

STRATEGIC ISSUE MANAGEMENT PRACTICES BY  
COMMERCIAL BANKS IN KENYA //

BY

ALI MOHAMED ALI

A MANAGEMENT RESEARCH PROJECT SUBMITTED IN  
PARTIAL FULFILMENT OF THE REQUIREMENTS FOR THE  
AWARD OF THE DEGREE OF MASTER OF BUSINESS  
ADMINISTRATION, SCHOOL OF BUSINESS, UNIVERSITY  
OF NAIROBI

University of NAIROBI Library



0444231 5

## DECLARATION

I certify that this is my original work and has not been presented to any other University or college for the award of degree or diploma for examination purposes.

ALI MOHAMED ALI  
D61/P/8332/03

SIGNED



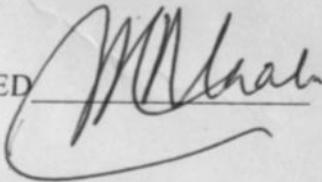
DATE

14/11/2028

This research project has been submitted with my approval as the University Supervisor.

MR. JACKSON MAALU

SIGNED



DATE

18/11/08

## ACKNOWLEDGEMENTS

This project is dedicated to my family and parents for the love, support and their prayers.

Special thanks go to my wife, Fatmaha, my sons Mohamed and Adil and my daughter Sarah whose understanding and support enabled me to successfully complete the project.

The lecturers in the School of Business, University of Nairobi, deserve praise for their tireless effort to upgrade intellectual standards in this country. Specifically, I thank my supervisor Mr. Mzee for his assistance, guidance and support. His patience and dedication has been a source of inspiration to me and I will always treasure his skills of the subject matter which has opened up my academic views.

Finally, I wish to thank all my colleagues whom we have shared ideas and insights in preparation of this noble course.

May Almighty God bless you all.

## ACKNOWLEDGEMENT

I thank Almighty God for giving me the strength to work on this project despite several challenges. Special thanks go to my wife, Fathiya, my sons Mohamed and Adil and my daughter Sauda whose understanding and support enabled me to successfully complete the project.

The lecturers in the School of Business, University of Nairobi, deserve praise for their tireless effort to upgrade intellectual standards in this country. Specifically, I thank my supervisor Mr. Maalu for his assistance, guidance and support. His patience and dedication has been a source of inspiration to me and I will always treasure his skills of the subject matter which has opened up my academic views.

Finally, I wish to thank all my colleagues whom we have shared ideas unselfishly in pursuit of this noble course.

May Almighty God bless you all.

## ABSTRACT

Strategic Issue Management is a discipline that is gaining a lot of popularity and receives generous attention from scholars and professionals. It is a management tool that helps managers not only to manage but also take advantage of the opportunities arising out of the evolving business environment. The dynamism of the banking environment in the current times is posing a lot of challenges to all commercial banks in Kenya and for this reason, the researcher was propelled to study and determine whether Strategic Issue Management practices plays its role in contributing to effective management of the commercial banks in Kenya.

Over the last several years, financial modernization, deregulation, industry consolidation, the rise of new institutions, shifting trends in borrowing and lending, globalization and emerging technology e.g. internet have significantly influenced and affected how commercial banks operate. The evolution of the banking industry has presented both challenges and opportunities for commercial banking institutions.

Since commercial banks are in the business of taking risks, a pertinent question that comes to mind is, is there an effective system in place to counter unpredictable events that can sustain their operations and minimize the risks involved? The objectives of the study were therefore to establish the kind of Strategic Issue Management practices commercial banks in Kenya employ to strengthen their positions and the factors that influence those practices.

Out of the 41 commercial banks in operation as at 31<sup>st</sup> December 2006, 40 banks responded to structured questionnaire which was used to collect the data. The result of the study revealed that 87.5% of the banks were practicing SIM techniques even though majority confirmed that it has not been fully adopted or effectively utilized to take maximum advantage of the opportunities in the banking industry. However, it is encouraging to note that majority of the banks considered strategic issue management a project worth investing in to a 'very great extent' by 62.5% of respondents, while 37.5% viewed it important to a great extent.

## TABLE OF CONTENTS

<b>DECLARATION</b>	(ii)
<b>DEDICATION</b>	(iii)
<b>ACKNOWLEDGMENT</b>	(iv)
<b>ABSTRACT</b>	(v)
<b>LIST OF TABLES</b>	(viii)
<b>CHAPTER ONE: INTRODUCTION</b>	
1.1 Background	1
1.2 Statement of the problem	6
1.3 Objectives of the study	7
1.4 Significance of the study	8
<b>CHAPTER TWO: LITERATURE REVIEW</b>	
2.1 Strategic Management and the environment	10
2.2 Strategic Issue Management Concept	12
2.3 Issue Management Process Model	13
2.4 Strategic Issue Management System	15
2.5 Strategic Issue Management Practices	17
2.6 SIM Analytical Techniques	20
2.7 Application of SIM and organizational factors	21
<b>CHAPTER THREE: RESEARCH METHODOLOGY</b>	
3.1 Research Design	24
3.2 The Population	24
3.3 Data collection	24
3.4 Data Analysis	25

## **CHAPTER FOUR: FINDINGS AND DISCUSSIONS**

4.1	Introduction	26
4.2	Profile of respondent banks	26
4.3.	The environment.	27
4.4	Strategic Issue Management Practice	30
4.5	Factors Impacting on Strategic Issue Management Practice	46
4.6	Benefits and challenges of Strategic Issue Management	48

Table 7: Performance Measures

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

Table 9: Time Period

5.1	Introduction	50
5.2	Summary of the Findings	50
5.3.	Conclusions	55
5.4.1	Recommendations for further studies	55

Table 14: Employees' engagement

<b>REFERENCES</b>	<b>56</b>
<b>APPENDIX I</b>	<b>61</b>
<b>APPENDIX II</b>	<b>69</b>
<b>APPENDIX III</b>	<b>70</b>
<b>APPENDIX IV</b>	<b>71</b>

Table 15: Importance of Strategic Issue Management in Future Success of a Company

**LIST OF TABLES**

Table 1: Strategic issues encountered

Table 2: Factors having an impact on SIM

Table 3: SIM Practice

Table 4: Updating of strategic issues

Table 5: Perception rating of strategic issue management

Table 6: Extent that SIM is considered a project worth investing in.

Table 7: Performance Measures

Table 8: Turnaround time in responding to issues

Table 9: Time Horizon

Table 10: Engagement consideration

Table 11: Modes of decision making

Table 12: Strategic plans and “urgent and critical issue”

Table 13: Annual pre-occupation with SIM

Table 14: Employees’ empowerment

Table 15: Strategic issue management documentation

Table 16: Action taken when the target/objectives/benchmarks are not met

Table 17: method/technique/practice used to analyze strategic issues

Table 18: Management’s authority to make decision

Table 19: important factors in determining the time taken to make decisions

Table 20: Importance of strategic issues management to future success of a company

## CHAPTER ONE: INTRODUCTION

### 1.1 Background

#### 1.1.1 Strategic Issue Management

All organizations depend on the environment for survival and growth. Organizations scan the environment in order to understand the external forces of change so that they may develop effective responses which secure or improve their position in the future. Thus organizations scan in order to avoid surprises, identify threats and opportunities, gain competitive advantage, and improve long- and short-term planning (Sutton, 1988). Organizations have to scan the environment continuously in an effort to spot changing conditions and trends that could eventually affect them and their industry (Thompson and Strickland, 1993).

The business environment is never stable. It goes through cycles of stability and turbulence. If it were constantly stable, firms would exploit their historical strengths to the maximum. Tetenbaum (1998) says that "The new world is full of unintended consequences and counterintuitive outcomes ... the map of the future cannot be drawn in advance. It takes exceptional management to anticipate and profit from change (Johnson & Scholes, 1999) Organizations have to constantly adapt their operations and internal configurations to reflect the new external realities (Ansoff 1980).

Sound analysis of an industry's driving forces is a prerequisite to sound strategy making. Without keen awareness of what external factors will produce potential changes in an organization's business, it is difficult to craft a strategy tightly matched to emerging conditions (Thompson and Strickland, 1993).

Environmental analysis should focus on strategic issues – current or forthcoming developments, inside or outside the organization, which will impact upon the ability of the organization to pursue its mission and meet its objective (Thompson).

Strategic issues are foundation upon which strategies are developed and therefore not only important but also forward-thinking and seize on current opportunities. The issues require to be viewed from the context of strength, weakness, opportunity and threat of the enterprise (Ansoff and McDonnell 1990:369). According to Pearce and Robinson (2003), modern executives must respond to the challenges posed by the firm's immediate and remote external environment.

Strategic Issues Management (SIM) is a managerial function that helps corporations to identify, analyse, and respond to social and political concerns that can significantly affect them (Greening and Gray, 1994). SIM appeared during the evolution of strategic planning when it became evident that it would not be practical for strategies to be revised annually (Ansoff and McDonnell, 1990). The discipline is gaining a lot of popularity and receives generous attention from scholars and professionals. A professional membership organization, the Issue Management Council (IMC) whose mission is to help members 'anticipate and successfully resolve issues through effective management processes' is playing an active role in not only advocating best practices but also defining appropriate SIM professional standards ([www.issuemanagement.org](http://www.issuemanagement.org)).

Strategic issues usually centre around a tension or conflict to be resolved. Such tensions or conflicts may be related to differences between past ways of doing things and future demands or current capacities and capacities necessary for delivering the required services. It is through Strategic Issue Management system that such issues can be identified, understood,

determine the consequences of not addressing them, and arranging them in priority order by considering how they relate to one another (Ambler, 1999).

Strategic Issue Management (SIM) systems are set of organizational procedures, routines, personnel and processes devoted to perceiving, analysing, and responding to strategic issues; they enhance an organization's capacity to adapt and to learn (Duncan & Weiss, 1979 Hedberg, 1981). Adapting implies that an organization can achieve a better alignment with its environment (Lawrence & Lurch, 1967), and learning implies the alignment is facilitated by greater knowledge and understanding (Fiol & Lyles 1985). SIM provides the basic information required for designing and installing a scanning system to keep strategic management abreast of the flow of coming events. It allows strategy to be reshaped to meet new strategic issues as they arise (Stoffels, 1994).

Strategic Issue Management (SIM) system facilitates an organization adaptive capability in two distinctly different yet complementary ways. First a SIM system can collect, disseminate and interpret information and by doing so, identify issues that require manageable interpretation (Daft & Weick, 1984). Thus adaptation or better alignment between an organization and its environment is achieved through a SIM system's role in helping to solve the problem of managing 'equivocality' (Weick 1997) or reducing uncertainty (Thompson 1967). Strategic issues do not come to the attention of top decision makers in pre-packaged form (Dutton, Fahey, Narayanan 1984). In this way SIM system represent organizational structures and processes for formulating organizational problems and opportunities (Lylee & Mitroff 1980).

The description of the range of activities embedded in different forms of SIM suggests that these systems have the potential to play critical roles in an organizations' problem (or issue)

sensing, problem (or issue) formulation, and issue responsive activities. Thus, SIM systems represent a set of structures and processes that organizations adopt to manage critical activities.

Heath (1986) asserts that SIM is proactive rather than reactive, it allows companies to intercept problems at an early stage and it requires application of substantial empirical, qualitative and quantitative analysis to solve corporate planning problems. This therefore means that managers must depart from planned change practices and adopt real-time strategic response system which is based on the appreciation that the periodic systems of managing organizations may no longer be capable of perceiving and responding to the threats and opportunities in a highly turbulent environment.

Strategic Issue Management (SIM) system therefore serves as a tool in assisting organizations to avoid 'strategy amnesia' which sets in resulting in increasing drift from the established strategic direction (Heugen, 2003). Unclear priorities among competing initiatives (resulting in wasted resources/loss of focus) are avoided due to effective assessment of external changes in a more systematic way. Commercial banks in Kenya have tended to cope with external changes quite effectively given the substantial profits they have been making. However it is not clear whether SIM practices have been fully adopted or effectively utilised to take maximum advantage of the opportunities in the banking industry.

### 1.1.2 Overview of the Banking Sector in Kenya

The banking industry has been, and continues to be, radically transformed. The evolution of the banking industry has presented both challenges and opportunities for commercial banking institutions. Over the last several years, financial modernization, deregulation, industry consolidation, the rise of new institutions, shifting trends in borrowing and lending, globalization and emerging technology have influenced and affected how commercial banks operate.

According to (CBK, 2006 - 1 ), as at December 2005, there were 41 commercial banks, two mortgage finance companies, one building society and one financial institution. Of the 41 commercial banks, 3 are public financial institutions, 11 are foreign private institutions and the remaining 27 are local private institutions. However, the industry has been described as having oligopoly characteristics with only a few players dominating the market. It is estimated that ten banks command 77% of the market, leaving the other players to share the remaining 23 %. Nevertheless, this fact has not discouraged the 'small' banks as they too continue to prosper by concentrating on niche banking (Market Intelligence, 2005).

Commercial banks have had to repackage their products and services to satisfy the ever changing needs of customer. This has resulted in a tighter focus on specific market segments, looking for positions of strength, rather than being involved in 'everything'. There are also increased investment partnerships with other financial intermediaries such as insurance companies and increased participation in the Capital Markets.

In view of the continuous pressure to respond to market demands, inevitably, commercial banks are faced with a new dimension of risk management. 'Strategic Risk' a term defined as: 'the current and prospective impact on earnings or capital arising from adverse business

decisions, improper implementation of decisions, or lack of responsiveness to industry changes' (CBK, 2005 - 2) is considered a number one priority in risk management.

Due to the volatility of the banking sector, commercial banks have to keep abreast with latest developments in order to stay relevant in the competitive banking industry. The type of products/services being offered, and to whom, directly impacts on the strategic direction of a bank. It is therefore critical that banks respond to the 'forces of change' systematically and in a logical manner to avoid irrational decision (Market Intelligence, 2005).

To mitigate strategic risk, Strategic Issue Management plays a vital role in articulating, prioritizing, and tracking the profile of emerging trends and issues facing commercial banks in Kenya. Reversing a wrong decision can be very costly and a bank therefore needs an "early warning system" for issues affecting its markets, strategies, policies and reputation.

## **1.2 Statement of the problem**

Given the myriad of 'strategic issues' facing commercial banks in Kenya, Strategic Issue Management in the commercial banking industry demand that banks should have effective systems in place to counter unpredictable events that can sustain their operations and minimise the risks involved. Oomens and Bosco (1999) have shown in their study that 'issue management' plays a critical and positive role in facing up to the challenges of a turbulent environment. Studies conducted in Kenya on the practices of Strategic Issue Management, hotel industry (Muya, 2006), Insurance industry (Mkamunduli, 2005) and Nairobi Stock Exchange (Nganga, 2001) have confirmed applicability of these practices even though the level of appreciation varied across the sectors.

The dynamism of the banking environment in the current times is posing a lot of challenges to all commercial banks in Kenya. It is only those banks that are able to adapt to the changing environment and new ways of doing business that can be guaranteed of survival (Market Intelligence, 2005). Some of the forces of change that have greatly influenced the banking industry include intense competition, globalisation and technological advancement. All commercial banks therefore, are forced to keep abreast with latest developments in order to stay relevant in the competitive banking industry.

Since commercial banks are in the business of taking risks, a pertinent question that comes to mind is, is there an effective system in place to counter unpredictable events that can sustain their operations and minimise the risks involved? What kind of Strategic Issue Management practices do commercial banks in Kenya employ to strengthen their positions and what factors influence those practices?

This study shall attempt to answer the above questions and therefore document Strategic Issue Management practices by commercial banks in Kenya.

### **1.3 Objectives of the study**

The objectives of the study are:

1. To establish the Strategic Issue Management practices by commercial banks in Kenya.
2. To identify factors influencing Strategic Issue Management practices in the Kenyan commercial banks.

#### **1.4 Significance of the study**

Commercial banks in Kenya play a significant role in the country's economic development, both in terms of financial intermediation as well as 'monetarising' our fragile economy in terms of facilitating financial access to all parts of the country. Thus, its continued success and prosperity in this dynamic environment is vital for the whole economy.

Given the challenges commercial banks are facing, Strategic Issue Management helps institutions to stay afloat in the market despite turbulent environment. By shading some light on the various Strategic Issue Management practices by commercial banks, the study should benefit managers and practitioners in the sector by enabling them to identify gaps that may require re-evaluation. Flexibility, adaptability and novelty in meeting environmental challenges will sensitize managers to think 'outside the box'.

While it is acknowledged that the government has undertaken various measures to revitalize the banking system, understanding of strategic management practices by commercial banks will enable the government, through Central Bank of Kenya to play its rightful role to monitor and regulate commercial banks in an effective and efficient manner. The economy is best served by having a stable commercial banking sector which delivers the highest standard and range of services to customers at competitive prices. This requires a level of profitability and regulation necessary to ensure the prudential soundness of individual institutions and the stability of the banking system, transparency and fairness in the dealings of the banking sector with its customers, and a competitive market place for banking services.

Furthermore, the government would be in a position to formulate monetary policies based on the changing needs of the market which would create more incentives and therefore higher probability of success in its implementation.

The information available on strategic issue management practices is very little and this study will thus provide additional insight on the subject. Scholars will therefore be able to do further research to fill-in information gap that exist by expounding on the subject and contribute towards developing it to a fully fledged discipline.

## CHAPTER TWO: LITERATURE REVIEW

### 2.1 Strategic management and the environment

A strategy to an organisation is, amongst other things, a plan of how the organisation can achieve its goals and objectives ( Mintzberg 1996),it is a 'commitment of present resources to future expectations' (Drucker 1999, ). The aim of strategic management is to decide on organisational goals, the means of achieving those goals, and ensuring that the organisation is positioned to pursue these goals. Mintzberg argues that strategy emerges over time as intentions collide with and accommodate a changing reality. According to Ansoff and McDonnell (1990) strategy seeks to bridge the gap between current position of the organization to its future intended direction.

Brinkerhoff (1994) characterises strategic management as looking out, looking in, and looking ahead. 'Looking out' means exploring beyond the boundaries of your organization to set feasible objectives, identifying key stakeholders, and build constituencies for change. 'Looking in' implies critically assessing and strengthening your systems and structures for managing personnel, finances, and other essential resources. Finally, 'Looking ahead' entails melding your strategy with structures and resources to reach your goals while monitoring your progress and adjusting your approaches as needed.

Thompson and Strickland, (1993) maintain that despite the uncertainty and dynamic nature of the business environment , an assessment process that narrows, even if it does not precisely define, future expectations is of substantial value to managers. The firm has to therefore consider the external environment and the changes therein, so as to ensure continued survival and long-term profitability.

To the extent that an organization's ability to adapt to its outside environment depends on knowing and interpreting the external changes that are taking place, environmental scanning constitutes a primary mode of organizational learning. Environmental scanning casts a wider net and analyzes information about every sector of the external environment that can help management to plan for the organization's future. Scanning covers not only competitors, suppliers and customers, but also includes technology, economic conditions, political and regulatory environment, and social and demographic trends (Choo, 1999). According to Hamel and Prahalad, strategy is about searching for new sources of advantage. No advantage is sustainable over a long period of time.

Managers face difficulties in trying to understand the environment due to the fact that different external elements affect different strategic times and with varying strengths (Johnson and Scholes, 1999). Firms must invest in broad-ranging efforts to monitor and interpret social, political, economic, ecological and technical events in an effort to spot budding trends and conditions that could eventually impact on the industry. The purpose of this is to raise consciousness of managers about potential developments that could have important implications on industrial conditions by offering new opportunities, and also posing new threats.

Assessing the potential impact of the changes in the environment enables managers to narrow the range of the available options that are clearly inconsistent options and to eliminate options that are clearly inconsistent with the forecast opportunities (Pearce and Robinson, 1997). Kotler notes that the environment is constantly changing and firms are at the mercy of these turbulent forces. The only option is to utilize any learned or acquired techniques to counter or embrace these overriding changes and in the process endeavour to survive and hopefully grow.

## 2.2 Strategic Issue Management concept

In less than three decades, Issue Management has become established as a distinct business discipline, with proven capacity to add strategic value to organizations. During that time practitioners and academics around the world have explored ways to optimize the new discipline and to stretch the boundaries of where its strengths can best contribute to corporate and societal advancement.

Ansoff and McDonnell (1990) define strategic issue as a forthcoming development, either inside or outside of the organization, which is likely to have an important impact on the ability of the enterprise to meet its objectives. An issue may be welcome: an opportunity to be grasped in the environment, or an internal strength which can be exploited to advantage. Or it can be unwelcome: an external threat, or an internal weakness which imperils continuing success, even the survival of the enterprise.

Organization faces two types of strategic issues originating inside or outside the organization's boundaries (Ambler, 1999). Decline in employee satisfaction or the development of a new technology by an organization research and development (R&D) represents internal strategic issues. Such issues are classed as strategic because they can alter the organization's performance if left unnoticed or un-addressed; they are distinctly internal because the focus for their occurrence is within the organization's boundaries. In contrast, external strategic issues emanate from sources outside the organization's boundaries. For example, competitor actions, political unrest or changes in regulatory rules represents potential external strategic issues.

Ansoff and McDonnell (1990) asserts that as future become more complex, novel and less flexible, systems become correspondingly more sophisticated. Equally therefore, managers require to be creative and flexible, hence strategic issue management practice.

Some forms of SIM system are designed exclusively to monitor and respond to internal issues. In this forms of SIM system internal issues often are triggered by deviations in the organization or some subunits performance from targeted performance goals (Dutton, 1987). A SIM system that tracts external issues are consistent with views of those who see SIM systems as synonymous with environmental scanning or as an activity affiliated with the public affairs function (Fleming 1980).

Increasingly, formal SIM systems are being implemented in organizations today (Chase, 1984). Further recognition of the importance of SIM system are shifts in the structural location of SIM units, exemplified by movement from "small staffs of low level public affairs and public relations departments to board-level locations" ("Issues management", 1981). This trend towards greater power and legitimacy is consistent with the heightened awareness and perceived legitimacy of both environmental scanning (Diffenbach, 1982,) and public affairs units (Post, Murray, Dickie & Mahon. 1982).

### **2.3 Issue Management Process Model**

Teresa Yancey Crane, founder of the Issue Management Council and part of the team that worked with Howard Chase (the person who coined the phrase 'issue management') developed the first Issue Management Process Model in 1977. While emphasizing that the Model is not conclusive, they maintained that the primary purpose of the exercise was to demonstrate that a systems approach could apply to the strategic management of issues.

The model consisted of five primary steps that included (1) Issue identification, (2) Issue analysis, (3) Issue change strategy options, (4) Issue action program, and (5) Evaluation of results.

In issue identification the first step would be to consider trends in the social, political, technological and economic realms. Comparison of those trends to organizational goals would then be done before primary issues are identified. The second step is issue analysis where the major focus is to draw on past experience with the issue, what actions have been taken, how the company is geared for dealing with it, and in general, how the issue can impact the organization. Issue change strategy options entail a carefully determined "stance." It may be desirable to let others take the lead, remaining in a reactive mode. Perhaps it is best to "go with the flow" and adapt where necessary. Or, a dynamic posture may be taken. This whole step is designed to incorporate an element of strategy into plans and actions.

Issue Action is the fourth step. Chase said too many of his peers were preoccupied with jumping to action without properly addressing the "front end" of an issue. The components of action include setting a goal, objectives, strategies and tactics. Then, one has to organize all resources at hand to achieve targets that are set. Finally, there is an emphasis on the evaluation of results. The issue management cycle begins again, with new players, new results, and new attitudes.

## 2.4 Strategic Issue Management System

Strategic issue management has four important features: First, the issue is unanticipated. Secondly, it poses novel problems in which the firm has little prior experience. Third, failing to respond implies a major financial reversal since such issues may escalate and cause financial damage. Fourth the response should be urgent and handled by systems and procedures (Ansoff and McDonnell 1990).

The type of activities SIM systems perform may either be classified as passive or active. Passive SIM system makes little direct effort to alter internal processes or external forces. On the other hand active SIM system is designed to aggressively shape strategic decision outcomes or environmental forces (Ottensmeyer 1982). Passive SIM systems collect and transmit information about events and developments that potentially could affect an organization strategy or performance. In some cases this collection process may be highly formalized. For example some organizations use elaborate polling processes to collect information about top decision makers' perceptions of strategic issues so that monitoring activities can be better focused (Moorie 1979). In other cases managers of SIM system processes use informal discussions or the "gut feeling" of top managers to identify issues requiring attention. Identifying issues is only one activity of the passive SIM system. Strategic issues do not come to the attention of top decision makers in pre-packaged form (Dutton, Fahey, Narayanan 1984). In this way SIM system represent organizational structures and processes for formulating organizational problems and opportunities (Lyles & Mitroff 1980).

Strategic Issue Management (SIM) system houses a set of processes and routines that help to deal with two fundamental organization problems: information 'equivocality' and accountability pressures. Solving both of these problems helps to assure organizational adaptation and survival. However, the literature also suggests that these problems do not confront all organizations equally. Rather different environmental contexts (e.g. uncertainty) and structural configurations (e.g. differentiation) pose different levels of equivocality and accountability pressures. Propositions were developed to encourage empirical research on this important question.

Some designers of SIM system argue that effective strategic issue managers should use personal contact with public officials or others to alter the speed and direction of the development of external strategic issues (Arrington & sawaya 1984). A focus on influencing an issue's life cycle or intervening at a critical point in an issue's development illustrates further the more active roles that SIM system can incorporate (Molitor 1980). However a SIM system contribution to adaptation can be more than an informational one. Alignment with its environment also requires that an organization deal effectively with resource dependencies (Pfeffer & Salancik, 1978) and pressures for accountability (Tetlock 1985).

Strategic Issue Management (SIM) system can bestow legitimacy on decisions to ignore some issues and to take action on others enhancing the probability that powerful collective groups will endorse an organization's actions (Hannan & Freeman). Thus SIM systems foster adaptation by helping to solve an organization's problems of reducing 'equivocality' and preservative accountability. Included in the most active SIM systems are the designing and implementing of issue responses. Issue responses may vary from internally circulated

status reports that develop and document organizational positions or strategic issues to lobbying efforts designed to alter the force and complexion of an issue.

By studying the forms and functions of SIM systems, researchers in organization theory and strategic management can gain a better understanding of the processes of sensing (Mesler & Sproull, 1982,") and interpreting issues and their relationship to organizational adaptation and stability (Daft & Weick, 1984). Strategic Issue Management practices have been demonstrated in the strategic management literature as having an important impact on organizational performance (Ansoff, 1980). These findings however, contribute to the continued need for questioning the applicability and validity in transition economies. A topic which remains to be explored is the generalization of this research stream to economic areas where western style management and strategic issue inquiry is currently emerging (McKenzie, 2000).

## **2.5 Strategic Issue Management Practices**

Issue Management Council has formulated nine best practice indicators with a view to set the standards to crystallize the wisdom and experience of practitioners and academics and set out the goals for those who aspire to perform and contribute to Issue Management at the highest level. The indicators are categorized in to three broad categories, Structure, Implementation and Integration.

Under the structure, the first indicator is that there is an established mechanism to identify current and future issues through environmental scanning /issue analysis. In this respect, it is important to ensure designated individuals formally monitor key sources such as news media, journals, research, websites, external conferences and peer industry activities and organization actively participates in trade associations including monitoring and lobbying

of legislation, new regulations and relevant litigation at local, national and international levels. An established process should be put in place to receive, evaluate and prioritize scanning inputs from both internal and external sources (Jacques, 2005).

Secondly, the organization has adopted a formal process to assign and manage issues. For example, confirm whether there are established policies or procedures to describe the Issue Management process including roles and responsibilities and documentation, whether Issue strategy development tools or worksheets are consistently used and whether information is maintained to facilitate future access to last status and lessons learned.

The third indicator is that the responsibility for stewardship of the issue management process is clearly assigned and mechanisms are in place to build organizational expertise in the discipline. Important in this aspect is whether Job descriptions show clear responsibility for the Issue Management process, the Issue Management Process Steward formally monitors Issue teams to eliminate redundancy, promote consistency of policy and messages and optimize resource deployment and Operational Issue Management processes are regularly reviewed and benchmarked

On implementation, the first indicator is that "Ownership" of each major issue is clearly assigned at an operational level with accountability and results linked to performance reviews. What needs to be considered is whether the Issue owner is clearly identified on all documentation and communication, action plans and time-lines set out group and individual operational activity, issue progress is assessed in evaluation against formalized operational or tactical goals and Management authorize resources such as task teams to address particular issues.

Second indicator under implementation is that progress against key issues is formally reviewed with organizational “owners” on a regular basis and the status of each is monitored at the highest management level. Factors to consider are whether Issue teams meet and report on a regular basis, recognized processes exist to formally evaluate progress against strategic objectives, CEO is regularly briefed on key issues including status and plans (e.g. weekly or fortnightly) and whether Management formally review Issue Position statements and actively participate in regular status updates (e.g. quarterly).

Thirdly, the Executive Committee or Board of Directors has fiduciary oversight of issue management; has mechanisms in place to report progress to Directors and/or external stakeholders; and has authority to intervene in the event of non-compliance or misalignment. In this respect Board level management have direct issue involvement, Issue reports are available to external stakeholders (e.g. Annual report, Corporate Social Responsibility report), organization external web-site provides issue updates and mechanism for stakeholder feedback, and established procedures exist for the Board to intervene where necessary and to penalize non-compliance.

Under integration, the first indicator is that formal channels exist for managers at all levels to identify and elevate potential issues for possible integration into broader strategic planning, including external stakeholder management. Considerations in this respect will include whether strategy planning specifically reviews current and future issues and their financial impact throughout the business life cycle, business or new product reviews identify and address potential issues, issue scanners are formally identified and trained, and managers actively encourage outside-in perspectives and employee participation.

The second indicator under integration is whether management of current and future issues is well embedded within the strategic planning and implementation processes of organizational clients or owners. Factors to consider in this aspect include whether, training programs promote Issue Management as a Standard Operating Procedure, leadership of the business or operating unit which owns the issue receive regular updates, issue owners are members of core management and issue Management plans are fully aligned with Business Plans to ensure optimum synergy and minimize duplication or internal conflict.

The last indicator is that Issue Management is recognized and organizationally positioned as a core management function which is not confined to a single function or department. In this respect Issue Management Team leadership and membership reflects diversity of function or department, Issue Management is recognized in job descriptions across all key functions and departments, Issue champions are appointed from senior management of impacted departments and Issue process training is scheduled and monitored for all levels of participation including employee orientation. An organization would not necessarily require all the standards in place to be best in class and, as needs and emphasis vary greatly between different fields of enterprise; the standards merely serve as a guide and not meant to be compulsory requirements (Ambler, 1999).

## **2.6 SIM analytical techniques**

In an effort to streamline a structured SIM practice, Ansoff and McDonnell (1990) proposed four analytical techniques, use of simple environmental impact analysis, ranking approach, cross-impact analysis, and the 'Euro-quip matrix'. 'Environmental impact analysis' looks into one event/trend at a time without taking account of interdependence.

Threat/opportunities and strength/weaknesses are identified from continuous surveillance of external environmental trends, internal capability trends and performance trends.

The issue ranking approach involves a continuous environmental surveillance through trend analysis. Impact and urgency of the trends are estimated and presented as key strategic issues to top management. The issues would then be prioritized in terms of issues requiring immediate attention, 'postponable' issues, 'delayable' issues and minor issues. The urgent issues are assigned for study and resolution either to existing organization units or special task forces. The list of issues is kept up-to date through periodic review by top management.

Cross- impact analysis estimates the likelihood of simultaneous occurrence of several events/trends. This analysis produces clusters of events/trends, thereby facilitating identification and preparedness of probable future disasters or opportunity scenarios. Euro-quip matrix analysis issues after the ranking has been done and after the synergy analysis. A positive synergy occurs when strengths and weakness match threat and opportunity while a negative synergy occurs when neither strength nor weakness help deal with threats and opportunities.

## **2.7 Application of SIM and Organisational factors**

There are several factors that may influence SIM practices. These factors include top management's response behaviour towards diagnosing perceived trends, adequacy of resources required to handle strategic issues, existence of clear channels of communication to disseminate strategic issues to staff and, most important of all, the recognition that SIM plays a crucial role in the organisation. According to Ansoff and McDonnell (1990) the use of weak signals may also determine effectiveness of the SIM responses. The urgency of

real time countermeasures required to arrest perceived losses or to exploit a perceived opportunity is determined by the management response at/before or after the trigger point. Other factors include company size, organisation structure, ownership and control, industry competition, technology, and performance results.

From a practitioners perspective SIM literature encourages consideration of the full range of activities that the system can incorporate. Given the wide range of potential functions of SIM systems, any prescriptions should be tailored to the function of particular interest to the designer of SIM systems. The difficulty in making universal prescriptions about appropriate SIM system design was revealed in recent study of the environmental scanning practices of "leading-edge" firms (Engledow & Lenz, 1985). This study revealed that (a) organizations experiment with their different forms of environmental scanning activities; and (b) forms that evolve serve a variety of purposes. Results from this study call for greater development of the theoretical rationale for what SIM systems form and functions are likely to evolve, as a necessary precursor to prescriptions about how SIM systems should be designed (Zentner, 1984).

According to Oomens and Bosco (1999), there are three ways of organising for strategic issues; corporate level, functional level and process oriented. If the analysis is made at corporate level and the focus is on corporate issues, the decision-making tends to be centralised. If the location and the focus are at the functional level, this produces a more decentralised decision making process. The general consensus in the literature according to them is that the senior managers should take responsibility for important strategic issues while other staff members play a supporting, advising and coordinating role.

While the understanding of SIM systems is at a beginning point, there is empirical evidence (though limited in scope) that Kenyan firms do apply SIM practices in handling emerging strategic issues. In his study on investigation on management of strategic change on companies listed in Nairobi Stock Exchange, Gekonge (1999) concluded that significant proportion of firms in Kenya do trend analysis to predict the future. In a study of the strategic responses by Kenyan companies following liberalization, Abdullahi (2000) found that firms in Kenya made moderate adjustments in their strategic variables in order to cope up with the increased competition. Ohega-Okoko (2004) in a 'study of the strategic responses of commercial banks in Kenya to changes in their environment' confirmed that banks are cognisant and do prepare themselves for changes in the environment.

In the Kenyan context, more specifically, the subject of Strategic Issue Management has been studied in the hotel industry, Muya (2006), in the insurance industry, Mkamunduli (2005) and Nairobi Stock Exchange, Nganga (2001). In all these studies, it has been established that SIM is being practiced even though the level of appreciation and awareness in most companies is low. Muya (2006) alluded from his survey that management understands how critical it is to address strategic issues in their organizations but little resources is allocated by top management to address these issues.

Primary data was collected for the purpose of this study. The data was collected through administered questionnaire. The questionnaire was administered through personal visits and e-mail. It was administered to the Chief Executive Officers (CEOs) or to the persons in charge of strategy in the respective organizations. The data was collected as well as through their electronic mail.

## CHAPTER THREE: RESEARCH METHODOLOGY

### 3.1 Research design

The research design was a survey research method, as it was considered to be a suitable research method for this investigation. The different factors/variables which were vital in the research were identified at a particular point in time. These factors and variables were put in a questionnaire and given to respondents (the senior management staff in charge of various banks) to give their responses. The survey method was appropriate for a study of this nature where scanty information is available. Nganga (2001), Mkamunduli (2005) and Muya (2006) have successfully used this method in their studies.

### 3.2 The population

The study targeted all the 41 commercial banks, as at 31<sup>st</sup> December 2006. The banking sector was selected largely because it has always taken a lead role in implementing Strategic Issue Management practices and is reported to spend huge amounts on the same to meet the needs of the changing environment.

### 3.3 Data collection

Primary data was collected for the purpose of this study. This was done using a self-administered questionnaire. The questionnaire was semi-structured, having both open-ended and closed-ended questions. It was administered to the Chief Executive Officers (CEOs) or to the persons in charge of strategy of the respective institutions at their offices as well as through their electronic mail.

The questionnaire was divided into four parts. The objective of the first part was to get the demographic information on the banks that were deemed relevant for the study in terms of responsiveness to the environment. The second part of the questionnaire was used to examine the information relating to strategic issues management practices. The third part focused on factors impacting on SIM practices and the final part was used to gauge the level of appreciation of SIM practices by listing down the benefits and challenges

### **3.4 Data Analysis**

Strategic Issue Management (SIM) practices and factors were analysed using descriptive statistics by establishing the occurrence of responses. The data collected from this study was mainly presented through the use of summarized percentages, proportions and tabulations in all the sections of the questionnaire. Mean scores and standard deviations was evaluated and ranked to give the relative importance of the various variables of the study. Influencing factors, environmental as well as managerial factors, was subjected to factor analysis to derive a meaningful conclusions on the relationship arising from frequencies and levels of scores attained.

## **CHAPTER FOUR: FINDINGS AND DISCUSSIONS**

### **4.1 Introduction**

This chapter presents the analysis and findings from the data collected from the field based on the specific objectives. The analysis was presented in form of tables, frequencies and percentages. Total of 41 questionnaires were distributed to all banks operating as at 31<sup>st</sup> December 2006. 40 banks responded by completing and returning the questionnaires representing 97.6% of the response rate.

### **4.2 Profile of respondent banks**

#### **4.2.1 Ownership**

The ownership structure of a firm determines the leadership style, decision making process, level of innovations and operating procedures among others. There are 3 public banks with Kenya government owning majority shares, 27 local private banks and 11 foreign banks. The foreign owned banks comprise of 6 locally incorporated foreign banks and 5 branches of foreign incorporated institutions.

#### **4.2.2 Size and Market share of the banks**

Bank Supervision Annual report, 2006 categorises banks in to three peer groups; large, medium and small. The large peer group consists of banks with total assets above Ksh. 15 billion, the medium peer group fall between Ksh. 15 billion and Ksh. 5 billion, while the small peer group comprise banks with total assets below Ksh. 5 billion.

As at 31.12.2006, there were 13 banks in the large peer group category whereas medium and small categories had 12 and 16 respectively. As shown in Appendix III, the banking sector is dominated by banks in the large group category in terms of the market share.

### **4.3. The environment.**

#### **4.3.1 Business/operating environment**

Business environment dynamics and changes may affect strategic issue management. The researcher sought to find out from the respondents whether the business/operating environment within the last five years in their banks, was turbulent, relatively stable or irregular.

All the banks that were interviewed stated that their business environment was relatively stable. As such, stability provided a suitable environment for planning and therefore emerging issues were tackled in a focused way. Further, they all confirmed that the business plans are regularly reviewed to allow for adjustments with changes in the environments.

#### **4.3.2 Sensitivity to environment**

The swiftness in environmental changes and ability to respond appropriately to external, internal as well as performance trend is crucial in Strategic Issue Management. The firm should seek ways of handling the diverse issues using appropriate strategies.

Therefore, the researcher asked the respondents whether they study issues which were external environment trend, internal environment and performance trend which may affect their operations. The result show that all banks study external and internal environment,

Source: Research data

and they also study the performance trends of their business with exception to only one bank which responded negatively. This implies that Kenyan banks are sensitive to the environment and therefore stand a better chance to cope with the challenges.

### 4.3.3 Strategic issue encountered

A strategic issue is a forthcoming development, either inside or outside of the organization, which is likely to have an impact on the ability of the enterprise to meet its objectives.

The respondents were required to indicate the strategic issues that they have encountered for the last five years due to change in environment by way of listing the issues down. The table below summarises the issues raised by the respondents with frequency indicating the number of times the issue was mentioned.

**Table 1: Strategic issues encountered**

Issues	Frequency	Percentage
Changes in banking regulations	20	50%
competition from non bank financial institutions	30	75%
changing customer needs and demands for efficiency	18	45%
expansion of branch network	7	17.5%
managing liquidity, capital adequacy and profitability	3	7.5%
systems change and technological innovations	35	87.5%
New entrants into the market	32	80%
Acquisitions and mergers of banks	9	22.5%

Source: Research data

Majority of the respondents as shown by 85% pointed out technological innovations and system changes as important strategic issues encountered, followed by new entrants into the market both banks as well as non-banks at 80% and competition from non-bank financial institutions at 75%. Other issues mentioned were changes in banking regulations, changing customer needs & demands, acquisitions & mergers, expansion of branch network and managing liquidity, capital adequacy & profitability. From the comments made, it can be inferred that most Kenyan banks do identify strategic issues that require attention.

#### 4.3.4 Factors having an impact on SIM

There are several factors that may influence SIM practices. These factors include top management's response behaviour towards diagnosing perceived trends, restructuring and reengineering, number of new services introduced into the market number of training programs and number of promotional campaigns.

The researcher therefore sought to find the level of impacts in banks in respect to these factors. The respondents were asked to rank them in terms of major, minor and no impact.

The outcome of the study is shown in the table below:-

**Table 2: Factors having an impact on SIM**

Impacts	Major	Minor	No impact
Change in time to make a decision	0	87.5	12.5
Change in top management	0	62.5	37.5
Restructuring and reengineering	25	50	25
Number of new services introduced	50	50	0
Number of training programs	25	50	25
Number of promotional campaigns	37.5	50	12.5

**Source: Research data**

The study revealed that number of new services had a major impact in the banks as shown by 50%, followed by number of promotional campaigns 37.5%, while restructuring and reengineering and number of training programs tied with 25%.

The factors that were considered to have minor impacts were change in time taken to make a decision 87.5% and change in top management 62.5% the other factors were all at 50%.

With regards to factors that do not have an impact, change in management ranked highest at 37.5% followed by restructuring and reengineering and number of training programs tied with 25%. Number of new services introduced into the market was always considered to have an impact.

#### **4.4 Strategic Issue Management Practice**

##### **4.4.1 Level of strategic issue management practices in the organization**

SIM practices for the purpose of this study, includes procedures, techniques and methods that are used to analyse strategic issues with a view to intercepting problems at an early stage and/or take advantage of emerging opportunities due to changes in the environment.

The researcher sought to find out the rate of strategic management practices in the organization and the respondents were asked to state whether it is highly practiced, not practiced or partially practiced. Their responses were shown in the table 3 below,

**Table 3: SIM Practice**

	Frequency	Percent
Highly practiced	15	37.5
Not practiced	5	12.5
Partially practiced	20	50.0
Total	40	100.0

**Source: Research data**

The majority of respondents as shown by 50% said that it was partially practiced, followed by 37.5% who said that it was highly practiced, while 12.5% said that it was not practiced at all. The result therefore confirms that SIM practices have not been fully adopted or effectively utilised to take maximum advantage of the opportunities in the banking industry.

Since, practising of strategic issues in an organization should not be a one time affair as an organization is an open system which must give and take from the environment. Respondents were asked how frequent they update the list of strategic issues that is either, monthly, quarterly, semi-annually or annually. The table below shows the result.

**Table 4: Updating of strategic issues**

	Frequency	Percent
Monthly	5	12.5
Quarterly	5	12.5
Semi annually	10	25.0
Annually	20	50.0
Total	40	100.0

**Source: Research data**

From the above table, it was clear from the majority of respondents that the key strategic issues were practiced annually as shown by 50.0%, followed by 25.0% who said that it was practiced semi annually, and while the respondents who said it was practiced monthly and quarterly tied with 12.53%. The results affirm that strategic issues are not given the deserved attention since close follow up is not done.

#### 4.4.2 Perception rating of Strategic Issue Management

Strategic issue resolution requires management to understand several concerns within the organization. The strategic issue should not be confined to top management alone. This study sought to establish the perception of respondents on various issues relating to strategic issue management practices. The respondents were asked to rank the issue in a response scale of 5 variables that is, 1- not applicable, 2-to a less extent, 3-to a moderate extent, 4-to a great extent and 5-to a very great extent. The table below shows the outcome of the study from the responses of the respondents.

**Table 5: Perception rating of strategic issue management**

Statement	1	2	3	4	5	Mean	Std dev
SIM holds a place in the bank	12.5	0	0	50	37.5	4	1.31
SIM is a motivating activity to undertake	0	0	37.5	12.5	50	4.1	0.99
It is critical to address strategic issues	0	0	12.5	50	37.5	4.2	0.71
The resources required are adequate	0	12.5	50	25	12.5	3.4	0.92
Allocated ample time by top management	12.5	0	37.5	37.5	12.5	3.4	1.19
The importance is clear to everyone in the bank	0	25	37.5	25	12.5	3.2	1.04
The top management takes interest	25	0	37.5	12.5	25	3.1	1.55
The SIM committee is highly respected	37.5	12.5	0	25	25	2.9	1.81
There is teamwork in the SIM committee	37.5	12.5	12.5	12.5	25	2.8	1.75
SIM is incorporated in annual plans	12.5	0	12.5	37.5	37.5	3.9	1.36
Clear channels of communication exist	12.5	0	25	37.5	25	3.6	1.30
Strategic issues logs are clear to all the line managers	25	0	12.5	37.5	25	3.4	1.60

Source: Research data

From the above table, it can be concluded that management understands how critical it is to address to address strategic issue as it had the highest mean of 4.2, which in the response scale of 1-5; it means that this variable was important to a great extent.

However, the strategic issue committee needs to be highly respected and held with high esteem if the strategic issue management need to be successful and also there needs to be a lot of efforts to build teamwork in the strategic issue committee as these two variables had the least mean of 2.9 and 2.8 respectively. All the other factors had their mean ranging from 3.1 to 4.1.

**4.4.3 Extent that SIM is considered a project worth investing in.**

The study sought to find out the extent to which banks consider strategic issue management as a project worth investigating in. The respondents were asked to tick one of the considerations from not applicable, to a less extent, moderate extent, and great extent and to a very great extent.

**Table 6: Extent that SIM is considered a project worth investing in.**

	Frequency	Percent
To a great extent	15	37.5
To a very great extent	25	62.5
Total	40	100.0

**Source: Research data**

The results from the above table shows that strategic issue management is considered as project worth investing in to a ‘very great extent’ by 62.5% of respondents, while 37.5% viewed it important to a great extent.

#### 4.4.4 Importance of performance measures

Performance measure forms a strong indication of a firm's direction and its future success. The researcher wanted to find out the level of importance of the performance measures with regards to: - profitability, market share, liquidity and innovation in a score of 1 (most important) to 5 (least important). The outcomes of the responses were shown in the table below;

**Table 7: Performance Measures**

	1	2	3	4	5
Profitability	50.0	37.5	12.5	0	0
Market share	37.5	37.5	12.5	12.5	0
Liquidity	12.5	12.5	12.5	25.0	37.5
Innovation	37.5	37.5	12.5	12.5	0

**Source: Research data**

According to the findings, profitability was considered as the most important in the banks as was shown by 50.0% of the respondents, followed by market share and innovation at 37.5%, while liquidity was considered least important. In the banking industry, management must consider profitability, market share and innovation. Liquidity on the other hand is considered more as an essential rather than a performance measure.

#### 4.4.5 Time taken by top management in responding to issues

Timely response to tackling issues affecting the bank is very essential. The study sought to establish the rate at which the top management response to tackling issues in the bank. The

respondents were asked to state whether the top management is very fast, fast or sometimes fast in tackling issues in the bank. Findings are summarised in Table 8 below:-

**Table 8: Turnaround time in responding to issues**

	Frequency	Percent
Very fast	10	25.0
Fast	20	50.0
Sometimes fast	10	25.0
Total	40	100.0

**Source: Research data**

From the data collected, the majority of respondents as shown by 50% said that they are 'fast', while the respondents who said that they are 'very fast' and 'sometimes fast' tied with 25%. Given the rate at which changes occur in the banking industry, responses need to be very fast to maximise on the strategic issue management.

#### **4.4.6 Planning horizon**

Strategy formulation must of necessity be long term since it is expected to define future direction of a firm. The study sought to establish among the banks that carry out long term planning, their preferred planning horizons. The respondents were required to indicate short term as less than one year (<1 year), medium as 1-3 years and long term over 3 years (> 3 years). The responses were as below,

**Table 9: Time Horizon**

	Frequency	Valid Percent
Short term-< 1 year	5	14.3
Medium 1-3 years	15	42.9
Long term >3 years	15	42.9
Total	30	100.0

**Source: Research data**

For the banks that carry out long term planning, the ones that undertake it for 1-3 years and also the one that carry it for over 3 years had 42.9% each, while 14.3% said they undertake it for less than 1 year.

The study revealed that smaller banks prefer short term plans because of the need to be flexible. The medium size and larger banks operate on medium and long term plans but with constant revisions since in most cases they have the capacity to monitor the changing operating environment.

#### **4.4.7 Engagement consideration in strategic issue management**

Prioritisation of sources of information is an important requirement before engaging on issue management. The study sought to find how the respondents rate opinion of consultants, other banks, past experience, industry policy, core competences and needs of target customers before engaging n strategic issue management in the bank.

The respondents were requested to indicate 1 as the least considered to 5 as the most considered factor.

**Table 10: Engagement consideration**

Key factors	Least	Fairly	Average	More	Most
Opinion of consultants	12.5	37.5	12.5	25	12.5
Other banks	0	0	50	12.5	37.5
Past experience	0	0	0	50	50
Industry policy	0	0	12.5	62.5	25
Core competences	0	0	12.5	37.5	50
Target customers needs	0	0	12.5	12.5	75

**Source: Research data**

The findings from the study revealed that needs of the target customers' were the most considered at 75%, followed by past experience and core competences at 50%, at number four was other banks at 37.5%, and while the least considered was opinion of consultants at 12.5%.

#### **4.4.8 Prevailing mode of making critical strategic decisions**

Organization's mode of decision-making is very important when strategic issue resolution is required. This is because in strategic issue management certain decisions have to be fast while in some cases thorough consultations are required.

The data in the table below establishes tendency to centralize decisions to top managers, tendency to delegate decisions to lower managers, and tendency to use inter departmental committee/taskforce. The respondents were requested to indicate how they describe the prevailing mode of making critical strategic decisions basing on tendencies.

The responses were shown in the table below;

**Table 11: Modes of decision making**

	Frequency	Percent
Centralize decision to top manager	25	62.5
Delegate decisions to lower managers	5	12.5
Use inter departmental committee/taskforce	5	12.5
Others	5	12.5
Total	40	100.0

**Source: Research data**

The results shows that the majority of respondents describe the prevailing mode of making critical strategic decisions as the tendency to centralize decision to top manager as shown by 62.5%, the others which were tendency to centralize decisions to lower managers and tendency to use inter departmental committee/task force and others at 12.5%.

**4.4.9 "Strategic plans" and "urgent and critical issue"**

While strategic plans follow norms and a certain pattern as laid down by management, urgent and critical issues are those perceived problems or happenings which have profound or major impact on the bank and must be acted upon without delay. The study sought to find from the respondents whether management perceive the above as the same between the planning cycles or not by simply indicating Yes or No. The results are indicated in table 12.

**Table 12: Strategic plans and “urgent and critical issue”**

	Frequency	Percent
Yes	15	37.5
No	25	62.5
Total	40	100.0

**Source: Research data**

From the study, the majority of respondents as shown by 62.5% said that they don't perceive and treat 'strategic plans' and 'urgent and critical issues' which affect the bank between the planning cycles as the same, while 37.5% perceived it as the same. It can be concluded therefore that majority of the banks understands how critical it is to address strategic issues while still remain focused on the strategic plan.

#### **4.4.10 Annual pre-occupation with SIM**

Strategic Issue Management requires that issues are tracked and documented frequently. There should be a continuous preoccupation throughout the year in monitoring “urgent and critical issues”, which may affect the daily operations in the organization. The researcher sought to find out whether or not the banks are continuously preoccupied throughout the year with checking “urgent and critical issues”, which may affect their daily operations.

**Table 13: Annual pre-occupation with SIM**

	Frequency	Percent
Yes	25	62.5
No	15	37.5
Total	40	100.0

**Source: Research data**

The majority of respondents as shown by 62.5% said that they were continuously preoccupied throughout the year with checking urgent and critical issue, which may affect their daily operations, while 37.5% said that they were not continuously preoccupied. Banks are therefore well positioned to respond to issues in good time so as avert a prospective problem or take advantage of emerging opportunities.

#### **4.4.11 Structures in place to ensure strategic issues are captured**

While several structures have been proposed regarding the way Strategic Issue Management can best be handled, it is not a prescription of 'one size fits all'. Various recommendations were advanced by respondents to ensure strategic issues are captured and analysed. Some of the suggestions include setting up of a core team to plan and follow up critical issues, wide consultation by people competent in various fields, use of consultants, reports such as marketing reports, performance trends analysis and Supervision and control/appraisals.

#### **4.4.12 Employees' empowerment**

Involving the staff to handle strategic issues is very important as they provide information, expertise and advice needed to make decisions.

The study sought to find out how employees in banks are empowered to handle strategic issues. The respondents were requested to indicate whether employees are empowered through, training, involvement in identifying solutions or they are totally excluded from handling strategic issues. The table below shows the results from the study,

**Table 14: Employees' empowerment**

	Frequency	Percent
Training	15	37.5
Involvement in identifying solutions	15	37.5
Excluded	5	12.5
Others	5	12.5
Total	40	100.0

**Source: Research data**

The respondents who said that the employees in their organization were empowered through training and those who said involvement in identifying solutions tied at 37.5%, 12.5% said that they were excluded, while 12.5% said that there were other ways of empowering their employees. Majority of staff therefore receive formal training or are involved in identifying solutions.

#### **4.4.13 Strategic issue management documentation**

Documenting the data safely enables the organization to access the information in future. The study sought to find out if banks have a documented process to handle strategic issues.

According to the majority of respondents represented by 75%, confirmed that banks have a documented process to handle strategic issues, while 25% said that they do not have a documented process to handle strategic issues. Majority of the banks appreciate the importance of retaining past data to serve as a reference point to future decision making.

**4.4.14 Champion of identification and implementation of strategic issues.**

To enhance efficiency, a champion for SIM should be identified and be responsible for keeping and reviewing notes relating to strategic issues, clarifying details, adding additional intelligence, passing relevant information to the appropriate executive and also communicating the same to the staff through the staff issue bulletin.

The researcher therefore sought to find out from the respondents, the person who holds the championship of identifying and implementations of strategic issues in their banks. The results were as in the table below,

**Table 15: Champion of identification**

	Least responsible	Fairly responsible	Responsible	More responsible	Most responsible
Chief executive officer	0	12.5	0	0	87.5
The general managers	0	0	25	62.5	12.5
Business managers	12.5	0	37.5	37.5	12.5
Supervisors	0	75	0	0	25
Consultants	71.4	0	0	14.3	14.3

**Source: Research data**

The results show that the chief executive is the one responsible in the identification and implementation of strategic issues in the bank at 87.5%; the second were the supervisors at 25% and the least were the general managers and the business managers at 12.5%.

#### **4.4.15 recording strategic issue objectives for the current year**

While annual objectives may have a lot of similarity in content, the environment tends to vary from one year to another. Such variations should be recorded to allow management to make comparisons when making similar goals. The study was sought to establish whether banks have recorded strategic issue for the current year. The respondents were requested to tick a YES or a NO to indicate whether or not current strategic issues are recorded.

The results indicated that 87.5% of the banks have recorded strategic issue objective for the current year. This means that banks in Kenya stand a better chance to make reference to past decision making with a view to learn from past experiences. The level of success in relation to implementation of SIM practices towards achievement of the strategic objectives is therefore likely to be high.

#### **4.4.16 Action taken when the target/objectives/benchmarks are not met**

It is always necessary to apply some measures to be taken in case the objectives of an organization are not met. The study aimed at establishing the actions that the banks take when the targets/objectives/benchmarks are not met. The respondents were requested to indicate whether the variance is reported to the top management only, reported to the top management and included in the list of issue to be investigated or to indicate other actions taken.

**Table 16: Action taken when the target/objectives/benchmarks are not met**

	Frequency	Percent
Report to Top management only	10	25
Report to the top management and list issues	25	62.5
Others	5	12.5
Total	40	100.0

**Source: Research data**

62.5% of the respondents said that they report and include in the list of issues for reference purposes, while 25% said they just report to top management while the remainder were either filing the results or take up issues with relevant department directly. Majority of the banks therefore monitor strategic issues in a more effective manner.

#### **4.4.17 Method/technique/practice used to analyse strategic issues**

In this specific section, the terms, practices, techniques and methods used to analyse strategic issues were used interchangeably.

To realize this objective, the respondents were requested to indicate the method/technique/practice used to analyse strategic issues. The methods/techniques/practices to be captured were, swot based on current information only, simple environment impact analysis method based on SWOT, Cross impact analysis method based on SWOT, Issue impact and ranking method based on SWOT and Euro quip matrix method based on SWOT, where SWOT means analysis of the strengths, weaknesses, opportunities and threats facing the banks. The table below shows the outcome of the study'

**Table 17: method/technique/practice used to analyse strategic issues**

	Frequency	Percent
SWOT based on current information only	15	37.5
Cross impact analysis method based on SWOT	5	12.5
Issue impact and ranking method based on SWOT	20	50.0
Total	40	100.0

**Source: Research data**

From the above table, the method that is commonly used to analyse strategic issues was issue impact and ranking method based on SWOT shown by 50%, followed by SWOT based on the current information only, while the least technique used was cross impact analysis method based on SWOT. The other methods listed were not used at all.

#### 4.4.18 Management's authority to make decision

The bank management plays a huge role in issue resolution if empowered to make certain decisions. The study sought to establish the extent to which the bank management have authority to review strategic issues, to accept or reject strategic issue proposals and to offer advisory role in role in strategic issues management process. The results of the study were shown in the table below,

**Table 18: Management's authority to make decision**

Statement	Not applicable	To a less extent	Moderate	To a great extent	To a very great extent
Review	0	12.5	0	62.5	25
Accept or reject	12.5	12.5	25	25	25
Offer advisory role	0	0	12.5	37.5	50

**Source: Research data**

The study revealed that the management had authority to review strategic issues and to offer advisory role in strategic issues management process to a great and to a very great extent at 87.5% each, while to accept or reject strategic issue proposals to a great and to a very great extent was at 50%. This means that while management may not have sufficient authority to reject or accept strategic issues proposals, they are empowered enough to make important decisions.

#### 4.5 Factors impacting on Strategic Issue Management practices

##### 4.5.1 Important factors in determining the time taken to make urgent and critical decisions in the organization

Ranking of factors is very important in addressing issue resolution. It determines the priority order for dealing with and expediting resources of an issue. In respect to this, the respondents were asked to indicate their level of importance of the factors in the table below, in determining the time taken to make urgent and critical decisions in the organization.

**Table 19: important factors in determining the time taken to make decisions**

	Most important	More important	Important	Less important	Least important	Mean
Bank size	12.5	0	0	25	62.5	4.1
Org.structure	0	12.5	0	62.5	25	4
Shareholding	0	12.5	25	0	62.5	4
Management	50	12.5	25	0	12.5	2.3
Infrastructure	0	12.5	50	25	12.5	3.4
Competition	25	25	25	25	0	2.3
Employees	0	0	37.5	50	12.5	3.7
Resources	12.5	12.5	61.5	0	12.5	2.9
Innovation	12.5	50	25	12.5	0	2.4
environment	25	12.5	50	12.5	0	2.4
Profitability	37.5	50	0	0	12.5	2

Source: Research data

The results of the study were analysed using the mean. The mean ranged from 2 to 4.1. Profitability results had the lowest mean of 2 which in the response scale of 1-5 it means that profitability scale is important in determining the time taken to make urgent and critical decisions in their organizations, according to the majority of respondents. Bank size (number of employees) the highest mean of 4.1 which in the response scale of 1-5 it means that it was less important in determining the time taken to make urgent and critical decisions in organizations.

Other factors which were top management, industry competition, innovation, changing environment, profitability results had a mean ranging from 2-2.4, which means that they were more important according to the majority of respondents, infrastructure, employees attitude and amount of funds involved had a mean ranging from 2.9-3.4, which means that they were important, while organizational structure and majority shareholders had a mean of 4 meaning that they were less important in determining the time taken to make urgent and critical decisions in the organizations.

#### **4.5.2 Importance of Strategic Issue Management to future success of a company**

Strategic issue management enhances the growth and profitability of a company. The sooner an organization starts to participate in the development of an issue, the greater the chances of influencing the outcome. The study sought to find out how important strategic management was on the future success of an organization. The table below shows the outcome of the study.

**Table 20: Importance of Strategic Issue Management to future success of a company**

	Frequency	Percent
Important	10	25.0
Very important	15	37.5
Essential	15	37.5
Total	40	100.0

**Source: Research data**

The results from the above table showed that majority of organizations perceive strategic management to the future success of a company very important and essential as shown by 37.5% each, while 25% said that it was important.

#### **4.6 Benefits and challenges of Strategic Issue Management**

SIM practices no doubt has played significant role towards assisting institutions achieve the desired objectives. The study sought to investigate the benefits realized as a result of practising strategic issue management as well as the challenges encountered. The respondents were asked to list down the benefits and challenges in point form in the questionnaire.

Benefits noted include superior service standards, increased profitability, Increased market share, encourages innovation, improved motivation for the staff, flexibility and introduction of variety of products, and enhancement of competitive advantage.

The challenges encountered when implementing strategic issue management in banks were cited as financial resources, risk avoidance by key managers, resistance to change/inadequate preparation for change, inadequate training in strategy formulation and implementation, inaccurate correlation between market needs and strategic plans, and frequent staff turnover in key departments.

### 3.2 Summary of the Findings

The research findings show that the operating environment within the last five years in the banking industry was relatively stable. To be able to discharge the duties management, all the banks have business plans in place to allow adjustments with changes in operating environment.

The survey revealed that all banks in Kenya do study external and internal environmental changes. While those studying the performance trend constituted 87.5%. The banks are more likely to respond very positively to the rapid changes in their operations. This involves continuous surveillance and identification of major developments, which require immediate action in responding to surprising changes, both inside and outside the organization.

Majority of the respondents are alerted by 81% regarding technological innovation and market changes as important strategic issues to consider, followed by rate without interest rate market both banks as well as non-banks at 80% and competition from non-bank financial institutions at 77%. Other issues mentioned were changes in banking regulations, changing customer needs & demands, asset values & mergers, expansion of branch network and managing liquidity, capital adequacy & profitability.

## CHAPTER FIVE: SUMMARY CONCLUSIONS AND RECOMMENDATIONS

### 5.1 Introduction

From the analysis and data collected the following discussions, conclusions and recommendations were made. The analysis was based on the objectives of the study.

### 5.2 Summary of the Findings

The research findings show that the operating environment within the last five years in the banks was relatively stable. To be able to discharge the issue management, all the banks have business plans in place to allow adjustments with changes in operating environment.

The survey revealed that all banks in Kenya do study external and internal environmental trend, while those studying the performance trend constituted 87.5%. The banks are therefore likely to respond very positively to the rapid changes in their operations. This would involve continuous surveillance and identification of urgent issues/factors, which need immediate action in responding to surprising changes, both inside and outside the organization.

Majority of the respondents as shown by 85% pointed out technological innovations and system changes as important strategic issues encountered, followed by new entrants into the market both banks as well as non-banks at 80% and competition from non-bank financial institutions at 75%. Other issues mentioned were changes in banking regulations, changing customer needs & demands, acquisitions & mergers, expansion of branch network and managing liquidity, capital adequacy & profitability.

Most banks practice strategic issue management in the organization partially as was shown by 50%, 37.5% highly practice it, while 12.5% do not practice it at all. However, there is need to sensitise the bank management on the importance of strategic issue management to enable industry to reap full benefits and also if they wish to remain competitive.

In terms of updating strategic issues, 50% of the banks confirmed that they do it annually, 25% do it semi-annually, while those updating the list quarterly and monthly were only 12.5% respectively. The study also revealed that strategic issues management to future success of a company were perceived as very important and essential at 37.5% respectively, while the banks that perceived it as important were at 25%.

According to the findings, profitability was considered as the most important in the banks as was shown by 50.0% of the respondents, followed by market share and innovation at 37.5%, while liquidity was considered least important. In the banking industry, management must consider profitability, market share and innovation. Liquidity on the other hand is considered more as an essential rather than a performance measure.

The findings also revealed that the management response to tackling issues in the bank was fast at 50%, sometimes fast and very fast at 25%. To maximize on the strategic issue management as an effective tool, it is important for banks to institutionalise real time system in future and adopt an immediate (very fast) culture to respond to upcoming issues. This is the only way that the bank should follow to adapt to the competitive and changing environment.

For the banks that carry out long term planning, the ones that undertake it for 1-3 years and also the one that carry it for over 3 years had 42.9% each, while 14.3% said they undertake it for less than 1 year. An important disclosure from the questionnaires revealed that

smaller banks prefer short term plans because of the need to be flexible. The medium size and larger banks operate on medium and long term plans but with constant revisions since in most cases they have the capacity to monitor the changing operating environment.

The majority of banks describe the prevailing mode of making critical strategic decisions as the tendency to centralize decision to top manager as shown by 62.5%, the others which were tendency to centralize decisions to lower managers and tendency to use inter departmental committee/task force at 25%.

The majority of banks (62.5%) perceive and treat strategic plans and urgent and critical issues which affect the bank between the planning cycles as not the same, while 37.5% perceived it as the same. This indicates that banks are at least aware of the need to prioritise issues for faster decision making.

To track and enumerate the nature and frequency of issues the organization faces, unrelenting effort on the part of the whole management team is required. There should be a continuous preoccupation throughout the year with checking urgent and critical issues. The findings revealed that majority of banks at 62.5% were continuously preoccupied throughout the year with checking urgent and critical issue, which may affect their daily operations, while 37.5% were not continuously preoccupied.

The structures that had been put in place by top management to ensure strategic issues are captured and implemented were Core team to plan and implement, wide consultation by people competent in various fields, use of consultants, executive committee, marketing reports, progress reports, performance trends analysis and reports, bottom up reporting of issues affecting the branches, top down approach, weekly management analysis, delegation, supervision and control and appraisals.

On employee empowerment, training was at 37.5%, involving staff in identifying solutions also rated at 37.5%. This information clearly shows that involving the staff to handle strategic issues is very important as they provide information, expertise and advice needed to make decisions. This allows management to update the staff on the current developments and the techniques required.

To champion strategic issue identification and implementation, the chief executive officer came out as the most responsible in the organization at 87.5%. The second most important were the supervisors at 25%, third were the consultants at 14.3% and then last were the general manager's and the business managers at 12.5% respectively. The results indicate that strategic issue resolution is more of an internal affair that may require internal intervention to resolve in time. The study also revealed that 87.5% of the banks had recorded strategic issues objective for the current years. The results mean that they stand a better chance to make reference to past decision making and the level of success in relation to achievement of the said objectives is therefore likely to be high.

On the action taken to resolve issue when the target/objectives/benchmarks are not met 62.5% of the banks said that they report the variance to the top management including the list of issues with an action plan on how the variances would be addressed. 25% reported that they only advise top management and leave it to them for decision making, the rest, 12.5% either file or take limited action themselves.

The study also revealed the methods/techniques/practices used to analyse strategic issues. It revealed that most of the banks use issue impact and ranking method based on SWOT at 50%, SWOT based on current information only at 37.5% and cross impact analysis method based on SWOT at 12.5%.

On Important factors in determining the time taken to make urgent and critical decisions in the organization, top management was the most important factor to be considered at 50%, profitability results was the second most important factor at 37.5%, followed by industry competition and changing environment which were at 25%, and then amount of funds involved and innovation which were rated at 12.5%.

On the perception rating of strategic issue management it can be concluded that management understands how critical it is to address strategic issue as it had the highest mean of 4.2. However, the strategic issue committee needs to be highly respected and held with high esteem if the strategic issue management need to be successful and also there a need to build teamwork in the strategic issue committee as these two variables had the least mean of 2.9 and 2.8 respectively. The study also revealed that strategic issue management is considered as project worth investing in to a very great extent by 62.5% of banks, while 37.5% viewed it important to a great extent.

The study has established various SIM practices being adopted by commercial banks in Kenya which no doubt have played significant role towards assisting the institutions achieve the desired objectives. Respondents have shown a high level of awareness on the role SIM can play in improving the management of banks. However, SIM practices in the Kenyan commercial banks are greatly influenced by the management culture, the size of the organisation and the operating environment.

### **5.3 Conclusions**

To be able to effectively deal with the discontinuous and surprising environment, organizations should embrace strategic issue management systems to enhance their capacity to adapt and learn. Managers must therefore depart from the planned change practices and adapt to real time systems which is based on the appreciation that the periodic systems of managing organizations may no longer be capable of perceiving and responding to the threats and opportunities in relatively stable environment. The nature of strategic response of the firm enables it to reduce adverse effect or make the firm not miss an opportunity.

Organizations need to continuously monitor strategic issue throughout the year in order to be able to realize the full potential of investing in strategic issue management. The issue impact and ranking method may help banks discover more opportunities and therefore reduces adverse effects.

### **5.4 Recommendations for further studies**

In light of the above, it is recommended that a research should be undertaken to determine the success levels of companies that are using strategic issue management.

A research should be undertaken to determine whether other companies in different related industries prefer the use of simple environmental impact analysis methods and the factors impacting on the choice of such technique.

A study should also be initiated to establish how banks outside Kenya cope with strategic

issue management challenges as well as the techniques used to realise full potential of SIM.

## REFERENCES

- Ansoff, H. I. (1980), **Strategic issue management**, *Strategic Management Journal*, Vol. 1 pp.131-48.
- Ansoff and McDonnell 1990: **Impacting Strategic Management** 2<sup>nd</sup> Edition Prentice Hall
- Ambler, T.E 1999 **Strategic Issues - The Pivotal for Strategic Success** Compass Points.  
www.strategyletter.com
- Arrington CB, Sawaya RN. 1984. **Managing Public Affairs: Issues Management In An Uncertain Environment**. California Management Review 26 (Summer): 148-160
- Central Bank of Kenya Publications (CBK, 2006 (1)) Banking Supervision Annual Report 2006,
- Central Bank of Kenya Publications (CBK, 2005 (2)) Risk Management Guidelines – Aug 2005
- Daft. R. L & Weick K (1984). **Towards a Model of Organization as Interpretation System**. Academy of Management Review, 9. 284-296
- Diffenbach. I (1982) **Influence Diagrams for Complex Strategic Issues**, *Strategic Management Journal* 3, 133-146.
- Duncan,R & Weiss A, (1979) **Organization Learning Implication for Organization Design in B Staw (Ed)**, Research in organization behavior (Vol 1 pp 75-124)
- Dutton, J.E. and Ottensmeyer, E (1987), **Strategic Issue Management systems: Forms, Functions and Contexts**. Academy of Management Review 12(2): 355-365
- Dutton, J.E., Fahey, L, Narayanan, V.K (1983), **Toward Understanding Strategic Issue Diagnosis**, *Strategic Management Journal*, Vol. 4 pp.307-23.

Engledow J. L. & Ienz R.T. (1985) **Whatever Happened to Environmental Analysis?** Long Range Planning 18(2). 98-106.

Feldman M.S & March J. G. (1981) **Information in Organizations as Signal and Symbol** Administrative Sciences quarterly 26 171-187

Fiol, M & Lyles, M. (1985) **Organization Learning.** Academy of management review, 10, 803-813

Greening DW, Gray, B. 1994. **Testing a Model of Organizational Response to Social and Political Issues.** Academy of Management Journal 37(3): 467-498.

Hamel G and CK Prahalad, 1994. **Competing for the Future.** Harvard Business School Press.

Hannan M. T & Freeman I. (1984) **Structural Inertia and Organizational Change.** American Sociological Review 49 149-164.

Hedberg B (1981) **How Organizations Learn and Unlearn.** Handbook of organizational design (vol 1 pp3-28) New York Oxford University Press.

Heath, R.L. and Nelson, R.A. (1986) **Issue Management: Corporate Public Policy Making in An Information Society.** Pentice Hall, New York

Heugen, P (2003) **Strategic Issues Management and Organizational Outcomes** Discussion Paper Series 03-11 Tjalling C. Koopmans Research Institute

Issue Management Council (2005). **Special Report, 2005 Annual Conference** ([www.issuemanagement.org](http://www.issuemanagement.org))

Johnson, G. & Scholes, K. (1999), **Exploring Corporate Strategy.** Prentice Hall, 1999

Lawrence P.R & Lurch I (1967) **Organization and Environment - Managing Differentiation and Integration.**

Lenz R. T. & Engledow J. L. (1986) **Environmental Analysis Units and Strategic Decision Making - A Field Study of Selected Leading Edge Corporation** strategic planning system Englewood Cliffs prance Hall.

Lylee M. & Mitroff I (1980) **Organizational Problem Formulation**. An empirical study. Administrative Science Quarterly 25,102-119.

Market Intelligence – The Banking Survey 2005 Issue No. 1029-2195

McKenzie, B (2000). **Strategic Issue Classification in Transition Economies**, Management Decision, volume 38, issue 7

Mesler S.S & Sproull, L (1982) **Manageable Response to Changing Environments Perspective on Problem Sensing from Social Cognition** Administrative Science Quarterly 27 548-570.

Mkamunduli S,A (2005) Strategic Issue Management in the Insurance Companies in Kenya, Unpublished MBA Project, University of Nairobi.

Molitor G.T. (1980) **Getting out in front of impending issues through the eighties**. Thinking globally, Washington DC World future society.

Muya, F.K. (2006) A Survey of Strategic Issue Management Practices by Classified Hotels in Kenya. Unpublished MBA projects, University of Nairobi

Ng'ang'a, P (2001). Real Time Strategic Issue Management Practices in Kenya's Companies Quoted in Nairobi Stock Exchange, Unpublished MBA Project, University of Nairobi

Nigh D, Cochran PL. 1987 **Issues Management and the Multinational Enterprise** Management International Review 27(1): 4-12.

Ohaga-Okoko, C, (2004) A Study of the Strategic Responses of Commercial Banks in Kenya to Changes in their Environment, Unpublished MBA Project, University of Nairobi

Oomens, M.J.H, and Bosco van Den F.A.J (1999). "**Strategic Issue Management in Major European-based Companies, Long Range Planning**, 32(1), 49-57

Oslo J.S., and Oslo G.M. "**i2i Trust in e-commerce,**" Communications of the ACM

Pearce J.A., Robinson R.B., (2003), **Strategic Management; Strategy Formulation, Implementation and Control**, Irwin, Homewood, Illinois

Pfeffer. J. & Salancik G (1978) **The External Control of Organizations. A Resource Dependence Perspective.** New York Harper and Row

Post J. F Murray E. Dickes R & Mahan J. (1982). **The Public Affairs Function in American Corporations. Development and Relations With Corporate Planning** Long Range Planning 15/2 12-2

Sutton, Howard. 1988. **Competitive Intelligence.** New York: The Conference Board, Inc.

Stoffels J.D. (1994) **Strategic Issues Management: A Comprehensive Guide to Environment Scanning.** First Edition. The Planning Forum, USA.

Tetenbaum, TJ 1998. **Shifting Paradigms: From Newton to Chaos.** Organisational Dynamics, Spring 1998, pp 21-32

Tetlock p.e (1985). **Accountability the Neglected Social Context of Judgement and Choice** in LL Cummings & B M staw (Eds) research in organizational behaviour (vol 7, pp 297-332) Greenwich CT (A) press.

Thompson and Strickland , (1993), **Strategic Management; Concepts and Cases**, Irwin, New York

Thompson J L. 3<sup>rd</sup> Edition **Strategic Management - Awareness and Change** Irwin, New York

Weick, K.E (1997) **The Social Psychology of Organizing Reading**. MA Addison Wesley

Westland, J.C. (2002), "**Transaction Risk in Electronic Commerce**", Decision Support Systems, Vol. 33 No.1,

Zentner R. (1884) **Issues and Strategic Management**. In R. B. Lamb (Ed). Competitive strategic management (pp 634-648) Englewood Cluffs NJ Prentice Hall.

# APPENDIX I

## QUESTIONNAIRE

NAME OF THE BANK:  
 DATE OF INCORPORATION:  
 OWNERSHIP STRUCTURE:  
 JOB TITLE:

### SECTION 1: THE ENVIRONMENT

1. How would you describe your business or operating environment within the last five years (tick one)

- a) Turbulent
- b) Relatively stable
- c) Irregular
- d) Others (please specify)

2. Do you have business plans in place to allow adjustments with changes in the environments (tick one)

Yes ( ) No ( )

3. In year 2006 did the following have any impact on your bank (Tick each accounting to the estimated impact- Either Major, Minor or none):

	Major	Minor	No
a) Change in Time to make a decision	( )	( )	( )
b) Change in Top Management	( )	( )	( )
c) Restructuring & Reengineering	( )	( )	( )
d) Number of new services you introduced into the market	( )	( )	( )
e) Number of your Training programs (or the amount spent On training)	( )	( )	( )
f) Number of promotional campaigns	( )	( )	( )
g) Others (Please specify).....	( )	( )	( )

## SECTION 2: PRACTICE OF STRATEGIC ISSUE MANAGEMENT

**(NB: for all the following, please tick as appropriate)**

4. Do you normally study issues, which may affect your operations (both short and long term) coming from the following areas?

**(NB: A strategic issue is a forthcoming development, either inside or outside of the organization, which is likely to have an impact on the ability of the enterprise to meet its objectives)**

External environment trend    Yes (    )    No (    )

Internal environment            Yes (    )    No (    )

Performance trend              Yes (    )    No (    )

Others specify-----

5. In your view, what strategic issue have you encountered for the past five years due to change in operating environment (kindly list them down)

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

6. How do you rate the level of strategic issue management practices in your organization?

Highly practiced                (    )

Not practiced                    (    )

Partially Practiced              (    )

7. Do you practice a list of key strategic issues for each year?

Yes (    )    No (    )

If yes how often do you update this list?

- Monthly
- Quarterly
- Semi annually
- Annually
- Others (Please specify)

8. How important is strategic issue management on the future success of your organization?

- |                         |                  |                 |
|-------------------------|------------------|-----------------|
|                         | Least considered | Most considered |
| • Of no importance      | ( )              |                 |
| • Of limited importance | ( )              |                 |
| • Important             | ( )              |                 |
| • Very important        | ( )              |                 |
| • Essential             | ( )              |                 |
| • Others (specify)      |                  |                 |

9. In your view, which is the most important performance measure in your organization? Please rank them according to level of important performance measure in your organization?

- Profitability ( )
- Market share ( )
- Liquidity ( )
- Innovation ( )
- Others (specify) ( )

10. How can you rate the top management response to tackling strategic issues in your bank?

- Very fast ( )
- Fast ( )
- Sometimes ( )
- Do nothing ( )
- Other (specify) ( )

11. Is long term planning carried out in your bank? Tick

Yes ( ) No ( )

12. If the answer is yes, what is the long-term planning horizon?

- Short term < 1 year ( )
- Medium 1-3 years ( )
- Long term > 3 years ( )

13. How would you rate the following factors before engaging in strategic issue management in your bank (tick)

Least considered-----Most considered

Key Factors	1	2	3	4	5
Opinion of consultants					
Other banks					
Past experience					
Industry policy					
Core competences					
Needs of target customers					
Other (please specify)					

14. How can you describe the prevailing mode of making critical strategic decisions?

- ( ) Tendency to centralize decision to top manager
- ( ) Tendency to delegate decisions to lower managers
- ( ) Tendency to use inter departmental committee/taskforce
- ( ) Other (Specify).....

15. Does your planning and management team perceive and treat “strategic plans” and “urgent and critical issue (Factors)” which affect the bank between the planning cycles as the same?

Yes ( ) No ( )

(NB: Urgent and critical issues/factors are those perceived problems or happenings which have profound or major impact on the bank and they must be acted upon without any delay).

16. Are you continuously preoccupied throughout the year with checking urgent and critical issue, which may affect your daily operations?

Yes ( ) No ( )

17. What structures have been put in place by top management to ensure strategic issues are captured analyzed and implemented? Kindly list them down

.....

.....

.....

18. How are the employees in your bank empowered to handle strategic issues?  
(tick)

- a. Training
- b. Involvement in identifying solutions
- c. Excluded
- d. Others (specify).....

19. Is there a documented process in your bank to handle strategic issues?

Yes ( ) No ( )

20. Who champions the identification and the implementations of Strategic issued in your bank?

**NB:** 1 Denotes least responsible while 5 denotes most responsible

The Chief Executive Officer (CEO)	
The General managers	
Business managers	
Supervisors	
Consultants	
Others (Please specify)	

21. Does your bank have recorded strategic issue objectives for the current years?

Yes ( ) No ( )

22. Have you changed these objectives for the last 5 years?

Yes ( ) No ( )

23. What do you do when the targets/objectives/benchmarks are not met?

- Report the variance to the top management only
- Report to top management and included it in the list of issue to be investigated
- Others (Please specify).....

24. Which method/technique/practice do you use to analyze strategic issues?

(NB. SWOT means analysis of the strengths, weaknesses, opportunities, and threats facing the bank)

- SWOT based on current information only
- Simple environment impact analysis method based on SWOT (where each issue is analysed separately without considering the effect of other identified issues)
- Cross impact analysis method based on SWOT (where various related critical issues are grouped together the likelihood of simultaneous occurrence estimated and hence identify possible future major loss/disaster or future major profit/opportunity)
- Issue impact and ranking method based on SWOT (where critical issues are ranked according to urgency)
- Euro quip matrix method based on SWOT (where the impact/urgency of issues is done after the evaluation of the issue's impact and issue's urgency)
- Other please specify.....

25. To what extent is the bank management have authority to do the following?

(1 =Not applicable, 2=to a less extent, 3= moderate 4=to a great extent, 5= to a very great extent)

Statement	1	2	3	4	5
Review of strategic issues					
Accept or reject strategic issues proposals					
Offer advisory role in strategic issues managements process					

**SECTION 111: FACTORS IMPACTING ON STRATEGIC ISSUE  
MANAGEMENT PRACTICES**

26. How important are the following factors in determining the time taken to make urgent and critical decision in your organization? Please rank them from 1 to 11 according to importance. (NB 1 = most important, 11=Least Important 11)

- (     ) Bank size (number of employees)
- (     ) Organization structure
- (     ) Majority shareholders
- (     ) Top management
- (     ) Infrastructure (road, telephone etc)
- (     ) Industry competition
- (     ) Employee's attitude toward accepting change
- (     ) Amount of funds involved
- (     ) Innovation
- (     ) Changing Environment
- (     ) Profitability results
- (     ) Others (specify) and give a ranking.

27. To what extent do the following statements apply to your organization? (Tick where appropriate) (1=not applicable, 2=to a less extent, 3 moderate , 4=to a great extent, 5 to a very great extent)

Statement	1	2	3	4	5
Strategic issue management holds a place in our bank					
Strategic issue management is a motivating activity to undertake					
The management understands how critical it is to address strategic issues					
The resources required to handle strategic issues are adequate					
Strategic issued management is allocated ample time by top management					
The important of strategic issues management is clear to every one in the bank					
The top management takes activities interest in the output of strategic issued committee.					
The strategic issues committees is highly respected and held with high esteem					
There is a feeling of teamwork in the strategic issues committee					
Strategic issue management is incorporated in our annual plans					
Clear channels of communication exit to disseminate strategic issues to staff					
Strategic issue logs are clear to all the line mangers					

28. To what extent do you consider strategic issue management as a project worth investing in? (Tick where appropriate)

- a) Not applicable
- b) To a less extent
- c) To a moderate extent
- d) To a great extent
- e) To a very great extent

**SECTION IV: BENEFITS AND CHALLENGES**

29. List five major benefits realized as a result of practicing strategic issue management in your bank

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

30. Kindly list down the main challenges that you have encountered when implementing strategic issue management practices in your bank

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

## **APPENDIX II**

### **LETTER OF INTRODUCTION**

DATE.....

### **TO WHOM IT MAY CONCERN**

Dear Respondent,

#### **RE: REQUEST FOR RESEARCH DATA**

The bearer of this letter, Mr. Ali Mohamed, is a Master of Business Administration (MBA) student of the University of Nairobi.

He is required to submit as part of his coursework assessment, a research project report on some management problem. We would like the students to do their projects on real problems affecting firms in Kenya. We would, therefore, appreciate if you assist him to collect data in your organization for the research.

The results of the report will be used solely for academic purposes and a copy of the same will be availed to the interviewed organization on request.

Thank you

Jackson Maalu  
**Coordinator, MBA program**

## APPENDIX III

## Market Share of Commercial Banks in Kenya as at 31.12.06

	<u>Total Net</u>	<u>Market</u>	<u>Net</u>	<u>Market</u>	<u>Total</u>	<u>Market</u>	<u>Pre-Tax</u>	<u>Market</u>
	<u>Assets</u>	<u>Share</u>	<u>Advances</u>	<u>Share</u>	<u>Deposits</u>	<u>Share</u>	<u>Profit</u>	<u>Share</u>
<b>Large (Above 15 B).</b>								
1 Barclays Bank of Kenya Ltd	118,021	16.12	73,907	19.37	93,837	16.16	6,624	25.11
2 Kenya Commercial Bank Ltd	87,326	11.93	40,659	10.66	71,495	12.31	3,035	11.51
3 Standard Chartered Bank (K) Ltd	81,135	11.08	35,762	9.37	64,879	11.17	3,798	14.40
4 Co-operative Bank of Kenya Ltd	57,683	7.86	28,037	7.35	48,201	8.30	1,233	4.67
5 CITIBANK .N.A.	37,794	5.16	12,327	3.23	25,331	4.36	1,530	5.80
6 Commercial Bank of Africa Ltd	37,507	5.12	14,223	3.73	32,517	5.60	1,311	4.97
7 National Bank of Kenya Ltd	36,123	4.93	26,491	6.94	26,639	4.93	934	3.54
8 National Industrial Credit Bank Ltd	26,108	3.57	16,570	4.34	21,978	3.78	675	2.56
9 Stanbic Bank (K) Ltd	25,823	3.53	11,348	2.97	19,760	3.40	917	3.48
10 CFC Bank Ltd	25,392	3.47	15,053	3.95	18,507	3.19	679	2.57
11 Investments & Mortgages Bank Ltd	22,348	3.05	14,702	3.85	18,220	3.14	936	3.55
12 Diamond Trust Bank (K) Ltd	21,564	2.95	13,833	3.63	16,726	2.88	685	2.60
13 Equity Bank Limited	20,024	2.74	10,930	2.86	16,337	2.81	1,100	4.17
	<b>596,848</b>	<b>82.00</b>	<b>313,840</b>	<b>82.00</b>	<b>476,426</b>	<b>82.00</b>	<b>23,458</b>	<b>89.0</b>
<b>Medium (More than 5b and less than 15b)</b>								
14 Bank of Baroda (K) Ltd	11,773	1.61	4,373	1.15	10,122	1.74	373	1.41
15 Prime Bank Ltd	10,452	1.43	4,880	1.28	8,289	1.43	191	0.72
16 Imperial Bank Ltd	9,406	1.28	5,420	1.42	7,074	1.22	387	1.47
17 EABS Bank Ltd	8,910	1.22	4,462	1.17	7,011	1.21	47	0.18
18 Bank of India	8,702	1.19	3,232	0.85	7,146	1.23	278	1.05
19 Fina Bank Ltd	6,502	0.89	3,784	0.99	5,199	0.90	147	0.56
20 Bank of Africa (K) Ltd	6,488	0.89	3,774	0.99	4,936	0.85	61	0.23
21 African Banking Corporation Ltd	5,357	0.73	2,841	0.74	4,081	0.70	140	0.53
22 Habib Bank A.G. Zurich	5,323	0.73	1,300	0.34	4,347	0.75	165	0.63
23 K-Rep Bank Ltd	5,220	0.71	3,755	0.98	3,308	0.57	152	0.58
24 Giro Commercial Bank Ltd	5,098	0.70	3,020	0.79	4,493	0.77	59	0.22
	<b>86,195</b>	<b>12.00</b>	<b>41,632</b>	<b>11.00</b>	<b>68,439</b>	<b>12.00</b>	<b>2,006</b>	<b>8.0</b>
<b>Small (less than 5b)</b>								
25 Guardian Bank Ltd	4,917	0.67	2,960	0.78	3,995	0.69	48	0.18
26 Southern Credit Banking Corporation Ltd	4,580	0.63	2,270	0.59	3,741	0.64	32	0.12
27 Victoria Commercial Bank Ltd	4,284	0.59	2,168	0.57	3,654	0.63	128	0.49
28 Chase Bank (K) Ltd	4,123	0.56	2,016	0.53	3,235	0.56	111	0.42
29 Charterhouse Bank Ltd	4,028	0.55	2,571	0.67	3,154	0.54	124	0.47
30 Equatorial Commercial Bank Ltd	3,962	0.54	2,413	0.63	3,281	0.57	94	0.36
31 Consolidated Bank of Kenya Ltd	3,437	0.47	1,642	0.43	2,463	0.42	16	0.06
32 Middle East Bank (K) Ltd	3,401	0.46	1,982	0.52	2,338	0.40	100	0.38
33 Development Bank of Kenya Ltd	3,297	0.45	1,577	0.41	1,351	0.23	127	0.48
34 Habib Bank Ltd	2,963	0.40	791	0.21	2,433	0.42	90	0.34
35 Credit Bank Ltd	2,610	0.36	1,422	0.37	1,960	0.34	6	0.02
36 Tran-national Bank Ltd	2,566	0.35	1,304	0.34	1,264	0.22	46	0.17
37 Fidelity Commercial Bank Ltd	2,316	0.32	1,430	0.37	1,977	0.34	26	0.10
38 Paramount Universal Bank Ltd	2,197	0.30	927	0.24	1,745	0.30	31	0.12
39 Oriental Commercial Bank Ltd	1,449	0.20	414	0.11	733	0.13	-65	-0.25
40 Dubai Bank (K) Ltd	1,248	0.17	742	0.19	801	0.14	20	0.08
41 City Finance Bank Ltd	527	0.07	230	0.06	126	0.02	-17	-0.06
	<b>48,944</b>	<b>7.00</b>	<b>26,067</b>	<b>7.00</b>	<b>35,818</b>	<b>6.00</b>	<b>912</b>	<b>3.0</b>
	<b>731,988</b>		<b>381,540</b>		<b>580,684</b>		<b>26,375</b>	

Source: CBK Publications, Banking Supervision Annual Report 2006,

## APPENDIX IV

### DIRECTORY OF COMMERCIAL BANKS

- |    |  |   |
|----|--|---|
| 1  | <b>African Banking Corporation Ltd.</b><br>Physical Address: ABC Bank, Mezzanine Floor, Koinange St.<br>Branches: 7  | Managing Director: Mr. Shamaz Savani    |
| 2  | <b>Bank of Africa Kenya Ltd.</b><br>Physical Address: Re-Insurance Plaza Taifa Rd.<br>Branches: 3                    | Managing Director : Mr. Leon Dufour     |
| 3  | <b>Bank of Baroda (K) Ltd.</b><br>Physical Address: Baroda House Koinange St.<br>Branches: 6                         | Managing Director: Mr. K.N. Manvi       |
| 4  | <b>Bank of India</b><br>Physical Address: Kenyatta Ave.<br>Branches: 4   | Chief Executive: Mr. A.K. Jalota        |
| 5  | <b>Barclays Bank of Kenya Ltd.</b><br>Physical Address: Barclays Plaza Loita St.<br>Branches: 43                     | Managing Director: Mr. Adan Mohamed     |
| 6  | <b>CFC Bank Ltd.</b><br>Physical Address: CFC Centre Chiromo Rd. Westlands<br>Branches: 5                            | Managing Director: Mr. M. Soundararajan |
| 7  | <b>Charterhouse Bank Ltd</b><br>Physical Address: Longonot Place 6th Floor Kijabe St.<br>Branches: 10                | UNDER STATUTORY MANAGEMENT              |
| 8  | <b>Chase Bank (K) Ltd.</b><br>Physical Address: Prudential Assurance. Bldg. 6th Flr. Wabera St.<br>Branches: 2       | Managing Director: Mr. Zafrullah Khan   |
| 9  | <b>Citibank N.A Kenya</b><br>Physical Address: Citibank House Upper Hill Rd.<br>Branches: 2                          | General Manager: Mr. Ade Ayeyemi        |
| 10 | <b>City Finance Bank Ltd.</b><br>Physical Address: Unity House Koinange St.<br>Branches: 1                           | Managing Director: Mr. S.V. Ramani      |
| 11 | <b>Co-operative Bank of Kenya Ltd.</b><br>Physical Address: Co-operative Hse, Haile Selassie Ave.<br>Branches: 37    | Managing Director: Mr. Gideon M Muriuki |
| 12 | <b>Commercial Bank Of Africa Ltd.</b><br>Physical Address: CBA Building, Upper Hill, Mara/Ragati Rd.<br>Branches: 12 | Managing Director: Mr. Isaac Awuondo    |
| 13 | <b>Consolidated Bank of Kenya Ltd.</b><br>Physical Address: Consolidated Bank House Koinange St.<br>Branches: 11     | Chief Executive: Mr. David N. Wachira   |
| 14 | <b>Credit Bank Ltd.</b><br>Physical Address: Ground Floor Mercantile Hse Koinange St.<br>Branches: 4                 | General Manager: R.N. Patnaik           |
| 15 | <b>Development Bank of Kenya Ltd.</b><br>Physical Address: Finance House Loita St.<br>Branches: 1                    | General Manager: Mr. Victor Kidiwa      |
| 16 | <b>Diamond Trust Bank (K) Ltd.</b><br>Physical Address: Nation Centre 8th Floor Kimathi St.<br>Branches: 5           | Managing Director: Mrs. Nasim M. Devji  |
| 17 | <b>Dubai Bank Kenya Ltd.</b>   | Managing Director: Mr. Viju Cherian     |

- Physical Address: I C E A Building Kenyatta Ave.  
Branches: 3
- 18 **Equatorial Commercial Bank Ltd.** Managing Director: Mr. Hassan Rizvi  
Physical Address: Sasini House Loita St.  
Branches: 2
- 19 **Equity Bank Ltd.** Chief Executive: Mr. J.N. Mwangi  
Physical Address: NHIF Building 14<sup>th</sup> Floor Community  
Branches: 36
- 20 **EABS Bank Ltd** Chief Executive Officer: Mr. R. Arora  
Physical Address: Fedha Towers Muindi Mbingu St.  
Branches: 9
- 21 **Fidelity Commercial Bank Ltd** Managing Director: Mr. Raminder Bir Singh  
Physical Address: I.P.S Building 7th Floor Kimathi St.  
Branches: 3
- 22 **Fina Bank Ltd** Executive: Mr. Frank Griffiths  
Physical Address: Fina House Kimathi St.  
Branches: 5
- 23 **Guardian Bank Ltd** Managing Director: Mr. Gopinath H. Bhatt  
Physical Address: Moi Avenue  
Branches: 5
- 24 **Giro Commercial Bank Ltd.** General Manager: Mr. M.P. Sastry  
Physical Address: Giro House Kimathi St.  
Branches: 6
- 25 **Habib Bank A.G Zurich** Country Manager: Mr. Iqbal A. Allawala  
Physical Address: Nagina House Koinange St.  
Branches: 4
- 26 **Habib Bank Ltd.** General Manager African Region: Rizwan Haider  
Physical Address: Exchange Building Koinange St.  
Branches : 4
- 27 **Imperial Bank Ltd** Managing Director: Mr. A Jamohamed  
Physical Address: Bunyala Road Upper Hill  
Branches: 5
- 28 **Investment & Mortgages Bank Ltd** Chief Executive Officer: Mr. Arun S. Mathur  
Physical Address: I & M Bank House, 2<sup>nd</sup> Ngong Ave.  
Branches: 9
- 29 **K-Rep Bank Ltd** Managing Director: Mr. Kimanathi Mutua  
Physical Address: Naivasha Rd. Riruta  
Branches: 28
- 30 **Kenya Commercial Bank Ltd** Chief Executive Designate : Mr. Martin O. Oduor  
Physical Address: Kencom House Moi Ave.  
Branches: 119
- 31 **Middle East Bank (K) Ltd** Managing Director: Mr. Peter Harris  
Physical Address: Mebank Tower Milimani Rd.  
Branches: 2
- 32 **National Bank of Kenya Ltd** Managing Director: Mr. Reuben M. Marambii  
Physical Address: National Bank Building Harambee Ave.  
Branches: 23
- 33 **National Industrial Credit Bank Ltd** Managing Director: Mr. J.W. Macharia  
Website: <http://www.nic-bank.com>  
Physical Address: N.I.C House Masaba Rd.  
Branches: 5
- 34 **Oriental Commercial Bank Ltd** Managing Director: Mr. B.K. Dutta  
Physical Address: Finance Hse Koinange St.

- Branches: 4
- 35 **Paramount Universal Bank Ltd** Managing Director: Mr. Ayaz Merali  
Physical Address: Sound Plaza Building Westlands  
Branches: 3
- 36 **Prime Bank Ltd** Chief Executive: Mr. Vasant K Shetty  
Physical Address: Riverside Drive  
Branches: 9
- 37 **Southern Credit Banking Corporation Ltd.** Managing Director: Mrs. Muthoni Kuria  
Physical Address: Off-Murang'a Rd.  
Branches: 10
- 38 **Stanbic Bank Kenya Ltd** Managing Director: Mr. Mike Dutoit  
Physical Address: Stanbic Bank Building Kenyatta Ave.  
Branches: 8
- 39 **Standard Chartered Bank (K) Ltd** Managing Director: Mr. Richard Etemesi  
Physical Address: Stanbank House Moi Ave.  
Branches: 28
- 40 **Trans-National Bank Ltd** Managing Director: Mr. Dharendra K Rana  
Physical Address: Transnational Plaza Mama Ngina St.  
Branches: 7
- 41 **Victoria Commercial Bank Ltd** Managing Director: Mr. Yogesh K Pattni  
Physical Address: Victoria Towers Kilimanjaro Ave. Upper Hill  
Branches: 1
- SOURCE: CBK website [www.centralbank.go.ke](http://www.centralbank.go.ke)**