IMPLEMENTATION OF STRATEGIC TRANSFORMATION IN A LEGALLY CONSTRAINED ENVIRONMENT – A CASE STUDY OF POSTBANK, KENYA

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DECLARATION

The research project is my original work and has not been presented for an award of any degree in any university.

SIGN …………………………………….. DATE…………………………………

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D61/79683/2012

This research project has been submitted for examination with my approval as University of Nairobi supervisor.

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To my dear family for being there for me, their presence and companionship made the whole of the MBA course enjoyable. To all my lecturers, fellow students and support staff at the University of Nairobi, for their input in various ways. May God bless you.

DEDICATION

I dedicate this research project to my family.

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ABBREVIATIONS & ACRONYMS

ATM:	Automatic Teller Machine
CAR:	Capital Adequacy Ratio
CBK:	Central Bank of Kenya
CEO:	Chief Executive Officer
EABL:	East Africa Breweries Limited
FSDT:	Financial Sector Deepening Trust
GDR:	Gross Domestic Product
ICT:	Information Communication Technology
KCB:	Kenya Commercial Bank
KPOSB:	Kenya Post Office Savings Bank
MD:	Managing Director
NBM:	New Business Model
PIN:	Personal Identification Number
SAL:	Sector Average Liquidity
COG:	Champions of Corporate Governance
SMS:	Short Message Service

ABSTRACT

Much of previous research into strategic transformation to changes in the external environment has concentrated mainly on the external environment as a whole. However no specific study has focused on 'Implementation of Strategic Transformation in a Legally Constrained Environment'. Postbank is established under an act of parliament, Cap.493B which prohibits it from lending. This study therefore sought to fill the existing research gap by carrying out a case study on implementation of strategic transformation by Postbank in a legally constrained environment. After the amendment of banking act 16A (1) which prohibit the charging of ledger fees on savings accounts. The specific objective was to establish how Postbank is implementing strategic transformation in a legally constrained environment.This study employed an interview guide to collect data from the respondents. A sample of 5 respondents was selected from the population. Content analysis was to analyze the data. Strong leadership, lean structure, strong policies and procedures were found to have significantly influenced the implementation of the strategic transformation positively. From the respondents, staff buy-in, adequate resource allocation and prudent use of the same resources and staff accountability lead to the success of the transformation. The recommendations are that Postbank should simplify its structures to ensure easier information flow, more collaboration and teamwork among the personnel, undertake policy modifications and revise the procedure manuals. This is geared towards devolving decision making and authority to staff at all levels so that they feel empowered to act in areas of their expertise for the benefit of the organization as a whole. Adequate resource allocation and accountability measures should be enforced among its staff to cut on. Also to ensure resource allocations are thoroughly vetted and monitored. The areas for further research include a comparative study between a public enterprise and a private enterprise to find out best practices that can be incorporated in the other sector, as needed. The study provides foresight to business enterprises to always work on continuous improvement in all their product offerings, service delivery and delivery channels in response to changes in the external environment in order to remain relevant and gain competitive advantage over their rivals.

CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

This chapter provides a background to the problem to be investigated in this study that is implementation of strategy in a legally constrained environment within Postbank in Kenya. Implementation of strategy is the process that puts plans and strategies into action to reach goals. Financial Organizations operate in a very competitive environment. To maintain and develop competitive advantage, firms practice strategic management. Strategic transformation is about making fundamental changes in how business is conducted in order to help cope with a shift in market environment. Unlike change which involve innovations like TQM, reengineering, the learning organization, and benchmarking, transformation entails other fundamentals and revisions in leadership style and organizational culture.

Davenport (2007) argues that creating a brilliant strategy is nothing compared to executing it successfully. Execution is critical to success; without a carefully and well planned approach to execution, strategic goals cannot be attained. Hence, in striving to achieve intended results, excellent strategies should be properly implemented. Strategy implementation entails converting the strategic plan into action and then into results. Organizational performance involves the recurring activities to establish organizational goals, monitor progress toward the goals, and make adjustments to achieve those goals.

Businesses are subject to laws and regulations that place limitations on the types of products and services they offer, how they operate and the tariffs they charge. They must work within the legal constrains that govern them to avoid potentially costly legal violations.

Postbank is not legally licensed to lend, because it is established under an act of parliament, Kenya Post Office Savings Bank Act Cap. 493(B), laws of Kenya. Its primary mandate is to mobilize savings and serve the Kenyan public in rural areas regardless of its profit margins.

Being a government institution that reports to the Ministry of Finance it is not profit driven. Most banks being commercial generate a bulk of their profits through lending and charges levied on account maintenance (ledger fees). However in 2008, banking Act 16A (1) was amended to prohibit the charging of ledger fees on all savings accounts. Postbank being a purely savings institution was more adversely affected by the change as it doesn't operate other accounts like current accounts which ledger charges are not prohibited, thus operating in a legally constrained environment.

Porter's five forces analysis is a framework to analyze level of competition within an industry and business strategy development. It draws upon industrial organization economics to derive five forces that determine the competitive intensity and therefore attractiveness of a market. Attractiveness in this context refers to the overall industry profitability. An "unattractive" industry is one in which the combination of these five forces acts to drive down overall profitability. A very unattractive industry would be one approaching "pure competition", in which available profits for all firms are driven to normal profit (Porter, 2008).

Dynamic capability is defined by Teece et al. (1997) as "the firm's ability to integrate, build, and reconfigure internal and external competences to address rapidly changing environments. It is the capacity of an organization to purposefully create, extend, or modify its resource base.

The resource-based view as a basis for the competitive advantage of a firm lies primarily in the application of a bundle of valuable tangible or intangible resources at the firm's disposal (Mwailu & Mercer, 1983). The main difference between the resource-based view of the firm and dynamic capabilities view is the fact that the latter focuses more on the issue of competitive survival rather than achievement of sustainable competitive advantage (Barney, 2001).

Chaos theory studies the behavior of dynamical systems that are highly sensitive to initial conditions. Small differences in initial conditions yield widely diverging outcomes for such dynamical systems, rendering long-term prediction impossible in general.

Applying chaos theory to organizational behavior allows theorists to take a step back from the management of day-to-day activities and see how organizations function as unified systems (Chen, 2003).

To remain viable over time, Postbank must be both financially sound and relevant to its stakeholders and their changing needs. The Postbank Corporation continues to exhibit resilience in the face of various local and global turbulences (Ochako, J.O 2007). It has grown in terms of assets, deposits, employment and branch network. It has increasingly needed to have cost effective and innovative products, as well as improved access to financial services.

This stiff competition has necessitated banking institutions to implement appropriately formulated strategies to survive and gain profits. Postbank faced a legally constrained environment due to its rigid mandate which restricts her from offering lending services which is a main source of revenue for most banks in Kenya. Also, being a government institution it is mandated to serve the Kenyan public whether it is profitable or not. This disadvantaged Postbank from competing effectively and responding promptly to the changes in the turbulent and dynamic business environment, thus operating in a legally constrained environment.

1.1.1 Strategic Transformation

Transformation as defined by the Webster’s dictionary is passing from one state to another marked by radically different make-up, character or operation, sudden mutation or gradual evolution. Transformation is like a metamorphosis, a radical change involving structure, function, and every other aspect of the organization’s being. It is sudden, and the new organization barely resembles its origins. It’s not unusual for changes in the business/industry to drive the need for organizational change as well.

These massive maneuvers typically occur with mergers, acquisitions, CEO/ Board change or external changes in the market such as an organization's products or services being out of date, funding or income streams are being changed, new regulations coming into force or market competition becoming more intense. Olunga (2007) argued that there is usually disruption in the form of downsizing, closures, restructuring and other activities. Simply put, transformation is about making fundamental changes in how business is conducted in order to help cope with a shift in market environment.

1.1.2 Strategy Implementation

Strategy implementation entails converting the strategic plan into action and then into results (Thompson & Strickland, 1993). It is considered successful if the company achieves its strategic objectives and targeted level of financial performance. In deciding how to implement strategies, managers must have to determine what internal conditions are needed to execute the strategic plan successfully. This involves creating a series of tight fits between how things are managed internally and what is required for first rate strategy execution between strategy and: organization structure, organization's skills and competencies, budget allocations, internal policies and procedures, support systems, reward structure and the corporate structure.

The tighter the fits the more likely targeted organizational performance can actually be achieved. While the details of strategy implementation are specific to every situation, certain operational and administrative bases have to be covered no matter what the organization's situation is (Thompson & Strickland 1993). Depending on the organization's circumstances, some of the tasks will prove more significant and time-consuming than others. To devise an action agenda, managers have to determine what internal conditions are necessary to execute the strategy successfully and then create these conditions as rapidly as practical. The keys to successful implementation are to unite the total organization behind the strategy and see that every relevant activity and administrative task is done in a manner that tightly matches the requirements for first-rate strategy execution.

The motivational and inspirational challenge is to build such determined commitment up and down the ranks that an enthusiastic organization wide crusade emerges to carry out the strategy and meet performance targets as well as a concerted managerial effort to create a series of strategy- supportive “fits”. The stronger the strategy supportive fits created internally, the greater the chances of successful implementation.

The process of strategy implementation therefore involves two major steps namely operationalization of strategy or tactical issues and institutionalization or administration of strategy. During strategy implementation, the strategy must be made operational or ready for action thus making it ready for eventual implementation.

1.1.3 Implementation of Strategic Transformation in a Legally Constrained Environment

Strategy formulation involves defining the business a firm is in, the ends it seeks, and the means it will use to accomplish those ends. The approach to implementing strategy formulation is an improvement over the traditional long-range planning. Strategy transformation combines a future oriented perspective with concern for the firm’s internal and external environment (Ochako, 2007). It includes formulating and social responsibility; determining the institutional mandate, selling organizational objectives, conducting an external and internal and internal analysis; developing strategies and implementing policy (Olunga, 2007). Developing strategies needs simultaneous assessment of the external environment and the organization’s profile enables an organization to identify a range of possibly appealing interactive opportunities as avenues for improved service delivery.

The process is meant to provide the combination of long- term objectives and generic strategies. Implementing strategy is a tough and time consuming challenge. Practitioners emphatically agree that it is a whole lot easier to develop a sound strategic plan than it is to “make it happen.” Putting strategy into effect and getting the organization moving in the chosen direction calls for a different set of managerial skills (Olunga, 2007).

1.1.4 Kenya Post Office Savings Bank

The Kenya Post Office Savings Bank (Postbank) was established in 1910. Similar savings services were offered across the East Africa region. When the East African Community broke up in 1977, the Kenya Government established its own savings bank. Postbank is primarily engaged in the mobilization of savings for national development and operates under the Kenya Post Office Savings Bank Act Cap 493B (Postbank, 2010).

The starting point was the already agreed Postbank Corporate Strategy (2005 - 2007). The purpose of the New Business Model was therefore to turn strategic goals into a practical reality by cascading responsibility for implementation to individual business units and support functions, and then monitoring the business performance against expected strategic benefits, (Olunga, 2007).

A visionary leadership within Postbank strongly promoted the process of change management. They were supported by a committed donor, the Financial Sector Deepening Trust (FSDT), which funded the external project management consultants. After rapid endorsement of the new strategy by the Board, a Steering Committee headed by the Managing Director was put into place (Olunga, 2007).

The committee was responsible for overseeing the implementation of the NBM, including managing risks and key project issues as well as resolving conflicts between project and business-as-usual activities. A Change Manager was recruited from a commercial bank with a clear reporting line to the MD’s office. To assist in implementing change, a team of change agents and functional specialists were appointed as members of the various work streams(Olunga 2007).They were supported by change management consultants, who brought invaluable skills based on considerable experience (Postbank, 2011).

In 2008, the bank rolled out a new service delivery system - The New Business Model - that enables the customer to use a Debit card to transact both at the Point of Sale Terminals and ATM machines. Like individuals, businesses are constrained by laws and institutions that protect the well-being of society as a whole. Every business must operate within its legal mandate, failure to which their license will be revoked by their respective regulatory authorities.

Postbank is not legally licensed to lend, because it is established under an act of parliament, Kenya Post Office Savings Bank Act Cap. 493(B) laws of Kenya. Its primary mandate is to mobilize savings. Most banks being commercial, generate a bulk of their profits through lending and Postbank is restricted from issuing loans and their source of revenue was the charges levied on account maintenance (Ledger fees) which was scrapped by a banking Act 16A (1). This legal constraints have affected the other banks only minimally, in this situation, Postbank found no alternative but to undertake transformation to enable it survive in the harsh legal environment.

1.2 Research Problem

Businesses are being transformed in many ways: through mergers, acquisitions, digital, introduction of new technologies, and restructuring, regulatory changes. Transformation is also driven by new leadership, strategic decisions to change direction to position for growth, or react to changing market conditions. The same challenges typically apply; need for a new organization design, culture, and behaviors, as well as the right leadership and talent. Leaders have to reach agreement on priorities, direction, and then communicate this vision to employees along with the specific steps necessary to make it a reality. The need for business transformation may be caused by external changes in the market such as an organization’s products or services being out of date, funding or income streams being changed, new regulations coming into force or market competition becoming more intense. This management approach is widely used to; increase revenue or market share, improve customer satisfaction and cut costs (Kotter, 2007).

Strategic Transformation is about changing your business. It requires companies to fearlessly diagnose the root cause of performance issues, decide new courses of action, and honestly evaluate risk. It is the link between the strategy formulation and implementation phases. There is usually disruption in the form of downsizing, closures, restructuring and other activities. In these instances, a business may adopt a transformational strategy to position itself for long-term profitability.

Strategic transformation has the highest level of complexity and improvement potential. It is large scale, cutting across the whole organization, business, people, process, organization, technology, and financials (Wagner, 1998). Strategic transformation also has different requirements.

The most important requirement is strong leadership that can drive big change throughout the company and know how to challenge the norms of the industry. It also requires significant time, resources and energy to be successful, in other words, commitment, conviction and capability are fundamental. Strategic implementation put simply is the process that puts plans and strategies into action to reach goals. Strategic implementation is actualizing the strategic plan, which is a written document that lays out the plans of the business to reach goals. It focuses on the entire organization. Implementation occurs after environmental scans, SWOT analyses, and identifying strategic issues and goals (Lorette, 2014).

Postbank was limited by the act that created it to offer only savings accounts, leaving out other types of accounts in the lending portfolio and other types of accounts like current accounts It was equally adversely affected by changes in the 16A (1) of the banking act. Under this circumstance, Postbank realized that in order to achieve their goals of providing quality products, profitability and competitive advantage over their rivals, she must undertake strategic transformation in its structure, business strategy and operations. This encompass scanning the internal and external unfavorable environment. Strategic transformation was core due to changes in banking, i.e. technology (systems), employee motivation, increase in non-performing accounts, increase in operating cost and decrease in operating income, change in regulatory framework etc.

Several studies have been done in Kenya and elsewhere on transformation, strategy implementation and business process re-engineering. Some of these studies are reviewed here, Ochako (2007) investigated the strategic issue management practices by mobile telephone companies operating in Kenya; and Muthangya (2007) did a study on strategic response to competitive environment: A case of Postbank.

He established that in response to competitive environment by Postbank adopted the 3 Porter's generic strategies among others; Rumba (2008), strategic responses by mobile phone companies in Kenya to environmental changes. The study found out that companies implemented various competitive strategies, among which were cost-leadership and differentiation.

In addition, to date, few researchers have addressed the strategy-making processes by financial institutions (O'Regan and Ghobadian, 2000). The limited research that has been undertaken is deeply rooted in the business sector and relates to the strategy development process. Furthermore, little or no research has been undertaken on the difficulties that firms experience in implementing their strategic plans.

For instance, Olunga (2007) studied response of Postbank limited to changes in the financial services sector in Kenya. The study established that Postbank responded to the changes by investing in new market driven products and adoption of the most appropriate distribution channels. Kandie (2001) focused on Telkom Kenya Ltd and established that organizations have to devise means of responding to the pressure exerted by the environment.

Kiptugen (2003) focused on the Kenya Commercial Bank (KCB). She found out that, as a result of the economy's progressive decline and liberalization, legislative changes and technological advances, KCB limited responded by restructuring its operations through closure of branches, disposal of noncore assets, development of new marketing strategies, acquisition of flexible information technology system to provide better quality customer service and cultural change. Abdullahi (2000) did a study on the strategic responses by Kenyan insurance companies following liberalization. Njau (2000) did a study on the strategic responses by firms facing changed competitive conditions and focused his study on East African Breweries Limited (EABL).

Anthony (2012) conducted a study on ICT Operational Strategy at African Development Bank Group and found that increased use of ICT in its operations stimulated private investment in infrastructure and supported its non-sovereign financing in the ICT sector, through the creation of conducive policy and regulatory environments.

O'Regan (2005) carried out a comprehensive review of previous empirical research examining the link between leadership, strategy and performance and the outcome of the analysis indicated the need to consider and align leadership and strategy in order to achieve sustainable competitive performance. Simon (2014) did a study on the challenges of implementing a university wide strategic approach.

The outcome was that the main challenge was resistance, as the exercise was perceived to be disruptive. But the development of these digital age practices and skills resulted in transformative and constructive enhancements in teaching, learning and assessment. None of the aforementioned studies focused on implementing strategic transformation in a legally constrained environment .It is evident from these studies that competitive strategies are aimed at bettering performance but there is a gap in knowledge which the current study intends to fulfill. Therefore, there is need to bring out the effect of the implementing strategic transformation in a legally constrained environment. This study will address the question: How did Postbank implement strategic transformation in a legally constrained environment?

1.3 Research Objective

To establish the approach used by Postbank to implement strategic transformation in a legally constrained environment.

1.4 Value of the Study

The study will enable investors who would wish to invest in Postbank know the level of strategic transformation hence make appropriate judgment on the management and financial stability of the institution. They will be informed of the benefits and risk they are exposed to in terms of investment and hence make good investment decisions.

Regulatory bodies such as Central Bank and Kenya Bankers Association can use the study as a tool to measure and evaluate the framework of regulating financial institutions.

Students and academicians, this study provides information regarding the transformation of Postbank. It will contribute to literature, general knowledge and form the basis for future research in strategic transformation on financial institutions.

The previous researchers adopted different objectives and therefore this study seeks to fill the gap in literature by investigating implementation of strategic transformation in a legally constraint environment at Postbank in Kenya.

The study is expected to enrich the theories namely; Dynamic capability, Resource based view and Chaos, in the sense that resources, capability and the dynamic systems in the organization affects its vision to transform, build and configure internal and external competencies to address a rapidly changing environment.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter highlights issues relating to strategic planning and organizational performance. The chapter will review various studies carried out on the evolution of strategic planning practices in organizations and the challenges they face. Review of literature on organizational performance in relation to strategic planning will also be done.

2.2 Theoretical Foundation

This study will be anchored on five –forces model of competition (Porter, 1985) and the following theories; Dynamic capacity, Resource based view and Chaos theory.

2.2.1 Porter's Five- Forces Model

Porter brings together companies competing in a given industry performing different activities that involves cost and value creation for the buyers. The main variable determining a firm's decision to operate in an industry is its profitability and attractiveness. Porter's (1985) model defines the rules of competition in an industry; the entry of new competitors, the threat of substitutes, the bargaining power of buyers, suppliers, and the rivalry among the existing competitors. Since those affect the prices, costs, and investments required, the industry profitability is a total function of them. Strength of these forces leads to lower profitability of an organization and vice versa.

The banking industry is highly competitive. Larger banks would prefer to take over or merge with another bank rather than spend the money to market and advertise to people. The industry analysis has shown that bankers have to make business in a complex environment. Therefore, the strategy that management of banks will implement in their firm will be crucial to guarantee their success (Heffernan, 2004).

In Porter's model, the price change of substitute products immensely affects the demand of the product. The buyer bargaining power improves if many suppliers are competing for the same product and therefore buyers can switch from one supplier to another easily, especially for the undifferentiated products (Porter, 1985). The supplier bargaining power exists if the demand for product is higher than the supply. It has been claimed that rivalry depends on more than one factor; one of them is industry concentration. A low level of product differentiation is associated with higher levels of rivalry.

2.2.2 Dynamic Capability theory

Dynamic capability is defined by Teece et al. (1997) as "the firm's ability to integrate, build, and reconfigure internal and external competences to address rapidly changing environments. It is the capacity of an organization to purposefully create, extend, or modify its resource base.

Teece's concept of dynamic capabilities essentially says that what matters for business is corporate agility, which is the capacity to: sense and shape opportunities and threats, seize opportunities and maintain competitiveness through enhancing, combining, protecting, and, when necessary, reconfiguring the business enterprise's intangible and tangible assets. Three dynamic capabilities are necessary in order to meet new challenges. Organizations and their employees need the capability to learn quickly and to build strategic assets such as capability, technology and customer feedback have to be integrated within the company. Existing strategic assets have to be transformed or reconfigured.

2.2.3 Resource-based View (RBV)

The resource-based view as a basis for the competitive advantage of a firm lies primarily in the application of a bundle of valuable tangible or intangible resources at the firm's disposal (Wernerfelt, 1984).According to RBV proponents, it is much more feasible to exploit external opportunities using existing resources in a new way rather than trying to acquire new skills for each different opportunity.

Tangible assets are physical things Land, buildings, machinery, equipment and capital which can easily be bought in the market so they confer little advantage to the companies in the long run because rivals can soon acquire the identical assets. Intangible assets are everything else that has no physical presence but can still be owned by the company. Brand reputation, trademarks, intellectual property are all intangible assets. Unlike physical resources, brand reputation is built over a long time and is something that other companies cannot buy from the market. Intangible resources stay within a company and are the main source of sustainable competitive advantage.

If a resource exhibits VRIO attributes, (Valuable, Rare, costly to Imitate and Organized to capture value) the resource enables the firm to gain and sustain competitive advantage. The main difference between the resource-based view of the firm and dynamic capabilities view is the fact that the latter focuses more on the issue of competitive survival rather than achievement of sustainable competitive advantage (Barney, 2001).

2.2.4 Chaos Theory

Chaos theory studies the behavior of dynamical systems that are highly sensitive to initial conditions a response. Small differences in initial conditions yield widely diverging outcomes for such dynamical systems, rendering long-term prediction impossible in general. Applying chaos theory to organizational behavior allows theorists to take a step back from the management of day-to-day activities and see how organizations function as unified systems.

Chaos theory provides a useful theoretical framework for understanding the dynamic evolution of industries and the complex interactions among industry actors. It is argued that industries can be conceptualized and modeled as complex, dynamic systems, which exhibit both unpredictability and underlying order. It is relevant to the social sciences in general and to aspects of strategy in particular, including planning, forecasting and the impact of change on firms and industries (Kelsey, 1988).

An organization is a classic example of a nonlinear system (that is, a system in which minor events have the potential to set off grave consequences or chain reactions, and major changes may have little or no effect on the system whatsoever). In order to exploit the chaotic quality of an organization, one needs to try to see the organizational shape that emerges from a distance. Instead of pinpointing causes in the organization for organizational problems, the company is better served, according to chaos theory, by looking for organizational patterns that lead to certain types of behavior within the organization (Chen, 2003).

2.3 The Concept of Strategy

The major task of managers is to assure continued existence of their organizations (Aosa, 1992).This is one of the concepts that has been developed and is very useful to management strategy. Various leading management scholars and practitioners have underscored the importance of this concept. Such scholars include Porter (1980), Mintzberg (1987) and Johnson and Scholes (1997) among others. Chandler (1962) defines strategy as the determination of the basic long-term goals and objectives of an organization, and the adoption of courses of action and the allocation of resources necessary for carrying out these goals. Chandler considers strategy as a means of establishing the purpose of an organization by specifying its long-term goals, objectives and action plans and resource allocation patterns to achieve the set goals and objectives.

Strategy is viewed as building a defense against the competitive forces and finding positions in the industry where the forces are weakest (Porter, 1980). Knowledge of the company’s capabilities and of the causes of the competitive forces will highlight the areas where the company should confront competition and where it should avoid. Strategies need to be considered not only in terms of the extent to which the existing resource capability of the organization is suited to opportunities but also in terms of the extent to which resources can be obtained and controlled to develop a strategy for the future.

Mintzberg (1987) proposed five definitions of strategy. To him strategy could be seen as plan, a ploy, a pattern, a position and a perspective. As a plan, strategy specifies a consciously intended course of action of an organization. The strategy is designed in advance of actions and is developed purposefully.

As a ploy, strategy is seen as a maneuver to outwit competitors. As a pattern, strategy is seen as a pattern emerging from a stream of actions. Here strategy is seen as a consistency in behavior and the strategy develops in the absence of intentions. As a position, strategy is a means of locating an organization in its environment. And lastly, as a perspective, strategy consists of a position and of an ingrained way of perceiving the world. It gives an organization identity or a personality. As evidenced in these varied definitions, none can be said to capture explicitly all the dimensions of strategy.

Hax and Majluf, (1996) argue that the lack of a precise definition of strategy can be attributed to the fact that strategy is a multi-dimensional concept in terms of content and substance which, embraces all critical activities of the organization providing it with a sense of unity, direction and purpose, as well as facilitating the necessary changes induced by its environment. Strategy is a unifying theme that gives coherence and direction to the actions and decisions of an organization.

2.4 Implementation of Strategic Transformation in a Legally Constrained Environment

Thompson & Strickland (1993) argued that implementing strategic transformation in unfavorable environment is a tough and time consuming challenge. Practitioners emphatically agree that it is a whole lot easier to develop a sound strategy than it is to make the transformation." Putting strategy into effect and getting the organization moving in the chosen direction calls for a different set of managerial skills.

Successful strategy transformation and implementation depends on working through others, organizing, motivating, culture-building and creating strong fits between strategy and the transformation. Ingrained behavior does not change just because a new strategy has been announced (Thompson & Strickland, 1993).

Unlike strategy implementation, strategy transformation in unfavorable environment is often seen as something of a craft, rather than a science, and its research history has previously been described as fragmented and eclectic (Noble, 1999). It is thus not surprising that, after a comprehensive strategy or single strategic decision has been formulated, significant difficulties usually arise during the subsequent implementation and transformation process.

Noble, (1999) further notes that even the best formulated strategies may fail to produce superior performance for the firm if they are not successfully implemented and transformed. Results from several surveys have confirmed this view: An Economist survey found that a discouraging 57 percent of firms were unsuccessful at executing strategic initiatives over a period of three years, according to a survey of 276 senior operating executives in 2004 (Allio, 2005).

According to the White Paper of Strategy Implementation of Chinese Corporations (2006) strategy implementation has become “the most significant management challenge which all kinds of corporations face at the moment”. The survey reported in that white paper indicates that 83 percent of the surveyed companies failed to implement their strategy smoothly, and only 17 percent felt that they had a consistent strategy implementation process.

Bryant, Coombs, and Pazio (2014) did a study on strategic transformation at Greenwich university based on connection in an open world, comprising a series of inter-linking projects designed to effect a ‘step-change’ in terms of how technology shapes the learning, teaching and assessment practices at the university. It faced a number of challenges like institutional impotence which manifested itself as both an active form of change blocking and in more passive forms of inflexibility that became a form of impotence to institution at academic and student level. This was especially the case when critical concepts and practices such as openness, social media and experimentation were introduced. Institutionally, there was resistance in identifying key staff to represent at a formal level on decision making and action-led projects.

The governance structures and objectives of Greenwich Connect attempted to model a more democratic process of implementation. Staff perceived it as a top-bottom approach instead of collaborative thus the resistance

Frigo (2003) noted that execution of strategy will only be successful if it was designed to be executable and will result in outstanding performance if it was designed around the goal of maximizing financial value. Poor leadership can fail a good strategy. Implementation is a hands-on operation and action-oriented human behavioral activity that calls for executive leadership and key managerial skills

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter will give a detailed procedure of the methods to be used in this study. It outlines research design, instrument for data collection and analysis. This depends on ones preferences, abilities and the suitability of a particular approach to the topic.

3.2 Research Design

The design is the structure of any scientific work. It gives direction and systematizes the research.

According to (Welman and Kruger 2001), a research design is the plan according to which the research participants are identified and information collected from them. According to Heron (1998), a research design refers to a plan for collecting and utilizing data so that desired information can be obtained with sufficient precision. The study will adopt a case study approach because its focus is on one organization as a unit of analysis. A case study is a research strategy, an empirical inquiry that investigates a phenomenon within its real-life context.

3.3 Data Collection

The data will be collected from the key informants comprising the CEO, Human Resource, Corporate Banking, Planning and Risk Management using an interview guide. These key informants are preferred because they have been deeply involved in the transformation process. Using interview guide to collect data will allow the researcher to get more in-depth information about perceptions, insights, attitudes, experiences or beliefs.

The data will be qualitative where the study participants will be asked to respond to semi-structured questions relating to the department he/she represents. This kind of interview consist of several key questions that help define the areas to be explored, but also allows the interviewer or interviewee to diverge in order to pursue an idea or response in more detail.

The questions will be based on five key variables that were important in the implementation of the strategic transformation at the bank. These variables are; Strategic leadership, Organization structure, Policies and Procedures, Resource allocation and Performance.

3.4 Data Analysis

The study will use content analysis. This allows the researcher to sift through large volumes of qualitative data in a systematic manner (GAO, 1996).Content Analysis is a useful technique because it allows deep rooted issues concerning the subject of focus of an individual, group, institution or social attention to come out more clearly (Weber, 1999).It also allows inferences to be made which can be corroborated using other methods of data analysis.

Content analysis is used for a variety of purposes including attribution of texts to authors, testing of hypotheses, theory building, and evaluation research.

CHAPTER FOUR

DATA ANALYSIS, RESULTS AND DISCUSSION

4.1 Introduction

This chapter presents data analysis and research findings. The data was collected from respondents comprising the CEO, Human Resource, Corporate Banking, Planning and Risk Manager using an interview guide. Using interview guide to collect data allowed the researcher to get more in-depth information about perceptions, insights, attitudes, experiences or beliefs. These respondents were preferred because they have been deeply involved in the transformation process and are experts in their area of operation.

Director of Finance handles budget allocation, control and planning, financial accounting and reporting, revenue assurance and cost management for the bank. Head Corporate Banking manages banking services for large corporations designed to deal with major financial transactions, cash management, and other banking services custom-tailored for large firms. It involves one stop banking to clients covering all the lines credit in the bank, account relationship management and negotiated pricings and tariffs. The CEO is the team leader, guides the team and enforces the Vision, Mission and Core values of the bank. Human resource handles a range of staff matters. Strategic planning prepares the future direction of the organisation and re-aligns it with the external environment.

4.2 Results

The following are the findings from the interviews conducted:

4.2.1 Reasons that Informed the Strategic Transformation

The dynamic business and operating environment that kept changing made Postbank see the need to transform in terms of products offering and service delivery system to avoid reduction in revenues. Use of passbooks was eroding the Bank’s competitiveness compared to other banks that were offering more efficient modes of service delivery.

The use of passbooks and manual record keeping for customers was extremely expensive due to the human resource involved and the high cost of keeping the passbooks. Business processes were long, manual and outdated, hence resulting in costly and poor customer service. The manual nature of the core processes resulted in varied service levels across the bank's network hence the need to standardize to maintain corporate image. The need to maintain sustainability and profitability by reducing transaction costs both to the customer and to the bank. The need to provide value added services to her customers with a view to increase business volumes. Amendment of the Banking Act in 2007 that made ledger fees illegal. There was therefore need to diversify its revenue streams. The need to get value for the investments in automation of operations by realigning staff numbers especially in the newly automated areas.

4.2.2 Postbank Organizational Structure

The Bank is based and organized on a 10 tier structure from the Managing Director, Director, Head of Department, Manager, Team Leader, Senior Officer, Officer, Cashier/Senior Clerical Officer, Asst. Cashier/Clerical Officer and Office Assistant with an overall Board of Directors .The bank is also functionally organized into nine departments i.e. Executive, Banking and Marketing, Finance, Strategic Planning, Procurement, Internal Audit, Legal and Administration, ICT and Human Resources. Structures are however very dynamic and are dictated by the business environment (both internal and external). The structure was affected by introduction of new posts while some were scrapped. For example the office of the change manager was created to spearhead the change process. While some departments were merged so that information flow was faster and efficient as communication originates from a central point as the structure is now leaner.

4.2.3 Key Players in the Strategic Transformation

The key players comprised of internal staff comprising the CEO, Managers in-charge of operations, Information Communication Technology (ICT), Card services, Finance and accounting and various work streams and units each headed by a team leader. There were also external consultants who provided technical support and advice in the entire process of transformation.

4.2.4 Operational Procedures

The working of the teams and key players was structured in such a way that regular meetings were organized at every level. From these meetings, reports were prepared on key performance indicators and then passed to a higher level. This process ultimately culminated in a report to the consultants. The consultants studied the reports and offered any advice they considered necessary.

Some of the issues discussed at the meetings included, Work process, Organization structure, Product and service delivery (automation),Human resource information system that deals with Leave management, Self-loan assessment, Medical management, Online pay slips, Work culture, Appraisals for managers, Out sourcing of non-core banking services, Performance management, Performance-pay or incentives, Balanced score card, Work environment and Open office plan.

4.2.5 Resources in Strategic Implementation

Key tasks were resource mobilization and capacity building through training of staff. Funds were the key resource for the strategic transformation which was provided by the ministry of finance through an act of parliament. Since most staff were highly trained, they were sponsored for technical training as part of the incentive. New systems which include Ambit Core Banking System for banking services, Postilion for transaction switching [manages the Bank's Debit Cards, ATMs and POS Networks],Microsoft Dynamics for Financial management [Includes Procurement, Creditors, Debtors, General Ledger modules] and Per pay for HR and Payroll management.

Management Information System for business intelligence, Mobile and Internet banking system, Microsoft Exchange and SharePoint for collaboration, Microsoft Active Directory for security and user management, Microsoft ISA for Internet security management, Kaspersky for Anti-Virus engine for managing virus attacks, spyware, network attacks, hacking, access control and spam, Network management monitors the Bank's network.

4.2.6 Transformation Framework

The bank started by mobilizing resources and building capacity through training Transformation strategy targeted work processes, organisation structure, work environment, automation, products and services, delivery channels, strategic partnership and alliances. The work processes entailed Process re-engineering which was done in order to bring the much needed innovations to change the outdated business processes.

On products and services**,** the bank engaged in innovation by developing market driven products and services and by carrying out corporate and product marketing campaigns to create awareness of the bank's products and services accompanied by sales activities and customer loyalty programmes to reward and retain customers. The bank also entered into strategic partnerships. The bank also modified its organization structure through merging of some departments and introduction of new departments to handle roles created in the transformation. The structure became leaner. In work environment, open office plan and workstations were introduced to save on space and enhance transparency.

A new delivery channel (New-Business-Model) was introduced. The bank embraced a relevant technology NBM that led to innovation and also enhanced service delivery to her customers. Postbank management decided to innovate its operating systems to run departments which includes, Ambit Core Banking System for banking services, Postilion for transaction switching [manages the Bank's Debit Cards, ATMs and POS Networks], Microsoft Dynamics for Financial management [Includes Procurement, Creditors, Debtors, General Ledger modules],Human Resource Information System which manages the Payroll management, leave, Perdiem and loan applications.

Management Information System for business intelligence, Mobile and Internet banking system, Microsoft Exchange and SharePoint for collaboration, Microsoft Active Directory for security and user management. Internal control measures were put in place for monitoring and evaluation which involved User and password management, Audit trail/logs, Physical security e.g. controlled access to ICT Wing and server room, Quality management systems and policies in place, Firewalls to limit access to the Bank's network, Use of reports to monitor activities at Branch and Departmental level.

Postbank formed strategic partnership and alliances**.** The focus of the bank within this segment is very niche based and revolves around the provision of disbursement and collection products and services driven by the banks relative competitive advantage in its large and broad geographic network spread. These are corporate organizations both private and public (government and parastatals) and varying sizes, from medium sized to large national organizations. They were very price sensitive due to the need to control the costs associated with large volumes of disbursements or collections.

4.2.7 Challenges Experienced in the Process of Implementing Transformation

There were high costs with purchase of both the software and hardware involved in transformation. This was solved by a committed donor (FSDT) who funded the project. There was resistance by some staff who wanted status quo to be maintained and also resistance from some customers who wanted to retain the passbook. Though the resistance from staff was unfounded because adequate communication had been done early enough in preparation of the strategic transformation. There was also skeptism from some of the staff that the new changes might not take off. Some competitors immediately introduced the passbook to take advantage of possible customer churn from Postbank. There was also some form of conflict between the transformation and business as usual activities and there was a team that was charged with handling the conflict.

4.2.8 How Postbank dealt with the Challenges of Transformation

Postbank employed a number of strategies and techniques to deal with the challenges. These included, Business case analysis for each transformation undertaken, Sourcing technical support from its strategic partners, Capacity building of staff through training programmes. Apart from the above, the bank involved staff at all the stages of the implementation of the projects.

In 2008, the different work streams involved choose a few staff amongst themselves to act as change agents and the same are still being used in subsequent projects. Constant communication to all stake holders through circulars, meetings (at different levels) print and electronic media. Ensuring buy-in by selling the benefits to the customers who wanted to retain the passbook and other stakeholders. Reassurance to staff about their jobs especially after automation.

4.2.9 Outcomes of Strategic Transformation

The effect of the implementation was on the negative and positive ways. The Positive ways were, after scanning the business and operating environment and Carrying out market research/intelligence to determine customer needs that leads to product/service development of competitive products and services. Postbank was able to carry out targeted Corporate and Product marketing campaigns to create awareness. Strategic partnerships and alliances to leverage on partners' resources and offer high customer service levels business Process Re-engineering to add value to her customers.

Change in technology enabled Postbank to be the first in the industry to offer paper less banking services. The Bank's network has expanded through a mix of different channels (branches, agency or ATM service points) that offer convenience to the customers and are cost effective to the bank. Diversification and innovation has introduced new products and services as well as seeking for new market segments. For this Postbank was nominated among other Banks in Africa for the Africa Banker Awards 2011 on innovation. The bank was also 2nd runners up in the Champions of Corporate Governance (COG) Award in the Finance and Investments Category.

All the above has resulted in profitability and has enabled the bank to undertake its Corporate Social Responsibility initiatives to "give back to the community". Also the increase in revenue has enabled the bank to build capacity through training, skills upgrade, competitive sourcing and recruitment and placement of staff. Embracing best industry practices and corporate governance practices .Prudent investments of the bank's deposits and reserves.

The bank has Won and also been recognized with various awards that include: Kenya ICT Awards 2010, Postbank was nominated among four other banks in Africa for the Africa Banker Awards 2011 on innovation, Postbank was 2nd runners up in the financial and Investment sector of the Champions of Governance Award 2011, Postbank was 1st runners up in the Micro Finance Award for 2011, Postbank won the pioneer in paperless banking Award 22 November 2011, by the Computer Society of Kenya and NO.1- 2011 Inter-Bank Games. Postbank has grown in branch network from 78 locations in 2008 before the transformation to 101 as at August 2014, this is tremendous growth that is also reflected in the revenue margins.

The negative included high costs associated with purchase of both the software and hardware involved in transformation. Resistance by some staff who wanted status quo to be maintained. Some resistance from some customers who wanted to retain the passbook. Skepticism from some of our staff that the new changes might not take off and some competitors who introduced the passbook to take advantage of possible customer churn from Postbank.

Strategic transformation in Postbank is at advanced stages but the basic transformation has taken place from the restructuring of management to technology. The structure is lean and flat and functions both horizontally and vertically. In view of this, the structure supports the bank to achieve its strategic transformation as it facilitates quick decision making, creates the required synergy and it's within the acceptable span of control. The transformation is now entering the second phase which is preparing the bank for commercialization as the systems are in place; the workforce is lean as rationalization was undertaken before the start of the transformation.

Capacity building and training of the staff was done to embrace the transformation. Management and leadership style changed and became participatory style of leadership. Where all decisions are inclusive and consultative to the extent permissible. Staff are involved in the process of coming up with the strategic plan and coming up with ideas that are analyzed for implementation once found to be viable.

The leadership style was so effective such that it had created a strong team that shares the same vision and core values and also created ownership of decisions made which has resulted in significant transformation of the bank and achievement of corporate goals and improved public image.

Several strategies where put in place to gain co-operation of staff in terms of Communication of the bank's Vision, Mission and the core values, Regular communication on performance to staff, Open communication through the intranet Involvement of staff in strategy formulation and execution , Regular staff meetings with senior management , Annual staff satisfaction survey, Regional conventions and meetings, Staff benefits and welfare, Staff ideas scheme to tap new ideas from staff with a reward for dynamic ideas, Competitive filling of positions, Recognition that can be through commendation letters, verbal communication, having MD's lunch and Christmas parties.

Various incentive schemes that give various awards- Chairman's prize, MD's prize, Quarterly staff incentive scheme among others. Staff team spirit was maintained by Carrying out team building sessions, uniform application of bank policies to staff, Employees have equal access to bank opportunities and the sharing of success and periodical bonuses to all staff, communicating the vision/mission and objectives. This resulted to staff being promoted to the current CEOs/MDs/Chairpersons. The Bank conducted skills audits and skills impact assessment through individual performance evaluation. Training Needs Analysis (TNA) at organizational, departmental and individual levels through constant evaluation of the corporate strategy direction. Constant update of the staff skills inventory on continuous basis. The employees had the pre-requisite academic, professional, skills and competencies to carry out their functions.

4.3 Discussion

A bank's overall performance is an indicator of its profitability. Poor performance is as a result of low productivity which may be caused by internal and external triggers. The internal triggers may be; poor technology, employee capability and skill, bureaucratic processes, poor motivation of the staff.

On the other hand, external triggers may be; competitions, outdated products, weak systems, inadequate support from other stakeholders like parent company, regulatory authority, poor leadership, political environment and the general economic climate. In the case of Postbank, what informed the transformation is that the bank was experiencing declining profits; there was a drop in new accounts, rise in dormant accounts, and rise in administration costs and a decline in revenue. The dynamic business and operating environment that kept changing and therefore the need for Postbank to transform.

While other banks could venture in other sources of income the various loan portfolios, Postbank did not have an option as the act which created it restricted it from lending and banking act 16 A(1) had been amended to prohibit charging of ledger fees on savings accounts thus operating in a legally constrained environment. The challenges faced in developing a roadmap included but not limited to resources, financial, as they needed the services of consultants who had to be outsourced. Also getting relevant staff to lead the team was cumbersome, in a small scale resistance to change was experienced resulting in a mild go-slow due to fear of the unknown. The financial solution was meeting by the Financial Sector Deepening Trust (FSD) who funded the process. Through the transformation process Postbank has been able to overcome challenges presented by legal constraint

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATION

5.1 Introduction

This chapter presents the summary, conclusion and recommendation from the research findings.

5.2 Summary

Postbank was successful in implementing the strategic transformation in a legally constrained environment. This was as a result of strong leadership, committed staff, support from parent company, committed donor, proper strategies that were formulated with clear objectives. These findings are in line with those of Grant (2000) who indicated that strategies must be well formulated and implemented in order to attain organizational objectives.

The transformation process has driven the bank into profitability and has boosted the image of the bank broadening its cutover base and increased strategic alliances and partnerships with other industry players.

The study established that the management and processes affected the strategy implementation in the bank to a great extent. This was sorted out by a committee that was established to oversee the conflict that arose between 'business-as-usual' and strategy implementation challenges. The study found that strategy transformation process was not affected by limited resources because there was a committed donor who funded the whole project. The findings of the study are in line with those of Johnson and Scholes (2002) which established that the strategy implementation process was not affected by the challenge of poor organizational culture.

The workforce is also motivated due to improved working conditions. The above has seen the bank bag a number of awards including, ICT award, CEO of the year award and membership to World Savings Bank Institute (WSBI).

Some innovative strategies developed to suit the constrained environment included diversification of products on offer, increased partnership on agency banking with partners such as Housing Finance, KWFT, National Bank, setting up Mashinani agents to cover remote areas where setting up branches isn’t feasible, partnering with Kenswitch to allow her customers to access ATM services, mobile banking services in partnership with Safaricom which allows its customers to access banking services round the clock. The above reignited confidence from customers who had been lost to competition.

5.3 Conclusion

The goal of this research was to establish how Postbank implemented strategic transformation in a legally constrained environment. From the research findings, top management of the bank studied the economic environment for changes to determine the appropriate strategies to counter them and take advantage of opportunities presented by them. Despite the legal constraint, Postbank was still able to survive in the unfavorable environment.

No single strategy is able to confront all the changes in the economic environment but it requires a blend of visionary leadership and operational responses that are implemented over time to mitigate on the erratic factors and long term strategic moves to sustain the bank in the long term. Postbank managed to survive the difficult period in its transition between the years 2005-2008. This therefore indicates that banks can survive in the long term if they scan the economic environment continuously and amend their capabilities to match the environment.

5.4 Implication of the Study for Policy, Theory and Practice

From the study, management should design strategies that enhance growth and sustainability as competition intensifies. This will enable the organization to retain skilled workforce and attain competitive advantage. The management should also put in place continuous improvement programmes and refresher courses to keep abreast with new developments in the market. This will enable organizations to be proactive and incidences of being reactive to changes in the environment will not arise.

The findings of this research strengthen the theory of dynamic capability, Teece et al. (1997). Postbank was able to utilize resources at her disposal to reconfigure tangible and intangible assets which enabled it to transform and remain competitive. On the other hand Resource based View theory was also enriched as the finds of this research agree with the tenets of the theory. Postbank was able to apply its resources to exploit external opportunities in a new way rather than try to acquire skills for each different opportunity. In practice, organizations should always utilize its available resources optimally instead of relying on external resources which may not be available when and in the quantity required.

5.5 Recommendations

The CBK should grant Postbank a license to commercialize because it has proven that it can effectively handle the portfolio after successfully implementing the strategic transformation in a legally constrained environment. This will allow Postbank to diversify its product range to include lending as source of funds to finance its operations.

5.6 Limitation of the Study

Respondents could not provide some information since it was treated as private and confidential hence the study used the only available information from the respondents. The implementation of strategic transformation was carried out for a very long time hence it was hard to track some information. The results cannot be generalized because it is a cause study of a single organisation.

5.7 Suggestion for Further Research

This study looked at the public sector firm that operates as a government enterprise. A study comparing strategic implementation in a private and public firm may lead to new insights and therefore enrich the efforts that have been made in this study. A study of strategic implementation by private firms would seem likely to show differences which can be used to strengthen the public sector enterprises.

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APPENDIX: INTERVIEW GUIDE

Dear Respondent.

I am Jane Jemutai Ruto, a student at The University of Nairobi pursuing a Master of Business Administration (MBA) degree in Strategic Management. I am currently doing my research project on "**Implementing Strategic Transformation in a Legally Constrained Environment**" **(Case study Postbank)** and I am collecting information regarding the topic. The results of the research will be used for academic purposes only and a copy of the research project may be availed to the institution on request.

Transformation

1. What informed the strategic transformation in your institution?
2. What were the challenges faced in developing a road map in the transformation process?
3. Who were the key players in developing the strategies and implementation of the strategic transformation?
4. What were the performance objectives of the transformation?
5. How did the strategic transformation affect the organizational structure of the bank?
6. What changes were undertaken in policy in order to facilitate the transformation?
7. Is the strategic transformation process complete?

Implementation of strategy

8. How did Postbank go about in implementing the strategies?
9. What was the process through which transformation was undertaken?
10. What kind of resources did the bank require to implement the strategies?
11. How did the implementation of the strategic transformation affect the performance of the bank?

Turbulent Business Environment

12. What innovative strategies were developed to suit the turbulent environment?
13. What were the issues concerning customers?
14. Was there a concern about employees?
15. What did the bank do to sustain itself from the effects of the turbulence of the environment?