

**STRATEGIC PLANNING AND PROFITABILITY AT EQUITY**

**BANK KENYA LIMITED**

**BY:**

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## DECLARATION

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

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This research project has been submitted for examination with my approval as a University Supervisor

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## **DEDICATION**

This research project is dedicated to my children; Njeri, Githagui and Wambui. May it encourage them to pursue the goals of their lives.

## ABSTRACT

Strategic planning has its roots in Greek mythology and refers to the process of setting long-term organizational objectives, developing and executing plans to achieve these objectives, and providing financial and non-financial resources, necessary for realizing these objectives. Strategic planning is a process that involves three stages. The first stage involves identifying an organization's vision and mission, and conducting an analysis of the organization's strengths and weaknesses as well as potential opportunities and threats. The second stage involves implementation of the action plan, and the third stage involves monitoring to identify successes or failures. Organizations that undertake strategic planning build teams with a common vision and are able to keep in motion a dynamic process that allows them to continually reassess, confront change, and grow within an agreed-upon framework. They are able to make more informed decisions that anticipate both short-term and long-term consequences, and also demonstrate significant improvement in sales, profitability and productivity. Reasons given by organizations that do not undertake strategic planning include: costs related to staffing, facilitation, venue, transportation or materials, the complexity associated with the language, terminology, conceptual requirements of strategic planning, and the need to acquire resources needed for short-term operations before embarking on long-term goals. Equity Bank Kenya Limited is a publicly listed commercial bank in Kenya and is the largest bank in the East African region in terms of customer base. The bank operates in Uganda, Tanzania, South Sudan and Rwanda. The study's objective was to establish the relationship between the bank's profitability and the use of strategic planning. Profitability is the state or condition of yielding a gain and is the primary goal of all business ventures. It is measured by comparing income with expenses. The research question was: Is there any relationship between the bank's profitability and its use of strategic planning? The study made use of an interview guide to collect primary data from five respondents. The bank's Company Secretary and Director of Corporate Strategy, Chief Officer - Finance, Innovation and Technology, Director Customer Experience, Research and Development, Director of Operations, and Director of Treasury and Trade Finance were interviewed. Secondary data was also obtained by reviewing the bank's publications and annual reports. Data was analyzed through content analysis, a technique that makes use of codes to draw out connections between words and tries to explain the possible meanings of the words in context. Two main findings emerged. First, there was evidence to suggest that the bank made use of strategic planning. The fact that there was a director in charge of strategy formulation and execution in the bank, and that there existed several teams that were tasked with implementation of various strategic initiatives corroborated this suggestion. Various strategic initiatives were in place. These included: global partnerships, regional expansion, staff development, brand visibility, and rollout of mobile banking and agency banking services. Secondly, as a result of execution of these strategic initiatives, the bank had maintained an upward trend in terms of profitability. The average rate of growth per year in profitability between the year 2008 and 2013 had been 32.2%. In the first half of the year 2014, Profit before Tax increased to Kshs. 10.8 billion up from Kshs. 8.9 billion recorded for the same period in year 2013. The study therefore concluded that a relationship indeed existed between the bank's profitability and its use of strategic planning.

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## **ACRONYMS AND ABBREVIATIONS**

CBK – Central Bank of Kenya

DTMs – Deposit Taking Microfinance Institutions

EBITDA – Earnings before Interest, Taxes, Depreciation, and Amortization

EMV – Europay, MasterCard and Visa

MFBs – Microfinance Banks

MVNO – Mobile Virtual Network Operations

PBT – Profit before Tax

SME – Small and Medium Enterprises

# CHAPTER ONE: INTRODUCTION

## 1.1 Background of the Study

Organizations are 'complex adaptive systems' that use people, tasks and technologies to achieve specified goals and objectives (McKay, 1994). Successful achievement of organizational objectives is hinged on the ability to identify and respond to the states of affairs within and outside the organization or business. These states of affairs are called "driving forces or environmental factors". There are two kinds of environmental factors; internal and external (Wang, Walker & Redmond, 2007). Internal environmental factors are those kinds of situations or events that occur inside the business, and are generally under the control of the company. They consist of an organization's vision and mission, organizational culture and leadership styles. External environmental factors on the other hand are those kinds of situations or events that occur outside of the organization and are by and large beyond the control of the organization. They consist of competitors, industry dynamics and macro economic trends like demographics, technology, politics and the economy.

The ability to not only identify, but also respond to the environmental factors facing organizations can be attained through strategic planning. Strategic planning is an organization's process of defining its strategy, or direction, and making decisions on allocating its resources to pursue this strategy (Mintzberg & Quinn, 1996). It may also extend to control mechanisms for guiding the implementation of the strategy. Strategic

planning is often confused with financial planning or forecasting. The former involves a series of steps or goals used by an individual or business to accomplish a financial goal. The latter refers to use of historic data to determine the direction of future trends. Strategic planning became prominent in corporations during the 1960s and remains an important aspect of strategic management. It is executed by strategic planners or strategists, in their analysis of the organization and its relationship to the environment in which it competes.

### **1.1.1 Strategic Planning**

The word 'strategy' comes from the Greek word 'strategos' which means 'a general'. The Greek verb 'stratego' means 'to plan the destruction of one's enemies through effective use of resources' (Mintzberg & Quinn, 1996). Strategy has many definitions, but generally involves setting goals, determining actions to achieve the goals, and mobilizing resources to execute the actions. A strategy describes how the ends (goals) will be achieved by the means (resources). Strategy is about identifying resources required in order to be able to compete, environmental factors affecting the business, and the values and expectations of those who have power in and around the business.

Porter (1985) defines strategy as the consideration of four key elements. These are a company's strengths and weaknesses, personal values of the management and the board, industry opportunities and threats, and finally broader societal expectations. The four elements relate to factors that are both internal to the company (i.e. the internal environment) and external to the company (i.e. the external environment). Johnson,

Scholes and Whittington (2008) define strategy as identification of where a business is trying to get to in the long-term, the markets that the business should compete in, and the kind of activities involved in such markets and how the business can perform better than competitors in similar markets.

Planning on the other hand refers to the process of making a decision on what to do and how to do it (Litman, 2013). It is a process that involves making simple daily decisions by individuals and families or complex decisions by businesses and governments. It is a three-step process that involves: choosing a destination, evaluating alternative routes, and deciding the specific course of the plan. In organizations, planning is a management process, concerned with defining goals for company's future direction and determining the missions and resources to achieve those targets. Planning produces benefits such as: increasing the efficiency of an organization, reducing the risks involved in modern business activities, and facilitating to bring the available resources together.

Strategic planning therefore is the process of setting long-term organizational objectives, the development and execution of plans to achieve these objectives, and the provision of resources, whether financial or otherwise, necessary for realizing these objectives (Wang, Walker & Redmond, 2007). Mintzberg and Quinn (1996) described the primary tasks of strategic planning as understanding the environment, defining organizational goals, identifying options, making and implementing decisions, and evaluating actual performance.

Using the process of strategic planning, leaders determine what organizations are desirous of achieving and how to approach these achievements. McKay (1994) argues that the process involves developing an organization's vision and mission, and determining priorities, procedures and operations that are necessary to achieve that vision and mission. It also involves setting goals which are measurable, attainable and realistic. As opposed to short-term objectives (1 year or less), the focus of strategic planning is on long-term (usually 5-10 years) goals and strategies.

Organizations undertake strategic planning for various reasons (Pathfinder International, 2014). Besides motivating staff and building teams with a common vision, strategic planning sets in motion a dynamic process that allows organizations to continually reassess, confront change, and grow within an agreed-upon framework. Research has shown that organizations that make use of strategic planning generate more revenue and prosper than those that do not (Aosa, 2011; Hopkins & Hopkins, 1997; Miller & Cardinal, 1994). These organizations are able to make more informed decisions that anticipate both short-term and long-term consequences.

Organizations that practice strategic planning also demonstrate significant improvement in sales, profitability and productivity compared to firms without systematic planning activities. Strategic plans also challenge the status quo, assist in defining roles and responsibilities, and allow management to focus their expertise and insights exclusively on the organization's future (Pathfinder International, 2014). There are even instances

when a clearly thought out strategic plan can be used as marketing tool and can encourage donor support for the organization.

Despite these clear benefits, some organizations do not undertake strategic planning. Pathfinder International (2014) found reasons behind such a decision to include: costs related to staffing, facilitation, venue, transportation or materials, the complexity associated with the language, terminology, conceptual requirements of strategic planning, and the need to acquire resources needed for short-term operations before embarking on long-term goals.

### **1.1.2 The Concept of Profitability**

The term 'profit' has several definitions, all which more or less refer to the same thing. In accounting, profit is the difference between the purchase price and the component costs of delivered goods and/or services and any operating or other expenses. In economics, the term profit can either mean economic profit, which is similar to accounting profit but smaller because it reflects the total opportunity costs of a venture to an investor, or normal profit which represents the opportunity cost, as the time that the owner spends running the firm could be spent on running another firm. The oxford dictionary defines profit as a financial gain, especially the difference between the amount earned and the amount spent in buying, operating, or producing something.

The state or condition of yielding a financial profit or gain is what is referred to as profitability (Novy-Marx, 2012). Profitability is the primary goal of all business ventures. Without profitability, a business cannot survive in the long run. Therefore, measuring current and past profitability and projecting future profitability is very important. Profitability is measured with income and expenses (Novy-Marx, 2012). Income is money generated from the activities of the business. For example, if crops and livestock are produced and sold, income is generated. Expenses are costs incurred by the activities of the business. For example, purchase of raw material is an expense of a firm because it is used up in the production process.

Profitability is measured with an 'income statement' (Novy-Marx, 2012). This is essentially a listing of income and expenses during a period of time (usually a year) for the entire business. An income statement is traditionally used to measure profitability of the business for the past accounting period. However, a 'pro forma income statement' can be used to measure projected profitability; while a 'budget' may be used to project profitability for a particular project or a portion of a business. Whether you are recording profitability for the past period or projecting profitability for the coming period, measuring profitability is the most important measure of the success of the business. A business that is highly profitable has the ability to reward its owners with a large return on their investment. Increasing profitability is therefore one of the most important tasks of the business managers.



### **1.1.3 Banking Industry in Kenya**

During the quarter ended March 31, 2014, the Kenyan banking industry comprised 43 commercial banks, 1 mortgage finance company, 8 deposit taking microfinance institutions, 7 representative offices of foreign banks, 108 foreign exchange bureaus and 2 credit reference bureaus (Central Bank of Kenya, 2014). The Central Bank of Kenya (2014) reported continued improved performance of the industry with the size of net assets standing at Kshs. 2.8 trillion, loans and advances growing to Kshs. 1.7 trillion, the deposit base also growing to Kshs. 2.0 trillion and profit before tax closing at Kshs. 33.4 billion as at 31<sup>st</sup> March 2014. Over the same period, the number of bank customer deposit and loan accounts stood at 23.8 million and 3.5 million respectively.

By the end of the last quarter of 2013, various policy developments took place in the Kenyan banking sector (Central Bank of Kenya, 2014). First, CBK undertook a comprehensive review of the Banking Regulations of 2008, which culminated in the revised Credit Reference Bureau Regulations, 2013. Following this review, all Commercial Banks and Microfinance Banks now share both positive and negative credit information through two licensed credit reference bureaus.

Second, commercial banks contracted various retail entities to offer basic banking services in exercising the agent banking model that was rolled out in May 2010. This saw the number of banking transactions undertaken through agents increasing from 11.6 million registered in 2013 to 11.8 million transactions registered in the quarter ending

March 2014. Similarly, the value of banking transactions undertaken through agents has increased from Kshs. 65.2 billion to Kshs. 67.0 billion over the same period.

Third, the deposit taking microfinance institutions (DTMs) are now referred to as Microfinance Banks (MFBs) and are also required to share both negative and positive information with credit reference bureaus. The gross loans and advances extended by MFBs was worth Kshs. 29.6 billion by the end of March 2014 compared to Kshs. 27.5 billion registered in December 2013 thus translating to a growth of 7.6 percent.

Lastly, the number of money transfer providers has expanded as a result of the need to reduce barriers and lower the cost of sending and receiving money. Consequently, an enabling environment has been created to increase the flows of remittances through formal financial delivery channels, competition has been fostered, innovations enhanced, and access to money remittance products and services to the low income group increased.

#### **1.1.4 Equity Bank Kenya Limited**

Equity Bank Kenya Limited commenced business in October 1984 as Equity Building Society and originally offered mortgage financing solutions to customers at the bottom of the pyramid (Equity Bank Limited, 2014). The Bank has since evolved from a Building Society, a Microfinance Institution, to now the all inclusive Nairobi Securities Exchange and Uganda Securities Exchange public listed Commercial Bank. With over 8.3 million accounts, accounting for over 57% of all Bank accounts in Kenya, it is the largest Bank in

the region in terms of customer base and operates in Uganda, Tanzania, South Sudan and Rwanda (Equity Bank Limited, 2014).

The Bank's Core Values are; Professionalism, Integrity, Creativity and Innovation, Teamwork, Unity of purpose, Respect and dedication to customer care, and Effective Corporate Governance (Equity Bank Limited, 2014). The Bank's Purpose Statement is to 'transform the lives and livelihoods of people socially and economically by availing modern, inclusive financial services that maximize their opportunities'. The Bank's Vision is 'to be the champion of the socio-economic prosperity of the people of Africa' and its Mission is 'to offer inclusive, customer focused financial services that socially and economically empower clients and other stakeholders'. The Bank's Tagline is 'Your Listening, Caring Partner' and its Motto is 'Growing Together in Trust' (Equity Bank Limited, 2014).

The Bank's presence in Kenya, Tanzania, Uganda, South Sudan and Rwanda is complemented by a network of 224 branches, 611 VISA branded ATMs, and 8,000 staff members. The Bank's pre-tax profits for the first quarter of 2014 soared 21% to Kshs. 5.4 billion up from Kshs. 4.5 billion posted within the same period in 2013. Customer deposits grew rapidly by 18% to Kshs. 206 billion up from Kshs. 175 billion while the number of customers grew to 8.7 million. The Bank's operating income grew to Kshs. 11.14 billion while total expenses remained stable at Kshs. 5.7 billion demonstrating the Bank's success in cost management initiatives.

The Bank is connected to all global payment systems including: American Express (AMEX), Diners Club, Visa Personal Payments, MasterCard, JCB of Japan, Union Pay of China and digital payments offered by Google and PayPal (Equity Bank Limited, 2014). Also, the Bank has continued to provide financial solutions to the many challenges that face smallholder farmers through strategic partnership with organizations that support farmers both in private and public sector, such as World Food Programme (WFP), Alliance for Green Revolution in Africa (AGRA) and International Fund for Agricultural Development (IFAD) (Equity Bank Limited, 2014).

The Bank's contribution to Corporate Social Responsibility (CSR) activities has also given it additional competitive advantage. The Bank through Equity Group Foundation seeks partnerships along six cluster thematic areas, which include: Education and Leadership Development, Financial Literacy and Access, Entrepreneurship, Agriculture, Health, Innovation, and Environmental Sustainability (Equity Bank Limited, 2013). For example, the Bank has made significant contributions in the Education sector through its partnership with the MasterCard Foundation by rolling out the 'Wings to Fly' Program. This is a nine year initiative that is providing comprehensive secondary school education and leadership training to 5,600 academically gifted yet economically and socially marginalized young Kenyans.

## **1.2 Research Problem**

The process of setting long-term organizational objectives, developing and executing plans to achieve these objectives, and allocating resources necessary for realizing these objectives, is what is referred to as strategic planning (Wang, Walker and Redmond, 2007). It is characterized by development of a company's vision and mission, determination of necessary courses of action to achieve the vision and mission, and setting of smart goals (McKay, 1994).

Organizations that undertake strategic planning accrue numerous benefits that include staff motivation, cohesion amongst teams, continuous reassessment and confrontation of change, improved growth, and defining roles and responsibilities (Pathfinder International, 2014). Those that do not undertake strategic planning have been found not to do so out of fear of various costs or the complexity associated with strategic planning. The motivation for strategic planning includes a need to set direction and priorities, get everyone on the same page, simplify decision-making, drive alignment, and communicate messages effectively.

There are studies that have found a direct link between strategic planning and profitability. Gup and Whitehead (1989) found that banks that engage in the strategic planning process tend to have significantly higher Return-On-Investments than banks that do not engage in the process. Clausen (1990) attributed BankAmerica's return to profitability to the bank's formal commitment to the strategic planning process. Njagi and

Kombo (2014) also agree that institutions that want to thrive and compete effectively must implement strategy effectively.

Like many of the 43 commercial banks in the Kenyan banking industry, Equity Bank Limited has continued to pursue its vision and mission of taking affordable banking services closer to the people by constantly developing innovative products and services and spreading its presence to all parts of the country and East Africa (Equity Bank Limited, 2014). The Bank continues to enjoy enormous competitive advantage over other industry players for various reasons. Some of these reasons include a diverse workforce, robust systems, large branch network, partnership with many stakeholders, and participation in corporate social responsibility activities.

Although there is literature on Equity Bank's financial performance and corporate social responsibility activities (Equity Bank Limited, 2014; Wandate, 2012), not much is available on its use of strategic planning. Gatome (2012) however found that even though the Bank has an executive who is in charge of corporate strategy, there is no department or team that is charged with drawing or implementing strategic plans. The Bank has no doubt been very successful (profitable) and this study was therefore desirous in establishing whether any relationship exists between the bank's profitability and the use of strategic planning. Since there is no single right way of conducting strategic planning, various methods have been used by organizations towards this course. It would be of interest to find out how Equity Bank Kenya Limited approaches strategic planning. Is there any relationship between the Bank's profitability and its use of strategic planning?

### **1.3 Research Objective**

The study's objective was to establish the relationship between Equity Bank's profitability and the use of strategic planning.

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

Findings from this study will be of importance to stakeholders such as policy makers, banks, scholars and researchers. Policy makers in both the private and public sectors will find the findings useful in not only developing policy but also recommending possible implementation. To Equity Bank's management team, findings from the study can be used to develop strategic planning activities in other countries, like Uganda, Rwanda, South Sudan and Tanzania, where the Bank has presence.

Other institutions in the banking industry can also borrow from Equity Bank by adopting and implementing strategic planning activities. Scholars, students and researchers will also find the findings of this study helpful in identifying areas of further research, as well as providing reference for future research.

## **CHAPTER TWO: LITERATURE REVIEW**

### **2.1 Introduction**

In this chapter, the researcher reviewed existing literature with the intention to gain better understanding of the concept of strategic planning. More specifically, the strategic planning process, factors influencing strategic planning, benefits of strategic planning and the challenges of strategic planning were discussed.

### **2.2 Theoretical Basis of the Study**

Formal strategic planning began in the 1950s in the United States of America. There are many theories that are used to describe how organizations view the strategic planning process. According to Johnson, Scholes and Whittington (2008), the Ansoff Matrix, sometimes called the Product/Market Expansion Grid, identifies four ways (market development, market penetration, diversification and product development) that businesses can grow and helps businesses think about the risks associated with movement either horizontally or vertically into a new quadrant.

Mintzberg and Quinn (1996) described five ways of looking at strategy; as a plan, ploy, pattern, position and perspective. Here, planning is identified as the most obvious way that people or businesses should strategize. The role of strategic planning is also re-emphasized by Porter (1985) through Porter's Five Forces Analysis. The analysis covers



industry attractiveness and rivalry through the bargaining power of buyers and suppliers, and the threat of substitute products and new market entrants. This enables businesses or organizations prepare for effects brought about by any of the forces. The acquisition of competitive advantage is also associated with strategic planning.

### **2.3 The Concept of Strategy**

Different definitions are available for the word ‘Strategy’. In the dictionary, strategy is a plan, method or maneuver for obtaining a certain goal. In the military, strategy has to do with drafting the plan of war and deciding on individual engagements. In management, strategy is a unified and comprehensive plan designed to ensure that specific objectives are achieved. In game theory, strategy has to do with the choices that a player has to make in every possible solution. The common thing in these definitions is the consensus that strategy involves goal setting, action determination to achieve the goals, and resource mobilization to execute the actions.

Mintzberg and Quinn (1996) provide one of the best definitions of strategy covered in what he refers to as ‘The 5 Ps for Strategy’. He defines strategy as a plan, ploy, pattern, position and perspective. As a ‘plan’, strategy is a consciously intended course of action to deal with a situation. This implies that a strategy precedes the actions to which it applies and is developed deliberately. Here, PESTEL Analysis , SWOT Analysis and Brainstorming can be used to identify opportunities. As a ‘ploy’, strategy is a tool meant to outwit an opponent or competitor by plotting to disrupt, dissuade, discourage, or

otherwise influence them. Here, techniques and tools such as the Futures Wheel, Impact Analysis and Scenario Analysis can assist a business explore the possible future scenarios in which competition will occur.

As a pattern, strategy is seen in consistency of behavior, whether intended or not. Rather than being an intentional choice, a consistent and successful way of doing business can develop into a strategy. Tools such as Unique Selling Points Analysis and Core Competence Analysis can be helpful in this. 'Position' is another way to define strategy. This refers to how a business decides to position itself in the marketplace. Porter's Five Forces can be helpful in analyzing the environment.

Lastly, strategy can also be conceptualized as 'perspective'. Strategy in this respect is to the organization what personality is to the individual. What is of key importance is that strategy is a perspective shared by members of an organization, through their intentions and actions. Just as patterns of behavior can emerge as strategy, patterns of thinking will shape an organization's perspective, and the things that it is able to do well. Use of tools such as the Cultural Web, Deal and Kennedy's Cultural Model, and the Congruence Model, can enable an organization get insight into its perspective.

## **2.4 Strategic Planning**

The concept of strategic planning has its roots in Greek mythology where the word "strategy" is said to have come from two Greek words: 'stratos' and 'ago', which when

combined mean 'leading the army' (Mintzberg & Quinn, 1996). Wang, Walker and Redmond (2007) define strategic planning as the process of setting long-term organizational goals, developing and implementing plans to achieve these goals, and allocating resources necessary for realizing these goals. Mintzberg and Quinn (1996) described the primary tasks of strategic planning as understanding the environment, defining organizational goals, identifying options, making and implementing decisions, and evaluating actual performance. The purpose of strategic planning is to assist an organization establish priorities and serve the needs of its clientele.

A strategic plan is a road map to lead an organization from its current position to where it would like to be in future and needs to include a mission statement, objectives, goals and an action or implementation plan (Morrison, Renfro & Boucher, 1984). Useful strategic plans must exhibit several characteristics (Foundation for Community Association Research, 2014). For example, they should reflect the thoughts, ideas, and needs of the developers and must be molded along the organization's mission, vision and values. They should also be achievable, measurable, and time sensitive, as well as flexible and responsive to changing conditions.

## **2.5 The Strategic Planning Process**

There are several steps in the strategic planning process (Morrison, Renfro & Boucher, 1984). Identifying an organization's vision and mission is usually the first step. This should be followed by conducting a SWOT Analysis in order to identify strengths and

weaknesses as well as potential opportunities and threats to the organization. These first two steps sum up what is referred to as forecasting. A review of current and proposed strategies should then be done, after which the development of a plan of action for implementing selected strategies is done. Factors that will be critical to successful implementation of selected strategies and methods for monitoring these critical items should then be identified. This is the goal setting stage. The action plan should then be implemented. Monitoring is the final step that is used to identify successes or failures in the strategic planning process. Should there be failure; the process begins all over again.

A variety of analytical tools and techniques are used in strategic planning. These include: PESTEL Analysis (which covers the remote external environment elements), Scenario Planning (which is mostly used by large corporations to analyze future scenarios), SWOT analysis (which addresses internal strengths and weaknesses relative to the external opportunities and threats), Growth-Share Matrix (which involves portfolio decisions about which businesses to retain or divest), and Balanced Scorecards (which create a systematic framework for measuring and controlling strategy).

## **2.6 Factors Influencing Strategic Planning**

There are several factors that affect strategic planning (Foundation for Community Association Research, 2014). The first one is a company's priority, which in most cases is generating revenue. Conflict between the company's priority and any other issue may affect the planning process. Secondly, lack of resources can stall progress. An evaluation

of the resources required in completing the project, such as finances, personnel, space requirements, access to materials and vendor relationships should therefore be done during the formulation stage of the plan. Staff engagement is another factor that can influence strategic planning. Staff engagement generates additional input and helps build their commitment to the end plan. It is essential to involve employees in the planning of strategy and direction for the organization because their input will provide insight into issues, challenges, concerns, and opportunities which may not have been known or fully understood. It will also ensure their "buy-in" to help execute the strategies.

Proper communication of strategy is also important. Strategic planning processes are successful when a bottom up and top down communication approach is taken. It starts off with a communication to all levels of employees informing them that a strategic planning process will be undertaken and how everyone will be involved in this process. Employees will provide input to the strategic planning process through feedback surveys, focus groups and meetings. Inaccurate forecasting also influences strategic planning. Forecasting sales revenues, materials costs, personnel costs and overhead costs can help a company plan for upcoming projects. Without accurate forecasting, it can be difficult to tell if the plan has any chance of success, if the company has the capabilities to pull off the plan and if the plan will help to strengthen the company's position within the industry.

The success or failure of strategic planning can be influenced by organizational culture. These are the commonly held attitudes, values, beliefs and behaviours of employees in an organization and are as unique and diverse as an individual's personality. If the

employees of an organization believe that change is something to be feared and avoided, then change implementation is often reactive and haphazard. If the employees believe that all change should be aggressively implemented "from above", then change is seldom supported. However, if the employees of an organization believe that change is worthwhile and everyone's responsibility; then change and growth occur with relative ease. Another factor is lack of a contingency plan. The reallocation of resources, the acceptable financial losses and the ability to deal with potential public relations problems that a failed product can cause should all be part of the contingency plan.

## **2.7 Benefits of Strategic Planning**

Strategic planning provides a number of advantages in an organization (Miller & Cardinal, 1994). Most of these advantages are financial in nature. Clausen (1990) for example found commitment to the strategic planning process as the main reason for BankAmerica's return to profitability. Other studies (Aosa, 2011; Hopkins & Hopkins, 1997) have found the need to improve financial performance as the main reason for using strategic planning. Focused planning and strategic thinking uncovers the customer segments, market conditions, and product and service offerings that are in the best interest of the firm. A targeted approach to markets and opportunities guides sales and marketing efforts, distribution and other business decisions which ultimately mean more profit to the bottom line and a stronger market position.

There are also a number of non-financial advantages (Pathfinder International, 2014). Strategic planning clarifies the purpose of the organization and establishes realistic goals and objectives consistent with the mission. It also communicates those goals and objectives to the organization's constituents, develops a sense of ownership of the plan, and ensures that the most effective use is made of the organization's resources by focusing the resources on the key priorities. Strategic planning also provides a base from which progress can be measured and establishes a mechanism for informed change when needed.

Other benefits include the provision of clearer focus of the organization, thus producing more efficiency and effectiveness, bridging the gap between staff and board of directors, producing great satisfaction among planners around a common vision, and solving of major problems. Also, benefits such as identification and elimination of poor performing areas in a firm, gaining control of operational problems, developing better communications with those both inside and outside the company, and developing better internal coordination of activities can be achieved by practicing strategic planning.

## **2.8 Challenges of Strategic Planning**

Considering that strategic management does not provide a ready-to-use prescription for success, there are a number of pitfalls in its use (David, 2011; Foundation for Community Association Research, 2014). The use of strategic planning to gain control over decisions and resources is one such example. Others include: doing strategic planning only to

satisfy accreditation or regulatory requirements, failure to communicate the plan to employees, viewing planning as unnecessary or unimportant and lack of support from senior management.

Other challenges of strategic planning include: becoming so occupied in current problems that insufficient time is spent on long-term planning, failing to use plans as standards for measuring performance and consistently rejecting the formal planning mechanism by making intuitive decisions which conflict with the formal long-term plan. Being conscious of these potential challenges and being prepared to address them is essential for organizational success.



## **CHAPTER THREE: RESEARCH METHODOLOGY**

### **3.1 Introduction**

In this chapter, the researcher described the research design, which was a case study. The process of collecting both primary and secondary data is also discussed, as well as sample selection. Finally, content analysis which is the method of data analysis that was used is discussed.

### **3.2 Research Design**

A research design is a systematic plan to study a scientific problem (Yin, 2003). The design of a study defines the study type (for example descriptive, correlational, semi-experimental, experimental, review, meta-analytic), research questions, hypotheses, independent and dependent variables, the data collection methods and a statistical analysis plan. The function of a research design is to ensure that the evidence obtained enables the researcher to answer the initial question as unambiguously as possible.

The research design was a case study. Jalil (2013) described a case study as a qualitative or quantitative analysis of a single unit. According to Yin (2003), a case study design should be considered when the focus of the study is to answer 'how' and 'why' questions, when it is not possible to manipulate the behaviour of those involved in the study, when the researcher is interested in covering contextual conditions because of their relevance to

the phenomenon under study, or when the boundaries are not clear between the phenomenon and context.

In particular, the study made use of a qualitative case study design. This is an approach to research that facilitates exploration of a phenomenon within its context using a variety of data sources. Use of this methodology allows the researcher to explore individuals or organizations, simple or complex interventions, relationships, communities, or programs (Yin, 2003). It also supports the deconstruction and the subsequent reconstruction of various phenomena. A qualitative case study design was appropriate for this study because it provided practical as opposed to theoretical knowledge and was less restrictive than other methods. It had also been successfully used by other scholars (Gatome, 2012; Muchira, 2013; Saye, 2012) in similar studies.

### **3.3 Data Collection**

Data collection is the process of gathering and measuring information on variables of interest, in an established systematic fashion that enables one to answer stated research questions, test hypotheses, and evaluate outcomes (Kawulich, 2004). A researcher can either collect primary data (data observed or collected directly from first-hand experience) or secondary data (published data and data that has been collected in the past or by other parties). Both primary and secondary data was collected. Primary data was collected using an interview guide while secondary data was obtained by reviewing existing literature. Interview questions focused on the respondents' understanding of

strategic planning and its relationship to profitability at Equity Bank Kenya Limited. Secondary data sources included the Bank's publications and annual reports.

The respondents were five executive managers working at Equity Bank Kenya Limited in Nairobi. The Company Secretary and Director of Corporate Strategy, Chief Officer - Finance, Innovation and Technology, Director Customer Experience, Research and Development, Director of Operations, and Director of Treasury and Trade Finance were interviewed. The decision to use executive managers was because they are the custodians of strategy in their respective units. They are also the people who drive implementation. The respondents were all situated within the same building, Equity Bank's Head Office situated in Upperhill Area of Nairobi. Access to the respondents was therefore easy.

### **3.4 Data Analysis**

Data analysis was done through content analysis, a technique that makes use of codes to draw out connections between words and tries to explain the possible meanings of the words in context. Kawulich (2004) argued that content analysis offers several advantages to the researcher. In particular, it allows for both quantitative and qualitative operations, provides an inconspicuous means of analyzing interactions and is considered as a precise research method because it is based on hard facts.

This method had also been successfully used by other scholars (Gatome, 2012; Muchira, 2013; Saye, 2012) in similar studies. Completed interview guides were first edited for

completeness and consistency, checked for errors and omissions, and then coded. To make sense of the data collected, data was then organized, reduced using summarization and themes, and patterns in the data linked.

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

### **4.1 Introduction**

In this chapter, the results of the data analyzed are presented and the main findings of the study discussed. Profitability figures from different years are reviewed, strategic planning initiatives are discussed, and benefits that the bank has accrued over the years as a result of strategic planning are presented.

### **4.2 Demographic Analysis of the Respondents**

Data was collected from five executive managers working at Equity Bank Kenya Limited in Nairobi. The Company Secretary and Director of Corporate Strategy, Chief Officer - Finance, Innovation and Technology, Director Customer Experience, Research and Development, Director of Operations, and Director of Treasury and Trade Finance were interviewed. The response rate was 100%. Out of the five respondents, three (60%) were male, while two (20%) were female.

Four out of the five respondents had been members of staff at the bank for more than three years and all the five respondents had been at their current positions for more than one year. All the five respondents had on a yearly basis been involved in the process of formulation, execution and monitoring of strategy at the bank. All the five respondents were team leaders of various strategic initiatives in the bank.

### **4.3 Strategic Planning and Profitability at Equity Bank Kenya Limited**

In this section, a discussion of the data is presented under three sub-headings: strategic planning initiatives at the bank, benefits of strategic planning at the bank, and profitability at the bank.

#### **4.3.1 Strategic Planning Initiatives at Equity Bank Kenya Limited**

The bank's profitability had been sustained by proper execution of strategic planning initiatives. These initiatives have continued to strengthen the bank's unique business model through innovation, partnerships and enhanced use of technology and automation for a better customer experience. Key amongst these activities has been the continued investment in staff to ensure that all the 8,000 bank employees are well equipped for their roles. The bank has developed career training, mentoring and coaching programs that meet the needs of every staff member.

During the year 2013, in order to strengthen its competitiveness and innovativeness, the bank made some senior staff appointments. It appointed Reuben Mbindu (the former Standard Chartered Bank Human Resources Director) as Human Resources Director, Raphael Hukai (an enterprise engineer with 16 years of service at IBM Corporation) as the Chief Information Officer, and Enrico Nora (the former Chief Operations Officer of DOCOMO Intertouch, a division of NTT DOCOMO of Japan) to lead the mobile banking unit.

The bank has also partnered with global payment cards providers to enable the bank offer convenient, cost-effective and secure ways for customers to send and receive funds both domestically and internationally. For example, the bank in 2013 partnered with MasterCard to issue five million MasterCard branded debit and pre-paid cards, signaling the largest rollout of Europay, MasterCard and Visa (EMV) payment cards in sub-Saharan Africa. Through these cards, the bank has been able to extend the security and convenience of electronic payments to merchants and customers who previously depended on cash to transact. Other partnerships have been entered into with PayPal, American Express (AMEX) and Visa Personal Payments (VPP).

Another initiative has been developing and deploying the bank's recently licensed Mobile Virtual Network Operations (MVNO). Through the MVNO, the bank will deliver an innovation that will enable use of the thin sim technology, which will provide every Kenyan with a feature phone the opportunity to convert it into a dual sim phone. This will not only empower an estimated 25 million Kenyans to have a choice of at least two concurrent telecom service providers but also save them the inconveniences of constantly changing sim cards, while saving the country billions of shillings that would go into buying dual sim phones to enable Kenyans to have a choice. Dual sim phones capability will in turn easily erode monopolistic power in the telecommunication sector and level the playing field which is essential for competitive environment where innovation, price and product will drive market behavior.

The bank has also entered into long term loan agreements with lenders such as International Finance Corporation, KfW Group, China Development Bank, and African Development Bank in order to support lending to small and medium enterprises (SMEs), agriculture and women entrepreneurs. In collaboration with development partners, the bank has scaled up support to SMEs in the country by offering comprehensive business advisory and creative solutions to support their growth and development.

The bank in the year 2013 launched Equity Business Club to support businesses and entrepreneurs across East Africa. To revamp the product offering to this segment, the bank opened seven supreme branches and recruited and trained additional relationship managers and officers. Other initiatives that have supported the bank's profitability include: brand visibility through community partnerships like The Wings to Fly Scholarship Programme, and rollout of mobile banking and agency banking services.

#### **4.3.2 Benefits of Strategic Planning at Equity Bank Kenya Limited**

Several benefits were attributed to the use of strategic planning by the bank. Most of these benefits were financial and include: sustained profitability, reduction in operational costs, growth in customer numbers, growth in customer deposits, growth in total assets, growth in gross loan portfolio, and growth in shareholders' funds. Non-financial benefits include: brand visibility, building teams with a shared vision, clear definition of roles and responsibilities, and installation of an active process that allows the bank to continually reassess, confront change, and grow within an agreed-upon framework.

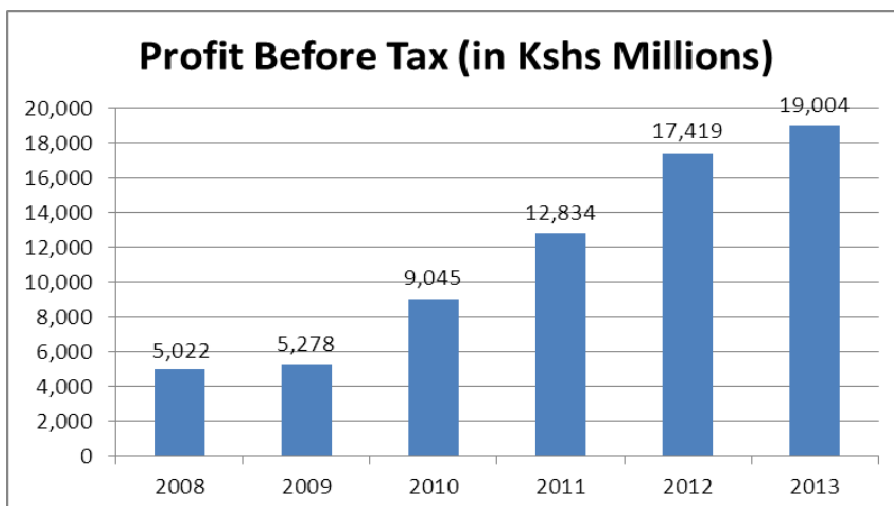


In spite of these benefits, the bank had faced one challenge in the process of strategic planning. Being a market leader, the bank had been confronted with the constant poaching of key staff members by other financial organizations that were desirous of attaining the same level of performance that the bank had achieved. In most cases, these had either been executive directors or heads of departments, who are imperative in the process of strategy execution.

#### 4.3.3 Profitability at Equity Bank Kenya Limited

The bank's profitability had been growing year on year. The average rate of growth per year between the year 2008 and 2013 had been 32.2%. Profits realized during these years are presented in Table 1 below.

**Table 1: Equity Bank's Profit before Tax**



**Source: Author**

For example, in the year 2008 the profit before tax (PBT) was Kshs. 5.022 billion compared to Kshs. 9.045 billion in 2010 and Kshs. 19.004 billion in 2013. In the first half of the year 2014, the bank recorded a 21% growth in PBT. During this period, PBT increased to Kshs. 10.8 billion up from Kshs. 8.9 billion recorded for the same period the previous year. The consistent growth in profitability was attributed to the bank's regional expansion and diversification strategies, which saw merchant business and payments processing income grow by 58% while diaspora banking and remittances processing grew by 23%.

#### **4.4 Discussion of the Findings**

Several messages were deduced from the data. First, the respondents had good understanding of what strategic planning is, its benefits and challenges. Second, the respondents could associate strategic planning with high performance. They mentioned Fortune 500 Companies like Toyota, IBM, Microsoft and Coca-Cola as some of the companies that had continued to record improved profitability as a result of their use of strategic planning.

Some of the profitable companies in Kenya, which in the respondents' opinions were making use of strategic planning included: Safaricom Limited, East African Breweries Limited, KCB Bank Limited, and British-American Insurance Company Limited. These suggestions were corroborated by evidence obtained from other studies. For example, Oloko, Anene, Kiara, Kathambi and Mutulu (2014) found that Safaricom Limited had

utilized marketing strategies to grow its market share and improve profitability. Wangechi (2005) found out that East African Breweries Limited had made use of marketing research and financial analysis tools as strategies to sustain its profitable operations in the East African region.

David (2011) argued that a successful strategic planning process must begin with the development of a vision and mission, establishment of long-term objectives, selection of strategies to match the objectives, actual implementation of strategies, and measurement of performance. These characteristics were cited by the respondents while acknowledging that Equity Bank Kenya Limited was indeed using strategic planning. They noted that the bank had a vision and mission, there was a director in charge of strategy in the bank, formulation and review of the bank's strategy was an annual event that brought together directors, heads of departments and branch managers to discuss and evaluate progress, and there were several teams in place that were tasked with implementation of various strategic initiatives. Also, results had been obtained from various strategic initiatives. Some of these strategic initiatives included: global partnerships, setting up and running a mobile virtual network operator (MVNO), and expansion into the West-African region.

Gup and Whitehead (1989) reasoned that communication of strategic plans is not about connecting with metrics like operating margins, net profit and EBITDA. Rather, it is about informing and inspiring employees during implementation of the strategic plan and ensuring that they fully commit continuously to achieving the plan. At the bank, strategic plans were communicated to members of staff first by the chief executive officer and

later by executive directors through their heads of departments. This was usually done at the beginning of the year or at the commencement of a project. The purpose of this communication was to provide clarity and ensure that everyone was working towards a common goal.

Fourthly, the respondents attributed the sustained profitability that the bank had enjoyed since 2004 when it converted into a commercial bank, to proper formulation and execution of strategic plans. Blahová and Knápková (2010) note that formulating a strategy has always been easier than implementing it correctly. However, execution is critical to success as it represents a disciplined process or a logical set of connected activities that enables an organization to take a strategy and make it work.

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

### **5.1 Introduction**

In this chapter, a summary of the study is presented and a conclusion made. Recommendations for policy, practice and theory are also proposed and challenges encountered during the study discussed. Finally, suggestions for further research are given.

### **5.2 Summary**

Strategic planning has its roots in Greek mythology and refers to the process of setting long-term organizational objectives, developing and executing plans to achieve these objectives, and providing financial and non-financial resources, necessary for realizing these objectives. Equity Bank Kenya Limited is a publicly listed commercial bank in Kenya and is the largest bank in the East African region in terms of customer base. The bank operates in Uganda, Tanzania, South Sudan and Rwanda.

The study's objective was to establish the relationship between the bank's profitability and the use of strategic planning. The research question was: Is there any relationship between the Bank's profitability and its use of strategic planning? The study made use of an interview guide to collect primary data from five respondents. Secondary data was

also obtained by reviewing the bank's publications and annual reports. Data was analyzed through content analysis.

Two main findings emerged. First, there was evidence to suggest that the bank made use of strategic planning. The fact that there was a director in charge of strategy formulation and execution in the bank, and that there existed several teams that were tasked with implementation of various strategic initiatives corroborated this suggestion. Various strategic initiatives were in place. These included: global partnerships, regional expansion, staff development, brand visibility, and rollout of mobile banking and agency banking services. Secondly, as a result of execution of these strategic initiatives, the bank had maintained an upward trend in terms of profitability. The average rate of growth per year in profitability between the year 2008 and 2013 had been 32.2%. In the first half of the year 2014, PBT increased to Kshs. 10.8 billion up from Kshs. 8.9 billion recorded for the same period in year 2013.

### **5.3 Conclusion**

Findings from the study confirmed the observations by Aosa (2011) and by Arasa and K'Obonyo (2012) on the relationship between profitability and use of strategic planning. They argued that organizations that make use of strategic planning generate more revenue and are more successful than those that do not. Since the year 2004 when the bank converted from a microfinance bank to a commercial bank, it had been recording improved profits. Respondents attributed this sustained profitability to successful

formulation and implementation of strategic plans. Such plans had enabled the bank to successfully convert into a commercial bank, expand the branch network, increase market share, improve customer experience, improve brand visibility, acquire and make use of new technology, attract and retain high performing staff, and ultimately grow its revenue while managing costs.

#### **5.4 Recommendations for Policy, Practice and Theory**

From information obtained through review of literature and the findings of this study, several recommendations are proposed. First, it is recommended that strategic planning be conducted by all organizations, both small and large. This is because there are clear benefits from the use of strategic planning, some of which are financial and others non-financial. Even business entities such as sole proprietorships and partnerships, non-governmental organizations, schools, churches and clubs should use of strategic planning.

Second, strategic planning should not just be practiced in the private sector but also in the public sector. The Government of Kenya can therefore borrow from the findings of this study to inculcate a culture of strategic planning in government institutions such as hospitals, ministries, learning institutions, and the police. Such a culture would definitely yield benefits such as improved service delivery and achievement of the country's Vision 2030.

## **5.5 Limitations of the Study**

The study faced some challenges. The main challenge was availability of some of the respondents. Being executive managers of the bank, finding time to interview them amidst their busy work schedules was not easy. Access to information through responses made was another challenge. Some respondents preferred to withhold certain information out of fear that such information would be leaked to competitors. The study was conducted during a period which the bank was in close competition with top performing banks in the industry like KCB Limited and Standard Chartered Bank Kenya Limited, and also in competition with the top telecommunication firm, Safaricom Limited. Respondents were therefore careful and mean with information.

Also, attempts to gain access to the bank's previous or current strategic plans were unfruitful, as these were in the respondents' opinion confidential objects that could only be accessed by the bank's board of directors, investors and executive managers. Another limitation was that this being a case study, the research findings could not be generalized for other banks in the Kenyan banking industry.

## **5.6 Suggestions for Further Research**

In addition to the findings of this study, future studies could explore several other areas. For example, research can be conducted to establish the nature of strategic management (formulation, implementation and evaluation) in organizations and the relationship



between strategic planning and parameters such as employee attraction and retention. Research can also be conducted to compare the performance of organizations that make use of strategic planning against those that do not use strategic planning.

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# APPENDICES

## APPENDIX 1: INTRODUCTION LETTER



**UNIVERSITY OF NAIROBI**  
FACULTY OF COMMERCE  
MBA PROGRAM – LOWER KABETE CAMPUS

Telephone: 4184160 Ext. 208  
Telegrams: "Varsity", Nairobi  
Telex: 22095 Varsity

P.O. Box 30197  
Nairobi, Kenya

DATE..... 6/08/2014 .....

### TO WHOM IT MAY CONCERN

The bearer of this letter ... GITHAGUI MORGAN KINYANJU .....

Registration No: ... DG1/61331/2013 .....

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

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

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

Thank you.

  
~ PARTRICK NYABUTO  
MBA ADMINISTRATOR

27 AUG 2014

## APPENDIX 2: INTERVIEW GUIDE

### a) General Information

Date:

Interview Guide No:

Interviewee's Designation:

Years with the Company:

Years in the current position:

### b) Strategic Planning

- 1) What does the word 'strategy' mean to you?
  
- 2) What does the word 'planning' mean to you?
  
- 3) The two words put together conceptualize what is referred to as 'Strategic Planning'.  
What is your understanding of strategic planning?
  
- 4) In your opinion, do you think that there is a difference between strategic planning and financial planning? Yes [ ] No [ ] Explain:



5) What of the difference between strategic planning and forecasting?

Yes [ ] No [ ] Explain:

6) PESTEL Analysis and SWOT Analysis are some of the analytical tools and techniques used in strategic planning. Can you identify any other tools or techniques used in strategic planning?

7) What do you think are some of the benefits of strategic planning?

8) What do you think are some of the challenges of strategic planning?

**c) Global Perspective**

9) The effects of strategic planning on an organization's performance are still unclear. Some studies have found significant benefits from planning, although others have found no relationship, or even small negative effects. What is your view of strategic planning on an organization's performance?

10) Some of the most profitable companies in the world are said to be profitable as a result of their application of strategic planning. Do you concur with this statement?

Yes [ ] No [ ] Explain:

11) When you hear the phrase 'Strategic Planning', which are some of the global companies that come to your mind?

**d) Equity Bank Kenya Limited**

12) Are you aware that Equity Bank Kenya Limited is one of the most profitable companies in Kenya? Yes [ ] No [ ]

13) Besides profitability, are there other areas where in your opinion, the Bank has performed very well. Yes [ ] No [ ] Explain:

14) What do you think has contributed to the sustained profitability of Equity Bank Kenya Limited?

15) Do you think that Equity Bank Kenya Limited practices strategic planning? Yes [ ] No [ ]

16) If yes, what makes you think that the Bank practices strategic planning?

17) Who is the person(s) or which is the department that has taken a lead in driving strategic planning initiatives in the Bank?

18) Do you think that these initiatives have received adequate support from the members of staff? Yes [ ] No [ ] Explain:

19) Would you say that the Bank has been successful in its use of strategic planning? Yes [ ] No [ ] Explain:

20) What of challenges, do you think that the Bank has faced any as a result of its use of strategic planning?

21) Are there other profitable companies in Kenya, which in your opinion, are making use of strategic planning? Yes [ ] No [ ] Explain: