CHALLENGES OF IMPLEMENTING MICRO FINANCING STRATEGY AT KENYA COMMERCIAL BANK LIMITED

BY

VALENTINE JALEMBA LUSIGI

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DECLARATION

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

Signed ……………………………. Date…………………………………

Valentine Jalemba Lusigi

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This project has been submitted for examination with the approval of the University supervisor.

Signed ……………………………… Date……………………………….

Dr. Vincent Machuki

Department of Business Administration

School of Business

University of Nairobi

DEDICATION

Dedicated to my children, Amanda and Jayden Siwa, for giving me the peace of mind required to complete this project. To my late Dad, Lusigi Ayodi, who passed on at the peak of this project, I salute you for believing in me and I wish you were here to read this work. My Darling husband, Ambrose Siwa, who is the wind beneath my wings that has propelled me this far, I wouldn't have wished for a better partner.

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ACRONYMS AND ABBREVIATIONS

CBK	-	Central Bank of Kenya
CGAP	-	Consultive Groups to Assist the Poor
EIB	-	European Investment Bank
KBA	-	Kenya Bankers Association
KCB	-	Kenya Commercial Bank
MFI	-	Micro Finance Institution
MSEs	-	Micro and Small Enterprises
PAR	-	Portfolio At Risk
SBU	-	Strategic Business Units
SME	-	Small and Medium Enterprises

ABSTRACT

Strategy formulation and development is the development of long term plans for the effective management of opportunities and threats in light of the organization's strengths and weaknesses. On the other hand, strategy implementation is the process that turns the formulated strategies and plans into actions to accomplish the intended objectives. For successful strategy implementation, the strategy must be supported by decisions regarding the appropriate organization structure, reward system, organization culture, resource and leadership. The objectives of this study were to establish challenges facing KCB in the implementation of the micro financing strategy and to determine measures that have been put in place by KCB to overcome challenges. This was a case study since the unit of analysis is one organization. Primary data was used for the study through use of interview guides that were administered to senior managers at Kenya Commercial Bank. Content analysis was used in analyzing the collected data. The findings of the study indicate that KCB encountered challenges in the process of implementing the micro financing strategy. These challenges included internal conflicts between sectors, inadequate human resource, monitoring, control and coordination, feedback mechanism, the organization structure and non-performing loans. The study also found out that the organization has come up with ways to counter these challenges. They include monthly evaluations through the dashboard tool and encouraging feedback through "your voice" program. As part of the recommendation, the researcher suggests the need to review the organization micro structure so that more supervision is put at the grassroots level. This will go a long way in cementing the processes of monitoring and coordination so that deviations from the original strategy are minimized. The researcher has also recommended the need to increase the human resource directly dealing with micro banking especially at the branch levels.

CHAPTER ONE: INTRODUCTION

1.1 Background of the Study

The environment in which organizations operate has changed rapidly thus making it more dynamic and unpredictable. This calls for organizations to be more competitive so as to deal with this rapid change and remain relevant. Strategic management is all about managing the future which calls for effective strategy formulation to direct the focus and actions of the organization. The assessment of strategy formulation processes becomes crucial for practitioners and researchers alike in order to conduct and evaluate different formulation processes (Olson et al. 2005). Forces in the environment an organization operates in may present great opportunities which are formulated into good strategies but according to Lynch (2009), it is one thing to see an opportunity and quite a different thing to use and exploit the opportunity. Implementation of strategy involves organizing the firm's resources and motivating the staff to gear their efforts towards achieving the set objectives (Beer and Eisenstat, 2000).

According to the experiences of many organizations, it is not easy to turn strategies and plans into individual intended results (Pearce and Robinson, 2011). They will set up well formulated strategies and have a clear picture of what is required to succeed but many of them especially the large organizations struggle to translate the theory into specific action plans which will lead to successful implementation and sustainability of the strategy (Ahuja, Khamba and Choudhary 2006). Three theories can best explain successful implementation of a strategy under this context. Lynch (2009) suggests that organizations should concentrate on their chief resources and capabilities, especially where the organization has competitive advantage, as the principal source of successful strategic management. Institutional theory attends to the deeper and more resilient aspects of social structure. The dynamic capabilities theory relates the firm's ability to integrate, build and configure internal and external competencies to address the rapidly changing environment (Teece, Pisano and Shuen, 1997).

The banking industry has tremendously changed its dynamics over the years due to new entrants into the market. Commercial banks are going out of their way to come up with more innovative products to sustain their relevance in the market (KBA, 2010). The competitive pressure on banks to grow their customer base and deposits compelled KCB to roll out micro financing in 2008. The intention was to claim a niche in the previously unbanked micro and small enterprises (MSEs) by tailor making both assets and liability products to suit their needs. This move has paid off over the last 5 years which has seen its customer base grow to 2 million customers and its profits before tax record a high of 17.2 billion for the year ended 31st December 2012. However, challenges have been experienced in recoveries causing the portfolio at risk (PAR) to hit a high of 18% against a benchmark of 5% (KCB, 2012).

1.1.1 Strategy Implementation

Implementation of strategy could be a more uphill task than thinking of a good strategy and formulating it. Ansoff and McDonnell (1997) define implementation as the process of causing the firm to behave in accordance to the purposes, guidelines and strategies. Pearce and Robinson (2011) emphasize on the fact that organizations must increasingly make a serious commitment to be innovative and must consider bringing the entrepreneurship process into their company to survive, grow and prosper in a vastly more competitive and rapidly changing environment. The company's managers must put into place steering controls that provide strategic control and the ability to adjust strategies, commitment and objectives in response to the ever changing future conditions.

According to Drazin and Haward, (1984), the intended strategy will be implemented as it had been envisioned if three conditions are met. First, those in the organization must understand each important detail in the management's strategy. Second, if the organization is to take collective action, the strategy needs to make as much sense to each of the members in the organization. Finally, the collective intentions must be realized with little unanticipated influence from outside political, technological or market forces. Whether an organization faces problems or opportunities in its operating environment, it will have to draw up plans on how to achieve its goals.

Great strategies are not discovered over a couple of strategic sessions, in fact, great strategies evolve over time as a result of rigorous monitoring of the progress toward strategic goals leading to discovery of emerging realities which are laid bare thus helping the organization revise its strategies (Beer and Eisenstat, 2000). In effect, it can be said that meticulous implementation has strategy implementation in the planning phase itself which entails involving persons key to execution in the planning process itself (Noble, 1999). This will not only help in gaining insight in the practical aspects of the strategy at an early stage, but it will also aid politically in getting whole hearted commitment to strategy implementation. Planning is in no doubt important, but making the plan work is a much bigger challenge which involves dealing with the organization's politics, culture and at times managing change (Quinn, 1980).

1.1.2 Micro Financing Strategy

Micro finance is defined as offering financial services to low income earners who are not able to access formal financing. As we know it today, micro finance owes its origin to a model experimented with a group of poor women in Bangladesh (Yunus, 1976). By then it was referred to as micro credit advancing working capital mainly to women entrepreneurs. Later, the services were extended to poor people as well as those who need a whole range of financial services (CGAP 2003). The provision of micro credit to small business concerns has since blossomed into a financial movement referred to as micro finance and represented by the micro finance institutions (MFIs) (Dondo, 1999)

Micro financing strategy is described as an approach adopted by financial institutions with an aim of securing economic, social and environmental returns in projects it finances. In the course of its operations, the bank will team up and exchange information with other financial institutions as well as seek information concerning best practices in micro finance (EIB, 2005). It is not just for global charitable organizations looking to fund business growth in underdeveloped countries. It has become a profitable investment culture with ample opportunities for profit at a controlled risk. Micro financing strategy becomes sustainable when it is integrated into the local financial sector which is the key source of funding and managed by well trained professionals (Littlefiels et al.2003).

The micro finance industry has grown over the last two decades in response to lack of access to formal financial services for most of Kenya's poor people. The program has become an increasingly important strategy in promoting micro and small enterprises development in developing countries and specifically to reduce poverty. Micro finance is widely celebrated as a possible solution to the financing problems of micro businesses and smaller firms. Micro finance schemes have been found to reduce poverty and to positively affect nutrition, health and education as well as gender empowerment (Littlefiels et al.2003).

1.1.3 Strategy Implementation Challenges

Strategies fail because the market environment they were intended to exploit change before the strategy holds (Beer and Eisenstat, 2000). Banking products have a shorter life cycle as disruptive products emerge with greater frequency and the financial markets are unstable (KBA, 2010). To counter these challenges, they need to analyze the attractiveness of the market and the company itself. The attractiveness of the market depends on the size of the market, competition and the level of operational risks. Analysis by the company is intended to find out the strengths and weaknesses the company has, opportunities and threats that the company possesses in the target market and also the competitive advantage which plays a major role in gaining entry and positioning strategies (Pearce and Robinson, 2011).

Wheeler and Hunger (2008) explain that most organizations seem to have difficulties in implementing their strategies. However, studies have shown that a number of problems affect strategy implementation such as weak management roles in implementation, lack of communication, lack of commitment to the strategy, unawareness or misunderstanding of the strategy, unaligned organization's system and resources, poor coordination and sharing of responsibilities, inadequate capabilities, competing activities and uncontrollable environmental factors ((Beer and Eisenstat, 2000, Miller, 2002 and Noble, 1999).

1.1.4 The Banking Industry in Kenya

The Banking industry in Kenya is governed by the Companies Act, the Banking Act, the Central Bank of Kenya Act and the various prudential guidelines issued by the Central Bank of Kenya (CBK). The banking sector was liberalized in 1995 and exchange controls lifted. The CBK, which falls under the Minister for Finance docket, is responsible for formulating and implementing monetary policy and fostering the liquidity, solvency and proper functioning of the financial system (CBK, 2008).

As at December 2012 there were forty three banking and non-bank institutions, fifteen micro finance institutions and one hundred and nine foreign exchange bureaus (KBA, 2011). The banks have come together under the Kenya Bankers Association (KBA), which serves as a lobby for the banking sector's interests. Over the last few years, the Banking sector in Kenya has continued to grow in assets, deposits, profitability and products offering. The growth has been mainly underpinned by an industry with wide branch network expansion strategy both in Kenya and in the East African community region and automation of a large number of services. Players in this sector have experienced increased competition over the last few years resulting from increased innovations among the players and new entrants into the market (KBA, 2011).

1.1.5 Kenya Commercial Bank

The history of Kenya commercial bank dates back in 1896 when its predecessor, the National Bank of India opened an outlet in Mombasa. In 1904, the bank extended its operations to Nairobi, which had become the headquarters of the expanding railway line to Uganda. Grindlays Bank merged with the National Bank of India to form the National and Grindlays Bank. Upon independence, the government of Kenya acquired 60% shareholding of the National and Grindlays Bank in an effort to bring banking closer to the majority of Kenyans. In 1970, the Government acquired 100% of the shareholding to take full control of the largest commercial bank in Kenya thus renaming the National and Grindlays Bank as Kenya Commercial Bank (KCB). In 1972, Savings and Loans (K) Ltd was acquired to specialize in mortgage services. KCB went global in 2007 and currently its presence is felt in 6 African countries (KCB, 2012).

Micro finance was introduced in KCB in 2008 as part of its growth strategy. This was motivated by the fact that the banking industry was changing rapidly and there was a scramble by banks to increase their customer numbers. Considering that a significant population of Kenyans was considered to be living below the poverty line, the bank had to respond to this market demand and tailor-make affordable products to suit the needs of the low income earners. This gave rise to liability products such as boresha biashara account with zero monthly charges and assets products like boresha biashara loan and tuungane women loan with interest rates of 18% and 15% respectively (KCB, 2012).

1.2 Research Problem

As much as formulating a consistent strategy is a difficult task for any management team, making the strategy work and implementing it throughout the organization is even more difficult (Hrebiniak, 2005). Good implementation of strategy is the best test of managerial excellence that results in the most reliable recipe for turning companies into standout performers (Thompson, Strickland and Gamble, 2007). It is not surprising that after a comprehensive strategy decision has been formulated, significant difficulties emerge during the subsequent implementation process. A survey conducted by the Economist magazine found that 57% of firms were unsuccessful in executing strategic initiatives over the past three years (Durden, economist, 2001).

The competitive pressure on banks to increase their customer base and deposits compelled KCB to roll out micro financing in 2008. The bank sought to benefit from this move by increasing its customer base, increase in deposits, change the image of the bank to a people's bank as opposed to its earlier strong affiliations with the government and reduce the overall Portfolio At Risk (KCB, 2008). It was perceived that at least 95% of the assets under micro financing will be repaid fully within the stipulated period thus maintaining a PAR below 5%. The first 3 strategies have been achieved with KCB reaching the 1billion micro deposits as at 5/9/2013 and 1million micro customers.

However, the main challenge has been maintaining a low PAR which reached a high of 18% as at December, 2012 (KCB, 2012).

Despite the focus by academicians and consultants, more challenges are experienced in practice in the course of strategy implementation. In their research, Bartlett and Ghoshal (1987) found that in all the companies they studied, their difficulties lay in how to achieve the necessary changes through proper implementation. Strikingly organizations fail to implement about 70% of their strategies (Miller, 2002). Local studies have been done on implementation of strategy (Nyangweso, 2009; Mutinda, 2011; Odhiambo, 2011). Studies on different strategic issues in KCB such as restructuring, agency banking, mobile banking, internationalization have also been conducted in the past (Masitsa, 2011; Arika, 2010; Onyango, 2011). Since the piloting of micro financing in KCB in 2008, its implementation has been overshadowed by challenges. What are these challenges KCB is facing in the implementation of micro financing strategy?

1.3 Research Objectives

The objectives of the study were:

i. To establish the challenges facing KCB in the implementation of the micro financing strategy.
ii. To determine measures which have been put in place by KCB to overcome challenges in micro financing.

1.4 Value of the Study

The findings of this study are important to KCB as they bring out the challenges facing the micro financing strategy and the measures that have been adopted to neutralize the effects of these challenges. Some of the challenges identified during the study include organization structure, human resource issues, conflicts, feedback, monitoring and control. The measures that have been put in place to counter these challenges include monitoring and evaluation tools, refresher trainings, employee empowerment and feedback mechanism. Although KCB still maintains the current structure where management is centralized that inhibiting informed decision making, the organization is trying to counter this by demanding the managers to make regular branch visits.

The findings of this study form a basis for insightful understanding of the experiences of KCB which further inform decisions and policy that provide framework for operations in the banking industry. For instance, the study revealed that one of the challenges facing the organization related to inadequate coordination, monitoring and control. This has brought about the need for an airtight monitoring and evaluation system known as the dashboard which has been adopted by KCB and is also useful to other firms in the banking industry. The strategic measure in response to the challenges is a source of information on policy making with an aim of making banking terrain beneficial to all stakeholders.

Challenges relating to human resource are more pronounced especially in terms of inadequacy, integrity and frustrations. The findings are important in policy formulation and to other firms operating in the same industry in that they learn from the challenges facing KCB as identified in the study and make necessary adjustments before it's too late. For the policy of having one micro banker per branch, there is need for amendment to increase the number to at least two. The researcher recommends this because it will promote business continuity in the absence of one employee.

CHAPTER TWO: LITERATURE REVIEW

2.1 Introduction

This chapter offers an in-depth look at the implementation of micro financing strategy. This will be reviewed through theoretical understanding of implementation of micro financing strategy, the challenges encountered in the implementation process and measures that have been put in place to resolve the challenges. We shall also look at the reasons as to why firms pursue micro financing as a strategy which has gained a lot of popularity in the recent years.

2.2 Theoretical Foundation of the Study

The environment in which firms are operating is highly dynamic and constantly changing. This calls for organizations to adapt to such changes by formulating strategies on how to survive in such unpredictable environment. Mintzberg et al. (1998) defines strategy as a plan, a ploy, a pattern, a position and a perspective. Plan is a consciously intended course of action while a ploy is a specific maneuver intended to outwit the competitor. A pattern is a stream of actions or consistency in behavior over time. Strategy as a position looks outside and the organization seeking to locate it within the environment whereas a perspective looks inside the organization and its members. Three theories have proved their relevance in helping learners understand the concept of strategy implementation.

Institutional theory attends to the deeper and more resilient aspects of social structure. It considers the processes by which structures, rules, norms, and routines become established as authoritative guidelines for social behavior (Bjorck, 2004). It inquiries into how these elements are created, diffused, adopted, and adapted over space and time and how they fall into decline and disuse. These social structures are both imposed on and upheld by the organization. One cognitively oriented view is that a given institution is encoded into an actor through a socialization process. When internalized, it transforms to a behavior script. When the actor behaves according to the script, the institution is enacted. In this manner, institutions are continuously reproduced. After some time, the institution and the resulting patterned behavior becomes regimented and taken for granted. Then, it might be difficult for the actors even to realize that their behavior is in fact partly controlled by an institution thus acting in accordance with the institution is viewed as rational by those who share the institution (Bjorck,2004)

Resource based theory concentrates on the chief resources and capabilities of the organization, especially those where the organization has a competitive advantage as the principal source of successful strategic management. Lynch (2009) adds that competitive advantage comes from the organization’s resources rather than the environment in which the company operates. This does not mean that all resources of an organization will deliver competitive advantage but some of the resources must be able to provide distinctive competitive advantage in the market place if the company is to deliver above average profits in the industry. As much as competition is also explored, the emphasis in this approach is on the on the organization’s physical resources such as plant and machinery, its people resources such as leadership skills, and above all, the ways in which such resources interact with the organization (Lynch, 2009). It is this combination of resources that delivers competitive advantage, because such combination takes years to develop and may be difficult for others to copy.

Teece, Pisano and Shuen (1997) define dynamic capability as the firm's ability to integrate, build, and reconfigure internal and external competences to address rapidly changing environments. The Dynamic Capabilities theory focuses on the firm's ability to quickly orchestrate and reconfigure externally sourced competences while leveraging internal resources. By contrast, it refers to the capacity of an organization to purposefully create, extend, or modify its resource base (Helfat et al., 2007). The basic assumption of the dynamic capabilities framework is that core competencies should be used to modify short-term competitive positions that can be used to build longer-term competitive advantage. The academic literature on dynamic capabilities grew out of the resource-based view of the firm and the concept of routines in evolutionary theories of organization (Nelson & Winter, 1982).

2.3 Strategy Implementation

Strategy implementation is the translation of chosen strategy into organizational action so as to achieve strategic goals and objectives. It is defined as the manner in which an organization should develop, utilize, and amalgamate organizational structure, control systems, and culture to follow strategies that lead to competitive advantage and better performance (Ansoff and McDonnell, 1990). Organizational structure allocates special value in developing tasks and roles to the employees and states how these tasks and roles can be correlated so as to maximize efficiency, quality, and customer satisfaction which form the pillars of competitive advantage. According to Deresky (2008), organizational structure is not sufficient in itself to motivate the employees thus creating a need for an organizational control system. This control system equips managers with motivational incentives for employees as well as feedback on employees and organizational performance which forms the back born for fine strategy implementation.

Lynch (2009) describes implementation as the process that turns strategies and plans into actions in order to accomplish strategic objectives and goals. Implementing a strategic plan is as important, or even more important, than the strategy. According to the experience of many organizations, it is not easy to turn strategies and plans into individual results intended when the strategies were formulated (Pearce and Robinson, 2011). Mazzarol and Rebond (2009) points out that excellently formulated strategies will fail if they are not properly implemented. Also, it is essential to note that strategy implementation is not possible unless there is stability between strategy and each organizational dimension such as organizational structure, reward structure and resource-allocation process (Mazzarol and Rebond, 2009). Organizations fail to employ the necessary resources and motivate their people to embrace teamwork in achieving the organizations objectives. They will set up well formulated strategies and have a clear picture of what is required to succeed but many of them especially the large organizations struggle to translate the theory into specific action plans which will lead to successful implementation and sustainability of the strategy (Ahuja, Khamba and Choudhary, 2006).

Lynch (2009) suggests four basic elements that are required to turn general strategies into specific implementation plans. Identification of general strategic objectives is one of them where the organization is expected state the general results expected from the strategy initiatives. The second element to be considered is the formulation of specific plans which involves taking the general objectives and turning them into specific tasks and deadlines. He also suggests the element of resource allocation and budgeting which involves indicating how the plans are to be paid for. The final element is that of monitoring and control procedures to ensure that the objectives are being met, the agreed resources are being spent and the budgets are adhered to. Importantly, monitoring also takes place against the projections on which the strategies are based.

2.4 Micro Finance Strategy

Micro finance is a general term used to describe financial services to low income individuals or those who do not have access to typical banking services. It is also the notion that low income individuals are capable of lifting themselves out of poverty if given access to financial services (MFI, 2010). Micro finance is a broad category of services which include micro credit. Micro credit is the provision of financial services to low income individuals though critics may criticize microcredit while referring to it indiscriminately as either microcredit or microfinance (Littlefield et al.2003). As these financial services usually involve small amounts of money- small savings and small loans, the term micro finance helps to differentiate these services from those traditionally offered by formal banks.

Traditionally, banks have not been providing financial services such as loans to clients with little or no cash income. They incur a lot of costs to manage client accounts regardless of how little cash is involved. The fixed cost of processing loans of any amount is considerable as several aspects such as assessment of potential borrowers, their repayment prospects and security, administration of outstanding loans and recovery from delinquent borrowers (MFI, 2010). There is a breakeven point in providing loans and deposits below which the bank loses money. Poor people usually fall below that break-even point. However, due to the dynamics in the market that have led to high popularity of microfinance services, most banks have introduced this concept in their daily activity (CGAP, 2011). The strategy behind micro finance gaining popularity among banks is for them to grow their numbers thus benefitting from economies of scale.

As commercial banks have realized that poor people's finance can be profitable, an increasing number have gone down market to tap lower income clientele. According to Consultative Groups to Assist the Poor (CGAP, 2011), the main reasons for the emergence of commercial banks at the low-income level are: competition in existing markets driving banks into new ones, excellent repayment rates by micro-entrepreneurs and technology allowing the poor greater access while transactions remain cost-effective. Banks are increasingly lured in by the low risk, stability, and potential growth opportunities in the microfinance market (CGAP, 2011). They are entering either directly by utilizing their own resources such as an internal microfinance unit, or with existing providers through partnerships.

Partnerships between MFIs and commercial banks have enabled each to leverage their competitive advantages. While MFIs are more knowledgeable at the community level, banks have the advantage in greater access to capital and existing infrastructure (Mazzarol and Rebond 2009). MFIs have scaled up to access higher levels of credit, augment their portfolios, and strengthen management and efficiency levels, while commercial banks have purposely scaled down to profit from this emerging industry. Integration between these sectors leads to another current trend in microfinance which is the increase in deposits as a source of funding. It is important for MFIs to turn from foreign debt investment to their own domestic and regional markets so that domestic savings can be transformed into productive loans (Mazzarol and Rebond, 2009).

Mazzarol and Rebond (2009) points out that micro finance has two long term goals on a global level. The first is to build inclusive financial system to ensure that all people can access services provided by formal financial institutions and the private sector. The banks come in to help their respective regions build inclusive financial services. The second goal is to assist the entrepreneurs working in the vast informal sector to expand their businesses into registered, licensed small and medium enterprises (SMEs). This policy of micro finance is intended to guide banks in supporting and developing micro finance into the mainstream of formal financing. It capitalizes on the lessons learned by the bank and its development partners concerning the appropriate approaches to micro finance, including assurance that no harm will be done to the existing markets and that the financial sector approach will be used.

2.5 Challenges of Implementing Micro Financing Strategy

Strategy implementation has attracted much less attention in strategic and organizational research than strategy formulation and strategic planning. Alexander (1991) suggests several reasons for this: strategy implementation is less glamorous than strategy formulation, people overlook it because it is a belief that anyone can do it, people are not exactly sure what it entails and where it begins and ends. Furthermore, there are only limited numbers of conceptual models for strategy implementation. This includes unstable demand and a variety of products. There are many operational problems to the implementation is strategy. These problems involve the suppliers, need for production software, loss of control of inventory, inapplicability of strategy to low volume operations or batch oriented productions, management complacency and fear of late production, and conflicts with ongoing projects (Drazin and Howard, 1984).

Another issue influencing strategy implementation is the perspective one has on strategy (Mintzberg, 1979). Implementation means carrying out the predetermined implementation plans. Strategy emerges and evolves without interference by strategic planners or in spite of them (Mintzberg, 1979). The available literature in the 1990s on strategy implementation was examined in order to identify potential strategy implementation problems. Eisenstat (1993) allures that most companies attempting to develop new organizational capacities stumble over these common organizational hurdles which include competence, coordination and commitment.

Lewin and Volberda (1999) stated clearly that most of the individual barriers to strategy implementation that have been encountered fit into one of the following interrelated categories: too many and conflicting priorities, the top team does not function well, a top down management style, inter-functional conflicts, poor vertical communication and inadequate management development. These categories can be translated into the following problems: competitive activities distracted attention from implementing this decision, changes in responsibilities of key employees were not clearly defined, key formulators of the strategic decision did not play an active role in implementation and problems requiring top management involvement were not communicated early enough.

The challenging aspect when implementing strategy is the top management's commitment to the strategic direction itself. In some cases top managers may demonstrate unwillingness to give energy and loyalty to the implementation process (Marginson, 2002). This lack of commitment becomes, at the same time, a negative signal for all the affected organization members. Many organizations are faced with the challenge of lack of institutional two way communication program that permits and solicits questions from employees about issues regarding the formulated strategy. In addition to inability to solicit questions and feedback, lack of communication causes more harm as the employees are not informed about the new requirements and tasks to be performed by the affected employees.

More recent articles confirm notable barriers to successful strategy implementation about which there appears to be a degree of accord including laissez-faire senior management style, unclear strategic intentions and conflicting priorities, ineffective senior management team, poor vertical communication, weak coordination across functions and inadequate down the line leadership skills development (Beer and Eisenstats, 2000: (Aaltonen and Ikavalko, 2002). It is recognized that such changes requires a shared vision and consensus where competence, coordination and commitment are lacking. Wheeler and Hunger (2008) identified the deadly sins of strategy implementation as lack of understanding on how the strategy should be implemented, customers and staff not fully appreciating the strategy, unclear individual responsibility in the change process, difficulties and obstacles not acknowledged, recognized or acted upon and ignoring the path to day business initiatives.

Another inhibitor to successful strategy implementation is the impact of an organization's existing management controls and particularly budgeting systems (Otley, 2001). Although it is increasingly suggested that budgets suffer from being bureaucratic and protracted, and that they focus on cost minimization rather than value maximization (Aaltonen and Ikavalko, 2002), they still represent the main integrative control mechanism in many business organizations (Otley, 2001). In the apparent absence of a suitable alternative information system (Alexander, 1985), significantly, it is believed that well established budget control systems can overwhelm or dominate strategic control systems even to the extent that when the going gets tough, budgetary pressure will tend to derail strategic goals. In order to overcome such myopic tendencies, it is suggested that organizations need to establish shorter/ medium term strategic milestones (Quinn, 1980)

2.6 Measures of Mitigating the Challenges

A good strategy comes first which means that effective execution is impossible if strategies are flawed. Hrebiniak (2005) states corporate strategy, which is concerned with the entire organization and focuses on areas such as portfolio management, diversification, and resource allocations across the businesses or operating units that make up the total enterprise as the starting point. This is followed by the business strategy which focuses on products, services, and how to compete in a given industry or market segment. What must be stressed additionally is that business strategy is important to the implementation of corporate strategy (Beer and Eisenstat, 2000). Poor strategic performance at the business level detracts from corporate ability to achieve its strategic aims, while good performance helps make corporate strategy work (Hrebiniak, 2005).

The choice of structure is vital to the implementation of corporate strategy. Over time, a corporation creates or acquires the businesses that make up the organization. Yet there usually are activities or functions that cut across businesses and allow for centralization, reduced duplication of resources, and the scale economies so often sought by corporate management (Beer and Eisenstat, 2000). Different businesses must be sufficiently independent to respond quickly to competitors' actions. Yet they can't be so independent as to create an unnecessary duplication of resources and destroy all chances for synergies. Structure is also important at the business level (Aaltonen and Ikavalko, 2002). Like their corporate counterparts, business leaders must also worry about the balance between centralization and decentralization and the costs and benefits associated with each. Structure again supports strategy implementation (Beer and Eisenstat, 2000).

To be able to overcome challenges of implementation, business strategy must be translated into short-term operating objectives in order to execute the strategy. To achieve strategic objectives, an organization must develop short-term measurable objectives that relate logically to strategy and how the organization plans to compete (Hrebiniak , 2005). Key issues of strategy must be translated into objectives, action plans and scorecards and this translation is an integral and vital part of the execution process. Performance appraisal and measurement of strategic progress simply cannot function without the existence of these critical metrics or measurable performance criteria.

Managers cannot create coordination mechanisms or integrate strategic and short-term operating objectives if job responsibilities and accountability are unclear. Clarifying responsibility and accountability is vital to making strategy work (Hrebiniak, 2005). The problem is that job-related responsibilities are not always clear. Responsibility and accountability are often blurred when people from different divisions, functions, or hierarchical levels come together to solve a problem. To successfully implement strategy, responsibility and accountability must be clear. Without this clarification of roles and responsibilities for critical tasks, decisions, and outcomes, making strategy work difficult (Lynch, 2009).

Creation of strategy, objectives, structure, accountabilities, and coordinating mechanisms is not sufficient to ensure that individuals will embrace the goals of the organization and therefore some method of obtaining individual and organizational goal congruence is required (Hrebiniak ,2005). Feedback on performance is also needed so the organization can evaluate whether the right tasks are indeed being accomplished in the strategy execution process. What is required for successful strategy implementation is the careful development of incentives and controls (Hrebiniak, 2005).

CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Introduction

This chapter sets out various stages and phases that will be followed in completing the study. It involves a blue print of the collection, measurement and analysis of data. This section is an overall scheme, plan or structure conceived to aid the researcher in answering the raised research questions. At this stage, most decisions about how the research shall be executed and how respondents will be approached as we'll as when, where and how the research will be completed.

3.2 Research Design

A case study was considered as an ideal research design since it is a more appropriate strategy for answering research questions which ask why and how and which do not require control over the events (Kothari, 1990). This is because such questions deal with operational links that would need to be traced over time, rather than mere frequencies or incidences. A case study places more emphasis on the full analysis of a limited number of events or conditions and their interrelations (Kothari, 1990).

Case study exceled in this context at bringing an understanding of the complex issue of implementation being studied and adds strength to what is already known through previous research. It allowed the researcher to explore complex organizations structures, relationships, resources and mechanisms and programs in relation to their environment and supported deconstruction and subsequent construction of various phenomena. This ensured that the research question is not explored under one lens but a variety of lenses which allows for multiple aspects of the study to be revealed and understood.

3.3 Data Collection

The study used primary data which is qualitative in nature. Primary data was collected using self-administered interview guide. The interview guide had open ended questions presented to the KCB top management team who included, the Director Retail banking, The Head of SME Banking, The Head of Micro Banking, the Head of Group Lending, Regional Business Manager, Western, the Regional Micro Finance Manager, Rift Valley and the Regional Portfolio Manager, Western. The interview guide was preferred over other methods of collecting data because of its capability to extract information from the respondents well thus giving the researcher a better understanding and a more insightful interpretation of the results of the study.

The flexible nature of the interview guide allowed for probing thus bringing a clear picture of the challenges KCB has been facing in the implementation of micro financing strategy and the measures it has put in place to counter the challenges. It also enabled the researcher to obtain more up to date information as well as eliciting information which might not be captured by other data collection techniques. The use of an open interview method enables exposure to interviewee's personal perspective, their deeper thoughts, ambitions and emotions (Kombo and Tromp, 2006).

3.4 Data Analysis

The data collected was analyzed using content analysis. Content analysis has been described as a technique for the objective, systematic and quantitative description of the manifest content of communication (Cooper and Schindler, 2006). According to Kothari (1990), content analysis consists of analyzing the content of documentary materials which can either be spoken or printed. It is a technique for making interfaces by systematically and objectively identifying specified characteristics of messages and using the same to relate to trends. It examines the intensity with which certain words have been used. Content analysis systematically describes the form or content and or spoken material (Kombo and Tromp, 2006)

The method of content analysis was preferred in this study because it enabled the researcher to include large amounts of textual information and systematically identify its properties, such as the frequencies of most used keywords by locating the more important structures of its communication content. The responses gathered were categorized to provide a meaningful reading of content under scrutiny. This approach was further considered for this research because the judgment was not based on value statements since the study was subjective. Given that content analysis is a systematic, replicable technique for compressing many words of text into fewer content categories based on explicit rules of coding, it involved building and applying fixed vocabulary of terms on the basis of which words were extracted from the textual data for statistical computation.

CHAPTER FOUR: DATA ANALYSIS, FINDINGS AND DISCUSSION

4.1 Introduction

This chapter presents the findings of the study and the analysis of the data collected from the interview guide which was administered to the top management in KCB in charge of micro banking. Out of the seven targeted interviewees, only one was not available for the interview because she was out of the country on official duty. With the study objectives in mind, interviews were conducted with the six available interviewees who are directly or indirectly involved in the growth of micro financing in KCB. The interview guide allowed for probing with an effort to seek conclusive answers to the challenges facing micro financing at KCB and measures that have been put in place to counter the challenges.

4.2 Micro Financing Strategy at Kenya Commercial Bank

The study sought to understand what led KCB to introduce micro banking in 2008. To which the interviewees pointed out that the there was a lot of pressure on KCB to grow their customer base and increase their deposits which meant targeting the masses. This had been occasioned by the increase in numbers of banks operating in the market and the diverse banking products and services on offer. This could only be achieved by tailor-making a product to suit the needs of the vast unbanked population in Kenya who were considered to be low income earners.

In addition, the interviewees pointed out that the bank was facing a lot of competition from MFIs and other banks that were already offering micro finance services. Two of the managers stated that the bank was losing customers to the competitors and there was need to reverse the trend. This led to the introduction of micro financing which was done in phases that spanned over a period of two years. Majority of the respondents were pleased with the move which has seen the micro deposits grow to Kes 7 billion while the assets have grown to 1.3 billion as at 2013. A revelation from the interviewees is that along alongside the growth in values, micro banking has really increased the popularity of the bank in the country which is evidenced by the increase in profits for the last 5 years.

4.3 Implementation of Micro Financing Strategy of Micro Financing at Kenya Commercial Bank

The study further sought to know the opinion of the respondents on what were the conditions necessary for successful implementation of micro financing strategy at KCB. Respondents stated that key conditions for successful implementation of micro financing strategy were collective participation of all staff, adequate and relevant training for the staff, and clear communication of the strategy, availability of adequate resources to support the implementation process and effective monitoring and evaluation mechanism.

The study sought to know how smooth the pilot process was and whether it contributed to the current success or challenges of the strategy in KCB. The interviewees stated that the bank had to invest a lot of time and resources in the piloting of the strategy which was done is five phases. One of them pointed out that,

> "The process of recruiting and training micro bankers is one of the most rigorous selection process ever undertaken by the bank. The successful candidates who had a business background were trained at our leadership Centre for one month before being attached to a branch for another month. The process was very expensive and time consuming though necessary if we were to achieve the required standards." Interviewee X

As documented in the micro banking policy, the employees were trained on loan appraisal, processing, approval, disbursement and monitoring. It took close to two years before micro financing was rolled out to all KCB branches in Kenya and this is yet to be extended to branches outside the country

On the pricing of the micro financing products in KCB, the respondents mentioned it as one of the reasons as to why the strategy has achieved the successes it is recognized for to date. The products were fairly priced compared to what was being offered by the competitors thus enabling the strategy gain remarkable ground during the pilot stage. A key manager mentioned that,

> "Our micro assets products are offered at the most competitive price in the market with tuungane loan being granted at a rate of 15% per annum while boresha biashara loan is at a rate of kes 18%. Pricing was our selling point and it played a big role in enabling the products penetrate into the market." Interviewee Z.

He was however quick to confirm that the low pricing should not be viewed as unfair competition given that the strategy team had done its cost benefit analysis and settled on the prices with maximum returns in the long run. The respondent also affirmed that their target was the low income Kenyans thus nil charge account with and interest rate of 18% per annum on assets would be affordable to the target market. Three of the interviewees were however of the opinion that there is need to review the prices upwards due to the increase in the administration costs.

On the question of the internal perception of micro banking among the other employees, the respondents pointed out that there were a lot of mixed reactions among the existing employees given that it was a totally new concept. This meant that all queries relating to micro banking were left to the new recruits who had undergone specialized training on micro financing. According to the respondents, that perception has since changed and more employees are gaining a lot of interest in micro banking and are seeking internal transfers to the sector. One of the interviewees pointed out that internal acceptance and embracing of the strategy is one of the main reasons why the strategy has been successful. He stated that,

> "Currently we are receiving quite a number of requests from employees in other departments who are interested to work as micro bankers. This is attributed to the fact that micro banking department offers a lot of growth opportunities due to diversity of the role." Interviewee X

All interviewees were in agreement that the top management has been very committed towards the success of the micro financing at KCB. Despite the fact that several hurdles had been encountered, most of which were beyond the managers control, the top management was always ready to offers the best support they could. The challenges were considered as the necessarily feedback for better implementation of the strategy in future. As per the respondents, only one top micro manager has left the organization since inception of micro banking and the rest are constantly working towards making micro banking successful in KCB. One of the pioneers of micro banking in KCB stated:

> "My daily efforts have been to ward towards improving the standards of micro banking in KCB and making us an equal if not a better competitor. I carry the weight of ensuring the success of the sector which means I have to constantly monitor and control any deviation from the policy. Although there are so many challenges I have encountered while growing the micro book, the achievement are equally many and cannot be ignored." Interviewee X

4.4 Challenges of Implementing Micro Financing Strategy at Kenya Commercial Bank

Formulating appropriate strategy is not enough. For successful strategy implementation, the strategy must be supported by decisions regarding appropriate organization structure, reward system, organizational culture, resources, leadership, monitoring and control and an effective feedback mechanism. Just as the strategy of an organization should be matched to external environment, it must also meet the multiple factors necessary for its implementation. Kenya Commercial Bank, just like other organizations has faced several challenges in the implementation of micro financing strategy from both internal and external sources. From the findings of the study, the common challenges related to the organization structure, human resource issues, inter sector conflicts, non-performing assets, coordination, monitoring and control and the feedback mechanism. These challenges were experience at different stages of sector and as the interviewees put it, some were a real threat to the survival of micro financing at KCB.

One important factor that was highlighted as having affected the implementation of micro financing in KCB was the structure of the firm. The structure of the organization should be designed to breakdown how work is to be carried out in its various business units with some level of independence. In the case of KCB, respondents pointed out that all micro banking decisions have been centralized at the head office which has totally affected the turnaround time on important queries and the chance to make informed decision. One of the top managers pointed out categorically that,

> "My two colleagues and I who are based at the office are directly in charge of 182 micro bankers all over the country. At times it's quite a challenge if I have to make an informed decision on a branch like Isibania which I have never visited. It would be better if the structure allowed us to have a micro manager for every ten branches." Interviewee Y

As per the interviewees, this lack of mandate and empowerment of the strategic business units has resulted into loss of many opportunities in the name of seeking authorization. They stated this as a source of frustrations among both the internal and external customers which has in turn derailed the whole process of implementing the micro financing strategy successfully.

Building an organization capable of good strategy execution entails staffing the organization with the needed skills and expertise as well as building core competencies and competitive capabilities that will enable good strategy execution. The study revealed that although all the employees directly dealing with micro financing issues underwent specialized training, cracks emerged when they had to apply what they learned practically on the job. As pointed out by the interviewees, most of the recruits made mistakes which not only cost the bank money but also its reputation. One manager pointed out that some of the bankers were faced with integrity issues especially customer extortion and had to be terminated. He said that,

> "All the micro bankers we recruited were specifically trained on the micro process and well equipped to handle any challenges. Some of them however failed to apply the knowledge gained started going against the policy. We cannot escape the integrity issues that have rocked the department and threatened the reputation of the bank leading to the dismissal of a total of 13 micro bankers to date." Interviewee X

The fact that there is only one resource per branch in most of the branches paralyses the micro financing operations in the branch in case of the absence of the employee. The situation is worsened when an employee resigns or is terminated and a replacement is not appointed in time thus causing the portfolio to deteriorate. A respondent pointed out that some of the SBUs that were affected by employee turnover are yet to recover in terms of maintaining a quality loan portfolio due to lack of monitoring caused by neglect of the portfolio and poor relationship management. He pointed out that,

> “Most micro bankers are either promoted, transferred, dismissed or resign yet we cannot secure replacements on time. Considering there is only one micro banker per branch, the micro portfolios of these branches really deteriorate and are characterized by high PAR. this is due to the fact that we do not have a clear business continuity plan in micro banking.” Interviewee W

Conflicts between micro financing and other sectors in the bank offering similar services was highlighted by the interviewees as a challenge facing the micro financing strategy at KCB. In particular, SME sector, which was introduced in KCB almost the same time as micro banking has posed a challenge in drawing a line between the two especially on the margins. Micro sector is constantly being accused of misclassifying supposedly SME customers under micro thus degrading them. The respondents pointed out that when the micro sector introduces unbanked customers to banking and grows them through advancing loans and relationship management, they are transferred to SME thus limiting the growth of the micro financing sector. One of the interviewees singled out this conflict as one of the reason the micro sector is not growing at the projected rate by saying,

> “Growing the micro portfolio is an uphill task considering that our loans range from as low as kes 5,000. It is discouraging when we grow this customer from small borrowers to a level where they can borrower amounts of kes 500,000 and they are classified as SME customers yet some of the customers do not meet the requirement for upgrading. If we are expected to grow then our limits should be enhanced further. ” Interviewee X

From the findings to the study, the default rate in micro loans has posed a real challenge to the department. As projected, 95% of the loans given to micro customers in KCB were to be repaid well within the stipulated period with a 5% acceptable default rate. According to the respondents, this has not gone according to plan with the default rate hitting a high of 18% in 2013. One of the interviewees termed this as not only worrying to the sector but to the bank as a whole because of the threat it poses to the long-term survival of the micro financing in KCB. He pointed out that,

> "The rate at which the micro loans are not being repaid is not just worrying for me but to my director too. I always find myself at crossroads when I have to explain to the board why the PAR is so high and what I am doing to reverse the trend. " Interviewee X

The interviewee pointed out that this specific challenge has brought serious cracks in the recovery mechanisms the bank has proposed as appropriate. Some of the amounts in arrears are so small and the cost of doing recovery through public auction does not justify the process. It has led to a serious dilemma with the debtors walking around freely and the bank still strategizing on their next move. As per the respondents, recoveries are a work in progress and it starts right from the appraisal of the loan event before the customer is granted funds. The interviewees stated that micro financing is very dynamic in that what will work today might be irrelevant tomorrow and what might apply to one defaulter may not be applicable to another. This calls for the loan officers to be very proactive and vigilant in their appraisals.

From the findings, KCB experienced challenges in the coordination, monitoring and control of micro banking activities. Majority of the interviewees stated that the activities of micro financing require constant coordination, monitoring and control which were not well defined in the case of micro banking. One of the interviewees emphasized on the fact that coordinating micro activities must to be done on the ground physically and not by remote control through emails and phone calls as in the case of KCB. She said that,

> "The fact that am based here at the head office and the only way I can monitor what is happening at the branches is through emails and phone calls is quite a challenge." Interviewee Z

As concurred by the other interviewees, the unfortunate truth is that all the micro top managers are based in Nairobi, Kenya with little or no real knowledge of what happens on the ground. The monitoring and coordination has been left to the loans officers under the supervision of branch managers and the results are not very pleasing. Indicated by one of the managers, this inadequate monitoring and coordination mechanism has led to disintegration of the original strategy with some SBUs corrupting the original strategy without seeking authority. Some bankers take advantage of the absence of close supervision to practice unorthodox micro policy. He emphasized this by stating,

> "What is practiced as micro banking in some of the branches is totally different from what has been written in the policy document and that is one of the reasons why we are facing challenges." Interviewee W.

The repercussions of such disregard to policy are equally real and according to some of the respondents, some bankers have lost their jobs because of such deviant behavior. A regional manager stated that,

> "My region has lost 3 employees because of conducting desktop appraisals and failing to go through the whole micro cycle." Interview Y

As some interviewees put it, firing may not be the solution to all challenges. Instead, there is need to put serious measures to coordinate and control all the micro financing operations to maintain standardization and ensure that any exception to policy has been properly accessed and relevant authority sought.

The study sought to determine the challenges posed by the ineffective feedback mechanism in place to gauge the performance of micro financing. According to the respondents, all the strategies of KCB must have an elaborate feedback mechanism in place. The challenge in this case of KCB is what is done with the feedback received and in most cases lack of the feedback itself. As one of the senior manager noted,

> "In most cases, I can only know what is happening on the ground if something is brought to my attention. Unfortunately our bankers do not acknowledge the importance of the feedback and I have to send several reminders before I get any response." Interviewee Y

Majority of the interviewees were in agreement that it is not always right to assume that when there is no response all is well and this was the hidden challenge the bank faced until the figures started declining. The respondents pointed at the diminishing figures as a red flag and that is when the organization started seeking feedback and looking at it more keenly. An interviewee alluded to the fact that one of the discovery from this feedback was that most micro officers had taken to other duties in the bank such as being tellers and customer care consultants as opposed to their core appointment of growing the micro book by stating,

> "It was unfortunate to learn that some micro bankers were being redeployed to other departments at the branches leaving the micro desk unmanned for several days or even weeks. This only came to my attention when I queried the affected branches for not booking any loans." Interviewee X.

Further probing revealed that this unauthorized transfers were not voluntary, rather they were being imposed on the employee at the branch level. Out of fear of victimization, the employees could not voice their frustration since the feedback mechanism was not effective. Despite the fear, the respondents mentioned that KCB has now embarked on a mission to encourage employees to share their frustrations and positive input they think might improve micro banking.

4.5 Overcoming Challenges to Implementing Micro Financing Strategy

From the findings, the interviewees indicated that for effective strategy implementation, staff must be well trained to deal with the expectations and challenges of their roles. To be able to deal with the challenges and ensure survival of the micro financing strategy, the research revealed that KCB had to put in place measures to counter the effects of these challenges. Some of the measures employed included constant branch visits by top managers, a business continuity plan, monitoring and control tools, refresher training, an elaborate feedback mechanisms and centralization of post appraisal processes. However, they are not conclusive in countering the challenges facing KCB.

Due to integrity issues and deviations from the micro lending policy, the study revealed that KCB has centralized all the approval and disbursement processes at the head office. This is to ensure that the process is standardized and ensuring that the policy has been adhered to. From the finding, the approval and disbursement teams are able to check the appraisal work done at the branch which has really minimized cases of desktop appraisal and unauthorized disbursement. As indicated by the respondents, the move had however increased the turnaround time making the customer wait for 6 days before receiving money as opposed to the previous 3 days. They however termed the move as necessary when considered under cost benefit analysis.

To counter the challenge of lack of business continuity, the findings revealed that the bank is trying to train an extra resource person who can act in the role of a micro branch officer when the principal employee is away. Other employees are being encouraged to develop interest in micro banking through on job training. From the findings, some of the big branches already have two or three micro bankers but the extra resource is only justice as the micro figures are high and there is a lot of potential for growth. There is also a program in place where the human resource department is required to replace any micro banker who is no longer in the bank within a week so that the portfolio is not left unattended to for long periods.

The study brought out the need for efficient and effective feedback mechanism to be put in place as a basis for further growth and inform future decision at KCB. From the findings, this has been taken care of by the daily reporting system whereby every micro banker is expected to give a report on the account opened and loans booked on a daily basis without fail. Nil results would be an indication that the micro desk was not manned for the day and a further explanation is required. From the findings, this has given micro bankers more time to concentrate on the core role to which they were appointed by the bank

The study further found that continuous monitoring of the strategy implementation to ensure it was in tandem with the corporate plan was yet another solution to challenges to implementing micro financing strategy at KCB. The respondents indicated that there was continuous monitoring of strategy implementation which was done on monthly and quarterly basis. The main tools used in the monitoring are the dashboard and the balanced score card to review the performance of the employees. The respondents also indicated that the management personnel were responsible for constant monitoring of the implementation process at KCB. Majority of the respondents indicated that that coordination and sharing of responsibilities among implementers, need for effective implementation, availing finances, empowerment of staff to perform through motivation were other possible solutions to challenges of implementing micro financing strategy at KCB.

The study also revealed that KCB has embarked on annual refresher trainings for the micro bankers to update them on any changes or development. There are also annual workshops and review meetings to share best practices and motivational talks from both internal and external speakers. One of such meetings was held in on 27th and 28th of June

2013 where the CEO and the Director of Retail met the micro bankers at leadership Centre to for the mid-year review and set momentum for the remaining half part of the year.

From the findings, the top managers are required to make constant branch visits to familiarize themselves with the branches and the markets they operated in. This is very important because it has enabled the managers to make more informed decisions even without going to the ground physically. To enforce this, the managers have to make one visit to very branch per quarter and this has been included in their balance score card with an annual rating. From the findings, this move has also helped the managers to set targets for the branches which are commensurate to the kind of market they operate in.

On the challenge of resources, majority of the respondents stated that micro financing strategy was a current and smart strategy which will be realized perfectly if more resources are invested in the sector. The respondents pointed out the need to recruit and train additional resources specifically to support micro banking in KCB. The only barrier to this was budgetary constraints and defending their request, supported by figures to the board. This will go a long way in reaching the masses thus growing the numbers and eventually increasing the revenues from the sector.

4.6 Discussions

The study focused on the challenges of implementing micro financing strategy at KCB and measures that have been put in place to neutralize or diffuse the effects of these challenges. From the findings, KCB is experiencing challenges in the implementation of the micro financing strategy. Some of these challenges such as high default rate and internal conflicts were not anticipated during strategy formulation thus the organization was caught off guard and has to strategize on how to counter these challenges. As noted in the study, the organization is yet to come up with a workable solution to these challenges because of their unpredictable nature. For instance, reasons why customers fail to repay their loans will vary from character of borrower, economic hardships, theft or vandalism of the business to natural calamity. There is need for variation in recovery measures depending on the reason for non-repayment.

From the study, the reason why there exist inter sector conflicts is overlapping of lending limits between the sectors thus leading to conflicts. The decision by KCB to define the lending limits for each sector as a solution to the conflict is not being enforced. The study noted cases of spillovers into the margins of other sectors which mean that the measures that have been put in place to resolve these conflicts are not bearing fruits. On the other hand, the bank's move to centralize post appraisal micro processes of approval and disbursement is well informed. From the findings, the move has enabled the bank standardize the processes thus leaving no room for manipulation and deviation from the policy. It has also made it easy for the bank to track the performance of each banker through the centralized daily and weekly disbursements reports. As noted in the study, it is important for other banks seeking to introduce micro financing strategy to replicate the rigorous recruitment and training program adopted by KCB due to its effectiveness.

Past studies revealed that micro loans are gaining a lot of popularity due to their low default rate and risk associated with the loan. The popularity can also be attributed to flexible collateral requirements such as chattels and a short turnaround time. However, this study on KCB has revealed contrary findings whereby the high rate of default on micro loans is a real challenge and a threat to the survival of the sector in the bank. Some of the repayment problems stem from poor appraisals of the facility and not conducting a thorough character assessment of the borrower. As much as the collateral is flexible, the findings revealed that the target market is the low income earners who may not have basic household items. These findings are an eye opener to other banks wishing to introduce micro financing in that they will desist from using the presumed low rate of default and flexible collateral requirements as a selling point as in the case of KCB.

As cited in the literature review, the structure of an organization plays a key role in the successful implementation of strategy. The study reveals that the current micro banking structure employed by KCB is hindering the process of monitoring, control and coordination of activities of micro banking. With only 3 managers in charge of the sector in the whole country, supervision of micro financing has been impaired thus causing deviations from the original strategy. The fact that the top management of the sector is based at the Bank's head office with limited annual visits to the branches has hindered effective coordination and control of the strategy. From the findings of the study, such challenges can be solved if the top management is in touch with the strategy implementers not just electronically but also physically to enable them make more informed decisions.

Resource based theory is one of the theories on which this particular study was anchored. It gives a deeper understanding into the chief resources and capabilities of the organization, especially those where the organization has a competitive advantage as the principal source of successful strategic management. This study revealed that KCB invested a lot of time and resources in recruiting and training employees specifically to handle micro banking. This was aimed at having the best micro banking personnel in the industry thus making it easy to market the micro products. From the findings of the study, KCB already enjoyed competitive advantage in terms of resources for having the largest asset base and widest branch network among local commercial banks. This meant that the bank did not have to incur huge infrastructure costs while implementing the micro financing strategy.

Due to the many challenges facing micro financing strategy at KCB some of which were causing deviation from the original strategy, the bank come up with tools to monitor and control the implementation of the strategy. Some of the tools employed are the “your voice” where the employees can air their grievances, daily reporting and monthly dashboard to access individual productivity and quarterly balance score cards to review quarterly performance. From the findings, the measure has streamlined the performance of the sector because each employee is made accountable on a daily basis. This is part of breaking the main strategy into smaller objectives with shorter timelines so that any problems can be detected early enough and control mechanisms put in place to counter the challenges.

CHAPTER FIVE: SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

This chapter summarizes and concludes the research that was undertaken. In this section, the researcher points out the limitations of the study and points out areas that were not studied for the purposes of future research. At the end of the chapter, some appropriate recommendations are given for the organization to improve on the problem under study based on the research findings. The recommendations are not only for KCB but can also apply to other firms in the same industry.

5.2 Summary of Findings

The results centered on determining the challenges faced by KCB while implementing the micro financing strategy. In summary, the study established that the necessary conditions for successful strategy implementation were adequate training and collective participation of all staff, effective feedback mechanism in place, constant monitoring, control and evaluation and commitment of top management towards successful implementation.

KCB has faced several challenges on its mission aimed at successfully implementing micro financing strategy. The challenges range from human resource constraints at KCB, the organizational structure of KCB, internal conflicts between the micro sector and other sectors within the bank, increase in the non-performing loans due to poor monitoring, lack of effective coordination and control and poor feedback mechanism. Despite these challenges threatening the survival of the strategy, the respondents were confident of the measures which have been put in place to counter these challenges. This will be successful if the heads of the various SBUs are proactive.

According to the respondents, various measures have been put in place by KCB to counter the challenges facing micro financing. Some of the measures mentioned by the respondents include monthly evaluation and monitoring of strategy implementation to check for performance of the strategy and whether there are any deviations. The feedback mechanism has also undergone transformation with emergence of internal tools like “your voice” where staffs are allowed to share feedback on any changes they are facing. The monthly dashboard also furnishes the employees with their monthly performance and rankings thus motivating them to perform much better. The cap on micro loans has also been raised to kes 1,000,000 from kes 500,000 thus giving more room for growth and customer retention.

5.3 Conclusion

The study concluded that KCB faced challenges in the implementation of the micro financing strategy. This is supported by the respondents’ identification of 6 main challenges KCB encountered while implementing the micro financing strategy which include human resource, internal conflicts, feedback mechanism, coordination and monitoring, non-performing loans and the organization structure. Through the information gathered from the respondents, the study also concludes that KCB has moved in from time to time to put necessary measures in place to counter the challenges. Some of the measures fronted by the interviewees include a succession plan, refresher trainings, monitoring and control tools, constant evaluation, branch visits by managers among others. The noticeable mechanism is an effective and efficient monitoring and evaluation system by use of the balance scored and the monthly dash board.

5.4 Recommendations for Policy and Practice

In view of the above, the researcher recommends the decentralization of power from the Head office to the branch units by empowering the branch managers. This will go a long way in improving the turn around time especially when fast decision making is required. It is also necessary to increase the human resources directly dealing with micro financing at the grassroots level. Micro financing as a sector has a lot of potential for growth and this can be capitalized on if the bank recruited and trained more personnel to take advantage of this opportunity. One officer per branch is a bit on the lower side compared to the growth expected and competition posed by other financial institution. In order to capitalize on the benefits of mobile phone generation, there is need for the strategy team come up with a micro asset product that can be purely processed and disbursed on phone without the customer necessarily visiting the bank. This will enable the bank widen its clientele base due to popularity of mobile Phones. The move will also reduce paper work and other cost the bank is currently incurring in the course of processing micro loans.

Finally, the study focused on the implication of policy and practice in the banking industry in Kenya. The banking industry is dynamic thus experiences many changes in a wide area of its operations. Some of these changes impact directly or indirectly on the banking sector policy and practice. The CBK has been constantly undertaking comprehensive review on the banking act to address shortcomings and bring it in line with the Basel Core Principles of Effective Banking Supervision. For example, the Banking Amendment Act of 2006, which entered into force on May 1st 2007, effectively ceded the authority to issue or revoke licenses from the Ministry of Finance to the CBK. This was meant to strengthen the regulatory and supervisory framework and align regulatory practices with international standards.

Competition in the banking industry has led to introduction of new products and services in the banking sector and has resulted into widening of the markets. There is a scramble by banks to grow their customer numbers and increase their popularity in the market through offering superior products than those being offered by the competitors. This means that there is need to come up with a regulatory system to ensure that certain standards are adhered to and that the consumer is not being exploited. The changes in the banking industry have also meant that the banks become more rigorous in enforcing the 'Know your customer' rules without being unfriendly to the customers.

5.5 Limitations of the Study

The banking industry is very dynamic and wide thus due to the time constraints, it was not possible to research on all issues affecting KCB and the banking industry as a whole. The study was specific to micro financing at KCB and the findings may not relate or be applicable to other banks. It was challenging looking at micro finance as strategy considering that it has always been considered as a financial aspect. This called for the researcher to exercise a lot of caution so as to toe the line between strategy and finance.

The sample size could have limited the confidence in the results which might limit generalization to other issues. One key interviewee out of the seven intended was unavailable for the interview which further reduced the sample size. The scope and depth of the study was also limited by time factor. Given the tight schedule of bankers, some interviews had to be rescheduled while others were done in bits.

The study confined itself to KCB from a population of 43 commercial banks. This research should therefore be replicated in other commercial banks that have implemented the micro financing strategy and results compared to establish whether there is consistency in the banking industry. Further study should also be conducted on the non-performance of the micro loans and what strategies should be put in place to reverse this trend.

5.6 Suggestions for Further Study

In the course of the study, it was apparent that micro financing has become very popular in the recent past which is evident by the many MFIs. This popularity has made the sector attractive to banks thus more and more banks are embracing micro finance. A study on strategies that should be adopted by banks engaged in micro financing is of essence because the findings can be used as a blue print by banks wishing to engage in micro financing. This will enable the banks avoid or minimize the effects of challenges of implementing micro financing strategy.

This particular study limited itself on challenges of implementing micro financing strategy at KCB thus limiting the scope of the study. The results would have been more informative or representative if the scope of the study was widened to include other commercial banks. A study on challenges facing commercial banks in the implementation of micro financing strategy is recommended because the results will cut across the banking industry thus more informative. A study can all be done on challenges of implementing micro financing strategy in urban setting verses a rural setting. This will also provide insight on favorable environment for micro financing.

From the study, it was apparent that non-performing loans is one of the major challenges affecting the implementation of micro financing strategy. To dissect this challenge further, it would be necessary to carry out a study on the strategies that can be put in place to ensure repayment of micro banking loans. This will minimize the default rate and ensure that loans are repaid as stipulated in the contract. Potential defaulters can be identified during the appraisal stage thus enabling the lenders avoid granting potentially troublesome loans. A survey can also be carried out on causes of default among KCB micro customers.

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APPENDICIES

Appendix I: Interview Guide

1. What role do you play in your current position at KCB
2. For how long have you been in the position
3. What drove KCB to introduce micro banking in 2008?
4. How smooth was the internal rollout process and coordination of micro in the pilot phase?
5. Has the pricing of the micro banking products by KCB been a challenge in its popularity and subsequent implementation?
6. Given the elaborate structure of KCB, did it pose a challenge in the implementation of micro banking?
7. How has the allocation of resources affected the implementation of micro financing at KCB?
8. Micro financing requires rigorous training of the personnel involved. Has this been a challenge to KCB?
9. What is the internal perception off micro financing and how has it affected its popularity within the bank
10. Is there conflict between micro banking sector and any of the other established sectors within KCB?
11. How would you rate the commitment of the top management in implementing micro banking within KCB?
12. Successful implementation calls for an elaborate feedback mechanism. What mechanism has been put in place by KCB?
13. How has the bank dealt with the challenge of non-repayment and administration of the loans?
14. Given the milestone of micro finance in KCB since 2008, would you advise the bank to invest more in the sector.
15. Going forward, what would be your recommendation to the bank on improving micro banking sector in KCB.

Appendix II: Letter of Introduction

Valentine Jalemba Lusigi
University of Nairobi
School of Business- Kisumu campus
P.O Box 19134-40100
Kisumu

Kenya Commercial Bank Limited
P.O Box 48400-00100
Nairobi.

Dear Sir/Madam,

RE: COLLECTION OF DATA

I am a post graduate student pursuing a master's degree in business Administration at the University of Nairobi. As part of the partial requirements for the award of the degree, I am currently conducting a strategic Management research project titled "**Challenges of Implementing Micro Financing Strategy at Kenya Commercial Bank Limited**."

I kindly request you to assist with information outlined in the interview guide. I wish to assure you that all the information provided will be treated with utmost confidentiality and will be used only for purposes of this research and your name and position will not be disclosed in the research findings or the report.

Thank you in advance.

Yours sincerely,

Valentine Lusigi
MBA Student