

**STRATEGIC RESPONSES BY DEPOSIT PROTECTION FUND BOARD  
TO CHANGES IN THE EXTERNAL ENVIRONMENT**

**By:  
MUTUA C. KIMANTHI**

**A Management Research Project Submitted in Partial Fulfillment of the  
Requirements for the Award of Master in Business Administration Degree,  
School of Business, University of Nairobi**

**October 2010**

## DECLARATION

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

Sign: ..... Date:.....

**MUTUA C. KIMANTHI**

**D61/70120/2008**

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

Sign:.....Date:.....

**Mr. Jeremiah Kagwe**

**Lecturer,**

**Department of Business Administration**

**School of business**

**University of Nairobi**

## **ACKNOWLEDGEMENTS**

I am grateful to all those who helped me accomplish this study and whom I feel am deeply indebted. First, I acknowledge my university supervisor, Mr. Jeremiah Kagwe who gave me focus and direction on how to go about the research.

Special gratitude goes to the Director of Deposit Insurance Fund, Ms. Rose Detho and the Senior Management team for the support during the data collection. I acknowledge them for taking time out of their busy schedule to give the information needed. Without their support, I would not have completed the MBA Program.

I also thank my family and friends who had to put up with me during the entire research period. I was not able to be with them all the time and their encouragement has finally seen me achieve my dream. Last but not least, to the ALMIGHTY GOD, who makes all things possible in deed he has been faithful!

## **DEDICATION**

To Florence, my dear wife and best friend

and

To our beloved Son, Allan

## TABLE OF CONTENTS

<b>DECLARATION.....</b>	<b>ii</b>
<b>ACKNOWLEDGEMENTS .....</b>	<b>iii</b>
<b>DEDICATION.....</b>	<b>iv</b>
<b>LIST OF TABLES.....</b>	<b>vii</b>
<b>LIST OF FIGURES .....</b>	<b>viii</b>
<b>ABSTRACT.....</b>	<b>ix</b>
<b>CHAPTER ONE: INTRODUCTION .....</b>	<b>1</b>
1.1 Background of the Study.....	1
1.1.1 The Organisation and its Environment .....	2
1.1.2 Industry Analysis .....	4
1.1.3 The Deposit Protection Fund Board.....	5
1.2 The Statement of the Research Problem .....	6
1.3 Research Objectives.....	9
1.4 Value of the Study .....	9
<b>CHAPTER TWO: LITERATURE REVIEW .....</b>	<b>10</b>
2.1 Introduction.....	10
2.2 Organization and its Environment .....	10
2.3 Strategic responses to External Environmental Changes.....	11
2.3.1 Porter’s Generic Competitive Strategies.....	12
2.3.2 Diversification.....	13
2.3.3 Marketing.....	14
2.3.4 Divesture .....	15
2.3.5 Integration.....	15
2.3.6 Strategic Alliances .....	15
2.3.7 Technology .....	15
2.3.8 Leadership and culture change.....	16
<b>CHAPTER THREE: RESEARCH METHODOLOGY.....</b>	<b>18</b>
3.1 Introduction.....	18
3.2 Research Design.....	18
3.3 Data Collection .....	18
3.4 Data Analysis.....	19

<b>CHAPTER FOUR: DATA ANALYSIS, RESULTS, AND DISCUSSION.....</b>	<b>20</b>
4.1 Introduction.....	20
4.2 Respondent’s Profile.....	20
4.3 Strategy and Planning.....	21
4.4 Environmental Challenges Facing DPFB.....	21
4.4.1 Challenges from Government/Political factors.....	21
4.4.2 Challenges from Economic factors.....	22
4.4.3 Challenges from Technological factors.....	23
4.4.4 Challenges from Legal/legislative factors.....	23
4.4.5 Challenges from Social - Cultural factors.....	23
4.4.6 Challenges from Competitive factors.....	24
4.5 Strategic Responses.....	24
4.5.1 Strategic Responses to Government/Political changes.....	24
4.5.2 Strategic Responses to Economic changes.....	24
4.4.3 Strategic Responses to Technological changes.....	25
4.4.4 Strategic Responses to Legal/Legislative changes.....	25
4.4.5 Strategic Responses to Social - Cultural changes.....	26
4.4.6 Strategic Responses to Competitive changes.....	26
<b>CHAPTER FIVE: SUMMARY, CONCLUSION AND RECOMMENDATIONS.....</b>	<b>27</b>
5.1 Summary.....	27
5.2 Conclusion.....	27
5.3 Recommendations.....	28
5.4 Suggestions for Further Research.....	28
5.5 Limitations of the Study.....	29
5.6 Implication on Policy and Practice.....	29
<b>REFERENCES.....</b>	<b>30</b>
<b>APPENDICES.....</b>	<b>34</b>
Appendix 1: Institutions Currently under Liquidation.....	34
Appendix 2: Member Institutions to DPFB.....	35
Appendix 3: Organization Structure.....	36
Appendix 4: Letter to the Respondent.....	37
Appendix 5: Interview Guide.....	38

## **LIST OF TABLES**

Fig. 2.1      Product – Market Matrix by Igor Ansoff

## **LIST OF FIGURES**

BSD	Bank Supervision Department
CBK	Central Bank of Kenya
CSR	Corporate Social Responsibility
DIS	Deposit Insurance Schemes
DPFB	Deposit Protection Fund Board
FAQ	Frequently Asked Questions
GOK	Government of Kenya
IADI	International Association of Deposit Insurers
ICT	Information & Communication Technology
IT	Information Technology
KDI	Kenya Deposit Insurance
KDIC	Kenya Deposit Insurance Corporation
TQM	Total Quality Management
VAT	Value Added Tax

## **ABSTRACT**

The dynamism of environment possesses challenges to organizations, which as open systems have to respond through appropriate strategies. There must be a match between the strategic choice and the challenge in the environment. The appropriate strategy is necessary in order to remain competitive and sustainable. Deposit Protection Fund Board like any other firms have experienced changes in the external environment, which have called for adoption of strategic responses. DPFB being a financial sector player has experienced challenges due changes in the external environment, which have propelled it to act.

The objectives of this study sought to identify environmental challenges facing DPFB and the strategic responses adapted by DPFB to changes in the external environment. Primary data was collected from the Director of the Board and three Assistant Directors who are senior managers heading Finance and Administration, Liquidation and Legal Divisions. The information required was obtained using unstructured in-depth interview guide. The data collected which is qualitative in nature, was analyzed using conceptual content analysis. Findings were then interpreted, conclusions made and recommendations. Findings from this study indicate that despite several challenges, DPFB has responded well to environmental changes.

**Key Words:** Strategic responses, and external environment

# CHAPTER ONE: INTRODUCTION

## 1.1 Background of the Study

Deposit Protection Fund Board was established in 1985 following a bank crisis in Kenya. The overall objective was to provide deposit insurance to depositors of DPFB member institutions and restore confidence and stability in the banking sector. The Banking Act has given Central Bank of Kenya the mandate to appoint DPFB as the liquidator of insolvent commercial banks and non-bank financial institutions. Consequently, failure by DPFB to meet these objectives has a direct adverse effect on promoting financial stability in the banking sector.

The Board operates solely in an environment that has no competitor unlike other firms. It operates in a particular type of environment that is dynamic and constantly changing. A heightened readiness is required due to the rise of a significant number of new issues and risks from the operating environment. Some of the emerging issues are globalization, the growing complexity of financial services, culture change and new technology (Pearson and Robinson, 1997).

All businesses operate as open systems (Pearson and Robinson, 2002). They constantly interact with their environment to survive. Organization requires effective strategy to achieve its planned goals. Whether private or public, the firm has to develop a strategy to manage the environment it operates in. For firm's to be effective and hence successful, they need to employ strategic responses in order to adapt appropriately to changes that occur in their environment (Johnson and Scholes, 1988).

Responses refer to conscious and deliberate efforts to develop plans for the organization based on changed environmental conditions with a view to attain set goals. Pearce and Robinson (1997), define strategic responses as a set of decisions and actions that result in the formulation and implementation of plans designed to achieve firm's objectives while

Hofer and Schendel, (1977) refer to strategic responses as the long term responses made to suit the firm's strategic needs. Ansoff and McDonell (1990) argue that it is through strategic management process that the firm will be able to position and relate itself to the environment to ensure that it continues to succeed and also cushion against surprises from the environment.

Ansoff and McDonell (1990) observed that strategy diagnosis helps determine the firm's strategic responses, which will ensure success. Strategic diagnosis is a systematic approach to determining changes that have to be made to a firm's strategy and internal capability in order to assure the firm's success in the future environment. The strategy must ensure that the organization builds a strategic fit between itself and the environment it operates in.

As a consequence, if firms fail to respond timely, it may adversely affect the firm in terms of lost opportunities, increased costs, and decreased profits, loss of market share, and customer retention among others. Conversely, in order to improve productivity, quality and speed, management has embraced tools such as TQM, benchmarking, and re-engineering, information and communication technology, performance contracting, service delivery systems, human resource management, leadership and culture change as response strategies. These gains have translated into sustainable profitability and superior performance.

### **1.1.1 The Organisation and its Environment**

Most well run organisations attempt to develop and follow strategies. These strategies are intended for interacting with the environment in order to achieve long-term goals. They help organisation identify and develop a competitive advantage which is a significant edge over the competition in dealing with competitive forces. It provides a sense of direction so that organisation members know where to expend their efforts and help highlight the need for innovation by providing an organized approach for encouraging new ideas (Hax and Majluf, 1996).

The firms environment consist of remote environment, industry environment and operating environment that can positively or negatively influence an organisation's ability to reach its strategic goals. They depend on environment for survival. Organisations need to understand the industry environment and consider the possible responses to the identified opportunities and threats. They also require financial, physical, human and organizational assets from the environment in producing goods and services (Pearson and Robinson, 2002).

Remote environment consists of major external and uncontrollable factors that influence an organization's decision making, and affects its performance and strategies. These factors include the economic, demographic, legal, political, social conditions, technological changes, and natural forces. The factors influence company's or product's development but are outside of the company's control. For example, the macro environment could include competitors, changes in interest rates, changes in cultural tastes, or government regulations (<http://www.businessdictionary.com>).

According to Pearson and Robinson (2002), the operating environment, also called the competitive or task environment comprises factors in the competitive situation that affect a firm success in acquiring needed resources or in profitably marketing its goods or services. Firms can be much more proactive in dealing with the operating environment than in dealing with the remote environment. The operating environment is composed of conditions, entities, events, and factors surrounding an organization influence, activities and choices of the firm.

These three sets of factors provide many challenges that a particular firm faces in its attempts to acquire or attract needed resources and profitably market its goods and services. The variables are constantly changing in various degrees and have different business implications either positive or negative on the firm's operations (Pearson and

Robinson, 2002). This requires firm's management adopt appropriate strategic responses in order to keep pace with environmental change.

### **1.1.2 Industry Analysis**

The quest to secure financial stability has become increasingly challenging as the domestic financial landscape continues to transform. Recent trends and other emerging issues in the financial sector have posed potential impact on DPFB. For instance, globalization has been a major factor in the evolution of financial markets and services, growing complexity of the financial services have seen a proliferation of new financial products and services, technology changes have affected how member institutions deliver the products as well as the products themselves, new industry standards are being developed that can allow financial data to be exchanged more accurately and timely at less cost among other factors.

The performance of the economy at the national and regional levels directly affects the business strategies of individual financial institutions and may affect the industry's overall performance. Changes in the business cycle of sectors such as agriculture, commercial real estate, and energy, as well as interest rates, inflation, and unemployment, influence the lending and funding strategies of insured member institutions. Adverse economic or financial conditions abroad could spill over and adversely impact the national and regional economies. An economic downturn could adversely impact the financial services industry resulting in slower asset growth, increased loan losses, and diminished profitability ([http://www.fdic.gov/about/strategic/banking industry.html](http://www.fdic.gov/about/strategic/banking%20industry.html)).

Changes in the structure of financial services industry present new challenges for financial institutions and the regulator. These changes are being driven by industry consolidations, privacy concerns, the emergence of new institutions, new trends in borrowing and lending, globalization and emerging technology. For example, as a result of industry consolidations, the assets in the industry are also increasingly concentrated in

small number of large complex institutions for which DPFB is not the primary supervisor.

### **1.1.3 The Deposit Protection Fund Board**

DPFB was established in 1985 in response to challenges presented by banking crises and bank failures in the country. In 1983, several banks developed acute liquidity problems. Efforts by treasury and Central Bank to bail out the ailing institutions were fruitless as one institution was closed in December 1984. The crisis and failure exposed the inadequacy of the safety-net and failure resolution. This in effect, precipitated amendments to the Banking Act in 1985 to expand the safety net and improve the bank failure mechanism. This led to formation of DPFB as a deposit insurance scheme and act as a liquidator to banks. Currently, there are twenty (20) financial institutions under liquidation and four (4) have since been wound up as shown in appendix 1.

The Board is a significant player in the financial sector as it provides a safety-net for the savings, banking and payments systems in the country. It plays the role of protecting depositors against loss of all their deposits in case of a bank failure, by providing payments of insured deposits thereby ensuring depositors remain confident enough to continue keeping their savings within the banking and payments system. The Board is also mandated to be the liquidator of any institutions that is deemed to be insolvent and ensure a diligent liquidation process for maximum benefit of all creditors.

DPFB is a public entity managed by a Board comprising of the Governor of the CBK as the Chairman, the Permanent Secretary to the Treasury and five other members who represent interests of contributory institutions. The Board is responsible for policy formulation and direction while day to day management is under a Director appointed by CBK. Currently, DPFB is organized into Finance & Administration, Liquidation & Legal Divisions that ensure efficient running of the organization. Each Division is headed by an Assistant Director and has sections headed by managers.

Membership to the Board is mandatory to all institutions licensed to carry on business as Commercial banks, Financial Institutions, Mortgage Finance Companies and Building Societies as shown in appendix 2. The main source of revenue for DPFB is annual premiums collected from member institutions. All depositors of deposit taking institutions are covered by the fund irrespective of the type of account held. This is in line with the main objective of the Board to provide maximum protection for small and unsophisticated depositors. (<http://www.centralbank.go.ke/dpfb>).

Looking to the future, DPFB has to play its role of deposit insurance and contribute to stability in the financial sector and thus must be prepared before another bank crisis or failure strike. It requires evaluating and periodically modifying its business practices on a continuing basis in order to ensure that it is effectively carrying out its mission. The institution has to focus on key business strategies to deal with the changing environment in order to promote effective deposit insurance in Kenya.

## **1.2 The Statement of the Research Problem**

Organizations are environment dependent. No organization can exist without the environment. They depend on the environment for their survival and they scan the environment in effort of budding trends and conditions that could eventually affect the industry and adapt to them (Thompson and Strickland, 1993). Organizations face a new era today as the result of several major changes over the last decade. They have to meet a complex set of new challenges from the environment. Strategists are faced with the need to understand the effects of environment (Johnson and Scholes, 1988).

Understanding environmental changes requires extensive intelligence gathering and market surveillance activities (Daft and Weick, 1984), which requires significant time and resources. Organizations respond differently to changes in the environment based on how strategic issues are triggered and interpreted by the management. When environmental changes occur, firms will try to understand what the event means in terms of change in environmental demands so they can develop a proper 'fit' response and

response will follow (Wooldridge and Floyd, 1989). Similarly, when firms fail to actively attend to environmental changes, they are unlikely to implement strategic responses (Huff and Schwenk, 1990; Terreberry, 1968).

Each level of environmental turbulence has different characteristics, requires different strategy(ies), and requires different firm capabilities. In other words, each level of environmental turbulence requires a matching strategy, and the strategy has to be matched by appropriate organizational capability for survival, growth and development. Baum and Wally (2003) noted that firms that initiate timely strategic responses to changes in the environment outperform those that delay in their response. Conversely, firms that fail to adjust in a timely fashion may enter a downward spiral from which they do not escape (Cameron, Sutton, and Whetten, 1988).

Although DPFB enjoys monopoly to provide deposit insurance, it does not operate in a vacuum and therefore it is environment depended. It has to strategically respond to challenges posed by the changing environment. The volume and complexity of their operations have continued to expand. The Board should therefore be prepared to respond and position itself by continuously monitoring its environment and by adjusting its plans accordingly when undesired results are detected to maintain a fit between the changing environment and itself.

Several studies have documented strategic responses to changing environment within Kenyan Organizations. Some of these include; Kitonyi (2008), Postal Corporation of Kenya; Odongo (2008), Kenya Tourist Development Corporation; Mudanya (2007), Cement Industry; Musa (2004), National Bank of Kenya; Kombo (1997), Motor Franchise Holders; Shambe (2003), Role of Deposit Insurance in Kenya among others. All these studies investigated key areas of interest across the Kenyan various economic sectors. Examples of their findings were as follows; Kitonyi (2008) found out that strategies used by Postal Corporation of Kenya have been successful because they have

maintained the firm in the market though it is not the leader in the industry. The image of the firm is improving and the company is taking its rightful position in the market.

Odongo (2008) established that the performance of Kenya Tourist Development Corporation (KTDC) in the recent past was poor due to lack of funding by the exchequer, poor management and political interference. He recommended that for KTDC to position itself strategically and have strategic fit in the industry there was need for government funding, review of strategic plan, development of human manpower and form strategic alliances. Mudanya (2007) found out that firm's in the cement industry have responded both strategically and operationally that is, strategic responses are long term and embrace the whole organization while operational responses are departmental oriented activities. Musa (2004) found out that challenges arose from the business environment in terms of economic variables, liberalization, legislative changes, increased levels of education, and technological advancements. Kombo (1997) in his study of the Motor Franchise Holders found out that for firms to be effective and successful, they should adapt appropriately to changes that occur in their environment.

Shambe (2003) investigated the role of deposit insurance in Kenya and established that the level of banking sector stability has deteriorated since the introduction of deposit insurance in Kenya due to moral hazard. Moral hazard occurs when protection causes beneficiaries of deposit insurance, that is, depositors, bank owners, managers and supervisors and even politicians to be careless in their approach to bank soundness. Further, she noted that a good institutional environment is necessary to contain the moral hazard brought about by the introduction of deposit insurance in Kenya.

In this case, the review of earlier researchers shows that studies have not been carried out to focus on the strategies adapted in response to environmental changes facing DPFB. The choice of DPFB was based on the fact that it has continued to operate successfully since inception in spite of so many bank failures and other environmental challenges. It is in this respect that I have chosen DPFB as the unit of study due to its uniqueness in the

insurance industry leading to the following questions, what are the environmental challenges facing DPFB?, and how has DPFB responded to those changes in the environment?

### **1.3 Research Objectives**

The objectives of the study will be;

- i. To identify environmental challenges facing DPFB.
- ii. To determine the strategic responses by DPFB to changes in the external environment.

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

The study will be important to the practitioners and academicians both in public and private sectors in contributing to existing body of knowledge in the area of Strategic Management. The study will also be important to policy makers to use the findings of this research and make policies intended to promote effective deposit insurance in Kenya and make any other economic related decisions intended to respond to the changing environment.

Most importantly the study will assist DPFB to improve service delivery to depositors of failed member institutions and performance of the organization. The management also will be able to identify the most needful areas that require strategic responses and adapt accordingly. To this end, the study will also provide a platform for future research on strategic responses by firms to changes in their environment, both in public and private sectors, more so, DPFB.

## **CHAPTER TWO: LITERATURE REVIEW**

### **2.1 Introduction**

In this chapter, we reviewed the relevant literature, which provided a theoretical and conceptual foundation to satisfy the purpose of the research. We looked at the organization and its environment and the strategic responses to external environmental changes.

### **2.2 Organization and its Environment**

Firms operate in a particular type of an environment. It is possible to change, control, or manipulate the environment in which the organization operates, and thus either necessitate or make possible a particular approach to strategy. Strategy is needed in order for organizations to obtain viable match between their external environment and their internal capabilities. Porter (1985) stated that strategy is concerned with positioning a business to maximize the value of the capabilities that distinguish it from its competitors. According to Porter, a firm must formulate a business strategy that incorporates cost leadership, differentiation or focus in order to achieve a sustainable competitive advantage and long term success in its chosen area or industry.

All organizations either public or private are in a competitive position. That is why they are competing either for customers or, perhaps in the case of public services, for resources. Therefore, it is important for organizations to understand their competitive positions (Johnson and Scholes, 1988). Strategic management includes understanding the strategic position of an organization, choices for the future, and turning strategy into action. Strategic position is concerned with identifying the impact on strategy of the external environment, an organizations strategic capability (resources and competencies) and the expectations and influence of stakeholders (Johnson, Sholes and Whittington, 2007).

The organization exists in the context of a complex political, economical, sociological, technological, environmental and legal world. This gives rise to the remote environment. The environment changes and is more complex for some organizations than for 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. Many of those variables will give rise to opportunities and others will exert threats on the organization or both. PESTEL analysis is often carried out by manager to enable them to develop more informed strategies mostly long term plans (Johnson and Scholes, 1988).

Designing viable strategies for a firm requires a thorough understanding of the firms industry and competition. Factors that more directly influence a firm's prospects originate in the environment of its industry, including entry barriers, competitor rivalry, the availability of substitutes, and the bargaining power of buyers and suppliers. The operating environment comprises factors that influence a firm's immediate competitive situation – competitive position, customer profiles, suppliers, creditors, and the labour market. The remote, industry and operating environments provide many challenges that a particular firm faces in its attempts to attract or acquire needed resources and to profitably market its goods and services (Pearson and Robinson, 2007).

### **2.3 Strategic responses to External Environmental Changes**

Ansoff and McDonell (1990) stated that it is through the strategic management process that the firm will be able to position and relate itself to the environment to ensure that it continues to succeed and also cushion against surprises from the environment. The choice of strategic responses depends on the speed with which a particular threat or opportunity develops in the environment. Well developed and targeted responses are formidable weapons for a firm in acquiring and sustaining competitive edge. The results of strategic activity are new products, new services, new processes, new markets, abandoned markets, new competitive strategies for attacking the markets and new responses to social and political challenges.

Responses of any organization can be both strategic and operational. Strategic decisions are likely to affect operational decisions. The link between overall strategy and operational aspects of an organization is important because, if the operational aspects are not in line with the strategy, then no matter how well considered the strategy it will not succeed. The overall responsibility for effective strategic response belongs to the general management of the firm

Strategic responses are mainly concerned with decisions and actions meant to achieve business objectives and purpose. After the environmental analysis the firm will choose a strategy in response to the opportunities and threats it is facing (Johnson and Scholes, 2002). Strategy is a bridge between the firm's resources and the opportunities and risks the firm faces in the environment. It incorporates the competitive moves and approaches to deliver the best performance and satisfaction to all stakeholders. On the other hand, operational responses are concerned with how the component parts of the firm deliver effectively the corporate or business level strategies in terms of resources, processes and people. The integration of operational decisions and strategy is therefore of great importance (Johnson and Scholes, 2002). Discussed in the next section is a selection of different strategic responses by firms.

### **2.3.1 Porter's Generic Competitive Strategies**

Porter (1980) states that the goal of competitive strategy for a business unit is to find a position in the industry where the company can best defend itself against the five competitive forces namely; threat of new entrants, threat of substitution, bargaining power of buyers, bargaining power of suppliers and rivalry among current competitors. These five forces constitute the industry structure and it is from industry analysis that the firm determines its competitive strategy. He has identified three potentially successful generic strategy approaches to outperforming other firms in an industry. These are; overall cost leadership differentiation and focus.

In formulating its strategic response to changes in its environment, a firm must have first decided on a core idea or generic strategy about how it can best compete in the market place. According to Kotler (2003), overall cost leadership is achieved by a firm when it works hard to achieve the lowest production and distribution costs so that it can price lower and win a large market share. Firm's pursuing this strategy must be good at engineering, purchasing, manufacturing, and physical distribution. They need less skill in marketing. In a differentiation strategy, a firm will concentrate on achieving superior performance in an important customer benefit area valued by a large part of the market. The firm cultivates those strengths that will contribute to the intended differentiation. Using focus strategy, the firm focuses on one or more narrow market segments. The firm gets to know these segments intimately and pursues either cost leadership or differentiation within the target segment.

### **2.3.2 Diversification**

Diversification is a strategy that takes the organization into new markets, products, and services. Organizations often diversify to respond to environmental change, and spread risk across a range of businesses. Diversification makes sense when good opportunities can be found outside the present businesses. Kotler (2000) stated that a good opportunity is one in which the industry is highly attractive and the company has the mix of business trends to be successful. Three types of diversification are possible namely; concentric, horizontal and conglomerate diversification strategies.

According to Kotler (1997), a firm using concentric diversification can seek new products that have technological and/ or marketing synergies with existing product lines, even though the new products may appeal to a different group of customers. A firm can also apply horizontal diversification strategy to search for new products that could appeal to its current customers though the new products are technologically unrelated to its current product line. Finally, a firm using conglomerate diversification strategy can seek new businesses that have no relationship to the firm's current technology, products, or markets.

### 2.3.3 Marketing

Kotler (2000) define marketing as a social and managerial process by which individuals and groups obtain what they need and want through creating, offering, and exchanging products of value with others. It has also been defined as the process of planning and executing the concept of pricing, promotion, and distribution of ideas, goods or services to create exchanges that satisfy individual and organizational objectives. An excellent way to analyze marketing as a strategic response is to use the product – market expansion grid by Ansoff (1957).

Fig 2.1 Three intensive growth strategies: Ansoff’s Product/Market expansion grid

Products \ Markets	Current Products	New Products
Current Markets	Market – Penetration Strategy	Product - Development Strategy
New Markets	Market – Development Strategy	Diversification Strategy

Source: Adapted from Igor Ansoff, “Strategies for Diversification,” *Harvard Business Review*, Sept. – October 1957, p. 114

Ansoff framework is useful for detecting new intensive growth opportunities. Firms review whether any opportunities exist in order to improve any existing business performance. Through market penetration strategy, the company considers whether it could gain more market share with its current products in their current market. Whilst, through market development strategy, the company considers whether it can find or develop new markets for its current products and through product development strategy, the company considers whether it can develop new products of potential interest to its current markets. Finally, through diversification strategy the company reviews opportunities to develop new products for new markets.

### **2.3.4 Divestiture**

Divestiture strategy involves selling the whole firm or a major component of the firm. Companies must not only develop new businesses but carefully prune, harvest, or divest tired and weak businesses or products in order to release needed resources and reduce costs. Kotler (2000) suggests that manager's focus on the company's growth opportunities not fritter away energy and resources trying to salvage hemorrhaging businesses with high market value can be sacrificed.

### **2.3.5 Integration**

Business sales and profits can be increased through backward, forward, or horizontal integration within the firm's industry. Kotler (1997) stated that using backward integration strategy, a firm may acquire one or more of its supplies to gain more control or generate more profits. Using forward integration strategy, a firm might acquire some wholesalers or retailers, especially if they are highly profitable. Finally, a firm using horizontal integration strategy might acquire one or more competitors provided the government does not bar the move.

### **2.3.6 Strategic Alliances**

A strategic alliance is a formal agreement between two or more separate companies in which there is strategically relevant collaboration of some sort, joint contribution of resources, shared risk, shared control, and mutual dependence. Often alliances involve joint marketing, joint sales, or distribution, joint production, design collaboration, joint research, or projects to jointly develop new technologies or products. The relationship between partners may be contractual or merely collaborative.

### **2.3.7 Technology**

Technology is a critical source to achieve and sustain competitive advantage. The ability to incorporate technology into a business strategy can make the difference between a winning and losing strategic alternative. The role of technology has become so pervasive

in the business world that it is inappropriate to say there is hardly any significant industry that can be classified as low-tech. Technological forces are shaping industries and defining new ways of to compete (Hax and Majluf, 1996).

Development of information technology has become an indispensable factor in organizations in meeting some of its challenges. IT has transformed business environment and processes. It has led to improved productivity and cost reduction in operations. Also, well-conceived state of the art support systems not only facilitate better strategy execution, they also can strengthen organizational capabilities enough to provide a competitive edge over rivals. A company with a strategy of superior quality, for example, must develop superior methods for quality control. A company whose strategy is to be low-cost producer must develop systems that enforce tight cost containment. If current administrative support and operating systems are inadequate, resources must be allocated to improve them (Thompson and Strickland, 1993).

### **2.3.8 Leadership and Culture Change**

In order to reach strategic objectives and address industry problems, Pearson and Robinson (2007) state that companies need more effective leadership that is founded upon vision and communication. Effective leaders have a vision and a mission and a strategic plan for implementing the vision. They are able to embrace a broader vision, communicate it to their staff, engage them as part of the process, which drives and inspires performance, and then develop more complex strategies and plans. Leadership contains key factors applied by effective leaders to powerfully deal with change and meet strategic objectives. These factors include skills for managing and maintaining the product pipeline, developing effective teams and an aligned work force, executing an effective business strategy, and containing costs.

Thompson, Strickland and Gamble (2007) state that corporate culture is the character of company's internal work climate and personality – as shaped by its core values, beliefs, business principles, traditions, ingrained behaviours, work practices, and styles of

operating. Some forces cause corporate cultures evolve. Stable cultures are not static; just like strategy and organization structure, they evolve. New challenges in the market place, revolution of technologies, and shifting internal conditions – especially eroding business prospects, and internal crisis, or top executive turnover – tend to breed new ways of doing things, and in turn cultural evolution.

## **CHAPTER THREE: RESEARCH METHODOLOGY**

### **3.1 Introduction**

This chapter highlights the methodology that was adopted in order to meet the objectives of the study. Included in this chapter is the research design, data collection instruments, and data analysis procedures.

### **3.2 Research Design**

The study was conducted through use of a case study design. Case study was deemed to be an appropriate design as the study involved identification of environmental challenges facing DPFB and determine strategic responses adapted by DPFB to those challenges.

The research design was chosen because the objectives of the study required an in-depth understanding of DPFB and the specific strategies it is applying in adapting in the challenging or changing business environment. The advantage of using a case study involves an intensive study of concerned unit which makes it possible to obtain the inside facts from the experienced employees. The importance of a case study was emphasized by Yin (1988) who acknowledged that case studies contribute uniquely to our knowledge concerning the individual, an organization, social and political phenomena. Similar studies (Kiptugen 2003, Mulema 2004, Kisinguh 2006, Maina 2008) had successfully adopted this research design.

### **3.3 Data Collection**

Primary data was collected and involved the use of an interview guide to obtain the response strategies that DPFB has put in place to deal with challenges in its changing environment. The guide was used to interview the Director and three Assistant Directors. The Assistant Directors are the divisional heads for Finance & Administration, Liquidation & Legal Divisions. The target of population was preferred considering DPFB is a single organization and it is the top management who develop strategies. The top level management were the respondents as they are better placed to know the strategies

that DPFB has adapted to cope with environmental challenges. This method was particularly suitable for intensive investigation and the questionnaire was designed on the basis of the objectives of the research and the study's literature review.

### **3.4 Data Analysis**

The research was qualitative in nature. The collected data was evaluated to determine its usefulness, consistency, credibility, and adequacy. Data was therefore analyzed and presented qualitatively using content analysis method given that this was a case study where respondents were drawn from a single organization. The technique used a set of categorization for making valid and replicable inferences from data to their context. The technique was used on the basis of the fact that subjecting the collected data to content analysis allowed the researcher to learn about the underlying attitudes, biases, or repeating themes.

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

### **4.1 Introduction**

This chapter is based on the analysis of data collected by the research through in-depth interviews of senior managers of DPFB. It includes highlights on respondents' profile, Strategy and Planning, Environmental challenges facing DPFB and strategic responses by the Board to changes in the environment.

### **4.2 Respondent's Profile**

This section presents the findings on the respondents' profiles. Four questionnaires were administered to the top senior management of Deposit Protection Fund Board namely; the Director and three Assistant Directors. The Assistant Directors are the divisional heads for Finance & Administration, Liquidation & Legal Divisions. All questionnaires were collected back and therefore represent a response rate of 100%.

The information gathered from the respondents indicates that majority of the senior managers have vast experience and knowledge in the management of DPFB. The Assistant Directors for Finance and Administration Division, Liquidation Division, Board Secretariat and Legal Division have been working for the Board for many years. Most of the respondent's had worked for DPFB for a period of over five years. Thus, it can be said that majority of the respondents are well versed with the challenges facing the Board and the strategic responses by DPFB given their duration of stay.

According to the respondents, they are charged with different responsibilities in the running of day to day activities of the Board. The Director serves as the Chief Executive Officer of the Board and is in charge of all activities that place in the organization. The Assistant Director for Finance and Administration Division is responsible for finance, IT, administration, deposit insurance and Risk management for the Board. The Assistant Director for Liquidation Division is charged with liquidation and winding up of institutions that the Board has been mandated to liquidate. Key tasks include debt

recovery, investments, preparation of monthly, quarterly and bi-annual statutory reports to management, preparation and payments of dividends among other responsibilities. Finally, the Assistant Director for Board Secretariat and Legal Division is charged with the responsibility of advising the Board and the management on the operations of their respective divisions.

### **4.3 Strategy and Planning**

The study showed that DPFB has a strategic plan which covers for a period of three years. The plan is reviewed annually and revised tri-annually. This is to ensure that the Board functions and operate smoothly in spite of the challenges brought by changes in the operating environment. The study revealed that senior managers of the Board are empowered to make strategic decisions. The decisions made are tied on cost implications before implementation. Overall, it enables senior managers make decisions intended to overcome some of the challenges within their dockets.

Respondents indicated that all positions are filled according to the organization structure. However, the structure has changed over the last 10 years in order to improve on its efficiency, reduce cost, and assist in winding up of institutions. The objective of restructuring has been met as signified by the respondents.

### **4.4 Environmental Challenges Facing DPFB**

The data was analysed using content analysis. The method showed that the Board is facing some environmental challenges due to changes in the external environment.

#### **4.4.1 Challenges from Government/Political factors**

The study revealed that the Board is not directly affected by changes in politics, and if changes occur, the impact is minimal. Political factor only play in the debt collection function when influence is exerted to delay or cancel certain actions against some debtors of the closed banks.

Further, the study found out that Boards' operations are affected by some of the Government controls by virtue of being under CBK, a State Parastatal. For instance, the

directive by the Government for all public entities to support the Government or any department of the Government, for example; Public Procurement and Disposal Act, 2005 has made the purchasing process of a procuring entity take too long, procuring flight tickets through Kenya Airways where charges are double that of other International Airlines which offer even better services, among others.

Finally, the study discovered that the Board does not receive any budgetary support from the Government. Currently, the banking sector has over Kshs. 1 trillion deposits against a Fund worth of Kshs. 24 billion. In case of bank failures, the funding level is not adequate considering the amount of money to pay the insured depositors of member's institutions.

#### **4.4.2 Challenges from Economic factors**

It was established that changes in the economic environment determines the Board's strategies. The respondent's indicated that economic changes have largely impacted the Board. When asked to explain how changes in the economic factors that have affected DPFB, they cited, low interest rates and inflation. DPFB's income is mainly interest driven. The Banking Act, section 37 (3) stipulates that moneys constituting the Fund can only be invested in Treasury Bills and Treasury Bonds or other securities issued by GOK. Recent trends where interest rates on government paper are at an all time low affects funds earnings considerably.

Also, if inflation is high and the Treasury Bills/Bonds rates are low, it normally leads to erosion of the Fund. On the other side, if annual premiums payable by member institutions is increased and pays, the cost of the premium is transferred to the insured depositors who are the customers. Banking costs increase to the customer and this can be, contrary to the Boards mission statement of providing financial stability and confidence.

The study further established that East African countries are in the process of establishing a regional Monetary Union. Most of the respondents stated that if a neighbouring country

experience financial instability, the same can spill over to our country affecting some of the member institutions.

#### **4.4.3 Challenges from Technological factors**

All respondents generally agreed that technological sophistication in the financial arena has directly or indirectly affected the Board. Risk – Management oversight issues have become more complex for both member institutions and the Board. For example, emerging technology is introducing new ways for insured depository institution to deliver and manage traditional products and services and, in some instances, to develop innovative offerings. In addition, the study revealed that new worldwide industry standards are being developed that could allow financial data to be exchanged more accurately and at less cost. There was a general agreement that obsolescence in technology in the Fund calls for constant review to keep pace with emerging standards.

#### **4.4.4 Challenges from Legal/Legislative factors**

The study established that the Board is currently governed by different laws, namely; Central Bank of Kenya Act, the Banking Act, the Companies Act, and the Insolvency and Bankruptcy Act. Using these laws, Legislation and Judiciary system affects the process of litigation which becomes tedious and lengthy. Other legislative requirements have affected the Board. For example, Taxation and acting as a Collection Agent for Government taxes such as V.A.T and withholding tax. This has made an increase in work demands and changes within the operating environment.

#### **4.4.5 Challenges from Social - Cultural factors**

The study showed that social factors have continued to inform the Board's strategies. In liquidation, most creditors/depositors of failed institutions shy away from visiting the Fund. The same case applies for debtors who have given ancestral land as collateral. It becomes difficult for the Fund to sell or interfere with such an asset.

Also the study found out that functions of the Board are not known by the public. Public awareness is quite low. This is because there has been no focus to educate and create awareness for the public learn on the functions of the Board.

#### **4.4.6 Challenges from Competitive Factors**

From the study, all respondents attest that there were no competitive factors in the operating environment. It is the only state body entrusted with the responsibility of providing deposit insurance in the country.

### **4.5 Strategic Responses**

The data analysis showed the various strategic responses put in place by DPFB in response to environmental challenges facing the Board due to changes in the external environment.

#### **4.5.1 Strategic Responses to Government/Political changes**

The study observed that since DPFB is a semi-autonomous government organization working under CBK, it is not capable to strategically respond to political changes in the environment. The effect of political factors was considered to be minimal. However, the institution has complied with Government policies or regulations as required by law. It is noted that the Board is moving towards becoming autonomous as Kenya Deposit Insurance Corporation and thus expect a strong Corporate Governance.

#### **4.5.2 Strategic Responses to Economic changes**

The study determined that changes of interest rates and inflation were considered to affect the Fund adversely. The existing process for adjusting coverage levels to keep pace with inflation is not automatic. Thus, in order to keep pace with evolving financial/Banking industry, and maintain its readiness to promptly protect insured depositors, the study found out that the Board prepares and maintains contingency plans to address a variety of insured depository institution failures. It maintains sufficient

deposit insurance fund balances by collecting risk-based premiums from insured depository institutions and through prudent fund investment strategies.

The Board continually evaluates the adequacy of the deposit insurance funds. It identifies risks to the insurance funds by analyzing National and Global economic, financial and financial institutions development, and by collecting and evaluating information through supervisory process. They have collaborated with CBK's Bank Supervision Department for on and off-site surveillance for information sharing and risk assessment of member institutions. The aim is to foster faster development and take proactive position of mitigating financial related risks and hence enhance financial sector stability.

#### **4.4.3 Strategic Responses to Technological changes**

The use of technology to leverage on deposit insurance is in top gear. Currently, DPFB is engaged in comprehensive review of the deposit insurance systems. They are in the process of introducing an integrated ICT System that will enable the Fund meet its current and future challenges. They have hired a consultant to lead the process. The project is to cover both the hardware and software acquisition and will also include user exposure and training.

The Board has nominated some of its staff members to learn from the established Deposit Insurance Corporations such as Philippines Deposit Insurance Corporation. They learn and pick useful information from well established and autonomous schemes. In the last few years, the Board has adopted the use of an accounting system and Real Time Gross Settlement System for electronic payments and settlements. In addition, Computerised Stores Systems is being implemented to monitor movement and manage consumption of stores items.

#### **4.4.4 Strategic Responses to Legal/Legislative changes**

From the study, it is evident that the Board is yet to delink itself from CBK, which is a State Parastatal, and will continue to remain under CBK which has government influence until when the state will let go completely. DPFB is providing leadership in the financial

sector by identifying and eliminating outdated, unnecessary, or unduly burdensome laws it operates under. The Board is moving towards becoming autonomous as KDIC. Kenya Deposit Insurance Act, 2009 which is still a draft has been submitted to Attorney General Chambers to be presented to parliament for debate.

Upon parliamentary approval, the Bill will be gazetted and become law. This will give the Board wider powers of managing and administering deposit insurance in the country. It will acquire the autonomy and independence to run its affairs without Government or political interference and lead to strong Corporate Governance. Since liquidity support does no longer exist, the Board will be able to diversify its investment options to leverage on the funding or capital levels.

#### **4.4.5 Strategic Responses to Social - Cultural changes**

In order to respond to some of the social concerns, the Board has developed an elaborate awareness program to educate and inform the public. Information is provided in brochures and through other media, including the CBK's website, [www.centralbank.go.ke](http://www.centralbank.go.ke). Public awareness is done also during Agricultural Shows events and the Public Service Week. Efforts have even been made through word of mouth, developing FAQ'S and fliers to educate the public on the functions of the Board. Overall, the objective is to promote the industry and create consumer awareness of deposit insurance.

The Board has established a philanthropic fund where it can give back to the society. The CSR target the less fortunate in the society by supporting schools, needy students, offer medical assistance where necessary, and provide some basic amenities such as water.

#### **4.4.6 Strategic Responses to Competitive Changes**

Even though no competitive factors were found, the Board must remain relevant. As a founder member of the International Association of Deposit Insurers, it is committed to continuous improvement to match standards set by IADI.

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

## **5.1 Summary**

In this section, the results of the study are summarized, concluded, and recommendations drawn in line with the research objectives. The results indicate that despite several challenges, demand for deposit insurance in the financial sector has increased over the years. This is due to the performance of financial sector in the growth of Kenyan economy over the years.

DPFB has responded well to environmental changes through compliance of Government policies or regulations, seeking autonomy through Kenya Deposit Insurance Act to run its operations without political influence or being under the umbrella State Corporation - CBK, preparation and maintenance of contingency plans by collecting risk-based premiums from insured depository institutions, and through prudent fund investment strategies.

Further, they collaborate with CBK's BSD for information sharing, and risk assessment of member institutions. They have engaged a lead consultant to comprehensively review deposit insurance systems and introduce an integrated ICT system that will enable the fund meet its current and future challenges. Customer awareness has taken centre stage to educate and inform the Public on the functions of the Board by employing channels of communication such as brochures, fliers, word of mouth, the media, CBK website, and during public events like Public Service Week, among others. Finally, the Board is committed on continuous improvement to match International Standards set by IADI to promote effective deposit insurance in the country.

## **5.2 Conclusion**

The study concludes that strategies used by DPFB have been successful because they have maintained the Board in spite of several bank failures. The image of DPFB is

strongly improving and the organization in taking its rightful position within the financial sector. Through effective deposit insurance, the Fund has contributed immensely in restoring confidence to the insured depositors thus promoting financial stability in the country. It is expected that Kenya Deposit Insurance Act, 2009 will give the Board autonomy to govern all of its operations and improve service delivery, expand coverage and have strong Corporate Governance.

### **5.3 Recommendations**

For DPFB to continue positioning itself strategically and have a strategic fit in the financial sector it is recommended that the following needs to be done; first the Board requires Government Support like other DIS's globally to achieve autonomy and independence to run its operations efficiently and operate fully under the KDI Act. Government should also extend its support during resolution of insured member institutions in case of bank failures. Upon bank failure, the Government should boost funding levels of the Fund in order to increase coverage level of the insured depositors.

Secondly, customer awareness is considered to be low. Public awareness should greatly be improved as the Fund greatly impacts on the economy of the country. The Board should increase its budgetary allocation to educate and inform the Public on how it functions. Finally, but not least, collaborate with other supervisory bodies of all member institutions and ensure constant surveillance at all times thus move away from liquidation as the core business of the Board.

### **5.4 Suggestions for Further Research**

The study should be extended to cover on challenges faced in strategy implementation at DPFB. A study can also be undertaken on the Board on the linkage of strategic planning and firm performance. Also, a research can be carried out on the Board to establish issues on Corporate Governance.

## **5.5 Limitations of the Study**

This study focused on identifying environmental challenges facing DPFB and the strategic responses to changes in the external environment. The environmental challenges and the strategic responses in this study were compiled from views expressed by DPFB senior management and not from other key stakeholders in the financial industry. It would have been of much benefit if the views of other key stakeholders were obtained. However, the time taken to carry out the study was very short to allow for such interviews.

## **5.6 Implication on Policy and Practice**

Upon establishment of Kenya Deposit Insurance Corporation, it is expected that the institution will adopt several policy changes directed towards promoting effective deposit insurance system in the country and contribute to the stability of the financial system and protect depositors. The institution will be able to govern all its operations independently and improve on its service delivery. It will also be able to expand its coverage and funding levels, have a well developed legal system, and acquire sound governance among other policy changes.

## REFERENCES

- Ansoff, I. (1957). "Strategies for Diversification," *Harvard Business Review*, Sept. – October 1957, p. 114
- Ansoff, H. I. and McDonell, E. J., (1990). *Implanting Strategic Management (2<sup>nd</sup> Edition)*. Englewood Cliffs, NY: Prentice - Hall.
- Baum, J. R. and Wally, S. (2003). *Strategic Decision Speed and Firm Performance*. *Strategic Management Journal*, 24(11), 1107 – 1129.
- Cameron, K., Sutton, R. and Whetten, D. A. (1988). *Readings in Organizational Decline: Frameworks, Research, and Prescriptions*. Ballinger: Boston, M.A.
- Daft, L. R. and Weick, K. E. (1984). *Toward a model of Organizations as interpretive systems*. *Academy of Management Review* 9(2): 284-295.
- Hax, A. C. and Majluf, N. S. (1996). *The Strategic Concept and Process: A Pragmatic Approach*. Prentice Hall: New Jersey.
- Huff, A.S. and Schwenk C. (1990). *Bias and sensemaking in good times and bad*. In *Mapping Strategic Thought, Huff AS. (Ed)*. John Wiley & Sons: Chichester, UK.: 81-108.
- Hofer C. W, and Schendel, D. (1977). *Strategy Formulation-Analytical Concepts*. London: St. Paul West Publishing.
- [Http://en.wikipedia.org/wiki/Strategic\\_planning](http://en.wikipedia.org/wiki/Strategic_planning)
- [Http://www.centralbank.go.ke/dpfb](http://www.centralbank.go.ke/dpfb)

[Http://www.businessdictionary.com](http://www.businessdictionary.com)

[Http://www.fdic.gov/about/strategic/banking\\_industry.html](http://www.fdic.gov/about/strategic/banking_industry.html).

Johnson, G and Scholes, K. (1988). *Exploring Corporate Strategy ( 2<sup>nd</sup> Edition)*.  
London: Prentice Hall.

Johnson, G and Scholes, K. (2002). *Exploring Corporate Strategy (6<sup>th</sup> Edition)*.  
New Delhi: Prentice Hall.

Johnson, G., Scholes, K. and Whittington, R. (2007). *Exploring Corporate Strategy (8<sup>th</sup> Edition)*. Essex: Prentice Hall.

Kiptugen, E. J. (2003). *Strategic Responses to a Changing Competitive Environment: The Case Study of Kenya Commercial Bank*. (Unpublished MBA Project, University of Nairobi).

Kisinguh, K. (2006). *Stakeholders Involvement in the Strategic Change Management Process in Public Organizations: The Case of Public Service Commission*. (Unpublished MBA Project, University of Nairobi).

Kitonyi, S. (2008). *Response strategies to external environment: A case study Postal Corporation of Kenya (PCK)*. (Unpublished MBA Project, University of Nairobi).

Kombo, H. K. (1997). *Strategic responses by firms facing changed environmental conditions: A study of Motor Vehicle Franchise Holders in Kenya*. (Unpublished MBA Project, University of Nairobi).

Kotler, P. (1997). *Marketing Management: Analysis, Planning, Implementation, and Control (9<sup>th</sup> Edition)*. India: Prentice-Hall.

- Kotler, P. (2000). *Marketing Management (10 Edition)*. New York: Prentice-Hall
- Kotler, P. (2003). *Marketing Management (11 Edition)*. New Delhi, India: Prentice-Hall
- Maina, E. M. (2008). *Strategic Responses to Changing Environmental Conditions: The Case Study of Central Bank of Kenya*. (Unpublished MBA Project, University of Nairobi).
- Mudanya, S. M. (2007). *Response strategies to environmental challenges. A study on firms in the cement industry in Kenya*. (Unpublished MBA Project, University of Nairobi).
- Mulema, N. (2004). *Responses to changes in the External Environment in Service Industry. A Case of Teachers Service Commission*. (Unpublished MBA Project, University of Nairobi).
- Musa, A. H. (2004). *Responses by Commercial Banks Operating in Kenya to changes in the environment. A Case of National Bank of Kenya Ltd*. (Unpublished MBA Project, University of Nairobi).
- Odongo, T. O. (2008). *Strategic responses by Kenya Tourist Development Corporation to changes in its environment*. (Unpublished MBA Project, University of Nairobi).
- Pearce, J. A. and Robinson, R. B. (1997). *Strategic Management- Formulation, Implementation and control (6<sup>th</sup> Edition)*. Irwin/ McGraw-Hill.
- Pearce, J. A. and Robinson, R. B. (2002). *Strategic Management: Formulation,*

*Implementation and control (7<sup>th</sup> Edition)*. Irwin/ McGraw-Hill.

Pearce, J. A. and Robinson, R. B. (2007). *Strategic Management: Formulation, Implementation and control (10<sup>th</sup> Edition)*. Irwin/ McGraw-Hill.

Porter, M. E. (1980). *Competitive Strategy: Techniques for Analyzing Industries and Competitors*. New York: Free Press

Porter, M. E. (1985). *Competitive Strategy*. New York: Free Press.

Shambe, M. (2003). *An investigation into the Role of Deposit in Kenya's Banking Sector Stability*. (Unpublished MBA Project, University of Nairobi).

Terreberry S. 1968. *The evolution of organizational environments*. Administrative Science Quarterly 12(4): 590-613.

Thompson, A. A. Jr. and Strickland, A. J. (1993). *Strategic Management: Concepts and Cases (7<sup>th</sup> Edition)*. New York: Irwin Inc.

Thompson, A. A. Jr., Strickland, A. J. and Gamble J. E. (2007). *Strategic Management: Concepts and Cases (15<sup>th</sup> Edition)*. New York: Irwin Inc.

Wooldridge B, Floyd SW. 1989. *Strategic process effects on consensus*. Strategic Management Journal 10(3): 295-302.

Yin, R. K. (1988). *Case Study Research: Design and Methods*. Newbury Park, California Sage Publications.

## APPENDICES

### Appendix 1: Institutions Currently under Liquidation

No.	Name of Institution	Liquidation Date
1	Inter - Africa Credit & Finance Ltd	31 January 1993
2	Central Finance Ltd	19 May 1993
3	Postbank Credit Ltd	20 May 1993
4	Trade Bank Ltd	18 August 1993
5	Middle Africa Finance Ltd	20 August 1993
6	Nairobi Finance Ltd	20 August 1993
7	Pan African Bank Ltd	18 August 1994
8	Pan African Credit & Finance Ltd	18 August 1994
9	Thabiti Finance Ltd	19 December 1994
10	Meridien Biao Bank Ltd	15 April 1996
11	Heritage Bank Ltd	13 September 1996
12	Kenya Finance Bank Ltd	29 October 1996
13	Ari Bank Corporation Ltd	5 December 1997
14	Prudential Bank Limited	5 May 2000
15	Reliance Bank Ltd	12 September 2000
16	Fortune Finance Ltd	14 September 2000
17	Trust Bank Ltd	15 August 2001
18	Euro Bank Ltd	21 February 2003
19	Prudential Building Society	18 January 2005
20	Daima Bank Ltd	13 June 2005
	<b>Institutions Wound up</b>	<b>Wound up date</b>
21	International Finance Ltd	07 November 2007
22	Allied Credit Ltd	07 November 2007
23	Trade Finance Ltd	23 September 2008
24	Diners Finance Ltd	07 November 2008

**Source: DPFB internal reports**

## Appendix 2: Member Institutions to DPF

### Commercial Banks

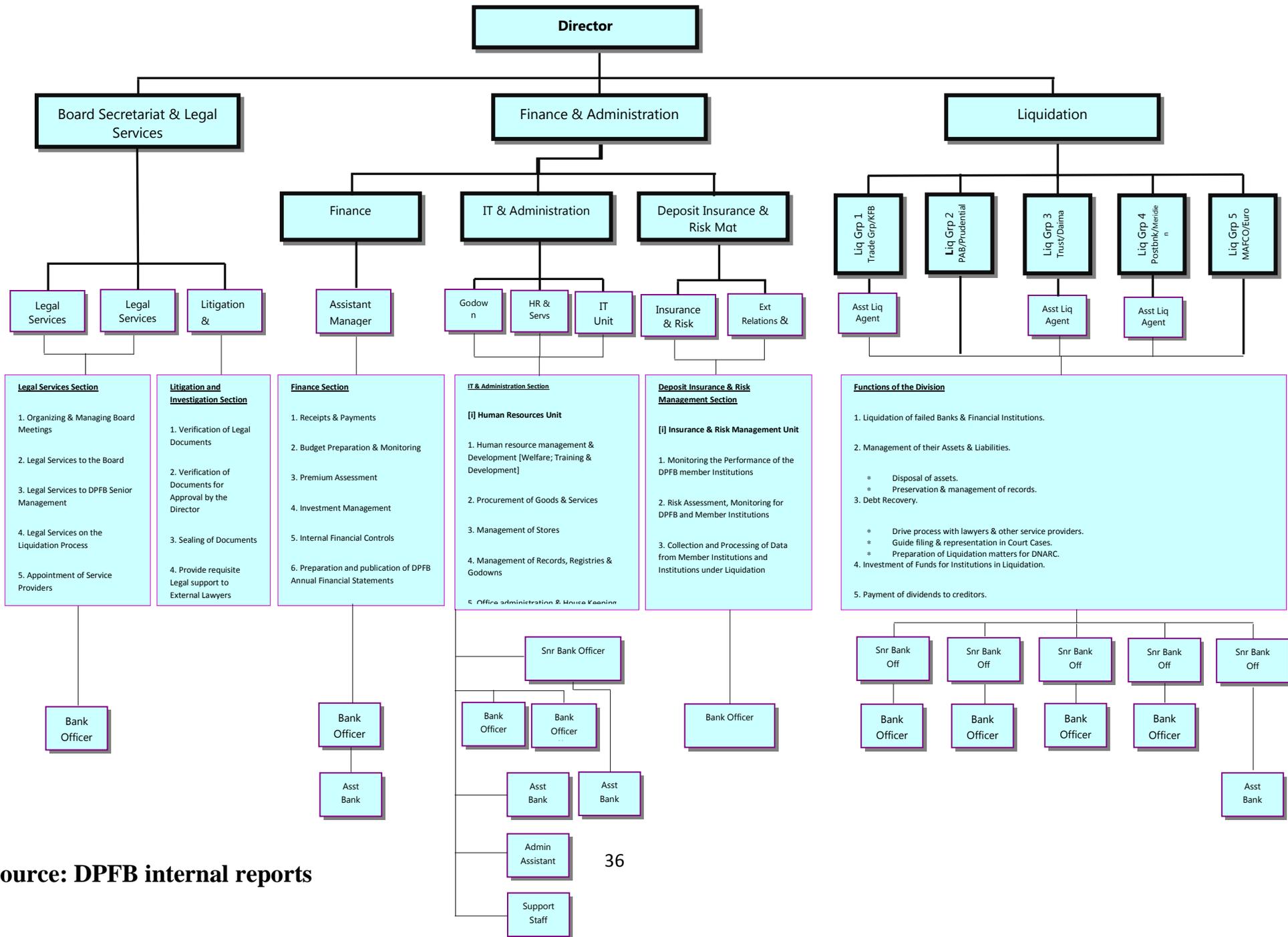
	Name of Institution		Name of Institution
1	African Banking Corporation Ltd	23	Fina Bank Ltd
2	Jamii Bora Bank Ltd	24	Giro Commercial Bank Ltd
3	Bank of Africa Ltd	25	Guardian Bank Ltd
4	Bank of Baroda(K) Ltd	26	Habib Bank Ltd
5	Bank of India Ltd	27	Habib Bank AG Zurich
6	Barclays Bank of Kenya Ltd	28	Imperial Bank Ltd
7	CFC Stanbic Bank Ltd	29	I & M Bank Ltd
8	Chase Bank(K) Ltd	30	Kenya Comm. Bank Ltd
9	Charterhouse Bank Ltd	31	K-Rep Bank Ltd
10	Citibank N.A	32	Middle East Bank Ltd
11	Citi Finance Bank Ltd	33	National Bank of Kenya Ltd
12	Commercial Bank of Africa Ltd	34	N.I.C Bank Ltd
13	Consolidated Bank of Kenya Ltd	35	Oriental Commercial Bank Ltd
14	Cooperative Bank of Kenya Ltd	36	Paramount Universal Bank Ltd
15	Credit Bank Ltd	37	Prime Bank Ltd
16	Development Bank of Kenya Ltd	38	UBA Kenya Bank Ltd
17	Diamond Trust Bank Of Kenya Ltd	39	Gulf African Bank Ltd
18	Dubai Bank Ltd	40	Standard Ch. Bank(K) Ltd
19	Equitorial Commercial Bank Ltd	41	Trans-National Bank Ltd
20	Equity Bank Ltd	42	Victoria Comm. Bank Ltd
21	Fidelity Commercial Bank Ltd	43	Family Bank Ltd
22	First Community Bank		

### Non-Banking Financial Institution

1	Housing Finance Co. Ltd		
---	-------------------------	--	--

Source: <http://www.centralbank.go.k>

# APPENDIX 3: DEPOSIT PROTECTION FUND BOARD - ORGANIZATION STRUCTURE



Source: DPFB internal reports

## Appendix 4: Letter to the Respondent

Mr. Chris K. Mutua  
University of Nairobi  
P.O Box 30197 – 00100  
**NAIROBI.**

September 16<sup>th</sup>, 2010

Name of respondent  
Deposit Protection Fund Board  
P.O Box 60000 – 00200  
**NAIROBI.**

Dear Sir/Madam,

### **A CASE STUDY ON STRATEGIC RESPONSES BY DEPOSIT PROTECTION FUND BOARD TO CHANGES IN THE EXTERNAL ENVIRONMENT**

I am a postgraduate student of the University of Nairobi, School of Business pursuing a Masters Degree in Business and Administration. Currently, I am undertaking a management research project on strategic responses by Deposit Protection Fund Board to changes in the external environment.

My approach to this research is by utilizing an interview guide to ensure that it causes minimum disruption to your schedule of activities. I kindly request you to provide the required information by responding to the questions in this questionnaire. The information required is purely for academic purposes only and will be treated with the highest confidentiality.

A copy of the final project document will be availed to you for information and documentation.

Thank you in advance.

Yours faithfully,

Mutua C. K.  
MBA Student

**Appendix 5: Interview Guide**

**STRATEGIC RESPONSES BY DEPOSIT PROTECTION FUND  
BOARD TO CHANGES IN THE EXTERNAL ENVIRONMENT**

---

**Introduction:** This questionnaire seeks information on Strategic Responses by Deposit Protection Fund Board to changes in the external environment. All the information will be treated confidentially and for academic purpose only. Please respond to all items in the questionnaire.

**Section A: Respondent’s Bio Data**

Name of Respondent (Optional).....

Date.....

Designation.....

Department/Division.....

How many years have you been with DPFB?.....

What is your responsibility at DPFB?.....

.....  
.....

**Section B: DPFB Profile (Strategy and Planning)**

1. Do you have a strategic plan? If yes, what period does it cover and how often is it revised and by who?
2. Are senior managers empowered to make strategic decisions?
3. Does management communicate the strategic plans effectively?
4. How many staff does DPFB have? Are all positions filled according to the organization structure?
5. Has the structure of DPFB changed over the last 10 years?  
If yes, please give the main causes.
6. In your own opinion, has the objective of restructuring been met? (YES) (NO)  
Please elaborate your answer.

## Section C: Environmental challenges facing DPFB

1. Organizations are affected by changes in technology developments, economic, political, legal, cultural, and other social environments. Please state the extent to which of the following external environmental challenges/or factors have had an impact on DPFB?

Tick (✓) wherever is applicable

	Large extend	Moderate extend	Less extend	Not at all
Government regulations/policies				
Technological changes				
Economic changes				
Political changes				
Legal/legislative changes				
Social-Cultural changes				

Any other, please specify.

2. Please explain how changes indicated above have affected the operations of DPFB?
- Government/Political factors (e.g. controls, support or no support in terms of funding)
  - Economic factors (e.g inflation, exchanges rates, interest rates e.t.c.)
  - Technological factors (state of technology)
  - Social-cultural (customer values, norms, and beliefs)
  - Legal/legislative changes
  - Social Responsibility factors
  - Competitive factors (local or foreign)
  - Any other factor (s)

## **Section D: Strategic Responses to changes in the external environment**

1. How have you responded to the reduction of Government controls? (Explain).
2. Do you receive any Government support in terms of funding? If not, how do you respond to achieve adequate funding?
3. Explain what response strategy you have adapted to insulate yourself from political influence.
4. How have you responded to the challenge of economic changes?
5. How have you responded to the challenge of improved technology?
6. How have you responded to the challenge of legal/legislative changes?
7. What new technology has been adopted by DPFB within the last few years?
8. How would you rate the Board in terms of modernization? Is it at par with the other institutions operating in the financial/or banking sector industry?
9. What response strategies are you using to respond to society concerns? Are you using Corporate Social Responsibility as a strategy?
10. For competitiveness, is DPFB prepared to make changes by adopting the international deposit insurance best practice and committing an on-going improvement in which benchmarking is perceived as an important technique? (Briefly explain).
11. What strategies are you employing to market your services?
12. Does DPFB currently have the capacity to address the needs of its clients?  
If NO, please state the capabilities required.
13. Are there some challenges that you have not responded to and why?
14. What are you intending to do in the future about the challenges you have not responded to?
15. How do you assess the response of the Board now, and what area (s) should be improved?
16. In your own assessment, where will DPFB be in the next ten years?

Thank you for your co-operation