STRATEGIC RESPONSES BY THE NATIONAL BANK OF KENYA TO THE DYNAMIC ENVIRONMENT

BY

REGINA OGECHI

A RESEARCH PROJECT PROPOSAL SUBMITTED IN PARTIAL FULFILLMENT OF THE REQUIREMENT FOR THE AWARD OF THE DEGREE OF MASTER OF BUSINESS ADMINISTRATION, SCHOOL OF BUSINESS, UNIVERSITY OF NAIROBI

NOVEMBER, 2014

DECLARATION

I hereby declare that this research project is my original work and has not been presented in any university for any award.

Signature: …………………………………... Date: ………………………

REGINA K. OGECHI

D61/67936/2011

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

Signature: …………………………………... Date: ………………………

DR. BITANGE NDEMO

SCHOOL OF BUSINESS,

UNIVERSITY OF NAIROBI

ACKNOWLEDGEMENTS

I wish to acknowledge the following people without whom this research work would not have been successful.

My gratitude goes to my supervisor Dr. Bitange Ndemo for his commitment, patience and constructive suggestions that saw to the successful completion of this research project.

My gratitude goes to my parents and siblings who encouraged me and gave me the moral support to complete my postgraduate studies.

Finally, I wish to thank my friends Yvonne and David who have always been there for me, for their support and encouragement, during my studies.

DEDICATION

This project is dedicated to my sisters Joyce Ogechi and Grace Ogechi.
Their love, support and encouragement gave me the will and motivation to complete my postgraduate studies.

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ABBREVIATIONS AND ACRONYMS

ATM: Automated Teller Machine

CBK: Central Bank of Kenya

CEO: Chief Executive Officer

KCB: Kenya Commercial Bank

NBK: National Bank of Kenya

SWOT: The Strengths, Weaknesses, Opportunities and Threats

ABSTRACT

The Banking industry like any other industry faces a dynamic environment. The environment is constantly changing and competition threatens the attractiveness of the industry. To succeed in the long term, banks need to deal with challenges brought about by the dynamic environment. The banks need strategies to compete effectively and out perform their rivals in this dynamic environment. The consumers are always evolving demanding more convenience from the banks. Banks therefore try to outperform each other so as to retain their market share and expand. These banks have to come up with strategies that makes them the most preferred bank. This study sought to establish the strategic responses by the National Bank of Kenya to the dynamic environment. This research was a case study. The study collected primary data from Branch Managers of National Bank of Kenya. The primary data was collected using interview guides. The interview guides were analyzed using content analysis. The researcher experienced challenges such as lack of cooperation from some Branch Managers. The study found out that the National Bank of Kenya had adopted new technologies such as the introduction of the new debit card to minimize fraudulent activities, the introduction of a wide ATM network and the bank has opened up more branches to reach more customers. The bank has also partnered with Pesapoint which has a large network of ATM across the country. The study concludes that National Bank has adopted strategies to respond to the changes in the dynamic environment. These strategies include adopting new technologies, partnering with other companies such as Pesapoint. There are cost implications associated with National Bank coming up with new strategies. National Bank should outsource some services such as training of their employees on new technologies, research and development. This would enable the bank to focus on the core banking business but at the same time be aware of the surroundings.

CHAPTER ONE
INTRODUCTION

1.1 Background of the study

The study focuses on Strategic Response by the National Bank of Kenya (NBK) to the Dynamic Environment. Pearce and Robinson (1988) argue that strategic responses are a set of decisions and actions that result into formulation and implementation of plans designed to achieve a firm's objectives. In achieving the firm's objectives, management is faced by a complex and changing environment which impacts heavily on the firm. To ensure continued survival, management has to come up with a game plan in response to environmental changes which is the firm's strategy. Strategy is the determination of the basic long term goals and objectives of an organization and adoption of courses of action and the allocation of resources necessary for achieving these goals (Chandler, 1962). Strategic response refers to the measures that an organization puts in place to respond to the ever changing environment. A strategic response might include shifts in a corporation's policies, target market, mission or organizational structure.

Nadler and Tushman (1988) summarized an organization's environment as all factors, including institutions, groups, individuals, events and so on, that are outside the organization being analyzed, but have a potential impact on that organization. For organizations to be effective and successful, they should respond appropriately to changes that occur in their respective environment. Consequently they need strategies to focus on their customers and deal with the emerging environmental challenges. The Banking industry like any other industry faces a dynamic environment. The environment is constantly changing and competition threatens the attractiveness of the industry. To succeed in the long term, banks need to deal with challenges brought about by the dynamic environment. The banks need strategies to compete effectively and out perform their rivals in this dynamic environment.

Today, businesses operate in a dynamic environment. This is a rapidly changing environment. The changes in the environment can be changes in the micro environment or the macro environment. The micro environmental changes relate to changes inside the organization. Such changes include changes in personnel and organizational culture. The macro environmental changes relate to changes outside the organization. Some of these changes include competition, changes in the political environment, technology and the socio-cultural environment.

In Kenya today, there are 43 commercial banks. National Bank of Kenya (NBK) is one of the major players in the Kenyan banking industry. National Bank operates in a dynamic and competitive environment. National Bank of Kenya faces challenges from the banking industry. NBK must consider its internal and external environment and come up with strategies to handle the dynamic environment. For NBK to survive and thrive in the dynamic environment, NBK needs strategies to respond to the ever changing environment.

1.1.1 Concept of Strategic Response

Strategy is the broad formula for how a business is going to compete, what its goals should be, and what policies will be needed to carry out those goals and the combination of the goals for which the firm is striving and the policies by which it is seeking to get there (Porter,1980). An organization exists in the context of a complex political, economic, social, technological and legal environment (Johnson *et al.*, 2005). Ansoff and McDonnell (1990) argue that it is through strategic management that a firm will be able to relate itself to the environment to ensure its success and also to secure itself from surprises brought about by a changing environment. They argue that this is done by positioning the firm through strategy and capability planning, real time strategic response through issue management and systematic management of resistance during strategy implementation.

Porter (1980) argued that the essence of strategy formulation is to relate a company to its environment. He argues that the industry structure has a very strong influence on the strategies implemented by the firms operating in that industry. He defined an industry as a group of firms producing products that are close substitutes to each other and argues that strategies that the firms will use are formulated in line with the competitive forces in the industry. He identified five competitive forces, threat of new entrants, threat of substitution, bargaining power of suppliers, bargaining power of buyers and rivalry among existing players.

1.1.2 The Dynamic Environment

A dynamic environment is characterized both by several changes occurring rapidly and simultaneously and by a situation where only the most optimistic see the possibility of a return to a more stable environment in the foreseeable future (Sadler, 1996). A dynamic environment refers to a situation that is subject to continuous and substantial changes which are uncertain and unpredictable (Brown and Eisenhardt, 1998). It is a rapidly changing environment. Some of these changes include management issues like rapid decision-making, aggressive marketing, high-risk initiatives, among others. Highly competitive fields demand a dynamic organizational environment. A dynamic environment consists of changing surroundings in which the firm navigates. The organizations in a dynamic environment must adapt to new situations and overcome the challenges.) For organizations to remain competitive over time as the environment changes, they had to learn, adapt and reorient themselves to the changing environment (Ross *et al.*, 1996).

Open systems are typically not just located in an environment; they entertain a dynamic relationship with this environment (Blom, 1997). The behavior of open systems was understood to be the result of an interaction between a system and its environment which resulted in the primacy of the environment, and phenomena like change and development were understood to be adaptive reactions to the environment. Adaptation refers to a strategic selection of relevant information from the environment and a strategic change of the internal composition of the system. Adaptation depends on the existing structures within the system. This means that a system is not ‘open’ nor does it ‘adapt’ in a simple way. Systems can deal with change and the unknown if they are somehow equipped to recognize and therefore anticipate the unknown.

1.1.3 Strategic Response and the Dynamic Environment

Changes in the environment are rapidly detected and pressure builds on other entities to act rapidly, which results in additional changes in the environment. These positive feedback loops (Arthur, 1994) result in faster environmental changes, the emergence of new innovations and at the same time higher risk of failure for all participants in the ecosystem. Turbulent environments are the active results of such recursive feedback loops (Rindova and Kotha, 2001) between individuals, organizations and environments. To turn turbulent events into real opportunities, organizations that get environment opportunities in a successful way usually are those that are able to create, amplify or even modify their resources base (Eisenhardt and Martin, 2000). Organizations need to use the knowledge generated externally, to internalize (sensing and capture) and match (transform) the information and new knowledge with existing knowledge base (Teece, 2007). Brown and Eisenhardt (1998) suggested that in order to be innovative, firms need to create a culture where an acceptance of continuous change is central.

To deal with the changes in the dynamic environment, the ability to continuously innovate or rapidly identify new developments (predicting the change patterns) is accordingly essential (Burgelman, 1991). There are various strategic frameworks that managers can adopt to deal with the dynamic environment. Most frameworks argue that in turbulent environments, continuous innovation (Brown and Eisenhardt, 1997), the establishment of organizational networks, and most radically the sharing of responsibility (decentralization) for the new strategy formulation are essential. When change is the nature of the environment, learning becomes an essential skill (Brown and Duguid, 1991) at all levels in all forms. Burgelman (1991) argues that organizations can overcome the liabilities of newness by accumulating and leveraging organizational learning, and by deliberately combining distinctive competencies. Cohen and Levinthal (1990) argue that capabilities are not resident in any single individual but depend on the links across a mosaic of individual capabilities.

1.1.4 Banking Sector in Kenya

Banking industry operates in an environment which is dynamic and where banking services is driven by rapid technological advances. The profitability of companies in this industry depends on technical expertise, innovative services, and effective marketing. Strategy has enabled large companies to have advantages in broad service offerings and global reach. The banking industry operates in an environment whereby change is constant. The environment is dynamic and banking services is driven by rapid changes in the environment such as technological advances, competition, customer demands, socio-cultural factors, and largely depends on the political stability or instability of the country it operates in.

The banking industry faces various challenges such as increasingly competitive capital markets, a slow down in the demand of loans, de-regulation allowing non-banking competition to enter traditional banking markets, technological innovation leading to reduced profit margins and to a further opening up of the banking system to outside competitors (Trethowan and Scullion, 1997). Today, banks are focusing on relationship banking. Relationship banking operationalizes the perception that banks can increase earnings by maximizing their profit from overall customer relationships rather than from specific products or transactions, due to economies of scale (Moriarty *et al.*, 1983).

Today, banks focus on customers and not products. The banks that seek to increase revenue must determine the customers that they intend to serve; how to package their products or services and this has largely contributed to niches in the banking accounts such as prestigious banking, banking for young adults and banking for the children. Banks must customize their advertisements to target these specific groups.

1.1.5 The National Bank of Kenya

The History of National Bank of Kenya (NBK) dates back to 1968. National Bank of Kenya (NBK), also known as National Bank, is a commercial bank in Kenya. It is one of the commercial banks licensed by the Central Bank of Kenya. National Bank was incorporated on 19th June 1968 and officially opened on 14th November 1968. At the time it was fully owned by the Government. The objective for which it was formed was to help Kenyans get access to credit and control their economy after independence. In 1994, the Government reduced its shareholding by 32% (40 Million Shares) to members of the public. In May 1996, the government further reduced its Shareholding by 40 million Shares to the public. The current Shareholding now stands at National Social Security Fund (NSSF) 48.06%, General Public – 29.44% and Kenya Government 22.5% (National Bank of Kenya, 2014).

National Bank is a major player in Kenya’s banking industry. It is one of the largest banks in the country giving financial services to all sectors of the economy. The bank seeks to respond positively to the needs of its customers, shareholders and the economy besides offering traditional financial services and products. National Bank has taken a leading role in the issuance and promotion of modern delivery and payment systems. The Bank has also been involved in the stock market playing multiple roles as an arranger, underwriter and placing agent. The Bank is an appointed fiscal agent, registrar and market maker in the secondary market. National Bank operates one subsidiary Company; NatBank Trustee and Investment Services Limited incorporated in Kenya on 21st July 1995 with a Share Capital of Ksh.10 Million (National Bank of Kenya, 2014).

On 24th May 2013, the bank rebranded and changed its logo and colours from the predominately green to yellow. The new slogan is “Bank on Better.” This is a brand promise to customers, shareholders as well as stakeholders. The National Bank of Kenya (NBK) is under new management, led by the Managing Director; Munir Sheikh Ahmed; and has been working on a major turnaround strategy so as to reposition itself as a key player in the banking industry. Today, National bank of Kenya has 63 branches and 1650 employees. National Bank of Kenya currently has 63 branches and 1650 employees, there is a strategic plan of expansion so that NBK will open 10 new branches in Kenya and expand operations in South Sudan, Uganda and Somalia. The plan is to increase revenue to 31 billion as compared with 8 billion in the year 2013 (National Bank of Kenya, 2014).

1.2 Research Problem

The environment is dynamic. There is constant change and organizations face different changes at different times. Organizations have to constantly scan their environments to identify the trends and conditions that may eventually affect the industry and adapt to them (Thompson and Strickland, 1993). This will help the organizations to study and interpret the environmental changes and come up with strategies to deal with the changing environment. The ever changing environment in the financial industry in Kenya poses a challenge to the banks in the industry.

Pearce and Robinson (1997) argue that for organizations to achieve their goals and objectives, it is necessary for them to adjust to their environment. Since NBK does not operate in a vacuum, the challenges in the banking industry will affect its operations and as such National Bank of Kenya needs to constantly monitor the environment to compete effectively in the industry. NBK is a major player among the 43 commercial banks in Kenya. The environmental factors that affect NBK are both internal and external. The internal factors include personnel and the organizational culture while the external factors include technology, competition, political and socio-cultural factors. NBK will need to have strategic responses in place for the changes in the banking environment

There are various studies that have been carried out on Strategic Response of commercial banks to the changes in the environment. Kiptugen (2003) carried out research on Strategic Responses to a changing competitive environment, the case study of KCB. Kathuku (2005) carried out a study on Strategic Responses by Cooperative Bank of Kenya. Mwangi (2009) carried out a study on Strategic Responses by Chase Bank Kenya Limited to Environmental Changes in the Banking Sector. Kimotho (2013) carried out a study on Strategic Response to Mobile Money Transfer Services by Commercial Banks in Kenya. Mwangi (2009) found that Chase bank had managed to be successful in managing environmental challenges due to the open-minded attitude of the management and that Chase Bank recognized the environment it operates in is dynamic and there is need to make changes to adapt to the dynamic environment to sustain good performance.

Despite having many studies in Strategic Response, the results obtained from the past studies cannot be applied to National Bank of Kenya due to contextual differences such as different managers and different locations of operations. The study by Mwangi (2009) only covered the Strategic Response to by Chase Bank and recommended a further study on strategic responses to environmental changes by other banks in Kenya. Therefore, to gain an understanding on how National Bank is responding to the dynamic environment, a study has to be carried out. The study aimed to understand the Strategic Responses by National Bank of Kenya to the Dynamic Environment. What strategies does NBK have in place to respond to the dynamic environment?

1.3 Research Objectives

The objective of the study is to determine the strategic responses that NBK has adopted to the dynamic environment.

1.4 Value of the study

The findings of this study is beneficial to the banking industry in Kenya especially the management of National Bank of Kenya. The study will enable National Bank to create a competitive niche in relation to the Banking Industry that it operates in. The management of National Bank will benefit from the information in their strategic human resource planning.

The study is significant to policy makers. The government agencies will benefit from the study and this will help in policy formulation in tax and ethical issues. The findings will be useful to commercial banks in Kenya in formulating policies for effective and efficient operations in the dynamic environment.

The findings is useful scholars and other students who may be interested in pursuing studies in this field; it will provide a basis for reference for researchers and scholars for further investigations and conclusive study on strategic response to the dynamic environment.

CHAPTER TWO
LITERATURE REVIEW

2.1 Introduction

The study reviewed literature from past studies done on strategies used by banks to respond to the environment challenges. The study reviewed journals and articles written on strategies used by banks. The study interviewed employees that work in National Bank of Kenya. This was with a view obtaining their opinion as to strategies used by National Bank of Kenya.

2.2 Theoretical Foundation

The study reviewed theories on strategic management and for the porpose of this study, the study focused on three strategic management theories. These are the Dynamic capabilities theory, Game theory and the Upper Echelons Theory.

2.2.1 Dynamic Capabilities Theory

Teece *et al* (1997) define dynamic capabilities as an organization's ability to integrate, build and reconfigure internal and external competencies to address rapidly changing environments. Zahra and Gerard (2002) suggest that dynamic capabilities are essentially change oriented capabilities that redeploy and reconfigure resources. Eisenhardt and Martin (2000) define dynamic capabilities as a set of specific and identifiable processes, such as product development, that are neither vague nor tautological. Winter and Zollo (2002) argue that a dynamic capability is a learned and stable pattern of collective activity through which the organization systematically generates and modifies its operating routines in pursuit of improved effectiveness.

Although dynamic capabilities are necessary for competitive advantage, they are not sufficient (Eisenhardt and Martin, 2000) since the functionality of dynamic capabilities can be duplicated across firms. According to (Teece *et al*, 1997) dynamic capabilities do offer a competitive advantage for a firm and are not easily replicable since they are usually built up over time with learning mechanisms that are specific to an organization.

Zott (2003) argued that even if elements can be common across firms, performance differences still arise due to the costs and timing of introduction of dynamic capability. Hence, organizations can create and develop dynamic capabilities that could lead to sustainable competitive advantage.

For firm's to sustain long term competitive advantage, they need to use dynamic capabilities sooner, more astutely, or more fortuitously than the competition to create resource configurations that have that advantage (Eisenhardt and Martin, 2000). They identify a few dynamic capabilities such as coevolving; routines by which managers reconnect webs of collaborations among various parts of the firm to generate new and synergistic resource combinations among businesses, patching; strategic processes that centres on routines to realign and match up of businesses and their related resources to changing market opportunities, and knowledge creation. Burgelman and Doz (2001), an organization's future capabilities stem from its existing capabilities. The main motivation behind dynamic capabilities is the renewal of corporate strategy through internal organizational development.

2.2.2 Game theory

Game theory is the study of the ways in which strategic interactions among economic agents produce outcomes with respect to the preferences (or utilities) of those agents, where the outcomes in question might have been intended by none of the agents. Game theory attempts to determine mathematically and logically the actions that "players" should take to secure the best outcomes for themselves in a wide array of "games."

The games all share the common feature of interdependence; the outcome for each participant depends on the choices (strategies) of all. In the zero-sum games, the interests of the players conflict totally, so that one person's gain always is another's loss. More typical are games with the potential for either mutual gain (positive sum) or mutual harm (negative sum), as well as some conflict (Neumann and Morgenstern,1944).

2.2.3 The Upper Echelons Theory

The upper echelons theory states that organizational outcomes, strategic choices and performance levels are partially predicted by managerial background characteristics (Hambrick and Mason, 1984). The central idea of upper echelons theory is that the executives act on the basis of their highly personalized interpretations of the situations and options they face. The executives inject a great deal of themselves, their experiences, personalities, and values into their behaviours. To the extent those behaviours are of consequence, say in shaping strategy or influencing the actions of others, organizations then become reflections of their top managers.

The manager's eventual perception of the situation combines with his values to provide the basis for strategic choice. Upper echelon proposes that one has to look beyond the characteristics of the CEO alone and should also take the characteristics and functioning of other members of the top management team into account for understanding firm performance (Hambrick and Mason, 1984).

2.3 Strategic Response

The term strategy is defined as the direction and scope of an organization over the long term which achieves advantage in a changing environment through its configuration of resources and competences with the aim of fulfilling stakeholder's expectations (Johson and Scholes, 2006). Strategy is a high level plan to achieve one or more goals under conditions of uncertainty. The senior leadership of an organization is generally tasked with determining strategy. Strategy can be intended or can emerge as a pattern of activity as the organization adapts to its environment or competes. Strategy involves planning, implementation and formulation. Strategy has enabled large companies to have advantages in broad service offerings and global reach, which gives them the ability to provide outsourcing services to big corporate customers. Strategic response refers to a restructuring of an organization's business or marketing plan that is typically performed to achieve an important objective. A strategic response might include shifts in a corporation's policies, target market, mission or organizational structure.

Many firms operate within an environment whereby they are expected to meet various stakeholders' expectations hence the need to formulate strategies that would help them meet this need (Porter, 1996). On the other hand, organizations operate within an environment with high competition which influences the firm's strategic process and hence determines the firm's achievement and purpose (Sharma, 2008). The environmental influence has necessitated the need for financial institutions to redefine their modes of service delivery and goals so as to maintain and remain relevant in the ever changing and dynamic environment (Kumar, 2006).

Porter (1980) provided a framework that models an industry as being influenced by five forces. The strategic business manager seeking to develop an edge over rival firms can use this model to better understand the industry context in which the firm operates. Porter's five force model is based on the notion that an industry's profit potential is largely determined by the intensity of competitive rivalry within that industry. It consists of the analysis of; Threat of new entrants in the industry; Threat from substitute good or commodities; Threat from existing rivals; Bargaining power of suppliers; and Bargaining power of consumers.

The threat of new entrants in the market depends largely on what barriers to entry exist in the industry. Conducting an analysis of these barriers can help determine the potential attractiveness of the industry. A substitute is product or service that satisfies the need of a consumer that another product or service fulfills. The more differentiation of a product or service, the less likely the switch of a substitute will occur. Threat from rivals is quite high due to low switching cost. National Bank of Kenya faces competition from different banks such as Barclays Bank of Kenya and Standard Chartered Bank. The presence of powerful suppliers reduces the profit potential in an industry. The threat of suppliers to raise prices or reduce the quality of goods and services will increase competition within an industry. The power of buyers is the impact that customers have on a producing industry. The presence of powerful buyers reduces the profit potential in an industry; by forcing down prices, bargaining for improved quality or more services, and playing competitors against each other, buyers increase competition within the industry. The result is diminished industry profitability.

Porter (1980) argued that organizations can use the three generic competitive strategies to deal with the competition in the industry that a firm operates in. The strategies are cost leadership, differentiation strategy and focus strategy. In cost leadership, a firm seeks to be the low cost producer in its industry. This can be through use of new technology and cheap access to raw materials. In the differentiation strategy, a firm seeks to be unique in its industry. It selects one or more attributes that many buyers in an industry perceive as important, and uniquely positions itself to meet those needs. In focus strategy, the firm chooses a niche within an industry. A firm can use cost or differentiation focus. In cost focus a firm seeks a cost advantage in its target segment, and in differentiation focus a firm seeks differentiation in its target segment.

Organizations can use Strengths, Weaknesses, Opportunities and Threats (SWOT) as a strategic tool. The SWOT analysis is a strategic analysis tool that helps to determine the internal and external factors that directly influence company's operations (Kenneth, 1963). SWOT helps a company to identify its strengths and weaknesses and take advantage of the opportunities in the external environment while minimizing the potential risks posed by the threats. The tool appreciates that even with opportunities; there exists threats in the external environment that may be out of the company's control but which the company must adapt to if they are to remain on course with strategic goals. Regularly performing an environmental analysis can help businesses create or maintain a competitive advantage.

Most businesses use Red Ocean strategy where they try to outperform their rivals to grab a greater share of the market. As the market space gets crowded, prospects for profits and growth reduce. There is cutthroat competition and the ocean turns bloody. Organizations should instead use the Blue Ocean strategy. A blue ocean is created when a company achieves value innovation that creates value simultaneously for both the buyer and the company. The innovation (in product, service, or delivery) must raise and create value for the market, while simultaneously reducing or eliminating features or services that are less valued by the current or future market. In blue oceans, demand is created rather than fought over. There is ample opportunity for growth that is both profitable and rapid. In blue oceans, competition is irrelevant because the rules of the game are waiting to be set. Blue ocean is an analogy to describe the wider, deeper potential of market space that is not yet explored (Kim and Mauborgne, 2005).

2.4 Linkage between Strategic Response and the Business Environment

In a competitive context that is characterized by globalization and high economic and financial instability, companies must adapt their strategies in order to take advantage of new markets (Flint, 2004). The new millennium saw increasing migration of production, technology, capital, people, information and business. Globalization has removed the barriers that separated previously well defined competitive spaces of companies (Fraser, Oppenheim, 1997). Global competition forces small and medium enterprises to search for different marketing approaches, no more based on traditional competitive rules (Harold *et al.*, 2000). The competition is a rough and tumble process in which only the most efficient companies win out (Charles and Hill, 2008).

Mintzberg (1978) argued that the transformation of the firm is seen as an iterative, multilevel process, with outcomes emerging not merely as a product of rational debates, but also shaped by the interests and commitments of individuals and groups, the forces of bureaucratic momentum, gross changes in the environment, and the manipulation of the structural context around decisions. When dealing with the marketing environment it is important for a company to become proactive. By doing so, they can create the kind of environment that they will prosper in and can become more efficient by marketing in areas with the greatest customer potential. It is important to place equal emphasis on both the macro and micro environment and to react accordingly to changes within them (Kotler and Gary, 2006).

Darwin (1859) argued that those species that adapt best to their changing environment have the best chance of surviving, while those that do not adapt perish. It is not the strongest species that survive, nor the most intelligent, but the ones that are most responsive to change. Today, businesses face changing business conditions such as technological advances, competition, and change in customer demands and as such these businesses have to adapt to the current trends. The changes in demand, supply, product prices, employment, and production forces businesses to adjust and adapt to these changes. In adapting to the changes in the dynamic environment, businesses have to deal with the internal and external environment.

2.4.1 Internal Environment

A firm's internal environment refers to those elements within the organization that include the current employees, the management and the corporate culture which defines the organization behavior (Pierce and Robinson, 2007). An organizations internal environment is defined by the firm's mission statement which clearly describes the purpose for existence and generally explains the overall purpose which includes the attributes that would distinguish the organization from other organizations. The internal environment includes personnel and the organizational culture.

Personnel refer to the employees of an organization. It is important to establish how information concerning change is disseminated within organizations and how that information may be interpreted by employees (Matheson and Matheson, 1998). Lewin (1947) argued that change is a three step process that involves; Unfreeze, Transition and Refreeze. In the unfreeze step, most people make an active effort to resist change. This stage will challenge the organization's beliefs, values, attitudes, and behaviors that currently define it. It the most difficult and stressful and may evoke strong reactions in people. In the second stage, people begin to resolve their uncertainty and look for new ways to do things. People start to believe and act in ways that support the new direction. In the third and final stage, change has been accepted and successfully implemented, the company becomes stable again, and staff refreezes as they operate under the new guidelines. With a new sense of stability, employees feel confident and comfortable with the new ways of working.

Organizational culture is a set of shared mental assumptions that guide interpretation and action in organizations by defining appropriate behavior for various situations (Ravasi and Schultz, 2006). Organizational culture may affect employees' identification with an organization. Organizational culture represents the collective values, beliefs and principles of organizational members and is a product of such factors as history, product, market, technology, and strategy, type of employees, management style, and national culture (Needle, 2004). Organization culture refers to the values and behaviour that the employees of a certain organization exhibit. These values and behaviour are unique to that organization. The organization culture will affect the productivity of employees as it will determine the motivation of employees of the lack of it. Organizational culture affects the way people and groups interact with each other, with clients, and with stakeholders.

2.4.2 External Environment

A firm's macro-environment refers to all the factors that are outside the organization also known as the external environment. It includes all the relevant factors and influences outside the organizations boundaries. Therefore a firm's external environment is infinite and consists of all the elements outside the boundaries of the firm. The firm's environment provides all the required inputs for the firm from which the firm produces the outputs which is finally delivered to the environments (Wachira, 2011). The external environment includes competition, technological changes, political environment and the socio-cultural environment.

Porter (1980) argued that strategy determines the direction and scope of an organization over the long term, and it should determine how resources should be configured to meet the needs of markets and stakeholders. He emphasized the need for strategy to define and communicate an organization's unique position, and says that it should determine how organizational resources, skills, and competencies should be combined to create competitive advantage. Competitor's actions affect the ability of the business to make profits, because competitors will continually seek to gain an advantage over each other, by differentiating their product and service, and by seeking to provide better value for money.

Political stability or the instability of a country will greatly influence a business's profit margin and operations. In the broad context of international business, political risk is defined as the risk or probability of occurrence of some political events that will change the prospects for the profitability of a given investment. Macro-political risk events include socio-political disorder, power group transfer, and political corruption as well as government interference. The involvement and interference of power groups in a project may take the form of more frequent administrative checks and political corruption. The latter is regarded by many foreign companies as an unavoidable fact of life on projects in certain developing countries, especially in China and Vietnam. There is the associated risk either of spending too much money on corrupt officials or spending it at the wrong place or time—all at the risk of having a government agency subsequently turn against the firm and the project for reasons other than cost or technical considerations (Chua *et al.*, 2003).

Social networks are defined by a set of actors; individuals and organizations, and a set of linkages between those actors (Brass, 1992). Social networks are the relationships through which one receives opportunities to use financial and human capital-relationships in which ownership is not solely the property of an individual, but is jointly held among the members of a network (Burt, 1992). Social networks are a set of relationships that can define the perception of a community, whether a business community or a more general notion of community in society (Anderson and Jack, 2002). Culture constitutes the broadest influence on many dimensions of human behavior. The pervasiveness makes defining culture difficult. Culture is the whole which includes knowledge, belief, art, morals, custom and any capabilities and habit acquired by man as a member of a society (McCort and Malhotra, 1993).

Steenkamp (2001) argued that there is empirical support for within and between country differences making nationality an acceptable proxy of culture. Nations are the source of considerable amount of common mental programming of their citizens (Hofstende, 1991) since nations with a long history have strong forces towards further integration. In fact, culture, country, nation, and society are often used interchangeably (Nasif *et al.*, 1991). Culture provides a collectively held set of customs and meanings, many of which are internalized by the person, becoming part of personality and influencing transactions with the social and physical environment. Hence, orienting dispositions are viewed at the individual level as attributes of personality, to the degree that they are held by collectives they may also be viewed as cultural biases (Dake, 1991).

Technological innovations affect banks since the banks have to embrace the new technology and do away with the obsolete technology. Technological factors refer to innovations which serves as a means through which firms can respond to the various technical challenges that a firm facing within the environment. It refers to all the creative adaptations that can suggest the possibilities for new products or in manufacturing and marketing techniques (Hammer, 1996). Organizations have to identify new technologies to compete effectively in the ever changing environment. The organization has to identify, select, and evaluate new technologies, and incorporating effective technologies into the organization. The ever changing technology presents a challenge to banks as the banks must new technologies and do away with the obsolete technology. The banks have to provide customers' convenience such as change to new Automated Teller Machines (ATM's) and provide customers with services such as online transactions and online shopping.

CHAPTER THREE
RESEARCH METHODOLOGY

3.1 Introduction.

This Chapter highlights the methodology that was adopted by the researcher in order to achieve the objectives stated in chapter one of this study. Methodology refers to ways of obtaining, organizing and analyzing data (Polit and Hungler, 2004). The chapter focuses on the research design, data collection instruments, data analysis and presentation.

3.2 Research Design

The research was a case study of National Bank of Kenya. The objective of the study was to identify the Strategic Response by the National Bank of Kenya (NBK) to the Changes in the Dynamic Environment changes in the financial sector.

Qualitative research refers to inductive, holistic, subjective and process-oriented methods used to understand, interpret, describe and develop a theory on a phenomena or setting (Burns and Grove, 2003). Researchers use qualitative research to adapt a person centered and holistic perspective. Miles and Huberman (1994) state that the general reasons for conducting qualitative research are description and hypothesis generation. Description is done when little is known about the phenomena under study. Hypothesis generation is done when the researcher's qualitative research does not have a prior hypotheses. A descriptive research methodology was used for this study. Descriptive research is used in describing characteristics of the relevant groups, determining the degree to which independent variables affect a dependent variable, estimate the percentage of units in a specified population exhibiting the same behavior (Mugenda and Mugenda, 1999).

A descriptive approach in qualitative research gives the ability to collect accurate data on and provide a clear picture of the phenomenon under study (Mouton and Marais, 1996). A descriptive method in data collection is central to open, unstructured qualitative research interview investigations (Streubert *et al.*, 2003). This means that the researcher will apply intuition, so that the phenomena under study will unfold without unnecessary obstacles.

3.3 Data Collection

Data gathering is the precise, systematic gathering of information relevant to the research sub-problems, using methods such as interviews, participant observation, focus group discussion, narratives and case histories (Burns and Grove, 2003). Data collection begins with the researcher deciding from where and whom data will be collected (Talbot, 1995).

Data collection was by the use of interview guide. Interviewing refers to structured or unstructured verbal communication between the researcher and the participants, in which information is presented to the researcher (Talbot, 1995). Interviews have several advantages such as it is a flexible technique that allows the researcher to explore greater depth of meaning than can be obtained with other techniques, interpersonal skills can be used to facilitate co-operation and elicit more information, there is a higher response rate to interviews than questionnaires; leading to a complete description of the phenomenon under study by the participants, and interviews allow collection of data from participants unable or unlikely to complete questionnaires. (Burns and Grove, 2003).

CHAPTER FOUR
DATA ANALYSIS, RESULTS AND DISCUSSION

4.1 Introduction

This Chapter highlights the findings of the study based the data collected. The study sought to establish the strategic responses by the National Bank of Kenya to changes in the dynamic environment. The data was collected using interview guides. Increased turbulence in the external environment causes organizations to undertake changes such as personnel, organizational culture, product, process and technological changes. Organizations such as National Bank have to constantly align and re-align the internal environment in order to deal with the turbulence in the external environment. Changes in the internal environment include changes in Management and organization policies.

4.2 Data Analysis

Data analysis is a mechanism for reducing and organizing data to produce findings that require interpretation by the researcher. Analysis goes beyond description because data is transformed and extended (Burns and Grove, 2003). Data analysis is a challenging and a creative process characterized by an intimate relationship of the researcher with the participants and the data generated (De Vos, 2002). Qualitative data analysis needs to be conducted with rigour and care (Coffey and Atkinson, 1996).

Content analysis was used for coding and classifying data. Content analysis is also referred to as categorizing and indexing; the aim is to make sense of the data collected and to highlight the important messages, features or findings. Content analysis is "a research technique for the objective, systematic, and quantitative description of manifest content of communications" (Berelson, 1974)

4.3 Internal environment at National Bank of Kenya

According to a Branch Manager at NBK, "*Strategies are made at the Senior management level and as such, implementation becomes hard*"

The study shows that at National Bank, the strategies are made at the Senior management level. This is the head office with input from the branch managers. The lower level employees are not included in the strategic processes of NBK.

According to an employee at NBK, "*Most employees are looking for new job opportunities as we feel that there is no job security. This is because of the new management and the new targets that we have to achieve*"

Chandler (1962) argued that structure follows strategy. For the long term strategies to be achieved there will be personnel changes and reshuffles at NBK, this causes anxiety as employees do not feel that their jobs are not secure. At NBK, changes in strategy have affected the structure. There is change in personnel such as additional personnell to form the sales representative team to acquire market for a new branch.

The National Bank of Kenya uses the company policies to respond to personnel changes. The company policy is made by the Human Resource Department which is at the headquarters in Nairobi, Kenya.

According to an employee at NBK, "*The employees resist change most times due to the pro-growth culture that they have experienced while working here. Some employees joined NBK a long time ago and have been at NBK for more than 20 years. They feel no need of upsetting the status quo."*

The study shows that organizational culture and parochial interests affect strategy. There is pro-growth attitudes from some employees which influence strategic change at NBK. At NBK, he organization policies are changed with the new strategies.

4.4 External environment effects on National Bank

According to a Branch Manager, "*NBK must compare what the competitors are doing because the competitors' actions will affect the strategies that we use. For example, the*

Back to School cost of the Bankers cheque needs to be in sync with the pricing of our competitors."

The study shows that NBK compares what competitors are doing before coming up with new strategies. Some of the strategies that have been affected by competitors' actions is the pricing of products and services. NBK has adopted various strategies to deal competition. Such strategies include cross-selling of its products. For example, selling to a customer the jumbo junior account, savings account and informing the customer of the loans that they can access by having an account at NBK.

NBK is affected by politics in the country. Political instability in the country such as that witnessed in 2008 affected the business operations in the bank. In 2008, there was delay in hiring personnel. The new personnel who were interviewed in December 2007 were supposed to join the bank in January 2008. Due to the political instability that had been witnessed by the post election violence, the new personnel joined the bank in April, 2008. According to an employee at NBK, *"It is very important that the bank has employees at all times that speak the native language. This helps in communicating to our clients and especially the elderly clients who do not speak English or Kiswahili"*

The study shows that a socio-cultural factor such as language is important in business operations. The socio-cultural environment affects the operations of NBK. NBK has adjusted to the socio-cultural environment in the different parts of the country it operates. For example NBK has adopted the new Islamic banking in high Muslim population areas like Mombasa and Garissa. Whenever NBK opens up a new branch, such as the Kakamega Branch that was opened in 2009, the mix of personnel entails personnel who speak the native language of that particular area. This helps with communication of clients who are not conversant with the national languages.

According to an employee at NBK, "*NBK has an IT department that trains employees in all its branches on the new technologies that the bank adopts. The IT department is also* *responsible for system upgrade and maintenance. Of course there are challenges with the system and sometimes and we go offline".*

The study showed that technology keeps evolving and banks must keep up with the ever changing technology. At National Bank, new strategies necessitate technological changes such as new telephones, new computers and new ATM machines. There is systems upgrade and in other branches, new systems were put in place. The bank trained the employees on the new technology.

4.5 Strategies adopted by National Bank of Kenya

National Bank of Kenya has a strong brand name. Recently the bank rebranded and changed its logo and colours. The colours changed from the predominately green and red to yellow and brown. The bank also changes the old slogan "The Bank where you belong" to a new slogan which is "Bank on Better." This is a brand promise to customers, shareholders as well as stakeholders.

There were recent changes in personnel. The new Managing Director Mr. Munir Sheikh Ahmed replaced the former long serving Managing Director Reuben Marambii who had served the bank for 12 years. In other levels of National Bank, some employees in other departments opted for early retirement. These personnel changes have affected National Bank.

National Bank has used product differentiation as a strategy. There are products that target the children, some target prestige banking. The different market segments has enabled NBK to come up with different products and services targeted at these different customers.

National Bank of Kenya has used diversification as a strategy. Diversification is a risk management technique that mixes a wide variety of investments within a portfolio. The rationale is that a portfolio of different kinds of investments will, on average, yield higher returns and pose a lower risk than any individual investment found within the portfolio. National Bank of Kenya has different products and services that it offers to its customers.

4.6 NBK alignment of the internal environment to the external environment

The findings of the study agree with the literature review of the study. The Strategic responses that National Bank undertakes to face the dynamic and ever changing environment is highly influenced by the internal and external factors. The study found that at National Bank, internal factors of personnel and organizational culture highly influence strategy. The external factors such as competition, technology, politics and socio-cultural factors have affected the strategies adopted by NBK. The study showed that NBK is aware of the internal and external factors and as such NBK aligns its internal environment to the external environment.

4.7 Discussion on findings

4.7.1 Dynamic Capabilities Theory

The findings of the study agree with the Dynamics Capabilities Theory. The study found out that National Bank of Kenya has managed to survive in the banking industry by integrating and reconfiguring its internal environment to the external environment that it operates in. These re-alignment of the internal environment to the external environment can be seen in hiring process at NBK. This has ensured that NBK has the personnel needed to deal with the socio-cultural factors of the environment that the bank operates in. The National Bank has adopted training for its employees to enable them use the new technology that it adopts. This has helped the bank to ensure that the employees keep up with the ever changing technology. This has ensured that the bank has competent employees and the technology is efficient thus leading to customer retention and customer satisfaction.

4.7.2 Game theory

The study agrees with previous studies carried out on Game theory. The National Bank of Kenya formulates strategies based on the actions of the competitors. The strategies such as pricing strategies are based on the actions of what the other players in the industry are doing. Whenever the competitors reduce their prices such as the price of banker's cheques for school fees, National Bank has responded by having the same prices as the competitors. This has enabled the national Bank not to loose its customers to the competitors.

The study found out that the National Bank of Kenya has partnered with institutions such as Pesapoint so as to reach a wider network. This has enabled the bank to be easily accessible to its customers. National Bank provides internet banking services to its customers and this enables access of some of their banking services from the comfort of homes.

4.7.3 The Upper Echelons Theory

The study agrees with the past studies carried out on the Upper Echelons Theory. The study showed that at the National Bank of Kenya, managers no longer sit in closed door offices. The managers operate from open-door offices. This offers easy access to the personnel and the customers. The personnel are more motivated as they can easily access the managers and therefore it is easy to solve any problems arising. The managers interact with employees in staff meetings and team building activities. The study found out that at National Bank, the manager's past experiences and the backgrounds influenced the strategies that they adopted.

CHAPTER FIVE
SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This Chapter presents the summary of key findings, conclusions drawn from the findings, and recommendations for further research. The conclusions and recommendations drawn focus on establishing the strategic responses by the National Bank of Kenya to changes in the dynamic environment.

5.2 Summary

The study was within National Bank of Kenya. The study established that National Bank of Kenya had to re-align the internal environment to cope with the changes in the external environment. For instance, the study found out that the personnel changes were in line with new strategies to deal with the external environment.

It was found that the pro-growth attitudes inhibited changes in strategy. National Bank incurs training costs to train personnel on new technologies and upgrading its bank systems.

On Socio-cultural factors, the study found that National Bank of Kenya takes into consideration the different social and cultural environment that it operates in and as such employs personnel that will be well suited to work in these environments and at the same time, NBK comes up with products that are well suited for the communities in the different areas that it operates in.

5.3 Conclusion

The study concludes that National Bank of Kenya has strategies in place to respond to the dynamic environment that it operates in. In instances that the bank has not anticipated changes in the environment, the Branch Managers or employees in the various branches have to be proactive and come up with quick and efficient solutions to handle the situation.

The study concluded that for the strategic change to be smooth, National Bank needs to have more training for its employees and to have a research and development department. This would enable the bank to continuously scan and monitor the environment. As a result, the bank would come up with innovative products and innovative ways of dealing with the dynamic environment.

5.4 Recommendations

The study recommends that all employees of National Bank should be encouraged to be innovative and creative. This would enable National Bank to develop new and improved ways of customer service delivery, new products and new strategies of dealing with the dynamic environment.

National Bank should partner with more organizations that offer financial services so as to reach a wider market locally and internationally.

The study recommends that for National Bank to handle the dynamic environment there is need for more sales representatives in the various branches that it operates in. This will enable the bank to gather customer feedback and change its products or services to suit the specific customer needs.

5.5 Limitations of the Study

There were challenges encountered during this study. Some personnel from the bank were hesitant to give all the information needed for the research. Some respondents felt that the information was too sensitive to share. The researcher explained that the information would be used specifically for academic research and that their names would not be mentioned in the research.

5.6 Areas For further Research

The researcher recommends that a replicate study be done on other commercial banks in Kenya. This would establish the strategic responses by other commercial banks to the dynamic environment.

5.7 Implications of the Study on Theory, Policy and Practice

There are cost implications associated with National Bank coming up with new strategies. As such, National Bank should continuously encourage its employees to develop themselves by issuing affordable student loans and encourage the employees to be innovative and creative.

National Bank should outsource some services such as training of their employees on new technologies, research and development. This would enable the bank to focus on the core banking business but at the same time be aware of the surroundings.

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APPENDIX : INTERVIEW GUIDE

Section A: Personal details

Name (optional)……………………………………………………….……………………

Number of years at NBK…………………………………………..…………………

Please indicate your current position in the bank………………………………………..

In which department are you working?…………………………………………………

How many years have you worked at NBK?..

Section B: Strategic Response

At what level are strategies made?...

To what extent does the management involve employees in strategic processes at NBK?

…………………………………………………………………………………………

Which strategies does your branch use to respond to the personnel changes?..................

…………………………………………………………………………………………

Did strategic change involve change in structure?..

…………………………………………………………………………………………

In your opinion, did the technology change with the new strategy? ……..……………….

To what extent did technology change?...

…………………………………………………………………………………………

Were the employees trained on the new technology?...

…………………………………………………………………………………………

Which strategies did your branch use to respond to the technological changes?.................

…………………………………………………………………………………………

Are your organization policies changed when there are strategic changes in your organization?..

Does organization culture inhibit strategy………...

…………………………………………………………………………………………

What attitudes influence strategy change in your organization?..

…………………………………………………………………..……………………….

Which strategies does NBK use to respond to competition?.........................……………

……………………………………………………………………..……………………..…
Does your organization compare with what competitors were doing to come up with new strategies?...
…………………………………………………………………………………..……….
How is your organization affected by politics in the country?..
………………………………………………………………………...……………………
…………………………………………………………………………………..……….
Does the socio-cultural environment affect the operations of NBK?...……………………
Please mention a few methods that your organization used to adjust to socio-cultural environment in the different parts of the country it operates in..
…………………………………………………………………………………………
…………………………………………………………………………………………