STRATEGIC RESPONSES BY NIC BANK IN KENYA TO CHANGES IN THE EXTERNAL ENVIRONMENT

BY

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

UNIVERSITY OF NAIROBI

OCTOBER 2010

DECLARATION

This management research project is my original work and has not been previously presented to any other university for an examination.

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SUPERVISOR'S DECLARATION

This management research project has been presented for examination as the university supervisor.

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ACKNOWLEDGEMENTS

First, I would like to give thanks to God Almighty who has given me the strength and knowledge to complete this project. Indeed, great is His faithfulness. All praise and glory to Him.

My sincere gratitude to my supervisor, Dr John Yabs who has guided me during this whole project.

My profound gratitude to the management at NIC bank who provided the valuable information needed to complete this project and graciously allowed me to carry on with this project and provided me with insights during the interviews.

I also extend my gratitude to my family and friends and especially Samuel Muhoro who inspired the project idea and encouraged me to go on.

DEDICATION

This project is dedicated to my sister Clara Mukami who has encouraged and supported me to go on from the beginning of this project to the end even when it felt difficult go on.

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ABSTRACT

The business environment in which businesses operate in the 21st Century has changed dramatically. It has become more volatile, unpredictable and very competitive. There are many factors that influence the success of organisations today. Any company that want to forge ahead must have strategies in place to deal with this dynamic environment and those strategies need to have positive influence on the organisation in order for it to succeed.

This objective of this study was to investigate the response strategies that NIC bank has adopted towards changes in the external environment. This was a case study since the unit of analysis was one organisation. Primary data was collected from the company management by use of interview guides and content analysis was used to analyse data

NIC bank has been able to keep pace with the continuously changing business environment by having, product development, market development, having a positive organisational culture, hiring of competent and professional staff and motivation of staff of the same, re-branding, rigorous marketing strategies, strong customer service feedback system and getting more involved in CSR.

The researcher recommends that in order to remain competitive in the market a profitable despite the changing business environment, NIC bank should increase awareness and communicate accessibility and unique products to the target niche market where some of the members may still perceive it as an exclusive bank. The researcher also recommends looking into the credit policies of the organisation to avail more lending facilities to the consumer especially the SME sector.

LIST OF ABBREVATIONS

ATM	Automated Teller Machine
BBK	Barclays Bank of Kenya
BPR	Business Process Re-engineering
CBA	Commercial Bank of Africa
CBK	Central Bank of Kenya
CSR	Corporate Social Responsibility
DTB	Diamond Trust Bank
EABS	East African Building Society
FCS	First Chartered Securities
ICT	Information and Communication Technology
IT	Information Technology
KTB	Kenya Tourist Board
MFC	Mortgage Finance Companies
MSK	Marketing Society of Kenya
SMS	Short Messaging Service
NHIF	National Hospital Insurance Fund
NIC	National Industrial Credit
SME	Small and Medium Enterprises
UBA	United Bank of Africa
USA	United States of America

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CHAPTER 1. INTRODUCTION

1.1 Background of the Study

Business firms operate as open systems and are affected by external conditions that are largely beyond their control (Pearce and Robinson, 2007). The above statement has never been truer in the 21st century. Organisations worldwide are dealing with an environment that is dynamic, turbulent and very unpredictable. The world has slowly over the past century become a global village. In order to survive such times, organizations' corporate strategies need to focus on their customers and deal with emerging environmental challenges in managing their portfolio of investments.

Burns (1996) states that magnitude, speed, unpredictability and impact of change have become greater than ever before. New products and processes are appearing in the market at an ever increasing rate. The source of the next competition may not even be within imagination. To be successful, changes need to emerge locally and incrementally in order to respond to environmental threats and opportunities.

Burns (2000) continues on to say that the issue of the nature and uniformity of the environment concludes that not all organisations face the same degree of environmental turbulence and that one can manipulate or change environmental constraints.

According to Ansoff and McDonnell (1990), changes which touch the organisation's strategy and capability would need to be systematically identified through the strategic diagnosis approach. This approach is derived from the strategic success hypothesis which states that, a firm's performance potential is optimum when the aggressiveness of the firm's strategic behaviour matches the turbulence of its environment and the responsiveness' of the firm's capability are supportive of one another. When any of these aspects is lacking then the firm's performance potential will be less than optimum. The real-time response is the specific action that is chosen and implemented in order to re-align the organisation's strategic aggressiveness to the environmental turbulence.

Dealing with the environment is difficult because of 3 factors. First, is diversity of the different influences that affect a business. Identifying the environmental influences may not be of much use because no overall picture emerges on the important impact on the organisation. Second is the speed of change. Managers typically feel that the pace of technology change and the speed of global communication means more and faster changes than ever before. Third is the problem of complexity. Managers are no different from other individuals in the way they cope with complexities. They try to simplify what is happening by focusing on those few aspects of the environment that have been important. Historically it is important to avoid tendencies whilst achieving an understanding of the environment that is both usable and oriented toward the future. (Johnson and Scholes, 2002)

1.1.1 Concept of Response Strategies

Organisations will often employ a wide range of responses depending on the specific circumstance that is affecting them at that point in time. Pearce and Robinson (1997) explain that a number of forces in the external environment combine to create a situation. These forces are so dynamic and interactive that the impact of one simple element cannot be wholly disassociated from the impact of other elements. They argue that the forces are categorised into: - Remote environment which originates within the firm's operating environment; it includes economic, social, political and ecological factors. Industry environment, which, comprises of entry barriers, power of suppliers, power of buyers, substitute products and services available and competitive rivalry. Operating environment, which, comprises of competitors, creditors, customers, labour e.t.c. The environment has in the past been relatively stable but now organisations worldwide are encountering more turbulent markets, more demanding share holders and more discerning customers.

Strategic responses require organisations to change their strategy to match the environment and also to transform or re-design their internal capabilities to match their strategy. Firms must adopt new strategies to new environmental conditions. The change in competition will require strategies, which will in turn call for reformed organisational capabilities (Ansoff, 1998)

Strategies can be said to be in 3 main levels according to Porter (1998) i.e. corporate strategies, business strategies and functional strategies. Corporate strategies cover the overall purpose and scope of the organisation. They state the overall purpose and scope of the organisation. Business strategies are long term planning and focus on strategic business units and how to compete within the industry. Functional strategies are short term daily activities of an organisation. They are flexible and keep changing with the environment changes.

Pearce and Robinson (2003) recommend 3 critical ingredients for success of strategy; strategy must be consistent with conditions in the competitive environment, it must take advantage of existing or projected opportunities and it must minimise the impact of major threats and it must place realistic requirements of its firm’s resources. Organisations need to focus on external environmental changes and on being effective to survive conclude Schendel and Hoffer (1979).

1.1.2 Banking Industry in Kenya

The Kenyan banking industry goes back to 1896 when the National Bank of India opened a branch in this East African country. Commercial Banks and Mortgage Finance Institutions are licensed and regulated pursuant to the provisions of the Banking Act and the Regulations and Prudential Guidelines issued there under. They are the dominant players in the Kenyan Banking system. Deposit Taking Microfinance Institutions on the other hand are licensed and regulated under the Microfinance Act and Regulations issued there under. Foreign Exchange Bureaus are licensed and regulated under the Central Bank of Kenya Act, Cap 491 and Foreign Exchange Bureau Guidelines issued there under. (Central Bank Annual Supervision Report 2009)

As at 31 December 2009, the banking sector was composed of 46 institutions of which 44 were commercial banks and 2 Mortgage Finance Companies (MFCs). In addition there was 1 licensed deposit taking microfinance institution and 130 foreign exchange bureaus. Out of the 46 institutions, 33 are locally owned and 13 are foreign owned. The locally owned financial institutions comprise 3 banks with significant shareholding by the Government and State Corporations, 28 commercial banks and 2 MFCs. The foreign owned financial institutions comprised 9 locally incorporated foreign banks and 4 branches of foreign incorporated banks. (Central Bank Annual Supervision Report 2009)

Competition has certainly intensified in the last 4 years as banks downstream and well established pan-African and international banking brands establish their presence in Kenya. Eco-bank which was named African Bank of the Year 2009, currently operates in 30 countries in West, Central, Eastern and Southern Africa with affiliate offices in Paris France and Dubai. It has operations in all the five East African Community countries. Upon its 75 per cent takeover of the EABS bank in 2008, Ecobank's strategy was to penetrate the micro-finance sector.

UBA Kenya Bank Ltd, a Kenyan subsidiary of United Bank for Africa started its operations in Kenya after approval from CBK. The Pan African Bank opened two branches one in Industrial Area and another in Westlands. So far it has increased its branch network to another one in NHIF building. UBA's strategy is to develop a global African bank owned by Africans for Africa. The expansion in Kenya is in line with supporting African businesses wherever they are found. UBA Kenya is determined to change the way people bank in Kenya. Their vision is to offer seamless services across all the markets they operate in.

Rapid changes in information technology around the world have necessitated that the banking sector follows the trend in embracing technology and use the same to their advantage. Many banks within Kenya have now adopted branchless banking as a result of the adoption of communication options. This has resulted in many banks opening up new branches country wide and expanding the Auto Teller Machines (ATMs) to give more people access to banking. According to the Central Bank Annual Supervision Report (2009) the branch network grew by 12 percent from 887 branches in 2008 to 996 branches in 2009. All provinces except Western Province registered growth in branch network. Nairobi had the highest growth accounting for 42 out of 109 new branches opened in 2009. Rift Valley Province was a distant second with 19 new branches and this was followed by Coast and Eastern provinces with 15 new branches each. North Eastern Province also attracted 5 new branches in 2009 despite its infrastructure challenges. The branch distribution reflected the level of economic activities across the regions.

The ATM network continued to register high growth and it expanded by 392 points (point of service) in 2009 as shown in table below. This is an increase in the ATM expansion as compared with 2008 when the network increased by 313 ATM points. The growth in ATM network demonstrates increased automation of banking services as part of measures to enhance operational efficiency in the sector occasioned by increased competition.

Table 1. ATM Network

Month	2008	2009	Growth
January	1018	1325	307
February	1050	1426	376
March	1063	1497	434
April	1104	1497	393
May	1120	1497	377
June	1177	1586	409
July	1218	1589	371
August	1243	1589	346
September	1289	1614	325
October	1312	1646	334
November	1325	1697	372
December	1325	1717	392

Figures exclude 110 Pesapoint ATMs

Source (Central Bank Supervision Report 2009)

Kenyan banks are more stable today than they were 10 years ago (Muli, 2008). The Kenyan banking sector has improved tremendously over the last 10 years not just in size and profitability but also in terms of product offering and service quality. The CBK has made tremendous progress in improvement in the regulatory processes that have resulted in Kenyans having more faith in their banks, even the smaller banks that have been victims' of closure.(CBK annual report 2009)

The rapid transformation in the banking industry over the last decade has made the industry stronger, cleaner, transparent, efficient, faster, disciplined and a lot more competitive. Banks are now pursuing revenue growth strategies based on their ability to acquire new customers and cross-selling more products and services to existing customers by leveraging on technology. With the embracing of new technology to improve their customer service delivery, the banking sector has gone further with a number of banks introducing new products that leverage on Information and Communication Technology (ICT) i.e. the use of mobile and internet banking. A considerable number of banks have adopted the use of mobile phone technology as a service delivery channel to enhance convenience to their customers.

The enhanced ICT platforms have enabled banks to introduce internet and mobile banking services and products such as viewing of statements of accounts, enquiries on status of cheques, cheque book requests, notification of entries into accounts, transfer of funds between designated accounts and utility payment services. (Central Bank Supervision Report 2009)

Electronic banking is fast becoming popular in the banking industry as transactions can be carried out faster and in a safe and secure manner. Furthermore, advanced technologies provide banks with valuable help because traditional legacy systems have hindered the prompt delivery of banking services and the integration of customer information. The number of commercial banks providing electronic banking services stood at 33 out of the 44 banks as at 31 December 2009. In addition, 19 banks out of the 33 banks, offer electronic overseas money transfer services in collaboration with various international money transfer agents. (Central Bank Supervision Report 2009)

Since its launch in 2007, MPesa has continued to grow in popularity and functionality. Besides person to person transfers, customers can now pay utility bills and receive small value payments like benefits and salaries from businesses. In 2009, the mobile giant's shareholders received their dividends through MPesa. It is noteworthy that through these new functionalities, MPesa has partnered with over 40 organisations, some of which are bank and non-bank financial institutions. As at January 2010, MPesa customer were over 9 million and over 16,000 agents offering MPesa services. MPesa records an average of 10,000 new registrations per day. The monthly value of person to person transfers was at Kes 23.99 Billion and the cumulative value per person to person transfer since its launch was Kes 352 Billion(www.safaricom.co.ke)

In a move aimed at allowing customers access to their money 24 hours a day, Safaricom has partnered 2 banks i.e. Equity Bank and Diamond Trust Bank (DTB) with a service that enables customers withdraw cash from the banks' ATMs without using an ATM card. This is in addition to Safaricom partnering with Pesapoint to enable MPesa users withdraw from over 110 Pesapoint ATMs without ATM cards. The service has won various awards both locally and internationally. They include the Kenya banking Awards 2007/2008, the Marketing Society of Kenya (MSK) Best product innovation 2008, the Stockholm Challenge 2008, GSMA 2008, Africom 2008 and the World Business and development Award 2008.

The innovative solution that enables customers to transfer money by phone, MPesa, initially targeting the unbanked population, has become the most popular and convenient money transfer service due to its low transfer charges and availability among the rural population. Other mobile operators i.e. Zain Kenya and Yu have also launched money transfer services.

Some banks have been able to establish a good record in terms of innovation, growth and value creation. Others are still trying to catch up. According to Muli (2008) any successful bank will first meet and address several challenges that the industry currently faces. It will have to be agile enough to respond to a market that is seeing growth driven primarily by new products and services. This includes opportunities in the retail form such as credit cards, consumer finance, wealth management and private banking and on the wholesale banking through fee based income investment and banking and advisory services. This will call for a completely new set of skills set both in terms of new knowledge as well as ability in marketing areas where the traditional banker has much way to go. With the booming economy and swelling middle class, the retail banking has been growing explosively over the last 5 years. The trend will continue in future even with foreign banks returning to this area with their ambitious plans. There is also a huge potential at the bottom of the pyramid for bringing in the large amount of cash used by the villagers into the banking system. Soon banks may rediscover the rural potential for mobilizing low cost deposits using their e-banking channels cost effective.

1.1.3 NIC Bank Limited

NIC bank was incorporated in Kenya on 29th September 1959, when Standard Bank Limited ("Standard") and Mercantile Credit Company Limited (Mercantile) -both based in the United Kingdom - jointly formed the company. The company was amongst the first non-bank financial institutions to provide hire purchase and instalment credit finance facilities in Kenya.

NIC bank became a public company in 1971 and is currently quoted on the Nairobi Stock Exchange with approximately 23,000 shareholders. Barclays Bank of Kenya (BBK) Limited acquired 51% of NIC bank’s total shares through the acquisition of Mercantile in the 1970s and Standard's shareholding in NIC bank in the 1980s. Between 1993 and 1996, BBK divested its shares, selling 38% of its shares to the public in 1994, and the remaining 20% in 1996 to the First Chartered Securities Group (FCS).

Due to changing trends, regulatory requirements in the Kenyan banking industry and the need to meet growing customer requirements, NIC bank obtained a commercial banking license in 1995. In order to effectively diversify into mainstream commercial banking, NIC bank merged in November 1997 with African Mercantile Bank Limited (AMBank), which was then owned by FCS, by way of a share swap. The purpose of this merger was to allow NIC bank to enhance its market position, provide a broader and more efficient range of services to its customers and increase the returns to shareholders.

NIC bank’s vision is to establish long term, profitable customer relationships through the provision of a complete range of banking and financial services. NIC bank aims at being able to provide the highest standards of service, to exceed stakeholders’ expectations while being the leading financial service provider to their target market. NIC bank’s core values are to provide superior quality services to meet customer expectations, enhance shareholder value through sustainable long-term real growth, be responsible to stakeholders through the highest of standards and principles and employ, develop and retain a highly motivated team of talented professionals.

The bank currently has 13 branches operating in Kenya and plans to open more branches in the next 2 years. The bank as part of its expansion strategy made an entry into the Tanzanian Market by acquiring a 51% stake in one of Tanzania's mid-sized commercial bank; Savings & Finance Commercial Bank Limited. The acquisition of a majority interest in Savings & Finance Commercial Bank marked NIC bank's first cross-border acquisition and underlined the board's growth strategy for expansion in the region.

NIC bank has created for itself a niche market which it targets. The bank itself has made a name for itself in asset finance which is what it mostly known for. One of the products i.e. Move made a very huge impact that people even confused it for a bank on its own. NIC bank has had to make strides to inform the Kenyan community that they are a bank that is available with a range of products and services and that they are a strong player in the banking industry.

1.2 Statement of the problem

The environment in which businesses operate is constantly changing with different factors that influence organisations. The financial crisis that began in 2007 resulted in the collapse of key businesses, decline in consumer wealth, substantial financial commitments incurred by various governments especially in the United States of America (USA) and Europe and a significant decline in economic activity. This turn of events in the 21st Century has necessitated that businesses re-think their strategies to be able to cope with an ever changing dynamic and turbulent environment. Competition has become widespread. To survive, organisations need strategies to deal with emerging environmental challenges. Organisations also need to respond in a timely and appropriate manner so as to remain viable in today's economy

Various studies have been conducted on how firms respond to different challenges. Mwarey (2008) studied strategic responses to competition by Barclays Bank of Kenya and found out that BBK had adopted various strategies as a response to competition. These are offering a wide range of products and services, engaging highly skilled staff and training them so as to cope up with the rapidly changing technology, automation of business processes such as ATMs and SMS banking, use of publicity, outsourcing support, advertisements and reducing operating staff.

Mugambi (2003) in studying on the strategic response of tourist hotels to the changes in the environment, a case of tourist hotels in Nairobi, discovered that several environmental factors affect tourist hotels both positive and negative. The positive factors were means of communication, currency exchange rate and the number of tourists visiting the hotel. The negative factors were global security and safety, tourist family size on safari, money spent by tourists in the hotels and competition from other destinations and hotels. The hotels have implemented different strategies as a response to these environmental factors. These include restructuring strategies by changing the corporate mission and vision to give hotels a more clear direction and values to pursue in order to survive, marketing strategies that involve directly marketing to tourists in their countries of origin and partnering with Kenya Tourist Board (KTB) in marketing Kenya. Some have also changed long term planning. They have reduced their planning periods.

Muhoro (2009) in discussing the strategic responses by Commercial Bank of Africa (CBA) to changes in its environment found out that CBA had responded to challenges in the environment by building /consolidating partnerships/alliances, moving to retail and Small and Medium Enterprises (SME), investment and technology, new products and services development, branch expansion, process review, personalized customer services and motivation of staff.

With 46 financial institutions operating in the country competition has become stiff among all key players. A large number of banks boast of solid history, firm systems, colossal financial backing and a loyal following. Cooperative Societies and MFIs have wooed savers with sweet deals. Their products are comparable with the banks and with fewer restrictions (Miriti, 2008)

NIC bank is a medium sized bank and a key player in the banking industry in Kenya. This is the first study with respect to NIC bank and its strategic responses to the business environment. What strategic responses has NIC bank come up with to deal with the ever changing business environment?

1.3 Research Objective

The objective of this study was to investigate and establish the response strategies adapted by NIC bank to changes in its business environment

1.4 Importance of the Study

This study is important to the management of NIC bank and other similar organisations in Kenya. NIC bank will be able to identify areas that need improvement or changes on strategy. Other organisations facing similar challenges will benefit from research to know how they can formulate strategies to survive. It will assist future researchers and academicians in the field of strategic management to form a basis for further research on response strategies

CHAPTER TWO: LITERATURE REVIEW

2.1 Introduction

This chapter presents the literature review on strategic responses. The facets of this chapter include the concept of strategy, strategic management and strategic responses t environmental changes.

2.2. The Concept of Strategy

Strategy has become a term that is synonymous with business in the 21st Century. There is no company that can forge ahead with business in this day and era without having strategic plans in place. Terms such as strategic planning, strategic implementation and strategic challenges are more often than not heard in boardrooms across the business sector.

A critical aspect of top management’s work today involves matching organisational competences with the opportunities and risks created by environmental change in ways that will be both effective and efficient over the time such resources will be deployed. The basic characteristic of the match an organisation achieves with its environment is called its strategy. The concept of strategy is thus one of top management’s major tools for coping with both external and internal changes (Schendel and Hoffer, 1979)

Schendel and Hofer (1979) continue to define strategy as the fundamental pattern of present and planned resource deployments and environments and environmental interactions that indicates how the organisation will achieve its objectives. According to Johnson and Scholes (1999), strategy has the direction and scope of an organisation over the long term which achieves advantages for the organisation through its configuration of resources within a changing environment to meet the needs of the markets and fulfil stakeholders' expectations.

Managers have the ever present responsibility for detecting when new development requires strategic realignment and when they it does not. It is their duty to track progress, spot problems early and monitor and evaluate the winds of market and customer change to initiate judgments. (Thompson, Strickland and Gamble, 2007)

According to Ansoff and McDonnell (1990), when firms are faced with unfamiliar changes they should revise their strategies (including corporate strategies) to match the turbulence level. Johnson and Scholes (2003) point out strategy as the direction and scope of an organisation over the long term which achieves advantage for the organisation by the configuration of resources within a turbulent environment to achieve the objective of meeting the needs of the markets and to fulfil stakeholders' expectations. Therefore the corporate strategy development is not only affected by environmental forces and resources but also by values and expectations of those who have power and influence in and around the organisation. Whether strategy is the result of rationality, personality considerations, the culture or the structure of the organisation, what is generally accepted is that for an organisation to succeed they must have strategy.

Grundy (1995) reiterate that responsiveness and flexibility are increasingly important factors that determine the success of an organisation. The achievement of superior efficiency, quality innovation and responsiveness enables an organisation to create superior value and attain a competitive advantage. With changing business environment, firms find it increasingly difficult to identify an industry in which there is good conditions that allow a rate of return above the competitive level. Competitive strategies provide a framework for the firm to respond to various changes within the firm's operating environment.

Strategic management allows organisations to be efficient but more important it allows them to be effective according to David (1997). 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 exceeding difficult if not impossible to reverse. Strategists in successful organisations take the time to formulate, implement and then evaluate strategies deliberately and systematically.

Thompson and Strickland (1999) state that the particular business opportunities a firm has and the threats to its position that it faces are key influences of strategy. Strategy needs to be deliberately crafted to capture some or all of the firm's best growth opportunities especially the ones that enhance its long term competitive position and profitability. Likewise strategy should be geared to providing a defence 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 defences against threats to its competitive position and future performance. Effective strategy making requires a thorough understanding of the issues a company faces. One of the toughest strategic leadership tasks is keeping the organisation innovative and responsive to changing conditions.

According to Quinn (1980), a well formulated strategy enables an organisation to marshal and allocate resources in a unique way on a basis of its relative internal competencies and limitations, expected changes in the environment and contingent actions by competitors

The strategies that an organisation pursues have a major impact on its performance relative to its peers. Well formulated strategies enable an organisation to marshal and allocate resources in a unique way on the basis of relative internal competencies and limitations expected changes in the environment and contingent actions by competitors (Hills and Jones, 2001).

Johnson and Scholes (2002) conclude that understanding the strategic position of an organisation and considering the strategic choices upon it is of little value unless the managers or management wish to follow it so that it can be turned into organisational action

2.3 Strategic Management

Strategic management is a continuous activity that enables the organisation plan for the exploitation of opportunities using its internal strengths while minimizing the impact of threats posed by the environment in the light of the organisation's weakness (Ansoff and McDonnell, 1990).

Thompson and Strickland (2003) reiterate that strategic management is an ongoing never-ending process not a start-stop event that once done can safely be puts aside. Johnson and Scholes (2002) add that the scope of strategic management is greater than that one area of operational management. Strategic management is concerned with complexity arising out of ambiguous and non routine situations within an organisation-wise rather than operation specific implication. Strategic management is congruent within the quality movements' emphasis on continuous improvement. The emphasis on anticipating the needs of stakeholders is a critical component of external analysis and organisations that adopt a total quality management philosophy will be better prepared to meet the challenge of competing in global economy market place. Each organisation's experience with strategic management is unique reflecting the organisations distinct culture, environment, resources, structure, management style and organisational features. Strategic management therefore involves planning, directing and controlling the strategic decisions and actions of the business.

2.2 Strategic Response to Environmental Changes

Pearce and Robinson (1997) define 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. It is therefore a reaction to what is happening in the economic environment of organisations. Strategic responses involve changes in the firm's strategic behaviours to assure success in transforming future environment (Ansoff and McDonnel, 1990).

Thompson and Strickland (1999) define strategy adaptations as changes that take place over time to the strategies and objectives of an organisation. Such changes can be gradual, evolutionary or even more dramatically revolutionary.

Ansoff and McDonnel (1990) reiterate that, the management system adapted by an organisation is a determining component of the firm's responsiveness to environmental; changes. The management system adapted determines the way an organisation perceives the environment, diagnosis its impact on the firm and consequently implements the decisions. The strength of the firm’s strategic response capabilities is determined by flexibility in market, production and competition.

Smart and Vertsiky (1984) conclude that well developed and targeted strategic responses and formidable weapons for a firm in acquiring and sustaining a competitive edge. These strategic responses include restructuring, market, information technology and culture change.

2.2.1 Restructuring Strategies

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

Enlightened managers engage in business process re-engineering (BPR) and design new approached through which they can inject efficiency and effectiveness in performance according to Thompson and Strickland (1999). Companies can dramatically improve their efficiency and quality by focusing on customers and processes that create value for them. Processes have come to be more important than their products and so the need to define the market places in which companies compete. Outsourcing for example, would enable an organisation to concentrate on its core business, while benefitting from the cost efficiencies of those companies that specialize on the outsourcing activity (Hammer, 1993).

Senior (1997) concludes that there are various catalysts for organisational changes such as restructuring. These triggers may include purchase of new IT equipment or system, business process reengineering through process intensification/extension, the redesign of group jobs, staff rightsizing and subsequent staff cutbacks as well as staff redundancies

2.2.2 Marketing Strategies

Marketing is a social and managerial function that delivers value attributes to end-users of a final product. It is through marketing that an organisation is able to realise its objectives. The factors in the remote environment enable organisations to manipulate the market in terms of products, price, promotion, people and problems to ensure relevance to the firms. (Kotler, 2001)

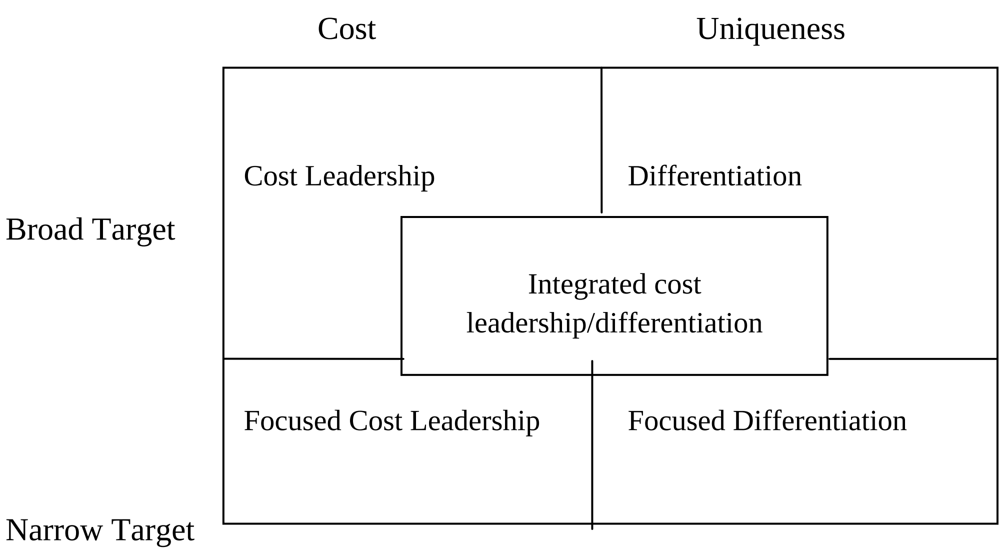
Thompson and Strickland (1999), observe that environmental scanning enables managers to identify potential developments that could have an important impact of industry conditions, leading to the emergence of opportunities and threats. This helps managers to develop appropriate strategies given the industry’s competitive situation.

Johnson and Scholes (1999) emphasise on the need for organisations to be market oriented, that is, by producing according to customer preferences. Organisations need to engage n divergent strategies to enhance competitive position.

Porter (1998) advises a choice among five business-level strategies to establish and defend the desired strategic position against rivals:- cost leadership, differentiation, forecast cost leadership, forecast differentiation and integrated cost leadership as shown in **Figure 2.1**

Figure 2.1

Dimensions of Competitive Advantage



Source: Porter (1998), Competitive Strategy: Techniques for Analysing Industries and Competitors p.39

A number of strategic marketing variables may be manipulated in response to changing competitive situation. These include adjusting target markets. Diversification or developing new products, distribution channels and making price cuts (Business Trend Review, 1992)

2.2.3 Information Technology Strategies

Rayport and Slovakia (1995) state that competition is defined along two dimensions, the physical world of resources and a virtual world of information. Information technology has radically changed the way organisations communicate both internally and externally. Technology change especially IT, is among the most important forces that can alter the rules of competition. This is due to the fact that most of an organisation’s activities generate and utilise information. Luftman (1996) states that the way a firm views its business, customers and completion is critical to successfully aligning its business and IT strategy.

Information technologies have changed the consumers, producers and civic environments in such profound and irrevocable ways that those who cannot create a presence in this area will find it difficult to survive intense competition. The key to sustainable competitive advantage and therefore success in the modern turbulent environment is deeply embedded in the capability for continuous radical innovations (Sanchez, 1995).

2.2.4 Culture Change Strategies

Organisational culture is a collection of traditional values, policies, beliefs and attitudes that constitute a pervasive context for everything we do and think in an organisation. Organisational culture reflects the underlying assumptions about the way work is performed what is acceptable and not acceptable and, what behaviour and actions are encouraged and discouraged within the organisation. (Mullins, 2005)

Each and every organisation has a unique culture. The way things are done in one organisation is very different from another regardless of whether they are in the same industry. It is critical that for organisations to succeed they need to create a culture that is embraced by the employees to help them identify themselves with the organisation and accept their rules, internalize the organisational rules and motivate them to achieve the organisational objectives.

According to Gichumbi (2008), positive organisational culture will yield proper communication to each other and also to outsiders. It results in other factors relevant for survival in a turbulent environment such as teamwork, outcome orientation, innovation and risk taking, attention to detail and also people orientation.

The culture of an organisation would need to be changed when it does not fit well with the requirements of the environment or the organisation's resources, the company is not performing well and needs major strategic changes, or the company is growing rapidly in a changing environment and needs to adapt (Miriti, 2008)

2.2.5 Service Quality Strategies

Service delivery in banking has become a key factor of success considering that most banks offer similar products. Organisations have began focusing on ascertaining the customers' perceptions of service quality and have devised strategies on how to deliver quality service to the same customers. The existences of other choice products and services means that organisations need to deliver the highest quality service to customers in order to retain them and attract others to their products and services.

2.2.6 Product Differentiation Strategies

According to Porter (1985), product differentiation strategy is based on achieving industry-wide recognition of different and superior products and services compared to those of other suppliers. This recognition can be accomplished through the design of special brand images, technology features, customer service or higher quality all of which have implications for the structure and operation of companies.

Organisations that use this strategy will insulate themselves against competitive rivalry due to securing customer loyalty. Specialization by focus strategy is concerned with selecting only certain markets, products or geographic areas in which to compete.

CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Research Design

This was case study at an organisational level and used qualitative research which relied on qualitative data. This type of research investigated the why and how of decision making. It was very suitable where questions such as how, why and what were investigated on a certain phenomena and it allowed for in-depth exploration of issues. The answers to the questions were able to give facts of the situation as it is without interference by the researcher. This method allowed the possibility of obtaining detailed facts from experienced employees.

3.2 Data Collection

To fully understand how NIC bank has responded to the external environment, data that is relevant to the study was collected through the use of primary and secondary data collection methods. In collecting primary data the study employed the use of communication method specifically face to face interviews using an interview guide as per Appendix 1. The respondents for the case study were the Acting Senior Manager of Personal Banking, the Marketing and Corporate Communications Manager, the Director of Human Resources, the Product Management and Direct Banking Manager and the Business Development Manager, Business Banking. Secondary data collected was both internal and external data. Internal data originated from the existing records of NIC bank limited and included those relating to marketing efforts, restructuring programs and expansion programs including internal circulars. External data is data that is created, recorded or generated by an entity other than the researcher's organisation. External data in this context originated from media sources, government sources and periodicals.

3.3 Data Analysis

The purpose of data collection is to obtain meaning from the data that has been collected. Because this was a case study, data was analysed using content analysis which is the systematic qualitative description of its composition of the objects or material of the study. The content of the data obtained is what was most important. The data collected on the strategic responses was analysed qualitatively.

CHAPTER FOUR: DATA ANALYSIS, RESULTS AND DISCUSSION

4.1 Introduction

This chapter analyses and interprets the data findings. The objective of the study was to investigate the strategic responses of NIC bank limited in Kenya to the changes in the external environment. The data was gathered through an interview with the respondents and analysed through content analyses. According to the data found, all the respondents targeted to be interviewed were interviewed.

4.2 General Information

In an effort to get the most accurate information, all the respondents that were interviewed had worked for NIC bank for more than two years. All the respondents had good command and vast experience of their working environment and the departments that they manage or head.

NIC bank has been in the Kenyan industry since 1959. Being incorporated into a bank in 1971, NIC bank has been a key player in the banking industry targeting the middle to upper class. The banking industry has undergone tremendous changes in the past couple of years and it has necessitated that players in this industry come up with strategies to counteract the changes happening in the business environment.

4.3 Changes in the external environment

On the changes that have taken place in the business environment that have affected NIC bank, the respondents acknowledged that there was intense and stiff competition that has increased within the banking industry, new products and services in the markets, competition for highly skilled and competent staff that can offer the highest quality service, difficult economic times nationally and globally especially with the global recession, rapid changes in technology that have affected the way business is carried out, more demanding and knowledgeable customers, more knowledge of CSR, changes in government policies that have resulted in more support to the SME sector and a lot of cross border movements especially in the East African region. The respondents also noted that the there had been quite a number of legislative changes such as increasing of the minimum capital requirements by the banks and interest rates, development of various and alternative delivery channels such as ATMs, mobile and online banking and a more aggressive approach to retaining and getting new customers such as more marketing and going to the customers instead of the traditional way of waiting for the customer to come to the bank.

All the above changes in the environment have had various impacts on NIC bank as reiterated by the respondents. NIC bank has had to re-evaluate its strategy when it comes to the SME sector in the country, growth was stunted especially in 2009, customers demand for remote banking channels and more involvement in corporate social responsibility (CSR) activities.

4.4 Strategic Responses to changes in the external environment

The respondents were unanimous in saying that NIC bank had adopted various strategies to counteract the changes in the business environment

4.4.1 Product Development

Product development is when a company decides to introduce new products to its current existing market. The new products may not be new in the market but they are new to the company as it has never offered them before.

The bank acquired the Solid Investments Securities which has now been re-named as NIC Securities limited in a bid to add more products to its portfolio. This part of the NIC group deals with the trading at the stock exchange so that customers can now come directly to the bank and be advised on investments issues to do with the stock market. The new product offers the existing customers the option of trading in the stock market at the bank instead of having to go elsewhere. The bank also introduced NIC Bank Assurance. This is a new product in line with insurance and seeks to provide the customer with different insurance products and services in conjunction with different insurance companies. The products introduced seek to make NIC bank a one stop shop where you can get all services that one needs under one place.

4.4.2 Market Development

Market development is concerned with the existing products being introduced into new markets. NIC bank has expanded its branch network from having to 6 branches to 13 branches which include one in Kisumu, Meru and Thika. All the service centres that were essentially giving none cash services have all been re-modelled and converted into fully operational branches so as to serve the ever growing customer base and meet all their needs.

NIC bank has diversified its business by expansion into the international market and acquiring 51% of Savings and Finance Commercial Bank Limited a mid-sized commercial bank in Tanzania. This marked NIC bank's first cross border acquisition and underlies the growth strategy for expansion in the region. It is also is in line with the bank's expansion strategy where the bank intends to open more branches to meet one of its objectives of expanding its customer base. The acquisition of Savings and Finance Commercial Bank Limited, the respondents agreed, will enhance the bank's competitive position in the region as other banks have already ventured that way. It will also diversify its business and enhance services to cross-border customers.

4.4.3 Corporate Social Responsibility

The brand manager reiterated that as corporations continue to grow Corporate Social Responsibility (CSR) has become a major part of most companies. Many companies now recognise CSR as a way of giving back to the community and also making a point that they are not just out there to make profits but they also care about the community. More and more people have now come to recognise many companies according to the CSR activities that they undertake. NIC bank has been able to recognise this fact and has joined and sponsored quite a number of CSR activities such as planting trees in the Arberdare Forest for conservation purpose and supporting trusts such as Starehe boys centre and Edmund trust for disadvantaged children among others.

4.4.4 Branding and Advertising

Branding is a word that is now synonymous with every company. Marketing uses branding as a way of giving a product life and therefore many consumers will identify more with a brand than with a company's marketing strategies. Branding is about existing customers and potential customers knowing that you are the only one who can provide solutions for them. NIC bank has been growing slowly without marketing. One of the reasons for this was elusive thinking whereby it was felt that the bank did not need marketing for it to attract customers and retain the ones that it has. NIC bank in 2008 rebranded itself and came up with new logo and slogan "one life, one bank". This branding enabled the bank to be distinguished and has made existing and potential customers more aware of the brand. People are now more aware of the bank and appreciate NIC advertising as it has brought the bank closer home. Marketing has become such an integral part of the bank that the management has now began to recognise that the bank cannot do without the same. There has been good media relations because of the marketing campaigns that have been going on such that issues concerning financial management are sought from NIC bank. Some of the challenges though that have come with the marketing is lack of funds especially due to cost cutting. Many companies including NIC bank are trying to reduce the costs of running the same especially after the difficult economic times in the recent past. Most of the top management of the bank is also not from a marketing background and therefore it is sometimes difficult to see the importance of marketing to a growing company like NIC bank.

4.4.5 Service Quality

In the service industry, any company has to distinguish themselves with the services they offer as the products are intangible. NIC bank has created for itself a name in offering quality services to its customer. The revamping of the call centre is one of the major improvements that the company has undertaken according to the Product Development and Direct Banking manager. The adoption of call centres in all service industries has been necessitated by the changing demands of customers who have become more knowledgeable and need to get their problem or situations solved urgently. The NIC bank call centre is staffed with professional staff that caters to the customers who call the bank enquiring on issues to do with their accounts and those who want any information regarding the bank's products and services. NIC bank also has also undertaken to train all its customer facing staff concerning customer service so as to improve on the customer service skills that each had. This has seen tremendous improvement in the service quality that the bank has and with an increased customer base as a result of the same. Customer service has been personalized with a strong feedback system in place.

4.4.6 Information Technology

The world has evolved into a global village and the major reason for this is the rapid changes that are taking place in technology. This has led to customers demanding for more products or tools that can enable perform their banking transactions more easily without having to walk into the traditional banking hall. NIC bank introduced mobile and internet banking to meet such demands. With mobile banking customers can access their accounts at any time night or day and enquire on anything to do with the account. Services such as balance enquiry, mini-statement, cheque book order and MPesa have enabled customers to be able to access their accounts without physically coming to the bank or even having to call to enquire about the same. The MPesa services which has as at January 2010 had over 9 million subscribers is now available on the mobile banking as one can easily transfer money from their account to their MPesa account. This essentially means that one will be able to send money to others efficiently and effectively without having to come to the bank to withdraw or transfer money or even use longer means of payment such as cheques. It also gives NIC bank a platform for accessing a large number of customers who would get to know the bank through the MPesa platform.

Online banking has become very popular also as more customers opt to access their accounts from the convenience of their homes or offices. The online banking platform offers the customers many options including that of transfer of money within the country and abroad. These tools have made NIC bank products become more accessible especially to customers who demand for remote banking channels as they are not available to always come to the bank for such services. The challenges that have come with this have been the ever changing technology. Technological changes are dynamic and rapid. Customers' adoption of new technology is very fast and therefore the bank has to ensure that it keeps up with the latest technology to be able to meet with the customers needs.

4.4.7 Product Differentiation

With a growing customer base whose needs are different from one another product differentiation becomes a necessity to any company that wants to meet all the different needs. There has been an increase in businesses that offer specialised services and an influx of professionals from all sectors starting businesses within their industries according to the business development manager. The government has also made considerable efforts to ensure SMEs get access to credit through the licensing of more MFIs and giving tax incentives to certain industries e.g. ICT and construction. Thus, financial institutions together with the government have now come to recognise that the

SME is a segment that cannot be ignored in pursuit of higher growth figures in the economy. In the light of these, NIC bank recently launched the NIC entrepreneur which has segmented the business customers into industry types so that they can offer solutions to each. This has also come with its challenges especially where lending is concerned. Credit assessment for SMEs purely relies on financials which at times is not practical especially for those that have just begun business.

Customers' lifestyles are rapidly changing and getting busier. The middle class is growing very fast and the customer is now more knowledgeable and demands to get products and services that suite their needs. In line with this, the bank introduced the gold account in its personal banking division that offers a wide range of benefits and customer experience and sets fresh standard in the ever changing world of the banking industry. The new gold account offers a host of benefits to personal banking customers which includes a pre-qualified credit card and negotiated interest and foreign exchange rates. This was developed after extensive research of what the customers want in terms of financial services.

4.4.8 Culture Change

It is important for an organisation to have a positive culture so as to encourage the employees to work in solidarity to achieve the goals and objectives of a company. A positive culture in the organisation will lead to higher returns as a worker who is motivated is one who is able to serve customers well

NIC bank has come up with 5 values that it adheres to and encourages all its staff members to follow so as to have a harmonious working environment. These values are integrity, passion, innovativeness, professionalism and responsiveness. As all staff members integrate these values into their working environment, the bank has encouraged them with rewards for those that excel in showing those values and are recognised by their fellow colleagues as adhering to the same. This serves as an encouragement to all to embrace the new culture of following these same values. The bank has also made considerable effort in recruiting the right people and building the right support structures such as motivating its staff members through performance based remuneration and recognising the continuous need for staff to be trained in their various roles so as to become more competent and professional.

CHAPTER FIVE: SUMMARY, CONCLUSION AND RECOMMENDATION

5.1 Introduction

This chapter is a summary of the data findings, the conclusions drawn from the findings and the recommendation based on the same.

5.2 Summary of findings

The research study found that the changes in the external environment that have affected NIC bank are technological advancements, new products development, competition, global recession, usage of alternative delivery channels as opposed to the traditional banking halls such as ATMs, changing customer needs and demands, intense and stiff competition, changes in legislation and government policies, technological advancements and global financial recession.

On the response strategies, the study found that NIC bank has implemented specific strategies as a result of the changes due to changes in the external environment which are expanding into the retail and SME banking so as to be able to meet different business customers needs, development of new products and services, recruitment of highly skilled staff to be able to give the best services to customers, product development to be provide existing customers with new products, product differentiation so as to segment the customers according to their needs, market development to be able to offer its existing product to a different market, culture change to give the staff of NIC an identity with the bank, changes in technology that have led to the introduction of mobile and internet banking, service quality so as to be able to serve the customers in the best way possible and more aggressive marketing to make the NIC name be known in the market places

There have been challenges in implementing the responses such as cost cutting that has affected some strategies due to less allocation of funds, the increased competition means that new products and services are being offered more frequently and the bank needs to keep up with this, rapid changes in technology, being responsive to an ever growing and demanding customer and credit assessment for SMEs in terms of lending policies.

5.3 Conclusion

The study sought to find out the strategic responses of NIC bank to the changes in the external environment. The world is a dynamic place and changes are constantly taking place that affect every industry, the banking industry being one of them. NIC bank has been able to keep up with these rapid changes by having strategic plans in place. The findings conclude that NIC has been able to keep up with the changes in the environment by developing new products, having highly skilled staff who offer personalized customer service and keeping up with the latest technology when it comes to offering alternative channels such as ATMs, online and mobile banking. The study concludes that NIC bank has been responding effectively to the changes in the environment and this is evident in the growth of their customer base that has ultimately led to increased revenues and profits even in the midst of global recession.

5.4 Recommendation

From the discussions, the researcher recommends that for NIC bank to remain competitive and profitable, the bank should continue to market its products and services more aggressively until NIC becomes a household name. This would be in a view to communicate to the consumers that it is a bank that is reachable to all, is not an exclusive and unreachable bank and reinforce its slogan “one life, one bank” where all your banking needs are met under one roof. The researcher further recommends that the lending policies be looked at as lending is one of the key factors that consumers and especially SMEs look into to further increase their businesses. The researcher also recommends that the bank looks at other banks that have changed their banking core system to accommodate the rapid changes in technology that are taking place so as to offer customers the best service possible.

5.5 Areas for Research

The researcher recommends that similar studies be carried out on other banks especially small and medium sized banks so as to find out how they each respond to changes in the external environment. Many studies have been conducted in strategic response and majority have focused on the large banks.

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APPENDIX 1

INTERVIEW GUIDE

1. What is your department/section called?

2. What is your current position in NIC Bank?

3. What changes have you envisioned in the external environment?

4. What impact have these changes had on NIC Bank?

5. What are the strategic responses that NIC bank has employed to counteract these changes?

6. What challenges has NIC bank faced while responding to changes in the external environment?

7. In your opinion has the adoption of these strategies been of value to the organisation?

Thank you for your response