external environment influence performance of NCBA Bank Limited

.....  
.....  
.....


**Appendix III: NACOSTI Research Permit**

  
**REPUBLIC OF KENYA**

  
**NATIONAL COMMISSION FOR  
SCIENCE, TECHNOLOGY & INNOVATION**

Ref No: **810163** Date of Issue: **30/11/2022**

**RESEARCH LICENSE**




**This is to Certify that Miss, Irene Muthoni Kaburia of Univesity of Nairobi, has been licensed to conduct research in Nairobi on the topic: Strategic Responses, External Environment Change and Performance of NCBA Bank of Kenya for the period ending: 30/11/2022.**

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Applicant Identification Number

*Walter*  
Director General  
NATIONAL COMMISSION FOR  
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## Appendix IV: Turnitin Report



1<sup>ST</sup> DECEMBER 2022

STRATEGIC RESPONSES, EXTERNAL ENVIRONMENT CHANGES  
AND PERFORMANCE OF NCBA BANK OF KENYA by IRENE  
MUTHONI KABURIA D61/36518/2020

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