STRATEGY FORMULATION CHALLENGES FACING
LISTED COMMERCIAL BANKS IN KENYA

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DECLARATION

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

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

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DEDICATION

I dedicate this project to my loving husband, Humphrey Mwangi and my Children. Your love, support, patience and encouragement gave me the will and determination to complete my studies.
ABSTRACT

Firms operate in a dynamic business environment. A number of forces in the environment affect business in various ways and influence their competitiveness. These forces bring about uncertainty for organizations in their quest for success and survival. Firms, therefore, have to come up with strategies aimed at gaining competitive advantage. The banking sector has experienced an increase in competition over the last few years resulting from increased innovation amongst competitors and new entrants into the market. This in turn implies that necessary strategies need to be formulated and implemented to maintain and improve the banks profitability. The general objective of the study was to assess the strategy formulation challenges facing listed commercial banks in Kenya. This study adopted a descriptive survey design. The target population for this research comprised of all the 11 listed commercial banks in Kenya. The study focused on listed commercial banks for the following reasons; they contribute 75% of the industry pre-tax profits, they are the largest in terms of asset base and distribution channels among other indicators of size. They also attract keen interest from the investing public and the various regulatory bodies. The results of the study would therefore reflect the sector position. The study made use of both primary and secondary data. To collect the primary data, a semi-structured questionnaire was used. Secondary data was obtained from review of periodic reports filed by these listed commercial banks. Data from the field was edited and coded according to themes, which emanated from the research objectives and questions. Descriptive statistical techniques were used in data using the statistical package for social sciences (SPSS). Descriptive statistics such as mean and percentages were utilized to analyze demographic information and Likert type of responses. Responses obtained from the questionnaire were also organized, tabulated, and analyzed using simple frequencies and percentages. The study concludes that listed commercial banks employ various strategy formulation approaches with organization’s mission statement outlining the future course and serving as a guiding concept being the most common. Organizational activities being defined through a set of clear objectives and goals is amongst other approaches commonly used. However, listed commercial banks face challenges in the strategy formulation process especially in relation to effective response to competitor strategy. External and internal factors were also found to contribute to the challenges these banks face. The study finally concludes that listed commercial banks in Kenya adequately respond to challenges during strategy formulation by top management showing commitment through availing resources and other supportive systems. Based on the findings, the study recommends that listed commercial banks in Kenya need to be aware of specific needs in the strategy formulation such as communication, coordination, planning and staff motivations. The study also recommends that these banks should embark on management improvement through training and offering conducive work environments that help improve productivity which in turn will win support from the staff and thus make strategy formulation a reality in listed commercial banks. The study was carried out on listed commercial banks in Kenya thus the same study should be carried out in the other banks to find out if the same results will be obtained. The study focused on the financial sector thus further studies need to be carried out in other sectors of the Kenyan economy to enhance the understanding in this area of strategy formulation.
# TABLE OF CONTENTS

DECLARATION............................................................................................................................... ii
DEDICATION................................................................................................................................... iii
ACKNOWLEDGEMENT.................................................................................................................... iii
ABSTRACT....................................................................................................................................... v
LIST OF FIGURES.......................................................................................................................... ix
LIST OF TABLES............................................................................................................................. x

## CHAPTER ONE: INTRODUCTION......................................................................................... 1

1.1 Background of the Study ........................................................................................................ 1

1.1.1 Concept of Strategy........................................................................................................... 3

1.1.2 Strategy Formulation ....................................................................................................... 5

1.1.3 Strategy Formulation challenges.................................................................................... 6

1.1.4 Banking Industry in Kenya ............................................................................................ 7

1.1.5 Listed Commercial Banks in Kenya ............................................................................ 8

1.2 Research Problem ................................................................................................................. 9

1.3 Research Objectives............................................................................................................. 12

1.4 Value of the Study ................................................................................................................ 12

## CHAPTER TWO: LITERATURE REVIEW........................................................................... 14

2.1 Introduction............................................................................................................................. 14

2.2 Theoretical Foundations....................................................................................................... 14

2.2.1 The Activity-Based View model .................................................................................... 14

2.2.2 Value Chain Model.......................................................................................................... 16

2.2.3 The Resource Based View Model.................................................................................... 17

2.3 Strategy Formulation Approaches ....................................................................................... 18
CHAPTER THREE: RESEARCH METHODOLOGY ............................................. 22

3.1 Introduction............................................................................................................. 22

3.2 Research Design...................................................................................................... 22

3.3 Target Population.................................................................................................... 22

3.4 Data Collection ....................................................................................................... 23

3.5 Data Analysis.......................................................................................................... 24

CHAPTER FOUR: DATA ANALYSIS, RESULTS AND DISCUSSION ............ 25

4.1 Introduction............................................................................................................. 25

4.2 General Information............................................................................................... 25

  4.2.1 Gender of the Respondent................................................................................ 25

  4.2.2 Respondents Working Experience................................................................... 26

  4.2.3 Respondents Position in the Organization....................................................... 27

4.3 Strategic formulation approaches adopted............................................................ 27

  4.3.1 Level of Competition Facing Respondent’s Organization............................... 27

  4.3.2 Strategy Formulation Approach in Respondents Organization ....................... 28

4.4 Challenges facing listed Commercial Banks in Strategy Formulation................. 30

  4.4.1 Extent to which Respondents Organization Face Challenges in Strategy
          Formulation Process ...................................................................................... 30

  4.4.2 Challenges in Strategy Formulation Process in Respondents’ Organizations. 31

4.5 Response to Challenges in Strategy Formulation in Respondents Organization.... 33

  4.5.1 Adequacy of Responses to Challenges during Strategy Formulation.......... 34

  4.5.2 Responses to Challenges in Strategy Formulation Process ......................... 35

4.6 Discussion............................................................................................................... 36
LIST OF FIGURES

Figure 4.1: Respondents Working Experience ................................................................. 26

Figure 4.2: Level of Competition facing Respondents Organization ............................... 28

Figure 4.3: Respondents Working Experience ................................................................. 31

Figure 4.4: Adequacy of Responses to Challenges during Strategy Formulation .......... 34
LIST OF TABLES

Table 4.1: Gender of the Respondent ............................................................................... 26
Table 4.2: Respondents Position in the Organization....................................................... 27
Table 4.3: Strategy Formulation Approach in Respondents Organization ................. 29
Table 4.4: Challenges in Strategy Formulation Process in Respondents Organization.... 32
Table 4.5: Responses to Challenges in Strategy Formulation Process ............................. 35
CHAPTER ONE: INTRODUCTION

1.1 Background of the Study

The corporate world is in the process of global transformation. Mergers, acquisitions, outsourcing, and downsizing are becoming common word everywhere. Privatization is allowing free enterprise to take on functions that previously were the domain of government. International boundaries are fading in importance as businesses take on a more global perspective and the technology of information age is telescoping the time it takes to communicate and make decision. Strategy and strategic management are critical elements of organizational survival in a turbulent environment. Strategy is 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 expectations (Scholes and Whittington, 2005). Pearce and Robinson (2004) defined strategic management as a set of decisions and actions that result in the formulation and implementation of plans designed to achieve a company’s objectives. It includes environmental scanning, strategy formulation, strategy implementation, evaluation, and control.

Strategy formulation is the development of long-range plans for the effective management of environmental opportunities and threats in light of corporate strengths and weaknesses. It includes defining the corporate mission, specifying achievable objectives, developing strategies and setting policy guidelines. It begins with situational analysis. The simplest way is to analyze is through SWOT analysis. This is the method to analyze the strengths and weakness in order to take advantage of opportunities in the organization’s environment and to overcome threats to an organization. SWOT is the
acronym for Strength, Weakness, Opportunities, and Threats. The SWOT matrix illustrates how the external opportunities and threats facing a particular corporation can be matched with that company’s internal strengths and weaknesses to result in four sets of possible strategic alternatives. Strategic managers can create growth as well as retrenchment strategies. It can be used to generate corporate as well as business strategies.

The banking sector has experienced an increase in competition over the last few years resulting from increased innovation amongst competitors and new entrants into the market. This competition has resulted in the loss of market share by many banks with some being closed (Muchene, 2003). However, Central Bank of Kenya (CBK) (2013) reported that Kenya’s banking sector had moved towards greater inclusiveness, efficiency and stability due to the increased convergence of banking and mobile platforms as banks explore more convenient and cost effective channels of banking. In addition Mugo, Wanjau, Ayodo (2012), suggest that to produce greater profitability, banks need to apply competitive intelligence, market intelligence, product intelligence, technology intelligence and strategic intelligence in their operations. This in turn implies that necessary strategies need to be formulated and implemented to maintain and improve the banks profitability.

The study will be based on the Activity-Based View model, Value-Chain model, as well as the Resource Based View model. The activity-based view is concerned with seeing firms as value chains that create value by transforming a set of inputs into more refined output (Porter 1985, 1996). The value chain model proposed by Porter (1985) posits that business actions can increase the value of inputs along the chain of activities in bringing a
final offering to stakeholders. The Resource Based View Model according to Grant (1998) observes that most successful businesses have been propelled to this position by thoroughly formulated and well executed strategies. It is against this background that the study asserts that efficient strategy formulation leads to increasing the organization value by enhancing its processes. However, challenges encountered in strategy formulation inhibit an organization from accruing the benefits. Wessel (2011) states that most of the barriers to strategy formulation encountered by organizations fit into one of the following interrelated categories: too many and conflicting priorities, the top team does not function well; a top down management style; inter-functional conflicts; poor vertical communication, and inadequate management development. It is therefore imperative to look into the strategy formulation challenges facing listed commercial banks.

1.1.1 Concept of Strategy

Strategy, as a unifying theme that gives coherence and direction to the actions and decisions of an individual or organization, has a fundamental role in success. Strategy is understood as long-range planning in a large number of studies (Porter, 1996; Johnson and Scholes, 2002). Long range planning allows an organization to build unique capabilities and skills, to clarify goals and policies of the company and allocate resources tailored to its strategy. Strategy is about the choice of direction for the firm, and this choice has critical influence on its success or failure. Since strategy determines the whole direction and action focus of the organization, its formulation cannot be regarded as the mere generation and alignment of programs to meet predetermined goals. The essence of strategy formulation is to deal with internal and external competition.
Strategy can be formulated at several levels (Hofer and Schendel, 1978; Johnson et al., 2002). One way of categorizing these levels is to recognize that there are three levels of strategic decision making in organizations: corporate, business, and operational levels. At corporate level, strategy concerns the direction, composition, and coordination of the various businesses and activities within a large and diversified organization. At business level, strategy relates to the creation of competitive advantage and how to compete successfully in each of the businesses in which a company competes. At operational level, strategy concerns with how the component parts of the organization in terms of resources, processes, people and their skills are pulled together to form a strategic architecture (Johnson et al., 2002), defined as the combination of resources, processes and competencies to put strategy into effect.

The purpose of strategy is to ensure the achievement of competitive advantage (Rumelt, 1999) by defining the direction and scope of an organization (Hofer et al., 1978). Because achieving, developing and sustaining the competitive advantage enable firms to earn superior profits, competitive advantage is the firm’s ability to outperform its industry, i.e. to earn a higher rate of profit than that of industry. Coyne (2009) argues that for a sustainable competitive advantage to exist, customers must perceive a consistent difference in important attributes, between the firm’s products/services and the attributes offered by competitors. According to Rumelt (1999) and Hofer et al. (1978), competitive advantage can be based on superior skills, resources, or position at a market. More recently, strategic management literature puts the emphasis on intangibles as a source of competitive advantage (Nahapiet and Ghoshal, 1998), because they are less visible and subsequently more difficult to learn and imitate than tangible resources.
1.1.2 Strategy Formulation

Strategy formulation and development is the development of long-term plans for the effective management of opportunities and threats in light of the organization’s strengths and weaknesses. On the other hand, strategy implementation is the process that turns formulated strategies and plans into actions to accomplish objectives. Strategy formulation traditionally involves the use of analytical tools and highly structured processes (Heracleous, 1998; Wilson, 1998; Mintzberg 1994; Porter, 1980).

This approach continues to assist in surfacing the nature of strategic issues and testing of assumptions in strategy making, (Christensen, 1997; Mason and Mitroff, 1981). However, theorists and practitioners in the past decade have identified a shift to more emergent characteristics in the strategy making process combining stakeholder considerations and strategic conversations during strategy formation with selected stakeholders (Moss Kanter, 2002; Liedtka 1998, Heracleous, 1998; Christensen, 1997). The first acknowledgements of the approach to consider stakeholder needs in strategy formation date back to Freeman (1984).

To formulate effective strategies, managers in an organization need to be aware of realities in the business environment. Strategy formulation thus begins with scanning of the external as well as internal environment of the organization. Analysis of the external environment helps to identify the possible threats and opportunities while analysis of internal environment helps to identify strengths, weaknesses and the key people required within the organization to meet its objectives (Moss Kanter, 2002).
1.1.3 Strategy Formulation challenges

The process of strategy formulation results in no immediate action, rather it sets the general directions in which the firm’s position will grow and develop. Therefore, strategy must then be used to generate strategic projects through a search process. The role of strategy, in search, is first to focus on areas defined by the strategy and second to filter out and uncover possibilities, which are inconsistent with the strategy. Thus, strategy becomes unnecessary whenever historical dynamics of an organization will take it where it wants to go. In this case, the search process is usually focused on the preferred areas.

The critical phase of strategic management is not only formulation of strategies but also translating the thoughts into action. Hitt, Ireland and Hoskisson (1997) argue that when formulating strategies, thought must be given to implementation. At the time of strategy formulation, it is not possible to enumerate all the project possibilities that will be uncovered. Therefore, strategy formulation must be based on highly aggregated, incomplete and uncertain information about courses of alternatives.

Managers’ greatest challenge is in formulating appropriate strategies that will ensure a firm’s continued success in the future while giving it a sustainable competitive edge over its competitors. Drucker (1984) states that the end products of management are decisions and actions. By formulating and managing strategy, the organization endeavors to match the skills and resources of the organization to the opportunities found in the external environment. The decisions and actions taken will lead to the development of an effective strategy, which will help to achieve organizational objectives.
1.1.4 Banking Industry in Kenya

Commercial banks are financial intermediaries that serve as financial resource mobilization points in the global economy. They channel funds needed by business and household sectors from surplus spending to deficit spending units in the economy. A well-developed efficient banking sector is an important prerequisite for saving and investment decisions needed for rapid economic growth. A well-functioning banking sector provides a system by which a country is most profitable and efficient projects are systematically and continuously funded.

The banking sector in Kenya as at 31 December 2014 consisted of the Central Bank of Kenya as the regulatory authority and 44 banking institutions (43 commercial banks and 1 mortgage finance company). Out of the 44 institutions, 31 are locally owned and 13 are foreign owned. The locally owned financial institutions comprise three banks with significant shareholding by the Government and State Corporations, 27 commercial banks and 1 mortgage finance institution. Commercial Banks are classified into three peer groups using a weighted composite index that comprises assets, deposits, capital size, number of deposit accounts and loan accounts. A bank with a weighted composite index of 5 percent and above is classified as a large bank, a medium bank has a weighted composite index of between 1 percent and 5 percent while a small bank has a weighted composite index of less than 1 percent.
For the period ended 31st December 2014, there were 6 large banks which accounted for 53.7 percent of the market share, 15 medium banks with a market share of 36.8 percent and 22 small banks. The large commercial banks in Kenya by the end of 2014 were Kenya Commercial Bank Ltd, Equity Bank Ltd, Cooperative Bank Ltd, Standard Chartered Bank (K) Ltd, Barclays Bank of Kenya Ltd and CFC Stanbic Bank Ltd (CBK, 2014).

1.1.5 Listed Commercial Banks in Kenya

The role of banks in an economy is paramount because they execute monetary policy and provide means for facilitating payment for goods and services in the domestic and international trade. At the Nairobi Securities Exchange, a bank must have a minimum number of seven members according to the Companies Act chapter 486 of the laws of Kenya. The listed commercial banks in Kenya are Barclays Bank, CFC Stanbic Holdings Ltd, I&M Holdings Ltd, Diamond Trust Bank Kenya, Housing Finance Co. Ltd, Kenya Commercial Bank Ltd, National Bank of Kenya Ltd, NIC Bank Ltd, Standard Chartered Bank Ltd, Equity Bank Ltd and The Cooperative Bank of Kenya Ltd.

Kenya has adopted various guidelines in relation to organization management. First, Kenya adopted the use of the International Financial Reporting Standards (IFRs) effective January 1999. Second, in 2002, CMA (Capital Market Authority) issued corporate governance guidelines, which were made mandatory for all companies listed on the NSE (CMA, 2002).
The banking industry, in which these listed commercial banks operate, is dynamic and competitive such that sound strategies are critical for their survival and prosperity. Strategy formulation and implementation are the pillars of strategic management (Pearce and Robinson (2007). The strategies enable a firm to create a fit between the organization and its environment in order to adapt and thrive. The Kenyan banking industry is facing many challenges including cut-throat competition among the banks and CBK strict regulations especially on minimum cash deposits, the *induplum* rule dictating maximum interest rates on amounts borrowed, as well as floor rates.

Other challenges include serving more educated and discerning customers, technological innovations, globalisation, and encroachment into banking services by mobile phone providers in money transfer and utility bill payment services. Banks therefore have a huge task of formulating and employing effective strategies to remain in profitable operations.

1.2 Research Problem

Firms operate in a dynamic business environment. A number of forces in the environment affect business in various ways and influence their competitiveness. These forces bring about uncertainty for organizations in their quest for success and survival. Firms, therefore, have to come up with strategies aimed at gaining competitive advantage. A critical look at the strategic management literature reveals that there are some key factors that are considered to be of great significance for the integration of strategy formulation and implementation. They include involvement of middle line managers and employees in strategy formulation and implementation, interrelationship between strategy and the
elements of McKinsey’s Framework, translation of strategy into short-term goals and objectives, and strategy as a continuous systematic process. The involvement of middle line managers in the strategy formulation process is paramount if the strategy is going to be successfully implemented.

With the increasing level of competition in the business environments, strategies are formulated by organizations in order to achieve a more favorable position. The Central Bank of Kenya issued new prudential guidelines in 2012, which came into effect on 1 January 2013 (CBK, 2013). Some of these changes had an immediate and significant impact on banks, especially the ones covering capital adequacy requirements, corporate governance, and consumer protection. All these regulations require that banks go back to the drawing board to strategize on how well to meet these requirements. In addition, the level of competition has increased as more Microfinance Institutions, Deposit taking microfinance institutions and SACCOs increasingly push for a share of the same cake by attracting customers who were originally bank customers only (Macharia, 2011).

The study is focusing on banks quoted in the NSE, given that the trading at the NSE continues to play a vital role in national development. In 1989, the Capital Markets Authority (CMA) Act came into force, which led to the creation of the CMA in January 1990 with the objective of developing the capital market and protecting investors. In the same year, the call over trading system was phased out in favour of an open outlay system, which resulted in the establishment of a trading floor. Eight new brokers were licensed in 1994. These changes have meant that for commercial banks to remain profitable, they have to continuously formulate and implement strategies to ensure their survival.
A number of studies have been undertaken locally in relation to strategy formulation in various sectors. Peel and Bridge (2008) also examined the connection between strategy formulation and business performance by reviewing previous academic work. As expected, they came to the same conclusions, with several studies showing no connection between the use of formal strategic techniques and performance, and others reporting a positive relationship. Similarly, Scholes and Whittington, (2005) revision of 32 empirical studies, examining the relationship between strategy formulation and performance in large organisations, exhibited that more than the two-thirds of these studies identified a positive link.

Locally, Kiptugen (2003) did a study to determine the strategic responses of Kenya Commercial Bank to a changing competitive environment. He focused mainly on strategies that can be adopted in a competitive environment. This study failed to cover the processes involved in strategy formulation and the challenges faced. Waruhiu (2004) conducted a study on issues in strategy formulation and implementation in international collaborative research & development, a case study of research based institutions. Kamanda (2006) also did a study on Kenya Commercial Bank (KCB) with the objective of determining the factors that influence its regional growth strategy. His study, however, does not cover the issues of strategy formulation. Kithinji (2012) investigated strategy formulation and implementation at Achelis Kenya Ltd. The study found that that successful strategy implementation could go a long way in helping a company gain a competitive edge, in defining the business of the organization and in achieving the right direction.
Mukhaye (2014) studied the critical issues and nature of strategy formulation process among the Non-Deposit taking MFIs within Nairobi. She found out that that half of the respondents indicated that the competition facing the organization was fairly high. Overall, however, no study to the knowledge of the researcher has been done to explore strategy formulation challenges facing listed commercial banks in Kenya. This study therefore sought to fill this research gap by investigating strategy formulation challenges facing listed commercial banks in Kenya. This led to the research question: What challenges do listed commercial banks in Kenya face in strategy formulation?

1.3 Research Objectives

This study was guided by two objectives. These were:

i. To establish strategic formulation approaches adopted by listed commercial banks in Kenya

ii. To determine the challenges facing listed commercial banks in strategy formulation

1.4 Value of the Study

The study findings are expected to be beneficial to various stakeholders. Firstly, the findings would be useful as a guide to the banking industry in coming up with suitable strategies and management practices that can ensure profitability, survival, and growth. The study will also be invaluable to the managers for it would be a blue print on how strategy should be formulated and implemented.
The government would also benefit from the study in formulating policies and measures that would enhance strategy formulation in the banking industry. Other organisations in other sectors would also benefit in assessing, evaluating and reviewing their strategy formulation practices as tools for competitiveness in the face of the changing business environment.

The scholars of strategic management will get an insight of the process of strategy formulation and challenges faced. This study will increase the body of knowledge in the area of strategic management in Kenya.
CHAPTER TWO: LITERATURE REVIEW

2.1 Introduction
This chapter introduces the literature review that provides relevant theoretical orientation to the study. It identifies the research issues to be addressed. In summary, this section is discussed in terms of theoretical review, and empirical review.

2.2 Theoretical Foundations
The fundamental question in the field of strategic management is why some firms perform better than others and how those firms achieve and sustain competitive advantage. The answer to these questions may be interpreted in the light of a number of distinct paradigms: the resource-based paradigm and the activity-based paradigm. The study takes a theoretical approach that seeks to integrate those paradigms. In developing these ideas, the study presents a new perspective on the strategy formulation process in the context of a thriving banking industry set in a developing economy. The study will focus on the Activity-Based View model, Value-Chain model, as well as the Resource Based View model.

2.2.1 The Activity-Based View model
The activity-based view has mainly been concerned with seeing firms as value chains that create value by transforming a set of inputs into more refined output (Porter 1985, 1996). Nevertheless, to be more specific, we need to consider how value is created in the internal business process value chain. The business process value chain can be divided into major processes: the innovation process; and the operation process. The innovation
process is made up of product design and product development, whereas the operations process is made up of manufacturing, marketing, and post-sale service.

The traditional perspective focuses on the operations process. According to the short-term view, value creation begins with the receipt of an order from an existing customer for an existing product or service, and ends with the delivery of the product or service to the customer (Kaplan and Norton, 1996). In this case, value is created through formulation of competent strategies.

However, viewed from the perspective of the innovation process, value creation is a long-term process, which, for many companies, is a more powerful driver of future financial performance than the short-term operational efficiencies. This view requires an organization to create entirely new products and services that will meet the emerging needs of current and future customers. For many companies, their ability to manage successfully a multi-year product-development process, or to develop a capability to reach entirely new categories of customers, can be more critical for future economic success than managing existing operations efficiently, consistently, and responsively.

Value is thus created through formulation of competent strategies. Specifically, strategy formulation chain is about translating competencies into new processes, products and services, and learning from successful and unsuccessful projects, using this experience to improve existing competencies and, where necessary, developing new competencies (Tidd, 2005).
2.2.2 Value Chain Model

The value chain model was proposed by Porter (1985) as a means by which business actions that transform inputs could be identified (value chain stages). The notion of value chain helps to understand the increase of value along the chain of activities in bringing a final offering to stakeholders. Value chain analysis looks at each link in the chain to see where value is added and how it might be increased. The idea is for companies to maximize value at minimum cost and to allocate resources to those activities that generate the most value, thereby maximizing profitability.

Sveiby (2001) argues that the key to value creation lies with the effectiveness of knowledge transfers and conversions. Carlucci, Marr, and Schiuma, (2004) demonstrate that the generated value is the result of an organization’s ability to manage its business process and the effectiveness and efficiency of performing organizational processes are based on organizational competencies. Knowledge assets interact with each other to create competencies and capabilities, and it is often these interactions that provide a competitive advantage because they make these assets difficult for competitor to replicate (Barney, 1991; Teece, Pisano and Shuen, 1997; Marr, 2005). These value drivers are bundled together, and the interactions between them are varied, complex and dynamic making difficult to demonstrate the cause and effects relationships and its linkage to value outcomes. This perspective has been extended beyond the traditional value chain to other more complex ways of creating value, such as value networks, value constellations, and value shops (Haanes, 2000).
Value networks create value by making different products and services available to customers. The value is derived from the network giving buyers access to sellers of what they want, and by putting suppliers in contact with customers who want their products. Examples of companies creating value through networks include commercial banks, airlines, postal agencies, insurers, brokers, and stock exchanges. Value constellations can be considered linked sets of different value networks. Value shops create value by solving unique problems for customers by using relevant competencies.

2.2.3 The Resource Based View Model

Grant (1998) observes that most successful businesses have been propelled to this position by thoroughly formulated and well executed strategies. He goes on to argue that strategy formulation commences with elements of an organization’s mission and vision. This is in contrast to traditional firms whose strategy formulation focus was the markets they served. This argument has been overtaken by the current volatile business world where customer identity, preferences as well as technologies used to serve them are also changing. The market-based strategy therefore does not offer stability and reliable direction necessary for long-term strategy.

When the external environment is in state of flux, the firm itself, in terms of its bundle of resources and capabilities, might be a much more stable basis upon which to define a sense of identity. Hence, a definition of the firm in terms of what it is capable of doing might offer a more durable strategic basis than a definition based upon the needs, which the business seeks to satisfy (Quinn, 1992). Capabilities may be understood as the way resources, talents and processes are combined and used (Teece et al., 1997).
Tangible resources are concrete, tractable, and easy to identify and evaluate. They include the financial and physical assets that are identified and valued in a firm’s financial statements, such as capital, factories, machines, raw materials, and land. Intangible resources are generally more difficult to measure, evaluate, and transfer. They include skills, knowledge, relationships, motivation, culture, technology, and competencies. Lev (2001) states that “intangibles are frequently embedded in physical assets (knowledge contained in technology) and in labour (tacit knowledge), leading to considerable interactions between tangible and intangible assets in the creation of value”.

Another important element of the resource-based view is that not all resources are of equal importance or possess the potential to be a source of sustainable competitive advantage. Alternative classifications of barriers to resource duplication abound in the organizational literature. For example, Barney (1991) proposes that advantage-creating resources must meet four conditions, namely, value, rareness, inimitability, and non-substitutability, while Grant (1998) argues that levels of durability, transparency, transferability, and replicability are important determinants. In short, resources are likely to be inimitable or imperfectly imitable where their relationship with the advantage is poorly understood.

2.3 Strategy Formulation Approaches
The business environment rapidly changes presenting the organizations with opportunities and threats. To ensure survival and success, firms have to develop capability to manage threats and exploit the emerging opportunities. Strategy formulation is the process of deciding best course of action for accomplishing organizational objectives and hence achieving organizational purpose (Thompson and Strickland 2008).
According to De Kluyver (2000), strategy formulation follows three fundamental steps “where are we now, where do we go, and how we get there.” Because all organisations have to face different internal and external conditions, the requirement for different strategies, more fitted to their needs, is preeminent (Saloner et al., 2001). According to Van der Heijen (2006), an effective strategy making formulation develops according to the unique goals and objectives of an organization and is dependent upon the internal and external situations it faces. The formulation of a strategy is a procedure for the advancement of long-term plans, to act successfully in response to environmental opportunities and pressures in the light of the strengths and weaknesses of the company (Houben et al., 1999). Despite the large number of processes, there are three broad steps that every process incorporates when formulating a strategy: goal setting, situation analysis, and alternative strategies consideration.

Adopting the deliberate perspective of strategy formulation, David (2009) presented the methodology for formulating an effective business strategy by identifying objectives and beliefs of managers. Viewing from the emergent scope of strategy, Pearce et al., (2005) argued that strategy formulation cannot be assessed in a rational manner and is modified or replaced according to different internal and external factors. Arthur et al., (2007) state that decision-makers in an organization provide the general direction on how strategy will be formulated, but the details of strategy appear during the execution stage according to the actions of the organizational actors.

The strategy formulation task is easily the most complicated and time-consuming part of strategic management (Thompson & Strickland, 2003). Successful strategy formulation depends on doing a good job of working with and through others, building and
strengthening competitive capabilities, motivating and rewarding people in a strategy-
supportive manner, and instilling discipline of getting things done (Arthur et al., 2007).
Li et al., (2008) view strategy formulation as a dynamic, iterative, and complex process,
which is comprised of a series of decisions and activities by managers and employees
affected by a number of interrelated internal and external factors, to turn strategic vision
into reality in order to achieve strategic objectives.

Al-Ghamdi (1998) researched 15 implementation problems and found that six strategy
formulation problems were experienced by over 70% of the sample group of firms. He
further states that problems with formulation often occur when companies concentrate on
new strategy development at the expense of the main line of business that operates within
previously formulated business strategies. Downes (2001) states that the kinds of
execution obstacles most companies run into fall into two categories: problems internal to
the company and problems generated by outside forces in its industry. These internal and
external issues are affected by the extent of flexibility companies have to launch strategic
initiatives successfully.

Hrebiniak (2005) recognized the difficulty of strategy formulation and the reward from
doing that correctly. He discussed various factors that can lead to incorrect
implementation of any strategy. Additionally, Hrebiniak’s research survey of
400 managers contributed to the identification of additional factors that may cause
challenges to successful strategy formulation included: Lack feelings of “ownership” of a
strategy or execution plans among key employees; not having guidelines or a model to
guide strategy- execution efforts; lack of understanding of the role of organizational
structure and design in the execution process; inability to generate "buy-in" or agreement
on critical execution steps or actions; lack of incentives or inappropriate incentives to support execution objectives; insufficient financial resources to execute the strategy (Cited in Al-Ghamdi 2005).

Okumus (2003), cited in Muniu (2010), found that the main barriers to the formulation of strategy include; lack of coordination and support from other levels of management and resistance from lower levels and poor planning activities. Sterling (2003) identified various reasons why strategies fail as such as unexpected market changes, lack of senior management support, effective competitor responses to strategy, application of insufficient resources, failure of buy-in, understanding and or communication, timeliness and distinctiveness, lack of focus, and bad strategy poorly conceived business models. Sometimes strategies fail because they are simply ill motive.
CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Introduction

This section deals with the research methodology of the study. It focuses on the research design, target population, research instruments, reliability, and validity of instruments, data collection, and data analysis.

3.2 Research Design

This study adopted a descriptive survey design. The study aimed at giving an accurate description on strategy formulation challenges facing listed commercial banks in Kenya. A descriptive research is more rigorous than exploratory research and seeks to find out the; who, what, when and how, aspects of the research (Cooper and Schindler, 2006). Descriptive surveys are carried out on a sample population to make measurements at a specific point in time (Lewis, Saunders and Thornhill, 2011).

3.3 Target Population

Population is the entire group of individuals, events or objects having common characteristics (Mugenda and Mugenda, 2003). According to Cooper et al. (2006) population is the total collection of elements about which a researcher wishes to make some inferences. The target population for this research comprised of all the 11 listed commercial banks in Kenya.
The study focused on listed commercial banks for the following reasons; they contribute 75% of the industry pre-tax profits, they are the largest in terms of asset base and distribution channels among other indicators of size. They also attract keen interest from the investing public and the various regulatory bodies. The results of the study would therefore reflect the sector position.

3.4 Data Collection

The study made use of both primary and secondary data. To collect the primary data, a semi-structured questionnaire was used. According to Mugenda and Mugenda (2003), questionnaires are suitable to obtain important information about the population. According to Orodho (2004), this method reaches large number of subjects who have the ability to read and write independently.

Primary data was collected by the use of a semi–structured questionnaire. Questions on strategy formulation in listed commercial banks in Kenya was used in order to obtain specific information by providing a list of possible alternatives from which the respondents selected the answer that best describes their approach to strategy formulation. Secondary data was obtained from review of periodic reports filed by these listed commercial banks.

The questionnaire was distributed to the heads of departments in the business development and strategy building departments, human resource, accounting and finance, marketing as well as the customer relationship in all listed commercial banks. The researcher used the drop and pick method as all the banks in scope have their headquarters in Nairobi.
3.5 Data Analysis

Data from the field was edited and coded according to themes, which emanated from the research objectives and questions. Descriptive statistical techniques were used in data analysis. The coded data was analyzed using the statistical package for social sciences (SPSS). Descriptive statistics such as mean and percentages were utilized to analyze demographic information and Likert type of responses. Responses obtained from the questionnaire were also organized, tabulated, and analyzed using simple frequencies and percentages.
CHAPTER FOUR: DATA ANALYSIS, RESULTS AND DISCUSSION

4.1 Introduction

This chapter discusses the interpretation and presentation of the findings obtained from the field. The chapter presents the background information of the respondents, findings of the analysis based on the objectives of the study. Descriptive and inferential statistics have been used to discuss the findings of the study. The study targeted a sample size of 90 respondents from which 76 filled and returned the questionnaires making a response rate of 84.4%. This response rate was satisfactory to form the basis for data analysis. The response rate was representative. According to Mugenda and Mugenda (1999), a response rate of 50% is adequate for analysis and reporting; a rate of 60% is good and a response rate of 70% and over is excellent. Based on the assertion, the response rate was considered to be satisfactory.

4.2 General Information

The study sought to establish the background information of the respondents including respondents’ gender of the respondent, working experience and position in the organization.

4.2.1 Gender of the Respondent

The study sought to determine the gender of the respondent and therefore requested the respondent to indicate their gender.
Table 4.1: Gender of the Respondent

<table>
<thead>
<tr>
<th>Category</th>
<th>Frequency</th>
<th>Percent (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Male</td>
<td>42</td>
<td>54.9</td>
</tr>
<tr>
<td>Female</td>
<td>34</td>
<td>45.1</td>
</tr>
<tr>
<td>Total</td>
<td>76</td>
<td>100</td>
</tr>
</tbody>
</table>

As per the findings, 54.9% of the respondents were males and 45.1% were females. This implies that there was gender disparity but most of the responses emanated from males.

4.2.2 Respondents Working Experience

The study requested respondent to indicate their working experience in years. The findings are illustrated in Figure 4.1.

**Figure 4.1: Respondents Working Experience**

From the findings, majority (56%) of the respondents had 6-15 years working experience, while 32% had 1-5 years and 12% had over 15 years working experience.
4.2.3 Respondents Position in the Organization

The study asked the respondents to state their position or designation in the organization.

The findings are tabulated below.

**Table 4.2: Respondents Position in the Organization**

<table>
<thead>
<tr>
<th>Position</th>
<th>Frequency</th>
<th>Percent (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Supervisory</td>
<td>42</td>
<td>56</td>
</tr>
<tr>
<td>Middle Management</td>
<td>20</td>
<td>26</td>
</tr>
<tr>
<td>Senior Management</td>
<td>14</td>
<td>18</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>76</strong></td>
<td><strong>100</strong></td>
</tr>
</tbody>
</table>

The findings in Table 4.2 portray that majority (42) of the respondents are supervisors, 20 are middle managers and 14 are senior managers. This implies that the findings of the study captured all management levels views.

4.3 Strategic formulation approaches adopted

The first objective of this study was to investigate strategic formulation approaches adopted by listed commercial banks in Kenya. In this case the respondents were asked questions related to this objective and discussed in this section.

4.3.1 Level of Competition Facing Respondent’s Organization

The respondents were required to indicate the level of competition their company was facing. Accordingly, the findings are as presented in Figure 4.2.
Figure 4.2: Level of Competition facing Respondents Organization

![Bar chart showing level of competition: Moderate 10%, Fairly high 48%, Very high 42%]

From the findings it is clear that most (48%) of the respondents said their company was facing fairly high competition, 42% said their company was facing very high competition and 10% said their company was facing moderate competition. Therefore, a high level of competition is a significant factor to be considered by listed banks in Kenya.

4.3.2 Strategy Formulation Approach in Respondents Organization

The study sought to determine the level at which respondents agreed or disagreed with the statements relating to strategy formulation approach in their organization. The results of the findings are as tabulated below.
Table 4.3: Strategy Formulation Approach in Respondents Organization

<table>
<thead>
<tr>
<th></th>
<th>Mean</th>
<th>Std Dev.</th>
</tr>
</thead>
<tbody>
<tr>
<td>What businesses to abandon</td>
<td>3.51</td>
<td>.223</td>
</tr>
<tr>
<td>Whether to merge to form joint venture</td>
<td>3.55</td>
<td>.361</td>
</tr>
<tr>
<td>How to avoid a hostile takeover</td>
<td>3.61</td>
<td>.153</td>
</tr>
<tr>
<td>Whether to expand operations or diversify</td>
<td>3.76</td>
<td>.188</td>
</tr>
<tr>
<td>How to allocate resources</td>
<td>3.89</td>
<td>.154</td>
</tr>
<tr>
<td>Whether to enter international markets</td>
<td>3.99</td>
<td>.327</td>
</tr>
<tr>
<td>There are opportunities to develop strategic thinking capabilities within the organization.</td>
<td>4.07</td>
<td>.426</td>
</tr>
<tr>
<td>Deciding what new business to enter</td>
<td>4.18</td>
<td>.169</td>
</tr>
<tr>
<td>All stakeholders are informed of and identify with the company’s vision and mission.</td>
<td>4.36</td>
<td>.322</td>
</tr>
<tr>
<td>Highly competitive culture of the company enhances the organizational ability to achieve good results.</td>
<td>4.39</td>
<td>.151</td>
</tr>
<tr>
<td>Organization evaluate long term impact of the organization’s strengths and weaknesses.</td>
<td>4.40</td>
<td>.463</td>
</tr>
<tr>
<td>Organizations identify key success factors hence focus their resources and efforts on these factors which subsequently enhance their chances of survival.</td>
<td>4.42</td>
<td>.201</td>
</tr>
<tr>
<td>Organizational activities are defined through a set of clear objectives and goals.</td>
<td>4.44</td>
<td>.358</td>
</tr>
<tr>
<td>The organization’s mission statement outlines future course and serves as a guiding concept.</td>
<td>4.51</td>
<td>.206</td>
</tr>
</tbody>
</table>

From the findings the study established that majority of the respondents agreed that in relation to strategy formulation approach, the following was true: the organization’s mission statement outlines future course and serves as a guiding concept (mean=4.51); Organizational activities are defined through a set of clear objectives and goals (mean=4.44); Organizations identify key success factors hence focus their resources and efforts on these factors which subsequently enhance their chances of survival.
(mean=4.42); Organization evaluate long term impact of the organization’s strengths and weaknesses (mean=4.40); Highly competitive culture of the company enhances the organizational ability to achieve good results (mean=4.39); All stakeholders are informed of and identify with the company’s vision and mission (mean=4.36); Deciding what new business to enter was a strong consideration in strategy formulation (mean=4.18); and that the management created opportunities to develop strategic thinking capabilities within the organization (mean=4.07). Respondents also agreed that in strategy formulation, decisions to enter international markets (mean=3.99); how to allocate resources (mean=3.89), whether to expand operations or diversify (mean=3.76), how to avoid a hostile takeovers (mean=3.61), whether to merge to form joint ventures (mean=3.55) and what businesses to abandon (mean=3.51) were also important considerations.

4.4 Challenges facing listed Commercial Banks in Strategy Formulation

The second objective of the study was to determine the challenges facing listed commercial banks in strategy formulation. The respondents were asked a series of questions in relation to this and the findings are presented in this section.

4.4.1 Extent to which Respondents Organization Face Challenges in Strategy Formulation Process

The respondents were asked to state the extent to which their organization faces challenges in the strategy formulation process. The findings are as illustrated in Figure 4.3.
According to the findings, most (36%) of the respondents were of the opinion that their organization faces challenges in strategy formulation process to a moderate extent, 34% of the respondents were of the opinion that their organization faces challenges in strategy formulation process to a great extent and the remaining 30% of the respondents were of the opinion that their organization faces challenges in strategy formulation process to a low extent.

4.4.2 Challenges in Strategy Formulation Process in Respondents’ Organizations

The study sought to assess the level at which respondents agreed or disagreed with statements relating to challenges in strategy formulation process in their organizations. The results of the findings are as tabulated.
<table>
<thead>
<tr>
<th>Challenge</th>
<th>Mean</th>
<th>Std Dev.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Insufficient financial resources to execute the strategy</td>
<td>2.06</td>
<td>0.126</td>
</tr>
<tr>
<td>Lack of understanding of the role of organizational structure and design in the execution process</td>
<td>2.41</td>
<td>0.108</td>
</tr>
<tr>
<td>Inability to generate &quot;buy-in&quot; or agreement on critical execution steps or actions</td>
<td>2.46</td>
<td>0.345</td>
</tr>
<tr>
<td>Not having guidelines or a model to guide strategy-execution efforts</td>
<td>2.81</td>
<td>0.121</td>
</tr>
<tr>
<td>All attention given to new strategy development at the expense of the main line of business that operates within previously formulated business strategies</td>
<td>2.96</td>
<td>0.174</td>
</tr>
<tr>
<td>Lack the feeling of “ownership&quot; of a strategy or execution plans among key employees</td>
<td>3.00</td>
<td>0.144</td>
</tr>
<tr>
<td>Inadequate management development</td>
<td>3.02</td>
<td>0.382</td>
</tr>
<tr>
<td>Lack of senior management support</td>
<td>3.10</td>
<td>0.091</td>
</tr>
<tr>
<td>Poor planning activities</td>
<td>3.12</td>
<td>0.345</td>
</tr>
<tr>
<td>Poorly conceived business models</td>
<td>3.14</td>
<td>0.451</td>
</tr>
<tr>
<td>Inappropriate incentives to support execution objectives</td>
<td>3.15</td>
<td>0.122</td>
</tr>
<tr>
<td>Inadequacies in top level management</td>
<td>3.21</td>
<td>0.174</td>
</tr>
<tr>
<td>Too many and conflicting priorities</td>
<td>3.31</td>
<td>0.098</td>
</tr>
<tr>
<td>Lack of coordination and support from other levels of management</td>
<td>3.55</td>
<td>0.107</td>
</tr>
<tr>
<td>Poor vertical communication</td>
<td>3.71</td>
<td>0.381</td>
</tr>
<tr>
<td>Resistance from lower levels</td>
<td>3.72</td>
<td>0.145</td>
</tr>
<tr>
<td>Inter-functional conflicts</td>
<td>3.86</td>
<td>0.096</td>
</tr>
<tr>
<td>Unexpected market changes</td>
<td>3.86</td>
<td>0.098</td>
</tr>
<tr>
<td>Effective competitor responses to strategy</td>
<td>3.99</td>
<td>0.341</td>
</tr>
</tbody>
</table>
The findings in the table above reveal that agreed to a great extent that their organization faces challenges in strategy formulation process including ineffective responses to competitor strategies (mean=3.99), unexpected market changes and Inter-functional conflicts (mean=3.86 each), resistance from lower levels (mean=3.77), poor vertical communication (mean=3.71), and lack of coordination and support from other levels of management (mean=3.55). They also moderately agreed that too many and conflicting priorities (mean=3.31), inadequacies in top level management (mean=3.21), inappropriate incentives to support execution objectives (mean=3.15), poorly conceived business models (mean=3.14), poor planning activities (mean=3.12), lack of senior management support (mean=3.10), inadequate management development (mean=3.02), and lack of the feeling of “ownership” of a strategy or execution plans among key employees (mean=3.00) are common challenges faced by their organization in the strategy formulation process. The respondents disagreed to a great extent that the organization concentrates on new strategy development at the expense of the main line of business that operates within previously formulated business strategies (mean=2.96), absence of guidelines or a model to guide strategy-execution efforts (mean=2.81), the inability to generate "buy-in" or agreement on critical execution steps or actions (mean=2.46), the lack of understanding of the role of organizational structure and design in the execution process (mean=2.41) and lastly on insufficient financial resources to execute the strategy (mean=2.06).

4.5 Response to Challenges in Strategy Formulation in Respondents Organization

The study sought to establish if and how the respondents’ organization responds to challenges in strategy formulation. The findings are as discussed in this section.
4.5.1 Adequacy of Responses to Challenges during Strategy Formulation

The respondents were asked to give their opinion on the extent to which they thought their organization adequately responds to challenges during strategy formulation. The findings are as demonstrated in Figure 4.4.

Figure 4.4: Adequacy of Responses to Challenges during Strategy Formulation

From the findings, 65% of the respondents were of the opinion that their organization adequately responds to challenges during strategy formulation to a great extent; 27% were of the opinion that their organization adequately responds to challenges during strategy formulation to a moderate extent and 8% of the respondents were of the opinion that their organization adequately respond to challenges during strategy formulation to a low extent.
4.5.2 Responses to Challenges in Strategy Formulation Process

The respondents were asked to rate a series of statements on responses to challenges in strategy formulation process in relation to their organization. The findings are tabulated below.

Table 4.5: Responses to Challenges in Strategy Formulation Process

<table>
<thead>
<tr>
<th>Statement</th>
<th>Mean</th>
<th>Std Dev</th>
</tr>
</thead>
<tbody>
<tr>
<td>The organization develops reward and recognition systems that are aligned to the strategy in order to support formulation</td>
<td>4.03</td>
<td>0.117</td>
</tr>
<tr>
<td>Employees’ participation and involvement create sense of ownership of the strategy hence reducing conflict of interest</td>
<td>4.16</td>
<td>0.321</td>
</tr>
<tr>
<td>Employees are equipped with skills that enhance creativity and innovation through training</td>
<td>4.28</td>
<td>0.144</td>
</tr>
<tr>
<td>All potential strategies are carefully evaluated and a choice made on the specific strategy or strategies the firm will use to achieve its set objectives</td>
<td>4.31</td>
<td>0.196</td>
</tr>
<tr>
<td>Top management shows commitment to the process through availing resources and other supportive systems</td>
<td>4.40</td>
<td>0.218</td>
</tr>
</tbody>
</table>

The findings in Table 4.2 reveal that the respondents strongly agreed that the organization responds to challenges in strategy formulation process: when top management shows commitment to the process through availing resources and other supports (mean=4.40), all potential strategies are carefully evaluated and a choice made on the specific strategy or strategies the firm will use to achieve its set objectives (mean=4.31), employees are equipped with skills that enhance creativity and innovation through training (mean=4.28), employees’ participation and involvement create a sense of ownership of the strategy hence reducing conflict of interest (mean=4.16), and lastly when organization develops reward and recognition systems that are aligned to the strategy in order to support formulation (mean=4.03).
4.6 Discussion

The study revealed that Listed Commercial Banks in Kenya face a fairly high level of competition. The study also found out that the most common strategy formulation approach in listed commercial banks was one in which the organization’s mission statement outlines future course and serves as a guiding concept. This was followed by organizational activities that are defined through a set of clear objectives and goals. Organizations identify key success factors hence focus their resources and efforts on these factors which subsequently enhance their chances of survival. Organizations also evaluate long term impact of the organization’s strengths and weaknesses. Highly competitive culture in an organization enhances the organizational ability to achieve good results. In this approach, all stakeholders are informed of and identify with the company’s vision and mission. These stakeholders are hence involved in deciding what new business to enter. This approach creates opportunities to develop strategic thinking capabilities within the organization. Factors that determine the approach taken include but are not limited to: Whether to enter international markets, how to allocate resources, whether to expand operations or diversify, how to avoid hostile takeovers, whether to merge or form a joint venture and what businesses to abandon among others.

This finding concurs with De Kluyver (2000) who states that strategy formulation follows three fundamental steps “where are we now, where do we go, and how we get there.” In addition, Saloner et al., (2001) is of the view that Because all organisations have to face different internal and external conditions, the requirement for different strategies, more fitted to their needs, is preeminent.
In addition, the activity-based view model as noted by Tidah (2005) posits that value is created through formulation of competent strategies.

Grant (1998) in relation to the Resource Based View Model observes that most successful businesses have been propelled to this position by thoroughly formulated and well executed strategies. He goes on to argue that strategy formulation commences with elements of an organization’s mission and vision.

The study found out most of the listed commercial banks face challenges in strategy formulation process. The most common challenge faced by listed commercial banks in strategy formulation process was effective responses to competitors’ current and emerging strategies that jeopardize the profits of listed commercial banks in Kenya. Other Challenges picked up in the course of the study included: Unexpected market changes and Inter-functional conflicts, resistance from lower levels, poor vertical communication, lack of coordination and support from other levels of management, too many and conflicting priorities, inadequacies in top level management, inappropriate incentives to support execution objectives, poorly conceived business models, poor planning activities, lack of senior management support, inadequate management development, and lack of “ownership” of the strategy or execution plans among key employees among others.

Likewise, Al- Ghamdi (1998) who researched 15 implementation problems found that six strategy formulation problems were experienced by over 70% of the sample group of firms. Problems with formulation often occur when companies concentrate on new strategy development at the expense of the main line of business that operates within previously formulated business strategies.
The study further established that listed commercial banks adequately respond to challenges during strategy formulation. The responses to challenges picked up during the study included top management showing commitment to the process of responding to challenges during strategy formulation by availing resources and other support systems which was found to be most adequate response to formulation challenges. Other responses included analysis and evaluation of potential strategic alternatives and a choice made based on the best option that will lead to achievement of specific objectives; and equipping employees with skills that enhance creativity and innovation through training; encouraging employee participation and involvement to foster the sense of ownership of the strategy hence reducing conflict of interest. These banks also respond by developing reward and recognition systems that are aligned to the strategy in order to support formulation.

Similarly, Arthur et al., (2007) state that decision-makers in an organization provide the general direction on how strategy will be formulated, but the details of strategy appear during the execution stage according to the actions of the organizational actors. He also notes that successful strategy formulation depends on doing a good job of working with and through others, building and strengthening competitive capabilities, motivating and rewarding people in a strategy- supportive manner, and instilling discipline of getting things done.
CHAPTER FIVE: SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

From the analysis and data collected the following discussions, conclusions and recommendations were made on strategy formulation challenges facing listed commercial banks in Kenya.

5.2 Summary

The study revealed that Listed Commercial Banks in Kenya face a fairly high level of competition. The study also found out that the most common strategy formulation approach in listed commercial banks was one in which the organization’s mission statement outlines future course and serves as a guiding concept. This was followed by organizational activities that are defined through a set of clear objectives and goals. Organizations identify key success factors hence focus their resources and efforts on these factors which subsequently enhance their chances of survival. Organizations also evaluate long term impact of the organization’s strengths and weaknesses. Highly competitive culture in an organization enhances the organizational ability to achieve good results. In this approach, all stakeholders are informed of and identify with the company’s vision and mission. These stakeholders are hence involved in deciding what new business to enter. This approach creates opportunities to develop strategic thinking capabilities within the organization. Factors that determine the approach taken include but are not limited to: Whether to enter international markets, how to allocate resources, whether to expand operations or diversify, how to avoid hostile takeovers, whether to merge or form a joint venture and what businesses to abandon among others.
The study further found out most of the listed commercial banks face challenges in strategy formulation process. The most common challenge faced by listed commercial banks in strategy formulation process was effective responses to competitors’ current and emerging strategies that jeopardize the profits of listed commercial banks in Kenya. Other Challenges picked up in the course of the study included: Unexpected market changes and Inter-functional conflicts, resistance from lower levels, poor vertical communication, lack of coordination and support from other levels of management, too many and conflicting priorities, inadequacies in top level management, inappropriate incentives to support execution objectives, poorly conceived business models, poor planning activities, lack of senior management support, inadequate management development, and lack of “ownership" of the strategy or execution plans among key employees among others.

The study further established that listed commercial banks adequately respond to challenges during strategy formulation. The responses to challenges picked up during the study included top management showing commitment to the process of responding to challenges during strategy formulation by availing resources and other support systems which was found to be most adequate response to formulation challenges. Other responses included analysis and evaluation of potential strategic alternatives and a choice made based on the best option that will lead to achievement of specific objectives; and equipping employees with skills that enhance creativity and innovation through training; encouraging employee participation and involvement to foster the sense of ownership of the strategy hence reducing conflict of interest. These banks also respond by developing
reward and recognition systems that are aligned to the strategy in order to support formulation.

5.3 Conclusion

The study concludes that listed commercial banks employ various strategy formulation approaches with organization’s mission statement outlining the future course and serving as a guiding concept being the most common. Organizational activities being defined through a set of clear objectives and goals is amongst other approaches commonly used. However, listed commercial banks face challenges in the strategy formulation process especially in relation to effective response to competitor strategy. External and internal factors were also found to contribute to the challenges these banks face. The study finally concludes that listed commercial banks in Kenya adequately respond to challenges during strategy formulation by top management showing commitment through availing resources and other supportive systems.

5.4 Recommendations

Based on the findings, the study recommends that listed commercial banks in Kenya need to be aware of specific needs in the strategy formulation such as communication, coordination, planning and staff motivations. The study also recommends that these banks should embark on management improvement through training and offering conducive work environments that help improve productivity which in turn will win support from the staff and thus make strategy formulation a reality in listed commercial banks.
5.5 Limitations of the Study

During the study a number of limitations were encountered. This include having very little to with the respondents to inquire very deeply into a number of issues because most of the respondents had allocated a few minutes of time due to their very tight time budgets.

The study was undertaken as a case study of listed commercial banks in Kenya and may therefore not relate to the strategic formulation approaches undertaken by all banks in the country to challenges in the environment as most of the packages offered by banks are different and custom tailored to competitively meet with clients preferences as well as boost profitability and market share.

5.6 Recommendation for Further Studies

The study was carried out on listed commercial banks in Kenya thus the same study should be carried out in the other banks to find out if the same results will be obtained. The study also focused on the financial sector thus further studies need to be carried out in other sectors of the Kenyan economy to enhance the understanding in this area of strategy formulation. Lastly, the study also recommends further studies to determine the impact of management factor as a major challenge to the strategic formulation in listed commercial banks in Kenya.
REFERENCES


APPENDICES

APPENDIX I: LETTER OF INTRODUCTION

UNIVERSITY OF NAIROBI
SCHOOL OF BUSINESS
MBA PROGRAMME

DATE 01/09/2015

TO WHOM IT MAY CONCERN

The bearer of this letter WATHAKA TERESIA WANSIKU
Registration No. D6167745/2013

is a bona fide continuing student in the Master of Business Administration (MBA) degree program in this University.

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

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

Thank you.

PATRICK NYABUTO
MBA ADMINISTRATOR
SCHOOL OF BUSINESS
APPENDIX II: QUESTIONNAIRE

This questionnaire seeks to collect data on strategy formulation challenges facing listed commercial banks in Kenya. All information received will be treated confidentially and will be used for academic purposes only.

Section A: Background Information

Please indicate

1. Name of Bank: ………………………………………………………………………

2. Gender: Male ……………….. Female ……………………………….

3. Working experience

   Less than 1 year [ ]  1-5 yrs [ ]

   6-15 years [ ]  Over 15 years [ ]

4. Position in the organization

   Clerical [ ]

   Supervisory [ ]

   Middle Management [ ]

   Senior Management [ ]

Section B: Strategic formulation approaches adopted

5. Please indicate the level of competition your company is facing now

   Very high [ ]  Fairly high [ ]  Moderate [ ]

   Low [ ]  Extremely low [ ]
6. To what extent do you agree with the following statements as they relate to the main drivers of the strategy formulation approach in your organization? (1- Strongly Disagree  2- Disagree  3- neutral  4- Agree  5- Strongly agree)

<table>
<thead>
<tr>
<th>Statement</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
</tr>
</thead>
<tbody>
<tr>
<td>Deciding what new business to enter</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>What businesses to abandon</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>How to allocate resources</td>
<td></td>
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<td>Whether to expand operations or diversify</td>
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<td>Whether to enter international markets</td>
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<td>Whether to merge to form joint venture</td>
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<td>How to avoid a hostile takeover</td>
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<td>All stakeholders are informed of and identify with the company’s vision</td>
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<td>and mission</td>
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<tr>
<td>There are opportunities to develop strategic thinking capabilities within</td>
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<td>the organization.</td>
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<tr>
<td>Organizations identify key success factors hence focus their resources</td>
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<td>and efforts on these factors which subsequently enhance</td>
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<td>The organization’s mission statement outlines future course and serves</td>
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<td>as a guiding concept.</td>
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<td>Highly competitive culture of the company enhances the organizational</td>
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<td>ability to achieve good results.</td>
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<tr>
<td>Organization evaluate long term impact of the organization’s strengths</td>
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<tr>
<td>and weaknesses.</td>
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<tr>
<td>Organizational activities are defined through a set of clear objectives</td>
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<tr>
<td>and goals</td>
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<tr>
<td>Other (Specify)</td>
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</table>

iii
Section C: Challenges facing listed commercial banks in strategy formulation

7. To what extent does your organization face challenges in strategy formulation process?

<table>
<thead>
<tr>
<th>Option</th>
<th>1</th>
<th>2</th>
<th>3</th>
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</thead>
<tbody>
<tr>
<td>Greatest extent</td>
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<tr>
<td>Great extent</td>
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<td>Moderate extent</td>
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<td>No extent</td>
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</table>

8. To what extent do you agree with the following statement relating to challenges in strategy formulation process in your organization? Where: 1-Strongly Disagree 2-Disagree 3-neutral 4-Agree 5-Strongly agree.

<table>
<thead>
<tr>
<th>Statement</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
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</thead>
<tbody>
<tr>
<td>Too many and conflicting priorities</td>
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<td>The top team does not function well</td>
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<td>Inter-functional conflicts</td>
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<tr>
<td>Poor vertical communication</td>
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<td>Inadequate management development</td>
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<tr>
<td>Focus more on new strategy development at the expense of main line of business that operates within previously formulated business</td>
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<tr>
<td>Lack the feeling of “ownership” of a strategy or execution plans among key employees</td>
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<tr>
<td>Not having guidelines or a model to guide strategy-execution efforts</td>
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<tr>
<td>Lack of understanding of the role of organizational structure and design in the execution process</td>
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<tr>
<td>Inability to generate &quot;buy-in&quot; or agreement on critical execution steps or actions</td>
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<tr>
<td>Inappropriate incentives to support execution objectives</td>
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<td>Insufficient financial resources to execute the strategy</td>
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<tr>
<td>Lack of coordination and support from other levels of management</td>
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<tr>
<td>Resistance from lower levels</td>
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<tr>
<td>Poor planning activities</td>
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</table>
Unexpected market changes
Lack of senior management support
Effective competitor responses to strategy
Poorly conceived business models

SECTION D: RESPONSES TO CHALLENGES IN STRATEGY FORMULATION

9. Do you think the organization adequately respond to challenges during strategy formulation?

   Greatest extent [   ]
   Great extent   [   ]
   Moderate extent [   ]
   No extent      [   ]

10. To what extent do you agree with the following statements as they relate to responses to challenges in strategy formulation process? Where: 1-Strongly Disagree 2-Disagree 3-neutral 4-Agree 5-Strongly agree

<table>
<thead>
<tr>
<th>Statement</th>
<th>1</th>
<th>2</th>
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</thead>
<tbody>
<tr>
<td>Organization has developed reward and recognition systems that are aligned to the strategy in order to support formulation</td>
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<tr>
<td>Employee participation and involvement create a sense of ownership of the strategy hence reduces conflict of interest</td>
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<tr>
<td>Employees are equipped with skills that enhance creativity and innovation through training</td>
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<tr>
<td>All potential strategies are carefully evaluated and a choice is made on the specific strategy or strategies that the firm uses to achieve its set objectives</td>
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<tr>
<td>Top management shows commitment to the process through availing resources and other support systems</td>
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<tr>
<td>Others</td>
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</tbody>
</table>

THANKYOU FOR YOUR INPUT AND COOPERATION!!!
APPENDIX III: COMMERCIAL BANKS AS AT DECEMBER 2014

<table>
<thead>
<tr>
<th>Bank Name</th>
<th>Bank Name</th>
</tr>
</thead>
<tbody>
<tr>
<td>11. CFC Stanbic Bank Ltd</td>
<td>12. Fidelity Commercial Bank Ltd</td>
</tr>
<tr>
<td>23. NIC Bank Ltd</td>
<td>24. Habib Bank Ltd</td>
</tr>
<tr>
<td>29. Ecobank Ltd</td>
<td>30. Credit Bank Ltd</td>
</tr>
<tr>
<td>33. Chase Bank Ltd</td>
<td>34. Middle East Bank Ltd</td>
</tr>
<tr>
<td>35. Family Bank Ltd</td>
<td>36. UBA Kenya Bank Ltd</td>
</tr>
<tr>
<td>37. Bank of India</td>
<td>38. Dubai Bank Ltd</td>
</tr>
<tr>
<td>39. Imperial Bank Ltd</td>
<td>40. Jamii Bora Bank Ltd</td>
</tr>
<tr>
<td>41. Fina Bank Ltd</td>
<td>42. Charterhouse Bank Ltd</td>
</tr>
<tr>
<td>43. Development Bank of Kenya Ltd</td>
<td>44. Housing Finance Company of Kenya Ltd</td>
</tr>
</tbody>
</table>

Source: (Central Bank of Kenya, 2014)
APPENDIX IV: LISTED COMMERCIAL BANKS AS AT DECEMBER 2014

1. Barclays Bank of Kenya Limited
2. CFC Stanbic of Kenya Holding Limited
3. I&M Holdings Ltd
4. Diamond Trust Bank
5. Kenya Commercial Bank Limited
7. NIC Bank Limited
8. Standard Chartered Bank Limited
9. Equity Bank Limited
11. Housing Finance