

**" BENEFITS AND CHALLENGES OF CENTRALISATION IN  
AFRICAN BANKING CORPORATION LIMITED "**

**BY**

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## DECLARATION

This Management Project is my original work and has not been presented for a degree in any other University.

Signed .....  .....

Date..... 22.9.2005 .....

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The Management Project has been submitted for examination with my approval as University Supervisor.

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## DEDICATION

This project is dedicated to my loving wife Elizabeth Wanjiku, our children Elsie Njoki, Elaine Muthoni and Ernest Gachoya, for their love, support and sacrifice.

And

To my dear parents Joseph Gachoya and Beth Njoki, brothers and sisters for all they have done and continue to do for me.

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To you all, I say thank you very much and may God bless you.

## ABSTRACT

During the last quarter of the twentieth century, there had been a shift from authoritarian hierarchical structures to flatter, more decentralized structures that devolved a lot of decision making powers to employees and line management. Scholars have contended that this strategic shift in structure resulted from the shift of the world economy from industrial age to information age and the need for radical surgery on the structures to create room for building strong cross functional capabilities. The other reasons are to bring decision making closer to the customers or users for efficiency and empowerment of employees.

However the banking industry in Kenya has tended to centralize operations with all major banks creating positions in their head offices that cater for operations for all branches or service outlets and the centralized decision making becoming the norm.

African Banking Corporation (ABC) Limited is one of the medium sized banks that has embraced centralization in decision making in all its operations. Centralization in the bank started in earnest in 2003 and the first and the major phase completed with centralization of computer software in June 2004. The bank thereafter started reorganizing its structure to accommodate and complete these changes.

The first objective of this study was to establish the benefits that have accrued to African Banking Corporation limited as a result of centralization. The researcher

collected data through personal interviews guided by semi-structured questionnaire. The primary data was backed by secondary data. The study documented the following key benefits of centralization to ABC Bank limited. These include the fact that ICT has well been utilized, there has been control of management excesses experienced under decentralized system. There was also focused planning and control systems put in place. Overall there was increased efficiency that led to improvement of key financial indicators- revenue growth, cost reduction, increased profitability and loan advances to deposits among others.

The second objective was to determine the challenges that ABC limited has faced as a result of centralization. The study identified various challenges that resulted from centralization. These included organizational culture, staff work over load at the headquarters, staff empowerment, staff confidence and staff motivation. Others include issues on delayed customer service.

ABC Bank limited has contained these challenges mainly as a result of the commitment by the bank's shareholders and directors to centralization and hence their total devotion to the cause. However, the bank will only maximize the benefits of centralization once the management has changed the culture in the organization, place competent staff at the head office and fully utilize and integrate ICT into the organization.

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## CHAPTER ONE: INTRODUCTION

### 1.1. BACKGROUND

This chapter gives the background to the study. It defines centralization and decentralization. It also covers an overview of the banking industry in Kenya. A Brief background of the African Banking Corporation (ABC) limited has been covered in this chapter. The research problem, objectives and the importance of the study have also been addressed in this chapter.

#### 1.1.1 CENTRALIZATION

Centralization and decentralization relate to the degree to which the authority, power and responsibility of decision-making is devolved in an organization. Thompson (1997) sees centralization as a situation where the strategic leader or a group of senior strategists makes all the major strategic decisions centrally, at Head Office.

Mintzberg (1979) contends that a centralized structure is a situation where all the power for decision-making rests at a single point in the organization. He also defines a decentralized structure as that where power is dispersed among many individuals.

Writing in the late 1990s, Thompson and Strickland (1998) noted that there had been a shift from authoritarian, hierarchical structures to flatter, more decentralized structures that stress employee empowerment. They advanced three main reasons for these strategic shifts. First, with the world economy moving from industrial age to the knowledge/information/systems age, traditional hierarchical structures built around functional specialization have to undergo radical surgery to accommodate a greater emphasis on building competitively valuable cross-functional capabilities. This means that organizations have to match their capability to strategy. Secondly, decision-making authority should be pushed down to the lowest organizational level capable of making timely, informed competent decisions. The idea here is that being on the ground, the managers and employees are best suited to craft the unit's strategy and lead the decision making on how to implement the strategy. Thirdly, employees below the management ranks should be empowered to exercise judgment on matters pertaining to their jobs.

However, the banking industry in Kenya appears to be shifting towards centralization. Wheeler and Hunger (1995) points out that a basic dilemma facing multinational corporations is how to centralize authority to create a vast interlocking system that achieves synergy and at the same time decentralize authority so that local managers can make the decisions necessary to meet the demands of the local market or host government.

Thompson (1997) notes that the relative importance and stability of the external environment and the possible need to react quickly is one main determinant of decision to centralize or decentralize. In the case of Kenyan banks, the shift towards centralization happens to have taken place between the mid 1990s and the early 2000s when the Kenyan economy was undergoing serious recession and was very unstable with a possibility of need to respond to these changes. One of the main reasons for the shift of strategy by banks would be to bring out consistency of strategy where the bank would adopt a uniform strategy for tackling effects of liberalization in the economy. With centralization, banks have also been able to co-ordinate activities and control changes. Thompson (1997) also points out that in a centralized organization changes in the strategic perspective are more easily facilitated.

Another situation is where an organization can be fully decentralized such that independent business units have general managers who are free to change their respective strategic perspectives. Thompson (1997) comments that these units run a series of independent businesses with some co-ordination from the parent headquarters.

Mintzberg and Quinn (1991) views structures as no more following strategy than the left foot follows the right in walking. They have argued therefore that the two exist interdependently, each influencing the other. Further, they note that there are times when a structure is redesigned to carry out a new strategy though the choice of any new strategy is likewise influenced by the realities and potentials of the existing structure. On the other hand, Waterman (1980) and colleagues assert that productive organization

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change is not simply a matter of structure although structure is important but effective organization change is really the relationship between structure, strategy, systems, style, skills, staff and super ordinate goals.

Naddler and Tushman (1992) argue that Strategic Change refers to relatively major and systematic shifts in strategic orientation and to changes that improve either strategic or organizational alignment; where strategic alignment is the firm's positioning within the environment and organizational alignment concerns the extent to which a firm's structures and processes supports the firm's strategy.

This study will concentrate specifically on the later part of the Naddler and Tushman (1992) view but specifically research on the challenges and gains faced by Banks that have restructured their organizational structure to centralise decision making.

African Banking Corporation, Kenya Ltd (ABC Bank) is a medium sized bank established twenty years ago and which has expanded rapidly to its current network of seven (7) branches. The Bank started on a centralized system but as it expanded, a great deal of control, responsibility and decision making was released to the managers in those branches. In the first few years and since the banking operations and managerial actions were still very closely controlled by the Managing Director, General Manager and Chief Managers in the Head Office, operations were smooth which did not necessitate a change in transfer of responsibility and decision making. With increasing turbulence in the environment and the need to respond to these changes, the bank management consciously decided to centralize operations, from mid 2003.

Centralization in the Bank improved with the installation of a centralized computer system with the introduction of Finacle software launched in June 2004. With this centralization drive, the Bank has drawn a new structure with new reporting lines for functionaries within the Bank, clearly delineating banking operations and credit lines.

During the period which the centralization has taken place, the Bank has taken certain challenges and also various benefits have accrued out of the centralization. While

many banks have kept shifting from centralized to decentralized systems then back to centralized systems, the ABC experience has been phenomenon in that it has involved various aspects and extents, which had not previously been studied.

### 1.1.2 OVERVIEW OF BANKING SECTOR IN KENYA

As of May 2004, the Central Bank of Kenya Supervision Annual Report indicates that the banking sector comprises of 51 financial institutions with 43 commercial banks (1 of which is not in operation), 2 operating non-bank financial institutions (NBFIs), 2 mortgage finance companies and 4 building societies (including one under statutory management of CBK). The banking sector is supported by a total of 85 forex bureaus.

The total balance sheet of the banking sector as of May 2004 stood at Kshs. 542.2 billion (US \$ 6.78 billion) in total assets. The total loans and advances from commercial banks to the various sectors of the economy increased by Kshs 40 billion (15.6%) from Kshs 256.1 billion in May 2003 to Kshs 296.1 billion in May 2004, and accounted for 55% of total assets. The increase in loans and advances was mainly attributed to lending by commercial banks of unsecured personal loans, following aggressive marketing campaigns (CBK 2004).

Of the 43 commercial banks operating in Kenya, only 6 banks account for 62.20% of the total assets of Kshs 577.348 billion (US\$ 7.217 billion) as at December 2004 (MI, 2005). These top banks comprise Barclays Bank Of Kenya, Kenya Commercial Bank, Standard Chartered Bank, Co-operative Bank of Kenya, National Bank of Kenya and CFC Bank in descending order (MI 2005). It follows therefore that these banks control to a great extent developments in the industry in terms of strategic leadership, direction and technology, and their decisions and actions have a direct impact on the banking industry.

With the development in technology, banks have found it expedient to continually rationalize their branches in order to reduce overhead costs and use of centralized computer software has even made it easier. Centralization of the software has made it possible to have the one branch bank where clients can conduct transactions from one branch irrespective of the distance away from the domicile branch. Equally, banks have



also continually rationalized their branches through increased number of Automated Teller Machines (ATMs) in use, which are estimated to have risen to over 480 with the number still growing especially with the entrance of Paynet and Kenswitch companies specifically handling installations of ATMs. The improved uptime of the ATMs has been realized through access by some of the banks to Very Small Aperture Terminals (VSATs), which are more reliable unlike the earlier, less reliable services of the main service provider, Telkom Kenya Limited or its predecessor, the Kenya Posts and Telecommunications Corporation Ltd (MI, 2002).

According to Gacheri (2004), the new and dynamic information systems adopted by most banks have enabled them to process data faster and more efficiently. In the recent years therefore, and in an effort to cut down on overhead costs and offer quality services to customers, there has been a tendency by banks to reduce the number of their branches. There has also been a change in assets composition due to harsh economic conditions that led to the closure of a number of businesses and low effective demand for bank credit at both personal and corporate level (Gacheri 2004).

### 1.1.3 AFRICAN BANKING CORPORATION LIMITED

The history of African Banking Corporation, Kenya Ltd (ABC Bank) dates back to 13th November, 1984, when a group of professional Bankers, Industrialists, and Advocates came together and started a financial institution named Consolidated Finance Company, which was officially established with its registered office in Nairobi, Kenya (ABC 2005).

The growth of Consolidated Finance Company was exceptionally good over the first ten years. By 1994, Consolidated Finance Company was one of the leading Financial Institutions in the country, and following Central Bank of Kenya approval to allow Financial Institutions to convert into fully fledged Commercial Banks, Consolidated Finance Company became the first non bank financial institution in the country to convert into a commercial bank – African Banking Corporation Limited (ABC Bank), officially opening its doors in January 1995. ABC Bank today is one of the medium sized banking institutions in Kenya's banking and financial sector with an asset base of over

Kshs. 4.25 billion (US \$ 53.15 million). The Bank has a network of 7 fulltime branches, with 3 of these branches located within the Nairobi City while the remaining 4 are located in the upcountry cities of Mombasa, Kisumu, Eldoret and Meru respectively. The Bank has a staff population of over 130 qualified and professional bankers and is fully geared to meet changing financial needs of both local and international markets.

The bank has drawn up its strategic plans for future growth aimed at seeing it achieve the status of being one of the most customer centric and innovative private banks regionally, with solid footing, adhering to international best practice with controls for consistent and continuous growth. The bank has put in place the appropriate infrastructure for providing a wide range of domestic and international financial products and services, which are continuously reviewed to meet ever-changing customer needs. ABC recently installed a new centralized online state-of-the-art IT banking system that is hoped will provide a solution in their initiative to position the bank for future challenges. Previously, the Bank operated a decentralized operating system until mid 2003 when all the systems were centralized.

The new banking system offers opportunities in terms of products tailored for specific customer segments, regions and financial capabilities, improved services to customers in relation to being served at any outlet within the shortest time possible. Further, the bank has also centralized all operations and decisions are now made centrally with the head office taking over the decision making for all key operations of the bank.

With the conversion of the Bank into a full commercial bank, operating in a decentralized banking operating system and now centralized decisions, ABC bank has experienced certain benefits and faced some challenges as a result of this change. These benefits and challenges are not be unique to the Bank but are rather common to other players in the industry. This study therefore aims at establishing the benefits and challenges of this system of operation.

## 1.2 RESEARCH PROBLEM

Liberalization of the banking industry in the period 1994/1995 brought about various challenges to players in the industry. Some of these challenges include intense

competition and reduced business earnings. In the external environment, other sectors were also liberalized and hence it emerged some effects on performance of banks leading to increased non performing advances, inflation, increased interest rates, collapse of most sectors in the economy and a general recession in the economy.

The effects of these challenges on the banking sector called for new rethinking in the industry in order to counter the challenges. In the banking sector, many banks were operating on a decentralized system, where the operations of the banks were controlled through business hubs, regional offices or area offices. Barclays Bank of Kenya Limited operated business hubs where they had 8 regions up to late 1990s. This concept was later restructured to the current 2 regions. The other difference is that today, the two regions, Coast and Nairobi, and West Nairobi and Western respectively have operational authority but the same is derived from the headquarters. Kenya Commercial Bank operated regional offices styled Area Manager's offices where a high degree of authority, including at one time hiring of junior employees was decentralized. The Bank operated up to 9 Area offices manned by an area manager. However, the Bank operated a centralized computer operating system and all the units' work would be posted centrally at the headquarters at computer centre.

Today, the functions have been centralized under functional divisional directors including corporate, retail, finance and administration and operations, strategy and change. The directors are empowered to make decisions on human resource, cost and expenditure, time, business strategy and growth.

Standard Chartered Bank operated hubs but which were only 3 in number. The extent of decentralization was low. However, units had autonomy to hire and fire employees amongst other line activities. The hubs would do the posting of all the day's activities for each unit. The business hubs were manned by regional managers who were responsible for strategy development and implementation.

African Banking Corporation (ABC bank) Limited largely operated a decentralized operating system. While the computer software used was controlled centrally, the

managers and employees at the 7 Branches and various head office departments had been greatly empowered and had a lot of say in decisions and in devising strategy, human resource recruitment and business growth and played a key role in strategic direction of the Bank. Since the middle of 2003 however, there has been a great deal of centralization that has vested authority with the executives and some top managers in the Bank who are based at the Head Office.

Since this change in strategy, the executives have taken more control and responsibility and have been able to translate corporate strategy and drive business with a lot more control than before. Largely, banks that were previously operating in a decentralized system gradually adopted a centralized system. Several studies have been carried out in the banking industry covering the subject of Strategic Management. The researcher did not find any study documenting the benefits and challenges faced by organizations operating a centralized system. Additionally, this concept does not appear to have been studied with respect to commercial banks and this study is meant to empirically document these benefits and challenges.

This study will focus on the benefits and challenges of centralization in ABC bank, which is one of the banks that changed from a decentralized structure to a centralized structure.

### 1.3 RESEARCH OBJECTIVES

- (a) To establish the benefits that has accrued to African Banking Corporation Limited as a result of centralization.
- (b) To determine the challenges that African Banking Corporation Limited has faced as a result of centralization.

### 1.4 IMPORTANCE OF THE STUDY

The study will provide knowledge to policy decision makers on the benefits and challenges of a centralized system hence a decision point on the way forward. The Bank management and ownership may make informed decision on which elements of

the banking system they wish to centralise and the extent to which certain decisions will be left with the branches or outlets in order to maximize their returns.

The study will explore the benefits that could accrue to banks operating in a centralized environment and enable shareholders and other stakeholders make informed choice as to which way to operate. Further, the study will add to the reservoir of knowledge for future academic researchers on the subject matter.

On the challenges the study will enable the stakeholders to understand how to avoid them.

## CHAPTER TWO: LITERATURE REVIEW

### 2.0 INTRODUCTION

In this chapter, literature on the structure of organizations, centralization concept with emphasis on the banking sector and benefits and challenges of centralization has been reviewed.

### 2.1 STRUCTURE

Wilson and Rosenfeld (1990) define organizational structure as the established pattern of relationships between component parts of an organization outlining communication, control and authority patterns. Structure distinguishes the parts of the organization and delineates the relationship between them.

Pearce and Robinson (2002, P358) define structure in a basically simple concept as “the division of tasks for efficiency and clarity of purpose, and coordination between the interdependent parts of the organization to ensure organizational effectiveness”. Structure therefore balances the need for specialization with the need for integration and provides the formal means of decentralizing and centralizing consistent with the organizational and control needs of the strategy.

Johnson and Scholes (2002) contend that structures define the levels and roles and facilitate or constrain how process and relationships work in an organization.

The diversity and size of an organization creates its unique structural needs. According to Pearce and Robinson (2002), there are five main structural choices available for business firms to choose from. These types include simple, functional, divisional, strategic business unit and matrix.

#### 2.1.1 SIMPLE STRUCTURE

According to Johnson and Scholes (2002), an organization is run by the personal control of an individual in a simple structure. It may therefore be seen as no formal

structure at all. The simple structure prevails in the smallest of business enterprise. In this structure, all the strategic and operating decisions are centralized in the owner-manager's domain. The strategic concern here is primarily survival and there is likelihood that one bad decision can seriously threaten the continued existence of the business. In this structure, there is rapid decision-making and ability to change with market signals. Firms can also use this structure to control all their business activities. However, Pearce and Robinson (2002) have noted that this structure is very demanding on the owner manager; does not facilitate development of future managers and tends to focus owner managers on day-to-day matters and not on future strategy. The structure has therefore become increasingly inadequate as volume expands. Simple structure encourages employees' involvement in more than one activity and is more effective in businesses that serve a localized, simple product/market (Pearce and Robinson, 2002).

### 2.1.2 FUNCTIONAL STRUCTURE

Functional structure predominates in firms that concentrate on one or a few related products/markets (Pearce and Robinson (2002). They state that these structures group similar tasks and activities (usually production/operations, marketing, finance/accounting, research and development, personnel) as separate functional units within the organization. This structure brings about improved development of functional expertise, differentiates and delegates day to day operating decisions, retains a centralized control of strategic decisions and has an overall effect of bringing about efficiency through specialization.

However, Johnson and Scholes (2002) argue that functional structures tend to overburden senior managers with routine matters hence neglecting strategic issues. Managers are also unable to adapt, find it difficult to cope with diversity hence the structure creates staff line conflict bringing about difficulties in functional coordination and inter functional decision-making.

### 2.1.3 DIVISIONAL ORGANIZATIONAL STRUCTURE

Johnson and Scholes (2002) state that a divisional organisational structure is built up of separate divisions on the basis of products, services or geographical areas. Pearce and

Robinson (1997) contend that a divisional organizational structure is often necessary to meet the increased coordination and decision-making requirements that result from increased diversity and size of any business. This form of structure expedites decision-making in response to varied competitive environments and enables corporate management to concentrate on corporate level strategic decisions.

The structure places strategy development and implementation in close proximity to the unique environments of the divisions, frees chief executive officers for broader strategic decision making, sharply focuses on accountability for performance and retains functional specialization within each division. The strategy also provides good training grounds for strategic managers and forces coordination and necessary authority down to the appropriate level for rapid response.

However, Pearce and Robinson (1997) sees the structures as fostering potentially dysfunctional competition for corporate level resources, and presenting a problem of determining how much authority should be vested on divisional managers. The structure therefore presents a problem of distribution of corporate overhead costs and creates a potential for policy inconsistencies among divisions.

#### 2.1.4 STRATEGIC BUSINESS UNITS

Pearce and Robinson (1997) defines strategic business units (SBUs) as groups that combine various divisions (or parts of some divisions) in terms of common strategic elements. The groups are based on the independent product/market segments served by the firm. The authors argue that SBUs organizational structure enables organizations to channel accountability to distinct business units, facilitates distinct and in-depth business planning at the corporate and business levels, tightens the strategic management and control of large, diverse business enterprises and improves coordination between divisions with similar strategic concerns and product market environments.

However, they note that the SBU structure places another layer of management between the divisions and corporate management. This may present difficulties in



defining the role of the group vice president, increase the dysfunctional competition for corporate resources and present difficulties in defining how much autonomy should be given to the group vice presidents and division managers.

### 2.1.5 MATRIX ORGANIZATION

Pearce and Robinson (1997) define a matrix organization structure as one that provides dual channels of authority, performance responsibility, evaluation and control. The basic idea of a matrix structure is to simplify and amplify the focus of resources on a narrow but strategically important product, project or market, notes Pearce and Robinson (1997). As a result of this structure, an organization maximizes efficient use of functional managers, fosters creativity and multiple sources of diversity, accommodates a wide variety of project oriented business activity, gives middle management broader exposure to strategic issues and provides good training grounds for strategic managers.

Pearce and Robinson (1997) also argue that the structure has several strategic disadvantages. They argue that the structure would necessitate tremendous horizontal and vertical coordination, can trigger many battles and loss of accountability, may result in confusion and contradictory policies and necessitates tremendous horizontal and vertical coordination.

Kanter (1984) argued that unlimited circulation of power in an organization without focus would mean that no one would even get anything done beyond a small range of actions that people can carry out by themselves. Further, the very idea of infinite power circulation sounds to some of us like a system out of control, unguided, in which anybody can start nearly anything.

### 2.2 CENTRALIZATION CONCEPT

Bateman and Zeithaml (1993) define centralization as the decision making practice where decisions are made by high level executives and passed down to the lower levels for implementation. In a highly centralized organization, the top executives retain authority for most strategic and operating decisions and keep a tight rein on business

unit heads and departmental heads; comparatively little discretion authority is granted to subordinate managers and individual employees in decision making.

Huczynski and Buchanan (2001) define centralization as the concentration of authority and responsibility for decision-making in the hands of managers at the top of an organization's hierarchy. Further, Thompson and Strickland (1998) define decentralization as a situation where managers and non-managerial employees are empowered to act on their own in their areas of responsibility. In such an environment, the business unit heads have broad authority to run the subsidiary, branch or department with comparatively little interference from corporate headquarters. The business head is in this way empowered to give functional branch and departmental heads considerable decision-making latitude.

## 2.3 BENEFITS OF CENTRALIZATION

### 2.3.1 Specialization of skills

In a centralized environment, an organization may be able to optimize utilization of specialized skills, talent and technology. At times, the specialized skills, talent and technology are difficult to harness and even when available are neither affordable nor practical in multi locations. The organization therefore would require fewer skilled (and highly paid managers). Terry and Franklin (1997) state that highly qualified specialists can be utilized because the scope and volume of their work are sufficient to support and challenge top notch managers.

### 2.3.2 Cost reduction

A centralized organization will usually have reduced overheads, staff expenses and other costs. Research has shown that by organizations centralizing their operations, they save on overhead and other costs as branches or units would be left with skeleton staff and equipment. More importantly, the skilled and highly paid staff would not be required at the units. This means there is a greater likelihood of economies of scale.

### 2.3.3 Full utilization of information communication technology

With advancement in communication technology (ICT), Organizations would be able to transfer money, credit information, transportation and data processing from a central location thereby making optimal use of these facilities. Lynch (1997) views centralized organizations as having a high technology content.

### 2.3.4 Control of operations

Owners of organizations operating under a centralized operating system feel more in control of activities carried out in the organization. Terry and Franklin (1997) state that the danger of actions drifting and getting off course is reduced with centralization. In situations for example where the control is even in systems and decisions have to be sanctioned and functionally inputted in computer systems for further action to be enabled at the unit or branch level, executives and senior managers at the headquarters have full control and can therefore eliminate errors or excesses that would otherwise be permitted in a decentralized environment.

### 2.3.5 Uniformity of policies, practices and decisions

Lynch (1997) states that centralization of decision-making, authority and responsibility makes it possible for an organization to create a consistent strategy across the organization. Units and branches are directed on how to process activities within the organization and processes are therefore standardized and uniform decisions made. Thompson (1997) comments that there is consistency of strategy in a centralized organization.

### 2.3.6 Planning and reporting procedures

A centralized organization requires less extensive planning and reporting procedures. Usually when decisions are centralized it is easier to plan as fewer people are expected to do the planning and contribute to the reporting process. Terry and Franklin (1997) argue that duplication of functions is minimized in centralization.

### 2.3.7 Efficiency in decision making

The managers at the top of an organization's hierarchy are more aware of an organization's actions; future plans and are more likely to make decisions in its best interests. Lynch (1997) states that organizations with centralized structures make decisions faster and with less compromise.

### 2.3.8 Better co-ordination of activities

Thompson (1997) states that it is easier to co-ordinate activities and handle interdependences and control changes in a centralized organization. Allocation of resources in a centralized organization is also much simpler.

## 2.4 CHALLENGES OF CENTRALIZATION

### 2.4.1 Hinders Successful Implementation of strategies

A successful strategy implementation involves empowering others to act on doing all the things necessary to put strategy into place and execute it proficiently. When an organization centralizes operations therefore, line and unit managers and employees may not clearly understand and interpret the corporate vision hence contribute to its achievement.

### 2.4.2 Resistance

In a centralized operating environment, managers and employees of departments and units are not involved in decision-making. There are some genuine morale gains when people are well informed and allowed to operate in a self-directed way, which is lost through centralization. Mintzberg (1979) also contend that decentralization stimulates motivation. The main challenge here is how to exercise adequate control over the actions of empowered employees so that the business is not put at risk at the same time that the benefits of empowerment are realized. Further, people take pride in confidently undertaking responsibilities delegated to them. According to Bowman and Asch (1987), lower management levels may be upset as a result of their lack of involvement in decisions.

### 2.4.3 Compromise On Customer Service

Bowman and Asch (1987) state that decisions can be made without fuller knowledge of local circumstances. When decisions are centralized, there are tendencies to delay decision-making. Organizations may lose customers and huge business not forgetting the compromise on customer service as they await decision from the Central authority. The people nearest the scene who are knowledgeable about the issues are trained to weigh all the factors that may be best suited to handle situations as they arise.

### 2.4.4 Human Resource Development

In a centralized environment, the major strategic decisions are left to the executives and senior managers at the head office. The staff at the branches and units remain passive and tend to only forward assignments to the central office. Major decision making, training gained through experience is not there and managerial development is hampered. Managers are unable to build competitively valuable cross-functional capabilities that would usually come with exposure to different scenarios in a work environment. Lack of internal training will make finding and holding talented and ambitious people more difficult.

Bowman and Asch (1987) contend that centralized decisions tend to stifle initiative at the lower organizational levels.

### 2.4.5 Costs and risks associated with centralization

When an organization centralizes operation, it means that the persons to which authority is vested in must be quite specialized and must understand the operations to be quite effective. In some cases individuals to which authority is vested may not have the capacity and therefore may end up being expensive for the organization.

### 2.4.6 Organizational culture

The shared norm, values and understanding (culture) of members of some organizations may not support control at the top while other organizations support the opposite (Stoner, 2003 and colleagues). The history of an organization helps to create its current culture. Managers at a firm that has grown rapidly through acquisitions will prefer greater independence of the acquired company hence decentralization.

## 2.5 DECENTRALIZATION

Decentralization refers to authority and responsibility for decision making being dispersed more widely downwards and given to the operating units, branches and lower level managers. Huczynski and Buchanan (2001) list various benefits of decentralization. They state that lower level managers can be made more easily and that lower level management problems can be dealt with on the spot. When the lower level managers are allowed to make decisions, they develop their decision-making skills. The managers are motivated when entrusted with decision-making. Lastly, an organisation's workload is spread so as to allow top-level managers more time for strategic planning.

## 2.6 LEVELS OF STRATEGY

Burnes (2000) identifies three levels of strategic decision making in organizations. These levels include, the corporate level, business level and functional level. Broadly, strategy at corporate level concerns the direction, composition and co-ordination of the various businesses and activities that compromise a large and diversified organization. Strategy at the business level relates to the operation and direction of each of the individual business within a group of companies. At the functional level, strategy concerns individual business functions and processes such as finance, marketing, manufacturing, information technology and human resources.

### 2.6.1 CORPORATE LEVEL STRATEGY

At the corporate level, organizations pursue six basic forms of strategy (Burnes 2000). The stability strategy is designed to keep organizations quiet and stable and is common in successful organizations operating in medium attractiveness industries, which are faced with unpredictable circumstances outside the range of their normal business experience.

The growth strategy involves concentrating on dominating one industry or growing by diversification across a number of industries. The growth strategy is based on a belief that there is a strong and proportional correlation between increased turnover and

increased profit. Also, the performance of senior managers tends to be measured in terms of the annual increase in turnover and profit.

Portfolio extension is another strategy at this level. Portfolio extension is a variant of the growth strategy, different in the fact that it is achieved through mergers, joint ventures or acquisitions rather than through internally generated organic growth.

The fourth strategy at this level is the retrenchment strategy. An organization will result to this strategy when in trouble or when due to adverse market conditions can foresee trouble. It involves downsizing i.e. cutting down on numbers employed and activities undertaken. The aim is to match expenditure to projected income and refocus the organization so as to be able to attain prosperity in future.

The fifth strategy is what Burnes (2000) calls harvesting strategy. It involves reducing investment in a business or area of activity in order to reduce costs, improve cash flow and capitalize on whatever residual competencies or areas of advantage still remain.

The last strategy is the combination strategy. This involves using a combination of some or all the strategies above. Combination strategies are however more appropriate in large multi-divisional organizations where the circumstances faced by the different activities are likely to vary.

## 2.6.2 BUSINESS LEVEL STRATEGY

According to Burnes (2000), three strategies namely cost leadership, product differentiation and specialization by focus are available at the business level. Cost leadership level aims at achieving overall lower costs than one's competitors, without reducing comparable product quality. Organizations would achieve cost leadership through high volume sales to achieve economies of scale. Porter (1980) notes that organizations require aggressive construction of efficient scale facilities, vigorous pursuit of cost reductions from experience, tight cost and overhead control, avoidance of marginal customer accounts, and cost minimization in areas like research and development, service sales force and so on to attain cost leadership.

In product differentiation, organizations attempt to achieve industry wide recognition of different and superior products and services compared to those of other suppliers. This may be achieved through design of special brand images, technology features, customer service or higher quality all of which have implications for the structure and operation of companies.

Another strategy used at this level is the specialization by focus. The strategy is concerned with selecting only certain markets, products or geographical areas in which to compete. Porter (1980) argues that organizations find it feasible to dominate its chosen area (s).

### 2.6.3 FUNCTIONAL LEVEL STRATEGIES

Burnes (2000) states that the main functional level strategies concern marketing, finance, research and development, technology, human resources, manufacturing/operations and purchasing. The functional level strategy has been the most neglected by Western organizations. This is mainly because of three reasons. First, organizations tend to concentrate more at both the corporate and business levels on the external world and hence lack interest in the internal operation of organizations. This was on the feeling that the internal world was malleable and should adjust to the priorities set by corporate and business strategies.

Second, the key elements of functional level strategy especially concerning finance, marketing, research and development and technology were in effect determined and constrained by corporate strategists. The third reason was that although the 1980s saw a renewed interest in functional level strategy, this tended to be one-sided, stressing soft, personnel issues.

A close look at the strategies adopted at corporate business and functional levels shows that there are a limited number of forms of strategies adopted by organizations and which flow from the competitive forces, strategic conflict and resource based models of strategy (Burnes 2000).



## CHAPTER THREE: RESEARCH METHODOLOGY

### 3.0 INTRODUCTION

This Chapter details the research design used to achieve the objectives of the study, which were to establish the benefits that accrued to ABC Bank limited as a result of centralization and also determine the challenges that the bank faced as a result of centralization.

### 3.1 RESEARCH DESIGN

The research was conducted through a case study. The study was intended to bring out information regarding the benefits and challenges of centralization in African Banking Corporation Limited and responses obtained from key persons in the company.

Kothari (1990) states that a case study involves a careful and complete observation of a social unit – a person, institution, family, cultural group or the entire community and emphasizes depth rather than the breadth of a study.

This research design therefore was chosen rather than a survey because the objectives of the study required an in depth understanding of the benefits accruing and challenges facing banks that have centralized systems.

While the researcher understands that the case study method of research was both time consuming and expensive to administer, it was expected that this method would provide results that would exhaustively address the research problem. The researcher also recognizes the fact that the results of the case study were drawn from a single Bank with unique features rather than several banks, it may not be possible to draw generalizations based on the findings.

## 3.2 DATA COLLECTION

The data used in this research was both secondary and primary data.

### 3.2.1 Secondary Data

Secondary data was obtained from existing internal records of ABC Bank such as data relating to financial performance, ratio analysis, staff numbers and rationalization. Additional secondary data was sourced from industry financial journals and reviews including the Central Bank of Kenya Monthly Economic Review, Market Intelligence, a business and finance journal would give information relevant to the study. The secondary data was mainly used to back up findings of the primary data.

### 3.2.2 Primary Data

The primary data was collected by interviewing twenty respondents. The respondents included directors and senior management and the operative staff of the Bank. The interview process was guided by a pre-prepared interview guide and a questionnaire that facilitated in depth coverage of the benefits and challenges of centralization within the Bank.

Among the staff that were interviewed by the researcher included the Executive Director, the Chief Manager-Finance and Administration, the Chief Managers-Customer Relationship Unit (CRU), Chief Manager-Credit, Chief Manager Operations and Retail Banking, Relationship managers in Kisumu, Eldoret, Meru and Mombasa branches, Trade Finance Manager, Treasury Manager and Manager Audit. The Executive Director and the Chief Managers are members of the Executive committee involved in policy decisions and in determining the direction of the Bank. They also control the Bank's resources and are in full control of all decisions made.

In addition to these key staff of the Bank, random interviews were carried out with functionaries involved in the key areas of the Bank to understand the operational view of centralization. These included staff in Credit Risk Analysis department, Credit Administration, Monitoring and Control, Finance, Logistics, Trade Finance and Banking

Operations. The respondents mainly comprised those who have been involved in the centralization and those affected by centralization.

Efforts were made to interview each of the respondents directly through a face-to-face interview. Telephone interviews were done where it became difficult to schedule a face-to-face interview.

The questionnaire was designed on the basis of the objectives of the research and the literature review. A letter of introduction and samples of two questionnaires that were used in data collection are attached as appendix 1a, 1b and 1c respectively. One questionnaire that is detailed was given to the top management while the other that was not very detailed was given to the other cadre of staff.

### 3.3 DATA ANALYSIS

The secondary data and primary data collected from the interviews and questionnaires was first edited for completeness and consistency before processing. The data was also coded to facilitate categorization.

The analysis centered on a conceptual and qualitative content analysis of data from respondents on the two objectives of establishing the challenges and benefits of centralization within the ABC Bank. The main variables considered and the effects under the secondary data included effects on the turnover, efficiency in customer service, number of staff, amount of expenses, profitability, efficiency in decision making, morale, number of frauds and customer satisfaction. As regards the analysis of benefits, the main variables used were specialization of skills, costs, ICT, standardization of decisions, planning and reporting decision-making and other responses received.

## CHAPTER FOUR: DATA ANALYSIS AND INTERPRETATION

### 4.1 INTRODUCTION

This chapter discusses the findings of the study based on the analysis and interpretation of both primary and secondary data collected from various sources. The findings focus on the areas identified for the study, namely; to establish the benefits and challenges of centralization in African Banking Corporation Limited.

### 4.2 THE RESPONDENTS' PROFILE

All the respondents to this study are impacted by the implementation of the Centralized Decision-Making processes by ABC limited. There were a total of 21 respondents. The profile consisted of mainly staff in the top management and the middle level. However staff at the Middle level consisted of those at the managerial level and non-managerial level.

They were represented from all the key divisions of the bank i.e. Credit and Business Division which had half of the respondents, Operations and Retail Banking, Finance and Administration and Treasury. The ratio of men to women was 70:30.

The age of the respondents was widely spread with a third of the respondents being in the age bracket of 36-40. Out of the total respondents, 20% were aged between 26-30 and 41-45 years in each category.

In terms of length of service, almost half of the respondents had served the organization for a period of between 1 and 2 years while half of them have served for over three years. This profile therefore was considered representative.

### 4.3 AWARENESS OF THE CENTRALIZED DECISION MAKING PROCESS

Overall, almost three-quarters of the respondents were aware that the ABC Ltd. had implemented a centralized decision making process. The respondents indicated the various forms that the centralized decision-making system had taken. The main one indicated by many of the respondents was that of the implementation of a new software

system, *finacle*. The other indicators of a centralized decision making process was the fact that decisions were made centrally at the head office on some issues like security and disbursements of credit facilities. Restructuring of branches that led to having one Relationship Manager controlling the Nairobi branches was also an indicator.

However, at the strategic level, centralization process took the form of a strategic shift by the Board of Directors to have commitment to compete and excel in the business they were (are) in. One of the key requirements therefore was to centralize.

Implementation of the new software, Finacle is the main form of centralization that was indicated by most respondents. There was a clear communication about the change to the new centralized decision making system. It is because of this clear communication to all the staff that they seemed to be aware of the objectives of the centralized decision-making process within ABC limited.

The Middle level of management indicated that the main objectives of centralization were the need to establish controls, standardize the way some processes were done, manage costs prudently, enhance efficiency, and improvement of revenue among others. These objectives did not vary from what the top management who looked at the whole process from a strategic point. For the top management, centralization had the strategic objectives of enabling the bank to comply with industry based practice, have a better control of operations, have the right infrastructure in order to go for growth in a strategic manner. The top management believed that an institution should grow inside out from the core as whole and not as individual departments. A critical analysis therefore shows that the strategic objectives were well mirrored by the staff at the divisional level

#### 4.4 BENEFITS OF CENTRALIZATION

The respondents were asked to indicate in a scale of 1 to 5, 1 being no extent and 5 being the greatest extent to which they considered a number of aspects as benefits resulting from centralization. Overall, all the respondents indicated that there are benefits that have been achieved from centralized decision making process. However

the degree to which the various aspects were considered beneficial differed from respondent to respondent. A similar trend was also noted when categorizing the respondents based on role/position in organization.

Overall, maximum utilization of Information Communication Technology (ICT) was rated as the greatest benefit achieved at 3.89 out of a maximum of 5. It was followed by the reduction of management excesses that was experienced prior to centralization. Enhanced planning and reporting structures were also considered as benefits among all cadres of staff. However the non-managerial staff had higher ratings over the managerial staff in almost all aspects/benefits except on skills enhancement.

In a nutshell, the implementation of the new software system, *finacle* led to the bank realizing a number of benefits. There was increased specialization resulting from the identification of skills that added value to the institution through online reports. Reduction of costs was also realized as the new IT system safeguarded against lost income through income leakages. There was also control in loan excesses, reduced bad debts and also paper costs. Creation of a hub of computer system centre made it easy to maximize data and information utilization. In this way monitoring and controls were also enhanced. Quality in decision making and harmonization of the same was also enhanced. This is because it was easy to do data mining for faster decision making that had fewer errors. Duplicated decisions were also reduced.

For the purposes of this study, the researcher has defined non-managerial respondents as those officers who work directly under a manager and who do not necessarily make independent decisions without referring to managers heading departments.

Table 1 indicates the extent to which the respondents considered the various aspects as benefits.

Table 1- Extent to which the following aspects were considered benefits

		<i>Out of a maximum of 5</i>		
	<b>Aspect/Benefit</b>	<b>All respondents</b>	<b>Managers</b>	<b>Officers (non-managerial)</b>
1	ICT utilization	3.89	3.78	4.00
2	Control of management excesses	3.86	3.64	4.10
3	Planning and control	3.67	3.45	3.90
4	Decision making processes	3.57	3.55	3.60
5	Quality Decisions	3.48	3.27	3.70
6	Cost reduction	3.38	3.18	3.60
7	Skills enhancement	3.10	3.36	2.80

Source- Primary data- respondents

Further analysis indicates that there was increased efficiency across ABC limited. This is evidenced by the fact that there was an increase in the overall profitability of the bank over the last two years as indicated in the financial statements of the bank up to the year 2004. However, it is important to note that this improved efficiency may not be fully attributed to only centralized decision making in the ABC limited but also other strategic directions that the bank might have implemented.

Over the three years up to year 2004, improvements were noted in all the key financial indicators. Taking year 2002 as a base, total bank income increased by 16%, expenses declined by 4%, profit after tax improved significantly by 160%, loan and advances went up by 30%, deposits up by 19% and total assets increased by 24%.

Analysis by use of ratios indicated that the return on shareholders' wealth improved by 103%, the earnings per share also went up by 159% and advances to deposits improved by 9% over the same period. Overall, despite the increase in the number of staff, it can be concluded that there were efficiencies realized as a result of centralized decision making process.

Table 2 indicates the financial performance of the ABC limited over five years, from 2000 to 2004.

Table 2- Financial Performance of ABC Ltd.

ABC Ltd. - Financial Performance						
		2004	2003	2002	2001	2000
Kenya shillings (' 000s)						
1	Total Income	448,038	418,049	386,815	469,688	457,497
2	Total Expenses	329,358	351,712	342,544	428,750	423,896
3	Profit before tax	118,680	66,337	44,271	40,938	33,601
4	Profit after tax	78,121	44,704	30,102	27,571	23,536
5	Loans and advances (gross)	2,198,061	1,872,925	1,686,995	1,487,268	1,640,770
6	Deposits	3,462,945	3,229,822	2,908,790	2,400,240	2,357,926
7	Shareholders' funds	504,481	426,360	381,656	351,554	323,983
	Total Assets	4,187,587	3,817,780	3,387,433	2,961,151	2,978,353
	<b>Ratios</b>					
1	Return on shareholders' funds	23.53	15.56	11.6	11.64	10.37
2	Earnings per share	2.23	1.28	0.86	0.92	0.78
3	Gearing ratio	14.57	13.2	13.12	14.65	13.74
4	Advances to deposits	63.47	57.99	58	61.96	69.59
	Total number of staff	128	119	97	90	85

Source: - Secondary source- ABC Financial statements



#### 4.5 CHALLENGES OF CENTRALIZATION

Studies have shown that any strategic change has its own challenges. The challenges differ from organization to organization and also depend on the nature of strategic change. Bowman and Asch (1987) have noted that lower management levels may be upset as a result of their lack of involvement in decisions. If not well handled, this therefore poses a challenge in implementation of strategy.

In the case of ABC limited, a number of challenges were faced. Resistance to adapt to new change was a significant challenge faced. There was also the need to enhance skills especially by the staff at the head office. This therefore required that the staff be trained on the need for the new system of decision making and how it will work. Communication problems especially with the upcountry branches that were not well networked also posed as a challenge. This is especially in regard to the change of some processes that affected customer service in the initial stages. Increased ICT costs were also a significant challenge, as it required more computers to support the new software and the training thereof. Fear to embrace the unknown was also a challenge.

The above aspects were a challenge to different staff at various levels. To measure the extent to which they were a challenge, respondents were asked to indicate in a scale of 1 to 5, 1 being no extent and 5 being the greatest. Table 3 shows the overall extent to which the various aspects were a challenge.

Organization culture came out strongly as the main challenge that was faced by all the respondents. It was rated 3.79 out of a maximum of 5. The same was noted among all the cadres of staff even though the non-managerial staff (4.00) indicated it to be a bigger challenge compared to the managerial staff (3.60). The top management as a challenge cited organization culture because the organization lacked clear policies and procedures for empowerment and decision making.

The other key challenge was the issue of work overload that was rated at 3.75. Like in the organization culture the perception of having a higher workload weighed heavily on the non-managerial staff (4.10) at the headquarters compared to the managers' (3.40).

The top management cited higher workload as a challenge because there was lack of foresight on the requirements and planning aspect on what it entailed to embrace centralization.

Staff empowerment was also a challenge. Respondents across all cadres felt that they were not empowered. This posed a challenge to the top management as in some cases they were not able to quantify the level of decision-making skills of staff in the bank. Loss of empowerment affected mainly the managers who had to lose some of their authority levels in the process. Compared to non-managerial staff, empowerment was not that significant a challenge to managerial staff, as may be they were seeing it as maintenance of status quo. This had a link to staff confidence and staff morale that were also challenges. Staff confidence was a major concern to staff at the branches who felt they are not fully in control, as they have to seek direction from head office.

All the respondents also considered human resource development a challenge. However the extent of it being a challenge was high among the managers given their supervisory role that meant that they required to get more people trained to effectively implement the centralized decision making system work.

Customer service was also considered a challenge even though not to a greater extent because of it being short term in nature i.e. being experienced during the transition period mainly. However, by virtue of not being fully empowered at the branch level staff always sought for direction from the head office hence leading to delayed customer service. Other challenges considered even though not to a greater extent were the need to effectively strengthen strategic planning, operation controls and effective utilization of assets.

The top management who are strategically placed in the organization also indicated that costs and expenses were a challenge. This is because they had to contend with cost overruns in the initial period due to unforeseen circumstances and other environmental issues. There was also increased head office and operational costs. Some of these

costs had a long-term life cycle. The overall impact of this increased cost pressure was a reduction in the profitability levels.

Some risks associated with centralization also emerged. This is because in the process of implementing centralization, there was lack of new policies and procedures and a better audit function within the organization.

*Table 3- Extent to which the following aspects were a challenge*

		<i>Out of a maximum of 5</i>		
	<b>Aspect/Challenge</b>	<b>All respondents</b>	<b>Managers</b>	<b>Officers (Non Managers)</b>
1	Organization culture	3.79	3.60	4.00
2	Staff Overload headquarters	3.75	3.40	4.10
3	Staff empowerment	3.65	3.80	3.50
4	Staff confidence	3.58	3.40	3.78
5	Strategy implementation	3.58	3.60	3.56
6	Staff morale	3.55	3.60	3.50
7	Human Resource Development	3.45	3.80	3.10
8	Customer service	3.30	3.20	3.40
9	Strategic Planning	3.26	3.50	3.00
10	Operation controls	3.20	3.60	2.80
11	Asset utilization	3.16	3.10	3.22
12	Operational Risk exposure	3.15	3.30	3.00

**Source-** Primary data- respondents

## CHAPTER FIVE: CONCLUSION

### 5.1 INTRODUCTION

This chapter covers the summary of findings to ABC limited as a result of implementing the centralized decision making process. The Chapter also covers the researcher's recommendations to ABC limited, limitations of the study and also suggestions for further research.

### 5.2. SUMMARY OF FINDINGS

The summary of findings is divided into two key areas that were the focus of the study. These are the benefits to the ABC limited. Resulting from centralization and the challenges that were faced while implementing the same.

#### 5.2.1 BENEFITS OF CENTRALIZATION TO ABC LIMITED

Overall, there were a number of benefits that were realized by the ABC Ltd. after implementing the centralized decision-making system in the organization. The main benefits were in the area of utilization of ICT skills, control of management excesses experienced under decentralized system. There was also enhanced planning and control within the bank as well as enhanced (faster and quality) decision making processes. All these benefits are also evidenced by the overall increase in the financial performance of the bank.

Overall the bank's key financial indicators i.e. total income, total expense, loan and advances, deposits and total assets improved three years in a row from year 2002 up to year 2004. However this improvement may not be attributed to the implementation of the centralized decision making system only but also other strategic decisions that the bank might have implemented.

#### 5.2.2 CHALLENGES FACED BY ABC WHEN IMPLEMENTING CENTRALIZATION

ABC Ltd faced a number of challenges in the change to centralized decision making. Respondents noted organization culture as the major challenge. It was followed by the perception that there was work overload for staff at the head office. This was however

more specific to the non-managerial staff. Staff empowerment was also considered as a challenge especially the managers who felt that their authority was being diverted to other quarters. Related to this challenge was staff confidence which many felt was being eroded.

However ABC limited was able to overcome most of these challenges by having a clear communication system in place that clearly outlined the objectives of the new decision making. Investment in ICT was a big success factor to the successful implementation of the centralized decision making system.

### 5.3 RECOMMENDATIONS

Organizations face a number of challenges in the current business environment. This is because the environment under which they operate is ever changing. The only organizations that will effectively survive are organizations that embrace change that is designed towards remaining competitive and survive in this ever-changing environment.

Given such a scenario in the environment, the researcher recommends that ABC limited continue to implement the centralized decision making system fully while on the other hand remaining cautious of its relevance in the organization over time. This is because organizations go through change because today's effective strategies might be tomorrow's irrelevancies.

The researcher also suggests that the bank considers decentralizing some decision-making processes on some aspects as the organization grows in size and more especially on its branch network. This is important because there might be no value added in centralizing some decision-making processes. This of course should be done bearing in mind the human resource capacity at the branches to implement the same.

As ABC limited is a medium sized bank, the researcher recommends and finds it necessary for the top management who are also owners to continue to be fully involved in strategy formulation and implementation as this is the only way that they will be able to adequately provide resources for implementation.

#### 5.4 LIMITATIONS OF THE STUDY

This was a case study of the African Banking Corporation. As a result the research findings might not necessarily apply to other players in the industry because they differ in size among other factors.

Overall, the bank experienced an improved performance in its key financial indicators. The improved performance of the bank over the last three years might not necessarily be attributed to the centralized decision making processes implemented by the bank only. There might be other strategic responses by the bank that have not been covered in this study.

The study concentrated on addressing the benefits and challenges resulting from the implementation of a centralized decision making system in ABC limited. The study did not seek to identify if there are clear limitations/disadvantages from the centralized decision making process. They are only covered as challenges, which does not bring them out strongly.

#### 5.5 SUGGESTIONS FOR FURTHER RESEARCH

This study was carried out during a time when implementation of the centralized decision making system was not fully complete. This implies that the bank might have not reaped full benefits associated with it and also not fully experienced all the challenges that might be associated with the same. The researcher therefore suggests that a similar study be done after next 3 years, in order to confirm and establish any benefits and challenges the bank may have experienced.

This study mainly focused on the management style employed by the ABC limited bank. This is one aspect of strategic management and responses taken by organizations to address various strategic challenges in the environment. I therefore suggest that other studies on extent of the applicability of the other strategic variables by the bank be done.

This was a case study whose results cannot be generalized within the banking sector. The researcher therefore suggests that a similar study be carried out among other banks in Kenya to allow for any generalizations of the research findings.

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## APPENDICES

### Appendix 1a

#### Introductory Letter

UNIVERSITY OF NAIROBI

FACULTY OF COMMERCE

Dear Sir/Madam,

TO WHOM IT MAY CONCERN: ERASTUS GACHOYA

This is to certify that the above named is a graduate student in the Faculty of Commerce, University of Nairobi. He is currently carrying out a management project research entitled "Benefits and Challenges of centralization in African Banking Corporation Limited".

The project is in partial fulfillment of the requirements for the award of the degree of Master of Business and Administration (MBA). The findings of the project will be used for academic and as reference material purposes only.

We kindly request you to give him any assistance that he may require in the conduct of the Research Project.

Please feel free to contact the second undersigned should you require further information.

Yours faithfully,

Signed:

Erastus Gachoya  
MBA Student

Dr. Martin Ogutu  
Supervisor

**APPENDIX 1b**

**QUESTIONNAIRE -Top management**

**Section A - Introduction**

ABC Ltd is one of the banks that has implemented a centralized decision making process. I would like to understand what in your opinion are the benefits resulting from this centralization and the challenges faced in the process.

**Section B- Bio data**

1. Name of respondent (optional) \_\_\_\_\_
2. Title (Designation) of respondent \_\_\_\_\_
3. Division/Section (Tick one)  
Credit and business Division ( )    Operations and retail banking ( )    Finance & Administration ( )
4. Branch/Department (Tick one)  
Trade Finance ( )    Clearing ( )    Mis/Data Centre ( )    Treasury ( )    Finance and accounts ( )    Human resources ( )    Audit ( )    Marketing ( )    Legal ( )  
Corporate banking ( )    Credit risk ( )    Credit administration ( )    Other – specify ( )
5. Gender    Male ( )    Female ( )
6. Age    18-25 ( )    26-30 ( )    31-35 ( )    36-40 ( )    41-45 ( )    45+ ( )
7. Length of service with ABC  
1-12 months ( )    1 –2 yrs( )    3-4 yrs ( )    5 –6 yrs( )    Over 7 yrs ( )

**Section C – Benefits**

8. What were the main objectives for centralized decision-making process for ABC Ltd?  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_
  
9. How was the centralization decision making process done?  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

10. A number of organizations that have implemented centralization in making decisions have reaped a number of benefits. Which of the following would you say are benefits to ABC Ltd. resulting from centralized decision making process? If it was a benefit, please indicate how it was a benefit.

(a) Increased specialization in skills among employees: Yes ( ) No ( )  
If yes state why: \_\_\_\_\_

\_\_\_\_\_  
\_\_\_\_\_

(b) Reduction in costs and expenses: Yes ( ) No ( )  
If yes state why: \_\_\_\_\_

\_\_\_\_\_  
\_\_\_\_\_

(c) Maximum utilization of information Communication technology: Yes ( ) No ( )  
If yes state why: \_\_\_\_\_

\_\_\_\_\_  
\_\_\_\_\_

(d) Control of excesses by line management and departmental staff: Yes ( ) No ( )  
If yes state why: \_\_\_\_\_

\_\_\_\_\_  
\_\_\_\_\_

(e) Harmonized decision making processes: Yes ( ) No ( )  
If yes state why: \_\_\_\_\_

\_\_\_\_\_  
\_\_\_\_\_

(f) Harmonized planning and reporting procedures: Yes ( ) No ( )  
If yes state why: \_\_\_\_\_

\_\_\_\_\_  
\_\_\_\_\_

(g) Improved quality of decisions: Yes ( ) No ( )

If yes state why: \_\_\_\_\_

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(h) Please state any other benefits (state): Yes ( ) No ( )

If yes state why: \_\_\_\_\_

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### Section D - Extent of the benefits received

11. In your view, to what extent is each one of the following a benefit of centralization in ABC Bank limited?

Use a 5-point scale where: 1=not a benefit at all and 5=very great extent

	Not a benefit			Very great extent	
	1	2	3	4	5
Enhanced Skills specialization	( )	( )	( )	( )	( )
Reduction in costs	( )	( )	( )	( )	( )
Enhanced utilization of ICT	( )	( )	( )	( )	( )
Control of excesses by line management	( )	( )	( )	( )	( )
Decision making	( )	( )	( )	( )	( )
Planning and reporting	( )	( )	( )	( )	( )
Quality of decisions	( )	( )	( )	( )	( )

**Section E – Challenges**

12. A number of organizations that have implemented centralization in making decisions have faced a number of challenges. Which of the following would you say are challenges faced by ABC bank Limited resultant from centralization? If it was a challenge, please indicate why and how it was a challenge?

(a) Empowerment of staff: Yes ( ) No ( )

If yes state why: \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

(b) Staff morale: Yes ( ) No ( )

If yes state why: \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

(c) Staff confidence: Yes ( ) No ( )

If yes state why: \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

(d) Customer service: Yes ( ) No ( )

If yes state why: \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

(e) Human resource development: Yes ( ) No ( )

If yes state why: \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

(f) Cost and expenses: Yes ( ) No ( )

If yes state why: \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

(g) Risks associated with centralization: Yes ( ) No ( )

If yes state why: \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

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(h) Control of operations:                      Yes ( )    No ( )

If yes state why: \_\_\_\_\_

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(i) Staff overload at Head Office:                      Yes ( )    No ( )

If yes state why: \_\_\_\_\_

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(j) Organizational culture within the Bank:                      Yes ( )    No ( )

If yes state why: \_\_\_\_\_

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(k) Profitability levels:    Yes ( )    No ( )

If yes state why: \_\_\_\_\_

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(l) Utilization of Bank assets:    Yes ( )    No ( )

If yes state why: \_\_\_\_\_

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(m) Strategic planning:    Yes ( )    No ( )

If yes state why: \_\_\_\_\_

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(n) Strategy implementation:    Yes ( )    No ( )

If yes state why: \_\_\_\_\_

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**Section F - Extent of the challenges identified**

13. In your view, to what extent is each one of the following a challenge of centralization in ABC Bank limited? Use a 5-point scale where: 1=not a challenge at all and 5=very great extent

	Not a challenge			Very great extent	
	1	2	3	4	5
Empowerment of staff	( )	( )	( )	( )	( )
Staff morale	( )	( )	( )	( )	( )
Staff confidence	( )	( )	( )	( )	( )
Customer service	( )	( )	( )	( )	( )
Human resource development	( )	( )	( )	( )	( )
Costs and expenses	( )	( )	( )	( )	( )
Exposure to operational risks	( )	( )	( )	( )	( )
Control of operations	( )	( )	( )	( )	( )
Staff overload at Headquarters	( )	( )	( )	( )	( )
Organizational culture	( )	( )	( )	( )	( )
Profitability levels	( )	( )	( )	( )	( )
Utilization of Bank assets	( )	( )	( )	( )	( )
Strategic planning	( )	( )	( )	( )	( )
Strategy implementation	( )	( )	( )	( )	( )



14. Please share any other comments about centralization decision-making process that may have arisen out of your experience.

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**Thank you for taking time to complete this questionnaire**

## APPENDIX 1C -Questionnaire - Low levels

### **Section A - Introduction**

ABC Ltd is one of the banks that has implemented a centralized decision making process. I would like to understand what in your opinion are the benefits resulting from this centralization and the challenges faced in the process.

### **Section B- Bio data**

1. Name of respondent (optional) \_\_\_\_\_
2. Title (Designation) of respondent \_\_\_\_\_
3. Division/Section  
Credit and business Division ( )    Operations and retail banking ( )    Finance & Administration ( )
4. Branch/Department:  
Trade Finance ( )    Clearing ( )    Mis/Data Centre ( )    Treasury ( )    Finance and accounts ( )    Human resources ( )    Audit ( )    Marketing ( )    Legal ( )    Corporate banking ( )    Credit risk ( )    Credit administration ( )    Other – specify ( )
5. Gender    Male ( )    Female ( )
6. Age    18-25 ( )    26-30 ( )    31-35 ( )    36-40 ( )    41-45 ( )    45+ ( )
7. Length of service with ABC  
1-12 months ( )    1 –2 yrs( )    3-4 yrs ( )    5 –6 yrs( )    7 yrs & above ( )

### **Section C- In respect to your division**

8.    Has there been centralization in decision-making in your department in the last 5 years?  
          Yes    ( )                      No    ( )
9.    If yes, please describe the nature of centralization?  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_
10.    What were the objectives of the centralized decision making process in your division?  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

11. How was the centralization effected?

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**Section D - Benefits**

12. In your opinion, what are the benefits to ABC Bank resulting from the centralized decision making process?

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13. In your view, to what extent is each one of the following a benefit of centralization in ABC Bank limited? Use a 5-point scale where: 1=not a benefit at all and 5=very great extent

	Not a benefit			Very great extent	
	1	2	3	4	5
Enhanced Skills specialization	( )	( )	( )	( )	( )
Reduction in costs	( )	( )	( )	( )	( )
Enhanced utilization of ICT	( )	( )	( )	( )	( )
Control of excesses by line management	( )	( )	( )	( )	( )
Decision making	( )	( )	( )	( )	( )
Planning and reporting	( )	( )	( )	( )	( )
Quality of decisions	( )	( )	( )	( )	( )

14. Please indicate any other benefits that have accrued from centralization of decision-making process in your division.

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**Section E - Challenges**

15. Kindly indicate the challenges ABC Bank has faced in centralization.

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16. In your view, to what extent is each one of the following a challenge of centralization in ABC Bank limited? Use a 5-point scale where: 1=not a challenge at all and 5=very great extent

	Not a challenge			Very great extent	
	1	2	3	4	5
Empowerment of staff	( )	( )	( )	( )	( )
Staff morale	( )	( )	( )	( )	( )
Staff confidence	( )	( )	( )	( )	( )
Customer service	( )	( )	( )	( )	( )
Human resource development	( )	( )	( )	( )	( )
Costs and expenses	( )	( )	( )	( )	( )
Exposure to operational risks	( )	( )	( )	( )	( )
Control of operations	( )	( )	( )	( )	( )

Staff overload at Headquarters	( )	( )	( )	( )	( )
Organizational culture	( )	( )	( )	( )	( )
Profitability levels	( )	( )	( )	( )	( )
Utilization of Bank assets	( )	( )	( )	( )	( )
Strategic planning	( )	( )	( )	( )	( )
Strategy implementation	( )	( )	( )	( )	( )

17. Please indicate any other challenges faced by your division in implementing the centralization process?

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**Thank you for taking time to complete this questionnaire**