

**STRATEGIC RESPONSES ADOPTED BY KENYA  
COMMERCIAL BANK TO CHANGES IN THE  
ENVIRONMENT**

**BY**


**ANGARA ERICK OJWANG**

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## DECLARATION

This management project is my original work and has not been presented for a degree in any other university.

Signed.....UJ.....Date.....r:.....

ANGARA ERICK OJWANG  
D61/70766/2008

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

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DR JAMES GATHUNGU ^

Department of Business Administration

SCHOOL OF BUSINESS

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I am indebted to thank my good Lord for having brought me this far. His abundant love, care, and grace he instilled in me not only carried me throughout the MBA project but also cultivated in me profound hope and faith that my prayers will be answered at last.

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## **DEDICATION**

This project is dedicated to my sisters Carren, Joan, Joy, Alice and my Brothers Dennis, Joseph and Charles for their encouragement and support throughout my studies I am proud of you and may the Lord bless you abundantly.

I cannot forget my late parents, Fredrick Angara and Margaret Angara for bringing me up to be what I am and for having taught me lessons on importance of knowledge through education and good morals, may the Lord rest your soul in eternal peace.

## **ABSTRACT**

This research was designed to investigate the strategic responses adopted by Kenya Commercial Bank to changes in the environment. The study sought to achieve two objectives. The first objective was to identify the environmental challenges facing Kenya Commercial Bank, and the second was to establish what strategic responses the bank has adopted to address changes in the environment.

The data was collected from senior staff of the Bank through questionnaire. The questionnaires were accompanied by interview guide questions covering general information about KCB, strategic changes, challenges of strategic changes, responses to strategic challenges and respondent's suggestions. The questionnaires were administered through interview guide. The findings of the study are presented in tables containing frequencies, means and percentages

The findings of the study indicate the Bank has succeeded in adoption of its strategies by aligning strategies to the structure, adequate resource allocation to projects, ensuring of supportive policies and staff commitment. However, the shortcomings were identified as poor time management, poor communication of strategy to staff, responsibilities not being well defined.

Based on the findings it may be recommended that KCB should not only concentrate on targeting new customers but also emphasize on developing extensive distribution channels in order to gain a competitive edge in the market. The study should also be of importance to other commercial banks and financial institutions) whose responsibilities include strategic responses and adoption. Kenya Commercial bank management should change their perception on cost leadership, market share leadership and technology leadership in order to take advantage of the industry growth.

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## LIST OF ABBREVIATION

KCB	:	Kenya Commercial Bank
CEO	:	Chief Executive Officer
R&D	:	Research and Development



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# CHAPTER ONE: INTRODUCTION

## 1.1 Background

Organization environment consist of a particular set of competitive forces that establish both opportunities and threats. The pattern of forces changes due to the actions of competitors. Porter (1980) uses this term in reference to buyers, suppliers, substitute products, potential industry entrants as well as strategic groups of directly competing firms. Strategic moves by any of these competitors can alter prevailing relationships and thereby change the pattern of forces in the firm's environment.

The environment is such a dominant influence that most organizations are unable to influence it; all they can do is to keep costs down, learn to be as good as possible at forecasting changes in the environment and respond as rapidly as possible to such changes (Johnson and Scholes,1997) Environment influences business operations and the ultimate success of every business should be managed in such way that it has some strategic responses. It is only through strategic responses the business can maintain a competitive edge and operate profitably in the challenging environment. Ansoff (1988) argues that business firms whose behaviors are unplanned and unguided do not survive for long except in monopolistic and subsidizing environment.

According to Ansoff and McDonell (1990), organizations are environment dependent and environment serving. They take an assortment of inputs from the environment, transform the inputs to finished products and services, and deliver their outputs back to the environment. Therefore changes in the environment shape opportunities and challenges facing firms in an industry.

Ross (1996) posits that the firm has to learn, adopt and reorient itself to the changing environment. He postulates that when a discontinuity begins to affect a firm in a turbulent environment, brought about by globalization and trade

liberalization for instance, its impact typically remains hidden within the normal fluctuations in performance.

### **1.1.1 Strategic Responses**

Organizations have found themselves in a position where they not only have to address environmental changes but actually anticipate them. Liberalization and globalization have further opened up the markets to environmental forces. Coping with the increasingly competitive environment has called on firms to rethink their marketing strategies (Pearce and Robinson, 2005). The days when firms could simply wait for clients to beat a path to their door are long gone. Organizations must realize that their services and products, regardless of how good they are, simply do not sell themselves (Kotler 2000).

Rapid technological change has created a new business environment where innovation has become a top competitive strategy. Ansoff and McDonnell (1990), describe a market environment where no organization can hope to stay afloat if it fails to come up with proper strategic responses. Terminologies such as retrenchment, mergers, rightsizing and cost reduction have become routine for survival means.

Strategic responses involve changes in the firm's strategic behaviors to assure success in transforming future environment (Ansoff and McDonnell, 1990). Pearce and Robinson (1997) saw strategic responses as the set of decisions and actions that result in the formalization and implementation of plans designed to achieve a firm's objectives. Thus strategic responses are a reaction to what is happening in the economic environment of organizations. Porter (1998), views operational responses as part of a planning process that coordinates operational goals with those of the larger organization. Hence operational issues are mostly concerned with certain broad policies for utilizing the resources of a firm to best support its long term competitive strategy.

### **1.1.2 Responses to the environment**

Due to challenge presented by the ever changing business environment, businesses should always modify their strategies to match the challenges from the environment. According to Grant (2000), survival and success occurs when an organization creates a match between the strategy and the environment, and also between its internal capability and the strategy. If an organization's strategy is not matched to its environment, a strategy gap arises. Much of an organization's ' competitiveness is dependent on its ability to formulate strategies that match both its environment and internal capability.

Sababu (2007) argues that the challenges presented by the changes in the external environment necessitates a business to design strategies that appropriately respond to the challenges and ensures the business has got a competitive edge in the competitive external environment. Pearce & Robinson (1997) defines strategic responses as a set of decisions and actions that result in the formulation and implementation of plans designed to achieve a firm's objective

Aosa (1998) says strategy is creating a fit between the external characteristics and internal conditions of an organization to solve a strategic problem. Strategic problem is a mismatch between the internal characteristics of a firm and changes in the external environment, thus there is always a need to formulate a set of actions and decisions that match these changes.

### **1.1.3 The Banking Sector in Kenya**

The banking sector in Kenya comprises of the Central Bank of Kenya as the regulatory authority with the regulated being commercial banks, non bank financial institutions and foreign exchange bureaus. As at 31 December 2009, the banking sector comprised of 44 commercial banks, one mortgage finance company, one deposit taking micro finance institution and 130 foreign exchange bureaus. Commercial banks and mortgage finance companies are the major

players in the banking industry and are licensed and regulated under the Banking Act, Cap 488 and prudential regulations.

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

During the period ended 31 December 2009, the Kenyan banking sector registered significant growth in asset base largely supported by growth in deposits, injection of capital and retention of profits. The sector registered high capital adequacy and liquidity ratios and a decline in the level of nonperforming loans compared to same period in 2008.

#### **1.1.4 Kenya Commercial Bank (K C B)**

The history of KCB dates back to 1896 when its predecessor, the National Bank of India opened an outlet in Mombasa. Eight years later in 1904, the Bank extended its operations to Nairobi, which had become the headquarters of the expanding railway line to Uganda. The next major change in the Banks history came in 1958. Grindlays Bank merged with the National Bank of India to form the National and Grindlays Bank in 1970, the Government acquired 100% of shareholding in the bank to take full control of the largest commercial in Kenya. National and Grindlays Bank was then renamed Kenya Commercial Bank

Kenya Commercial Bank is engaged in the business of banking and provides a wide array of related financial services through its wide and extensive branch network and subsidiary companies. The bank's current product range involves Retail banking, Corporate banking, Treasury and mortgage finance.

An independent survey released in 2009 (The Banking Survey of 2009) using the financial report for the financial year ended 31 December, 2008 for 43

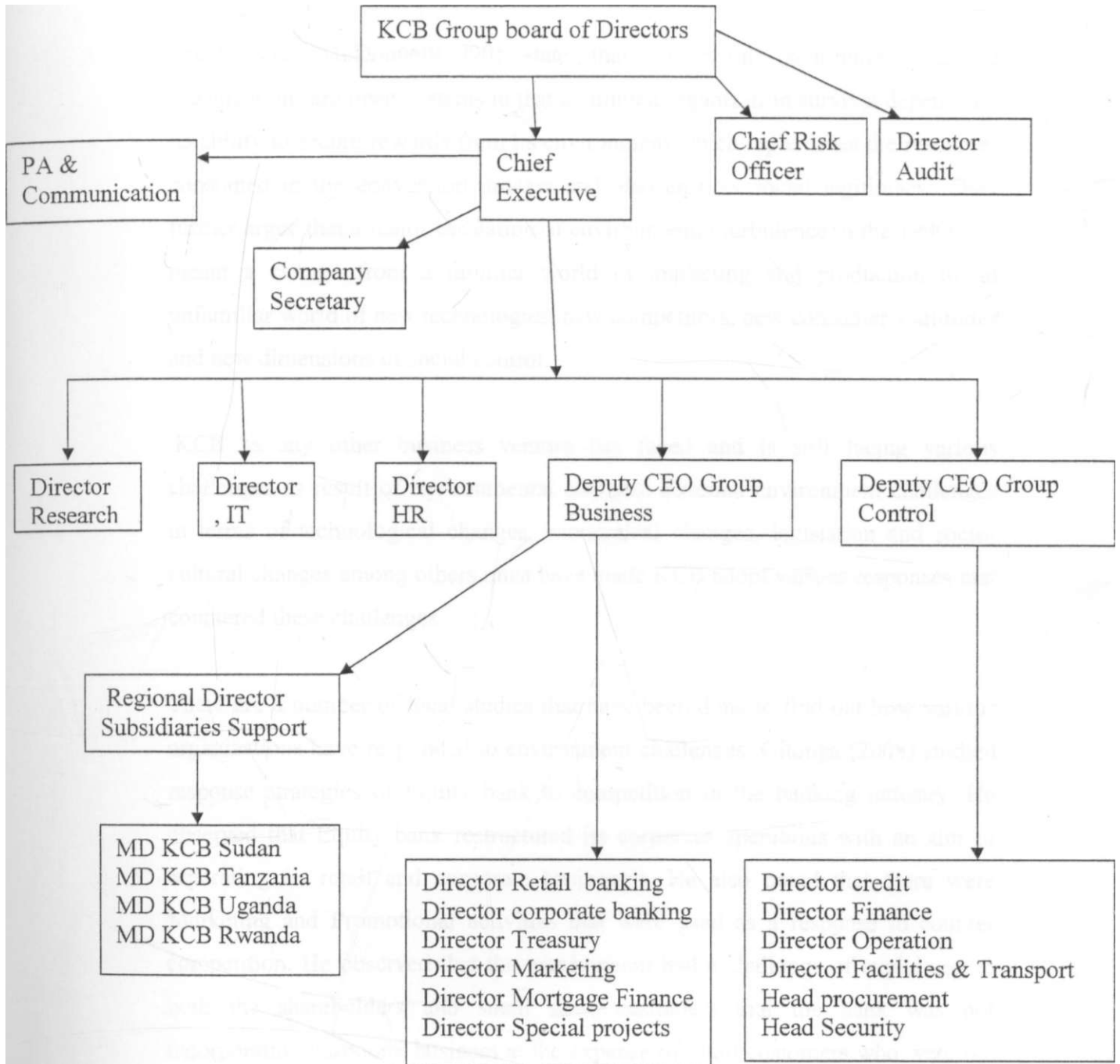
commercial banks ranked KCB among top performing with total assets of Kshs191.21 billion, total deposits kshs 165.20 billion, operating profit before provisions 9.71 billion and profit before tax kshs 6.01.

Kenya Commercial Bank is a regional brand with presence in Kenya, Uganda, Tanzania, Rwanda and southern Sudan with a total of 212 branches. KCB has 168 branches in Kenya, 11 in Tanzania, 10 in Southern Sudan, 14 in Uganda and 9 in Rwanda. The bank has also installed over 370 ATMs and customers have access to 110 PesaPoint units and 250 kenswitch outlets. Recently, Kenya Commercial Bank launched Kenya's first intelligent ATM with 12 more such ATMs set to be installed while a further 60 ordinary ATMs will be operational by the end of the year.

Up to 2007, the plans laid emphasis on turnaround measures and the establishment of sound foundation for business growth. From 2007 to 2009, focus shifted to repositioning the bank to reclaim its leadership position in the region in line with its vision where significant achievement has been realized.

Thus the strategy in the medium term will focus on consolidating the business; fostering an efficient market-driven organization attuned to the needs of its customers; growing profitability; and building on the existing risk culture and cost management to enhance shareholder value.

Figure: 1.1 KCB Organizational Chart



## **1.2 Research Problem**

Ansoff and McDonnell(1990) state that successful environment serving organizations are open systems in that continued organization survival depends on its ability to secure rewards from its environment which replenishes the resources consumed in the conversion process and also ensures social legitimacy. They further argue that a major escalation of environmental turbulence in the 1990s has meant a change from a familiar world of marketing and production to an unfamiliar world of new technologies, new competitors, new consumer's attitudes and new dimensions of social control.

KCB as any other business venture has faced and is still facing various challenges as result of environmental changes. External environment challenges in terms of technological changes, economical changes, legislation and socio-cultural changes among others must have made KCB adopt various responses that countered these challenges.

There are a number of local studies that have been done to find out how various organizations have responded to environment challenges. Gitonga (2008) studied response strategies of Equity bank to competition in the banking industry. He observed that Equity bank restructured its corporate operations with an aim of separating its retail and corporate businesses. He also noted that there were Marketing and Promotional activities that were used as a response to counter competition. He observed that the management had a challenge of explaining to both the shareholders and small scale customers that the bank was not incorporating corporate business at the expense of retail customers who were the core market segment. His observations were few and limited; there are a number of other factors which firms can respond to e.g. change of culture, hiring new employees, seeking consultancy and guidance.



Machau (2009) studied strategies adopted by Commercial Banks in Kenya in response to environmental changes, he observed that Kenyan banking industry has seen a paradigm shift in the last couple of years with intensified competition and entry of new established players, changing regulatory provisions and prudential guidelines, financial sector deepening process, changing consumer tastes and preferences and technological advancement. These changes in the business environment lead to the question; how do commercial banks in Kenya respond to the changes in the business environment? What are the environmental challenges facing Kenyan commercial banks and which strategies are adopted by banks in response to environmental changes.

Machau (2009) and Gitonga (2008) findings are not exhaustive because there are other ways a firm can respond to changes in the environment, due to time lapse KCB may adopt other new ways of responding such as cost leadership, greater customer orientation and expansion which Machau and the rest did not consider.

On the basis of extensive literature review this study will seek to answer the following research questions. Which are the environmental challenges facing KCB, what are the responses adopted by KCB to address changes in the environment.

### **1.3 Research Objectives**

The objectives of this study are:

- (a) To identify the environmental challenges facing Kenya Commercial Bank.
- (b) To establish what strategic responses KCB has adopted to address changes in the environment.

### **1.4 Value of the study**

The findings from this study will be useful to the top management of KCB as they will acquire the knowledge with respect to the underlying sources of responses.

This goes a long way in enabling them to re-examine their competitive position in the industry and roots for avenue to respond adequately

Policy makers like Government Agencies, Central Bank of Kenya will find it useful in their mandate of promoting and maintaining the safety, soundness and integrity of the banking system. It will give insight to the Ministry of Finance as they undertake the implementation of policies and standards that are in line with international best practice for bank supervision and regulation.

Lastly, scholars will find the study useful as it will facilitate and increase the general knowledge of organization's strategic responses and at the same time it may show some other areas of future academic and business research

## **CHAPTER TWO: LITERATURE REVIEW**

### **2.1 Introduction**

This chapter presents the literature review on responses and changes in the environment. The facets of this chapter include the external environment and the organization, concept of strategy, strategic management, relationship between the environment strategy and internal capability and strategic responses.

### **2.2 Organization and environment**

Technological, cultural and social world. The environment changes and is more complex for some organizations than others. How this affects the organization could include an understanding of historical and environmental effects, as well as expected or potential changes in environmental variables.

Pearce and Robinson (1997) describes external environment as all conditions that affect strategic option but which are beyond the firm's control. Forces at work in the external environment are dynamic and include economic, political, technological, and social factors (Kotler and Armstrong, 1991).The external factors influence an organizations choice of direction and action and constitute the external environment which can be categorized as remote, industrial and operating environment.

All organizations regardless of the nature of their business are always in constant interaction with the environment. The organizations depend on the environment for their continued survival, this means that an organization operates in an open system. At the very basic level of this interaction is that the organization derives their inputs from the environment and give their output to the environment .The inputs are usually in the form of raw materials, labour, skills, and capital. The banks then engage internal processes to convert their inputs to outputs which are fed back to the environment.

## 2.3 The Concept of Strategy

Concept of strategy, strategic management and environment are important for any organization. All organizations operate within an environment, understanding the environment and issues emerging from it are important as it determines the nature of the organizations response in order to secure its long term survival by fulfilling stakeholder's expectation.

In 1965, Professor Ansoff looked at strategy as the common thread among the organizations activities and product, markets that defines the essential nature of business that the organization was planned to be in future. Igor Ansoff et al. (1990) saw strategy as a unified, comprehensive and integrated plan designed to ensure that the basic objectives of the enterprise are achieved

Johnson and Scholes (1997) define strategy as the direction and scope of an organization over the long-term, which ideally matches resources to its changing environment and its particular markets so as to meet stakeholders' expectations. This definition identifies three key components of strategy. First, the need to define the scope and range of an organization's activities within the specific environment it faces. Second, the needs of customers and markets are matched against resource capability to determine long-term direction; and third, the roles of stakeholders have on the strategy articulation because of their influence over the values, beliefs and principles which govern organizational behavior and business conduct.

Chandler (1962) sees strategy as an establishment of long term goals and objectives of an organization, including taking of actions and allocation of resources, for achieving these goals. Pearce & Robinson (1997) see strategy as the building of defenses against competitive forces or finding a position in the industry where competitive forces are weakest. Strategy is a plan that sets out together an organization major goal, policies and action sequences.

In order for an organization to formulate a good strategy that will enable it to achieve its both long term and short term goals, it first needs to clearly understand its business. It should be in a position to answer the following questions: Where are we as a business? Where do we want to go? And how do we go there? By answering these questions it will be in position to come up with a "strategic vision" of the firms future business make up of where the business is headed. Porter (1980) says that strategy is basically about competition and means which an organization fights to gain a competitive advantage..

Andrew (1980) defines strategy in the corporate context as the pattern of decisions in a company that determines and reveals its objectives, purpose or goals, produces the principle, policies and plans for achieving these goals and define the range of business the company is to pursue, the kind of economic and human organization it is or intends to be. the nature of the economic and human organization it intends to make to its shareholders,employees,customers and communities.

## **2.4 Strategic Management**

Ansoff and McDonell (1990) define strategic management as a process through which a firm manages its relationship with the environment in which it operates. It consists of strategic planning, capability planning and management of change. Hax & Majluf (1996) argues that strategic management is the way of conducting a business. It has the ultimate objective of the development of corporate values, managerial capabilities and through it focuses the decisions of the entire organization in one direction. They further argue that strategic management ensures that opportunities are grasped, risks are acceptable, failure can be contained and success can be built upon and sustained. Porter (1980) argues that strategic management provides central purpose and direction, enables management to adapt to changing environment, credits competitive advantages and allows allocation of resources to key success factors.

It can be seen that strategic management is a continuous process and not an event. Firm's operates in an environment and any changes in the environment should be carefully monitored in order to successfully carry our strategic management. Strategies may require to be modified in order to respond to changes in both internal and external environment and this factor makes the whole process of strategic management flexible in order to achieve both long term and short term objectives of the firm.

## **2.5 Relationships between the environment, strategy and internal capability**

Strategic response involves change in a firm strategic behavior to assure success in transforming future environment. Ansoff and McDonnell (1990) state that change in the organization behavior is necessary if success in the transformation of future environment is to be assured. They noted that such changes which touch on the organization strategy and capability would need to be systematically identified through the strategic diagnosis approach. As the organizations environment changes, it is necessary that the firm continuously adopts its activities and internal configurations to reflect the new external situation. Failure to do this endangers the future sales of the organization (Aosa, 1998).

According to Grant (2000), a successful strategy is consistent with the organizations goals and values, external environment, resources and capabilities and organizational systems. This indicates the fact that the organization depends on the environment for its survival and the responses to the environmental situation will determine its performance. Thus when there are changes in the environment, the organization's capability and strategy would have to be changed in order to ensure continued strategic fit.

Firm's strategy should not only be tied to the internal capability (resources) of the firm but should also be flexible to respond to changes in the external environment

the business is operating. Thompson (1998) argued that the managers must not only be aware of environmental change but they must also manage the organization's resources to take advantage of the opportunities and counter threats. Shipper and White (1988) observed external environment as having multiple facets and three of the major ones being the degree of market competitiveness, the rate of technical innovation and variability of economic fluctuations that affect the industry.

## **2.6 External Environment challenges**

Organizations being in constant interaction with external environment are always in constant encounter with challenges as result of changes in this environment. Chege (2008) states that volatility of external environment influences how organizations restructure themselves to cope with changes or how to anticipate changes. Thompson (1997) argued that the managers must not only be aware of environmental forces and challenges but they must also manage the organization's resources to take advantage of opportunities and counter the challenges presented.

Pearce and Robinson (2007) observed that the direction and stability of political factors are major consideration for managers when formulating strategy. This is because administrative and legal environment in a country provide a framework within which any organizations operate. Understanding change in these political issues enables firms to align their strategies appropriately.

Pearce and Robinson (2007) argued that every firm must consider the economic trends it is operating in. The economic trend should not only be limited to national level but to international level. Economic analysis should centre on the aspects of economic system the firm is operating in and may include aspects like inflation rates, economic growth rate, The GDP, availability of credit, levels of disposable income and propensity to save or spend.

The main issue on technological factors is the rate of technological change, and any technological breakthrough can have sudden and dramatic effect on firm's environment (Pearce and Robinson, 2007). Firm should be able to understand both the existing technological advanced and also try to predict any future technological changes that may affect its operation. There is no firm that can compete effectively and efficiently using obsolete technology.

Social factors that affect organizations involve the beliefs, values, attitude, opinions and lifestyles of persons in the firms external environments, as developed from cultural, demographic, religion, educational and ethnic conditioning Firms should always align their strategies to counter changes from these social factors.

## **2.7 Internal Environment**

An organization's internal environment is composed of the elements within the organization, including current employees, management, and especially corporate culture, which defines employee behavior. Although some elements affect the organization as a whole, others affect only the manager.

An organization's mission statement describes what the organization stands for and why it exists. It explains the overall purpose of the organization and includes the attributes that distinguish it from other organizations of its type.

Effective mission statements lead to effective efforts; a good mission statement is precise in identifying the following intents of a company: customers, products/services, location and philosophy

Company policies are guidelines that govern how certain organizational situations are addressed. Companies establish policies to provide guidance to managers who must make decisions about circumstances that occur frequently within their organization. Company policies are an indication of an organization's personality and should coincide with its mission statement.



Formal structure of an organization is the hierarchical arrangement of tasks and people. This structure determines how information flows within the organization, which departments are responsible for which activities, and where the decision-making power rests.

The organizational culture is an organization's personality. Just as each person has a distinct personality, so does each organization. The culture of an organization distinguishes it from others and shapes the actions of its members.

Resources are the people, information, facilities, infrastructure, machinery, equipment, supplies, and finances at an organization's disposal. People are the paramount resource of all organizations. The availability of resources and the way that managers value the human and nonhuman resources impact the organization's environment

## **2.8 Responses to Environmental Challenges**

Strategic management allows organizations to be efficient, but more importantly it allows them to be effective. The strategic management process results in decisions that can have significant long lasting consequences. Erroneous strategic decisions can inflict severe penalties and can be significantly exceedingly difficult to if not impossible to reverse. Strategists in most successful organizations take the time to formulate, implement and then evaluate strategies deliberately and systematically (David, 1997).

According to Strickland (2003), the particular business opportunities affirm has and the threats to its position that it faces are key influences on strategy. Response needs to be deliberately crafted to capture some or all of a firm's best growth opportunities, especially the ones that can enhance its long- term competitive position and profitability. Likewise response should be geared to providing a defense against external threats to the firm's well being and future performance.

For Strategy to be successful, it has to be well matched to the firm's opportunities and threats. Successful strategists aim at capturing a company's best growth opportunities and creating defenses against threats to its competitive position and future performance. Effective strategy making requires a thorough understanding of the strategic issues a company faces.

One of the toughest strategic leadership tasks is keeping the organization innovative and responsive to changing conditions. In addition to strategic responsiveness, the responsiveness of the firm's organizational capability must also be matched to the environmental turbulence. Strategic success is based on how an organization responds to the environment and its internal capability.

### **2.8.1 Operational Responses**

Responding to changing conditions is an organization wide task, particularly in large corporations, crafting still narrower and more specific approaches and moves are aimed at supporting functional and business strategies and at achieving operating unit objectives (Strickland, 2003).

According to Ansoff (1990) operating capability is geared to support profit making, efficiency serving and change controlling behavior .Operations management is an important element of corporate strategy, it aims at providing manufacturing and related processes that will give the organization competitive advantage over competitor. Operation management is also defined as the contributions ability to add value to its goods and services

Operational strategies are concerned with how the component parts of an organization deliver effectively the corporate and business level strategies in terms of resources, processes and people. In most businesses, successful business responses depend to a large extent on decisions that are taken, or activities that occur, at the corporate level. The integration of operational decisions and strategy is therefore of great importance.

## **2.8.2 Organizational Responses**

Pearce and Robinson (2002) state that due to the rapid changes in the environment, managers have the responsibility of ensuring their firm's capacity for survival. A firm's manager must therefore analyze and understand the impact of external environment on the organization if he wants to achieve strategic success. Environment scanning also referred to as competitive scanning is the rigorous approach to collecting, analyzing and communicating information about the competitors activities, market changes that are occurring, changes related to supply of raw materials, and other issues that could affect organizational responses.

Ansoff (1988) argues that all environments are tending towards more turbulence, complexity and uncertainty and hence there is a need to be a responsive learning type of organization. In response, firms must be innovative, must search for weak signals and must constantly analyze the environment for clues. A firm must become a learning organization that can respond quickly and flexibly to the changing needs of the environment.

## **2.8.3 Strategic Responses**

According to Grant (2002), survival and success for an organization occurs when an organization creates and maintains a match between its strategy and environment and also between its internal capability and the strategy. An organization needs to harness both its tangible and intangible assets to maintain a strategic fit between its strategy and environment. If this fit is not realized then a strategic gap exists.

Clark (2002) states that cost leadership requires that a firm has more economies of scale; it enables a firm to compete favorably through low cost especially when dealing with customers who are cost conscious. To achieve overall cost leadership in an industry, a firm can adopt certain functional policies and resort to;

aggressive construction of efficient scale facilities, vigorous pursuit of cost reductions, tight cost and overhead control, avoidance of marginal customer accounts and cost minimization in areas of research and development, sales force and advertising (Porter 1980). To be successful an organization requires a high relative market share or favorable access to raw materials.

Firms that respond to competition through differentiation modify their products to make them more appealing to their target customers. Here firms position themselves as unique and different from competitors. These customers are willing to pay premium prices for high quality or unique products. In the banking industry for example Kenya commercial Bank have adopted the differentiation strategy where it has invested in research and development to come up with innovative products which are unique and will cost more to the customers.

## **2.9 Adopted Responses**

A response is a well planned set of actions or decisions aimed at countering a change which has already taken place, is currently taking place or is anticipated to take place. The response a reaction to a threat posed to the organizations operations and achievement of both long term and short term objectives. According to Ansoff and McDonnell (1990), strategic response involves changes in the firm's strategic behavior to assure success in the changing future environment. The usefulness or relevance of a response adapted by a firm is measured by how well it has countered the challenges emanating from external and internal environment

### **2.9.1 Information Technology Response**

Information Technology (IT) has an impact on almost every organization activity. Most of the organization's activities generate or utilize information in one way or the other. Porter (1985) noted that information technology can create new businesses from within a company's existing activities. Luftman (1996) adds that

the way a firm views its business, customers and competition is critical to successfully aligning its business and IT strategy.

Thompson (1994) argues that information is needed for, and used for making decision, information systems and information technology are all aids to decision making and the more information managers and employees have about what's happening in the organization, the more strategically aware they are likely to be.

Rayport and Svioklen (1995) state that competition is defined among the two dimensions: physical world of resources and virtual world of information. Information supports and enhances every activity in the organization and it can be a source of added value and hence competitive advantage provided organizations are able to draw that value.

Gilbert (1995) observed that strategically successful organizations obtain market feedback continuously and rapidly adapt to the feedback ahead of their rivals. They exploit the potential of strategy as well as competitive and operating system. Some of the variable information technology variables that can influence a firm's response to changes in the external environment include the use of real time systems, extent of interconnectivity of distribution channels and efficiency of telecommunications systems (Chege, 2008).

### **2.9.2 Financial Response**

Wheelen and Hunger (1998) stated that the financial strategy examines the financial implication of corporate and business level strategic options and identify the best financial course of action. This strategy usually attempts to maximize the financial value of a firm and it can also provide competitive advantage through lower cost of funds, flexible ability to raise funds and overall reduction of costs in the firm's operation thus determining the quality of products or services offered.

Clarke (1998) observed that financial strategy can provide a firm with a competitive advantage through cheaper funding and flexible ability to raise capital. Thompson (1994) observed that a good financial strategy involves: providing the firm with the appropriate financial structure and funds to achieve overall business objectives and careful examination of financial implications of various strategic options such as acquisition or investment hence opting for the most lucrative and viable financial options. A thorough analysis of various financial options and making decision on which financial actions to implement can help a firm remain competitive and at the same time counter threats from external environment. The financial decisions actions could be in either areas of financial investment or expenditures.

### **2.9.3 Human Resource Management (HRM) Response**

Bernejee (1999) observed that firm's employees are a great strategic resource. This is because they are ultimate determinants of whether or not a competitive advantage is created and sustained. Human resource is a very critical element in a firm's success and competitive advantage. Human resource management should have well targeted policies that attract nurtures and rewards human talents that enormously contribute towards achievement of the organization goals.

Wheelen & Hunger (1998) argue that a company with diverse workforce has a competitive advantage. This is because diversity in workforce brings with it diversity in talents, skills and knowledge which are critical to company's performance. Thompson (1994) states that human resources are an essential strategic resource, this is because people are needed to implement other strategies and to this end they must understand and share the objectives and values of the organization. He further notes that when operating in turbulent environment, it's the strategic leaders who rely on people to spot opportunities and creates and adapt strategies.

Thompson (1994) observed that some critical factors in human resource that can serve as response strategy are customer oriented personnel, creative and innovative employees, well coordinated teams, entrepreneurial individuals, people who are flexible to change, total quality management and getting things right the first time.

#### **2.9.4 Research and Development Response**

Wheelen and Hunger (1998) define research and development as a process that deals with products and processes innovation and improvement. R & D helps firms come up with new product and services and keep up with changing technology. Pearson (1988) argues that outstanding companies are constantly innovating in every area of business, pursuing changes which create value for their customers and consumer. Their approach is to search for new opportunities and package or present them in such a way that they deliver consumer satisfaction.

As much as innovation may result from internal development which arise from research and development, changes in external environment and ideas from other parties can form basis for innovations in a firm. Nayak (1991) argues that most goal ideas do not come from marketing, sales or competitors but from customers. Thompson (1994) argues that the aim of R & D is to add value for the customer or consumer by reducing cost, or differentiating product or service in some sustainable way hence creating a competitive advantage for the concerned firm.

A firm that is consistently carrying out R &D ensures consistent addition of value to the existing product or service or comes up with new products or service which increases its product or service differentiation and thus keeps its customers loyal. Maintaining customer loyalty at the same time attracting new customer through product/service development or creation of totally new product/service does not only protect the market share but also increases it.

Gitonga (2008) studied response strategies of Equity bank to competition in the banking industry. He observed that Equity bank restructured its corporate operations with an aim of separating its retail and corporate businesses. He also noted that there were Marketing and Promotional activities that were used as a response to counter competition. He observed that the management had a challenge of explaining to both the shareholders and small scale customers that the bank was not incorporating corporate business at the expense of retail customers who were the core market segment. His observations were few and limited; there are a number of other factors which firms can respond to e.g. change of culture, hiring new employees, seeking consultancy and guidance.

Machau (2009) studied strategies adopted by Kenyan Commercial Banks in response to environmental changes, he observed that Kenyan banking industry has seen a paradigm shift in the last couple of years with intensified competition and entry of new established players, changing regulatory provisions and prudential guidelines, financial sector deepening process, changing consumer tastes and preferences and technological advancement.

Machau (2009), Gitonga (2008) findings are not exhaustive because there are other ways a firm can respond to changes in the environment, due to time lapse KCB may adopt other new ways of responding such as cost leadership, greater customer orientation and expansion which Machau and Gitonga did not consider.



## **CHAPTER THREE: RESEARCH METHODOLOGY**

### **3.1 Introduction**

Research is defined as the process of arriving at a dependable solution to a problem through planned and systematic collection analysis and interpretation of data. The Research Methodology highlights the overall approach to be taken in the research in terms of the Research Design, Data Collection, Respondents, Data Collection Procedure and Data Analysis.

### **3.2 Research Design**

The research problem presented will be best conducted through a case study design. This method will give an in-depth and comprehensive inquiry to determine how environmental factors have contributed to the development of KCB response strategy. The case study design provides very focused and valuable insights to phenomena that may be vaguely known or understood

Kothari (2004) defined a case study as a very popular form of qualitative analysis and involves a careful and complete observation of a social unit, be that unit is a person, a family, an institution, a cultural group or the entire community. A case study design deals with the processes that take place and their interrelationship

### **3.3 Data collection**

Data will be collected from top level Directors of Kenya Commercial Bank. To achieve the objectives of this study, eleven respondents are targeted. These include: Divisional Director - Human Resources, Divisional Director - Credit, Divisional director - Finance and Strategy, Divisional Director- Marketing and Research, Divisional Director - Audit, Divisional Director - Retail Banking, Divisional Director — Operations, Divisional Director - Treasury, Divisional Director - Corporate Banking, Divisional Director - Information Technology, Head of Public Affairs and Communications. These respondents will be resourceful enough in providing the required data..

Both primary and secondary sources of data will be used to obtain information for the study. Primary data will be obtained through an interview guide with open-ended questions (see appendix 2). The interview guide will be used to facilitate personal interviews with the target respondents with a view to obtaining in-depth and comprehensive data regarding the variables of the research study.

Secondary data will supplement primary data. Existing reports such as audited financial report, updated bank's policy hand book, Existing and previous strategy plans, the bank's monthly newsletter and the C.B.Ks annual report on commercial bank performances will be much useful in extracting secondary data.

### **3.4 Data analysis**

Content analysis and descriptive analysis will be used to analyze the responses obtained from the interviews. Kothari (2004) argues that content analysis is a central activity whenever one is concerned with the study of the nature of the verbal materials.

The data will then be cross-tabulated. After tabulation, the data will then be coded to facilitate statistical analysis. Descriptive statistics such as frequency distribution, percentages, tables, pie charts as well as bar graphs will be used for data presentation. Qualitative data will be presented through narratives

## **CHAPTER FOUR: DATA ANALYSIS, FINDINGS AND DISCUSSIONS**

### **4.1 Introduction**

This chapter presents the analysis and findings of the study as set out in the research methodology. The method of data collection was done through interview  
**1/UuJ-**

guide who was developed in line with the objective of the study. The research objective was to determine Strategic Responses adopted by Kenya commercial bank to changes in the environment.

Primary data was collected from KCB's top management team who included the Divisional Directors, Head of group business, and senior heads of department who are members of corporate strategy development team. To achieve the objective of the study the interview guide was broken down into two sections, general information and specific information. General information sought to find out the banks general information while specific information sought to find data on the challenges facing KCB and the adopted responses undertaken by KCB.

### **4.2 Respondents details**

The study sought data on key organizational aspects of the respondents who were targeted as well as information on organizational profile. Seeking such information was considered necessary in laying the basis of obtaining pertinent information on the strategic responses adapted by Kenya Commercial Bank to changes in the environment.

**TABLE 4.1 Respondent's Tenure**

<b>Number of years in the bank</b>	<b>Frequency</b>	<b>Percentage</b>
Below 5 years	0	0
5-10 years	5	63%
Over 10 years	3	37%
Total	8	100%

*Source: Research (2010)*

From the research findings in table 4.1, the results indicate that the respondents have been in the institution for varied periods of time. Data collection targeted 11 respondents; however, only 8 were available for the personal interviews. This represents a response rate of 73% which is significant enough to provide a basis for valid and reliable conclusion. 63% of the respondents had been in KCB for between five and ten years while 37% had been in the bank's continued employment for over 10 years. This implied they were competent enough to respond to broad issues on strategic responses.

### **4.3 General Information**

From the interview conducted, apart from the CEO's office other executive committee comprises 11 divisions each headed by divisional director, there is also the company secretary and the chief risk officer. Of the interviews 63% of the respondents had been in the bank for between five and ten years while 37% had been in the bank's continued employment for over ten years.

#### **4.4 Specific Information**

The respondents were asked some of the challenges facing KCB and how the challenges have impacted on the bank, the study sought to find out how changes in the regulation framework, competition, rapid development in ICT and an increase in demand for investment options has affected business performance in KCB. Further the findings indicated that the increase in number of co-operative societies with front office banking and micro finance institution that provide alternative sources of funds for loans also pose challenge to KCB.

The respondents agreed that KCB faced a number of challenges as a result of changing external and internal environment and some of the main challenges they highlighted included the following:

The respondents were asked whether increased competitive environment was a major challenge that KCB faced. Competition was not only coming from other licensed commercial banks but also from micro finance institutions, co-operative societies and foreign exchange bureaus which become the outstanding competitor in foreign exchange dealing. The respondents felt that though the bank had created a strong niche of its own kind of market that is mainly composed retail and corporate as well as institutional market, it has been experiencing a lot of competition from other commercial banks for the same market. Other commercial banks are now targeting the corporate and institutional market thus forcing KCB to aggressively compete to retain its market share and also attract another target market.

The research sought to find out how competition from other non- bank financial institution which offers similar services affect the bank, These institutions include the Micro-fmance Institution and the telecommunication industry which is also taking up some services that were previously offered by financial institution only, for instance money transfer through M-Pesa, a service offered by Safaricom a mobile telephone company. The data showed that this poses a threat to the banks, as the services are readily available and more convenient to the non bank population.

The study sought to find out how advancement in modern Information and Communication Technology (ICT) affected the banks performance. The respondents were asked some of the changes that had taken place over the last 2-5 years during the revolution in banking. The respondents agreed that KCB has had to re-evaluate its ICT system every now and then to accommodate the new developments. This implies that technological changes have had impact on KCB's operating environment and the bank had to respond to these changes in order to remain competitive in the very dynamic environment. The study also sought respondents view if implementation of the new state of art banking system T24 in 2008 had given the bank an opportunity to concentrate on getting the full benefits from the system

The respondents were asked whether changing customer preferences and increased levels of awareness had influenced business performance. The bank has

been faced by a challenge of meeting its customer's changing expectations and at the same time maintaining or meeting its targeted financial objectives. The study sought to know how the products and services offered KCB are preferred to other commercial bank offering similar products and every bank competes on customer service cost of these products and services. This implies both existing and potential customers are very particular when choosing a preferred bank. KCB have been faced with a huge task of pleasing, retaining and attracting customers with varied preferences and taste to keep up with competition and the same time meet its shareholders expectation of profitability.

#### **4.5 Strategic Responses Undertaken by KCB**

The study sought to find answers on which responses KCB has been using in a bid to attract customers and maintain loyalty in the highly competitive industry, majority of the respondents felt that the bank had come up with different marketing and management strategies such as taking up competitive advantage through focus, differentiation and cost leadership so as to maintain their market share and remain competitive in the industry.

### **4.5.1 Research and Development**

The study found that the strategic responses undertaken by KCB included new product development which involved replacing the existing products with new ones through innovation and product improvement. The data obtained indicated some of the new products that had been launched by KCB included bankika and jiihue accounts. The respondents agreed that improving products has helped the organization to concentrate on particular segment of the market which is relatively strong thus acquiring new clientele and retaining existing ones as the product introduced are tailored to a wider spectrum of customers.

The study sought to establish the aim of R& D which was found to come up with new and innovative products and services that meet customer expectations and attract new customers to the bank. In the last three years, KCB has created a R&D team composed of various personnel from different departments. This team falls under a newly created department known as Project Management whose key role is coordination of various new projects to be implemented by the bank.

Through Research and Development KCB has been able to come up with new products (account) to replace its traditional savings and current A/C. Data obtained from the interview found that KCB has come up with an innovative way of seeking ideas and suggestions from the existing staff. The bank's management decided that in order to come with excellent and very best ideas to improve on overall efficiency and effectiveness, there was a great need to encourage best



brains of its staff to contribute some credible ideas gained from their experience both at work and from the social set ups.

#### **4.5.2 Human Resources Management**

The study sought to find out whether there had been changes in the human resource policy, data obtained showed that KCB has been hiring qualified and highly skilled and experienced personnel to ensure that this remains strength in the organization. Further the findings indicated how KCB is helping its employees grow by enhancing training and development, talent proposition, promoting health and well being of employees and rewarding excellent performance by giving incentives to employees who met the set targets thus increasing motivation.

According to the respondents KCB has been hiring very qualified and highly skilled people to ensure that its investment in human resource remains one of its biggest strengths. Majority of the respondents were of the view that KCB was the best choice of employer for those who wanted to build a career in banking and KCB has remained the employer of choice in banking industry because of not only creating a very conducive working environment and opportunities for training and development but also by offering a very competitive enumeration and other employment benefits.

Respondents were of the view that KCB does not only attract very qualified personnel but also ensure there is talent management by identifying and developing talents which are ultimately retained within the company.

### **4.5.3 Information and Communication Technology**

The study set to establish the changes that ICT development had brought in KCB, the data revealed that the bank had adopted modern information and technology system to increase its efficiency and effectiveness in its operations. The findings show that through good I.C.T the bank has been able to achieve one branch network banking through interconnectivity and decentralization of its core banking system. This has made the banks customers receive excellent and best service at any branch of KCB regardless of where the customer opened his/her account.

Further the data obtained indicated that in the year 2008 the bank spent a huge sum of money in acquisition of new and modern banking system T24 which is internet based and is more efficient compared to the older system of micro-banker the bank had used for almost a decade.

Respondents were of the idea that the bank is still in the process of improving its I.T systems in various areas with an aim offering the best service to the customer and at the same roll out some IT based products and services that will ensure the bank creates a very competitive edge in the industry.

### **4.5.4 Refocusing**

The study set to establish whether refocusing as a strategy has been employed by the bank. Data showed that this has been done where opportunities for differentiation, segmentation and competitive advantage have been identified thus

concentrating effort on specific customers and specific products, relating the two closely and coming up with appropriate service packages such as advantage banking. Further the study found that cross selling has been adopted where a customer using one service in the bank is introduced to other products.

#### **4.5.5 Marketing Development Strategy**

The study sought to find out whether the current marketing strategy responds to the banks needs; the respondents indicated that KCB has a very unique marketing strategy for its products .The bank has been marketing itself through very latent methods rather than in the traditional electronic media advertisement. Respondents argued that this was the best method to reach its customers who are very sensitive to general publicity.

One of the key strategic goals in KCB is to radically expand the distribution channels and enhance the banks sales capacity. Marketing development has been used to expand the market geographically and target new market segment, under this KCB has opened up branches especially in rural areas to ensure that their services are accessible to all hence reaching to customers easily.

#### **4.5.7 Corporate Restructuring.**

The study sought to find out whether there was a change in the corporate image of the bank; It was observed that for the last three years KCB has restructured its

operations with an aim of creating a competitive edge in the industry by giving more attention to the retail banking.

The research wanted to establish the corporate changes that aimed at increasing its market share and profitability as per the changing banking environment in Kenya. The results showed the personal banking department has been extended and there are some other structural changes in the department. The changes include changing chain of bureaucracy and changing of perception of the branches which has been mainly regarded as service delivery outlets to become Retail outlets.

The findings showed that the aim was to make the outlets avenues of direct sales of the banks products and services. The targets for these retails outlets have been increased to not only offer customer front office services but also attract more personal bankers with medium levels of income alongside small business enterprises.

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

### **5.1 Introduction**

This chapter presents the summary, conclusions, and recommendations from the findings. The overall purpose of the study was to identify the strategic responses of KCB to environmental challenges. From the findings, it was observed that KCB has adapted various strategic responses to changes in the environment

### **5.2 Summary**

The responses included improvement in human resource management, establishment of research and development department to create and review product and services in order to achieve customer expectation and also attract new customers. The bank also adopted a marketing system to reach its clients alongside the use of modern information and technology system and taking very calculated and less risky ventures for financial investments. As a result of increased competition in the banking industry, KCB is also reaching to middle income individuals and Small and Medium Enterprises (SME) to increase its volume of business and ultimate profitability.

In process of creating these strategic responses, KCB encountered a number of challenges. Some of the challenges encountered included a lot of financial expenditures like in the case of acquisition of new and modern Information system. There was a challenge of bureaucracy where the management could not

implement some strategies that required swift responses because all stakeholders were to be involved and consensus was to be reached. Resistance from some staff was encountered especially when the decision to reach middle income groups was reached. There were some staffs that were of the opinion that the bank was losing its sense of direction especially in regard to its target market. Also some customers who wanted to maintain their esteem as members of 'high net worth' class was reluctant to accept the banks new strategy to go for Middle income market.

### **5.3 Conclusions**

The objectives of this study were to: to identify the environmental challenges facing Kenya Commercial Bank and to establish what strategic responses KCB has adopted to address changes in the environment. The two objectives of the study sought to meet were achieved, it is evident from the study KCB has experienced various challenges in the environment and it has taken varying strategic responses to counter the challenges experienced.

Further the study indicated that there is still need for more strategic actions by KCB to enable the bank to fully match the environment in which it operates. These include executing services with speed and certainty and developing and motivating its employees through training.

KCB has the necessary capability to adopt the strategies that will facilitate effective response by the bank to increased competition and the challenges in both the internal and external environment.

#### **5.4 Recommendations**

Based on the findings it may be recommended that Kenya commercial bank should not only concentrate on targeting new customers but also emphasize on developing extensive distribution channels in order to gain a competitive edge in the market. Commercial banks management should change their perception on cost leadership, market share leadership and technology leadership in order to take advantage of the industry growth.

Recent advances in the ICT sector that offer greater convenience and flexibility to the consumers for example Internet Banking need special attention. These advances promise a multi-faceted advantage in satisfying customer demand for convenience and innovation whilst simultaneously satisfying managements need for increased distribution channels and cost reduction. In such a scenario banks stand to achieve higher sales while costs would reduce. Profits would soar.

#### **5.5 Limitations of the Study**

The study focused mainly on the Kenyan banking Industry and although the industry may be similar internationally there are specific factors such as the industry life cycle, economy dynamism and the competitor environment which

may not be universally applicable in all countries. The Kenyan banking industry is also growing and changing drastically, therefore the findings of this research may have some variation.

During the study a number of limitations were encountered. This include having very little to with the respondents to inquire very deeply into a number of issues because most of the respondents had allocated a few minutes of time due to their very tight time budgets.

The study was undertaken as a case study of KCB and may therefore not relate to the strategic responses undertaken by all banks in the country to challenges in the environment as most of the packages offered by banks are different and custom tailored to competitively meet with clients preferences as well as boost profitability and market share.

## **5.6 Suggestions for Further Studies**

This study was in case study of only one commercial bank KCB. For further research the banking industry can be studied as a whole where the strategic responses to challenges in the environment of all banks are sought and compared. This would show the general responses adopted by the banks in the industry or it would help in knowing whether responses adopted by one bank are a specific response. Further the study can be conducted in different industries which are facing similar challenges such as the telecommunication industry in Kenya.



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# Appendix I: Authorization Letter



**UNIVERSITY OF NAIROBI**  
**SCHOOL OF BUSINESS**  
**MBA PROGRAM - LOWER CAHILL CAMPUS**

Telephone: 0112059162  
Telegram: "Varsity", Nairobi  
Telex: 221W Varsity

P.O. Box 10197  
Nairobi, Kenya

DATE,

## TO WHOM IT MAY CONCERN

The bearer of this letter ..

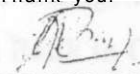
Registration No:

is a Master of Business Administration (MBA) student of the University of Nairobi.

He/she is required to submit as part of his/her coursework assessment a research project report on a 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/her by allowing him/her 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 organizations on request.

Thank you.

  
**UNIVERSITY OF NAIROBI**  
**SCHOOL OF BUSINESS**  
**MBA OFFICE**  
**P. O. Box 30197**  
**NAIROBI**  
**DR. W.N. IRAKI**  
CO-ORDINATOR, MBA PROGRAM

## **Appendix II: Letter of Introduction**

**Angara Erick Ojwang,  
University of Nairobi,  
School of Business,  
P.O BOX 30197- 00100,  
Nairobi.**

**July 2010**

**Dear Sir/Madam,**

### **RE: DATA COLLECTION**

I am a postgraduate student at the University of Nairobi, School of Business, undertaking a management research project on '**Responses Adopted by Kenya Commercial Bank to Changes in the Environment**'.

You have been selected to form part of the study. This is to kindly request you to assist me collect the data by responding to the questionnaire. The information you provide will be used exclusively for academic purposes and will be treated with utmost confidence.

A copy of the final report will be available to you upon request. Your assistance will be highly appreciated.

**Yours sincerely,  
Angara Erick**

**Dr. J. Gathungu  
Supervisor**

## **APPENDIX III: INTERVIEW GUIDE**

The information collected from this interview will be purely for academic purpose and will be treated with the highness degree of confidentiality.

### **SECTION A: Respondent's Profile**

1. Name
2. Position held
3. Number of Years in KCB

### **SECTION B:**

#### **QUESTIONS:**

1. Kindly highlight some of the changes that have taken place in the Kenyan banking industry over the last 2-5 years.
2. Which of the changes have had an effect on KCB?
3. What are some specific challenges KCB has faced as a result of these changes
4. How does KCB anticipate and prepare for environmental changes?
5. How does competition in the industry impact on the KCB choice of strategy?
6. How does the customer needs influence policy and strategy?
7. Has there been any change in KCB's human resource management strategy or policy In the last 2-5 years?

- a) What was the objective of the changes?
  - b) To what extent have the objectives been met?
  - c) What is the status of the current human resource management response?
8. Has there been any change in KCB marketing style in the last 2-5 years?
- a) What was the objective of the changes?
  - b) To what extent have the objectives been met?
  - c) What is the status of the current marketing response?
9. Has KCB undertaken R &D changes in the last 2-5 years?
- a) What was the objective of the changes?
  - b) To what extent have the objectives been met?
  - c) What is the status of the current R & D response?
10. Have there been any changes in KCB's I.T in the last 2-5 years?
- a) What was the objective of the changes?
  - b) To what extent have the objectives been met?
  - c) What is the status of the current I.T response?



11. Has KCB financial strategy changed in the last 2-5 years?

- a) What was the objective of the changes?
- b) To what extent have the objectives been met?
- c) What is the status of the current financial response?

12. Which entry strategy is the bank using to venture into new markets?

13. What are the other strategies the bank is currently using to address the changes in banking industry?

#### **SECTION C: Questions on Responses of KCB**

1. Kindly highlight the responses of KCB to competition in the banking industry?

2. What are the responses of KCB to challenges posed by political-legal factors?

3. How does KCB respond to economic challenges?

4. Kindly state the responses of KCB to technological challenges?

5. Which are the responses of KCB to social-cultural challenges?