DETERMINANTS OF STRATEGIC DRIFT AND THEIR EFFECT ON PERFORMANCE OF COMMERCIAL BANKS IN KENYA

BY

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DECLARATION

This research proposal is my original work and has not been presented for any award in any other institution and all sources are duly acknowledged in the bibliography.

Signature…………………………….. **Date**……………………………..

Henry Obare Maosa

Reg. No: D61/75231/2009

I confirm that the work reported in this research proposal has been carried out by the candidate under my supervision as the appointed university supervisor.

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

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DEDICATION

This project is dedicated to my parents Daniel Masese and Teresa Masese for their continued encouragement, my siblings Anne, Janet, Everlyne and James who instilled in me the spirit of perseverance and determination, and my wife Audrey Kubwa who inculcated in me the virtues of patience and calmness that were valuable as I endured to complete my studies.

I also dedicate this project to my wonderful children Kailey Nyamueya, Lexey Nyombura and Harry Masese for being there for me throughout the entire program. The three of you have been my best cheerleaders.

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ABBREVIATIONS AND ACRONYMNS

ATM:	Automated Teller Machine
KBA:	Kenya Bankers Association
CBK:	Central Bank of Kenya
CCK:	Communications Commission of Kenya
CMA:	Capital Markets Authority
CRB:	Credit Reference Bureau
GDP:	Gross Domestic Product
KSH:	Kenya Shillings
MFB:	Microfinance Banks
MFI:	Microfinance Institutions
MFC:	Mortgage Finance Companies
NPL:	Non-Performing Loans
NSE:	Nairobi Securities Exchange
SCP:	Structure-Conduct-Performance

OPERATIONAL DEFINITION OF TERMS

Environmental scanning is the acquisition and use of information about events, trends, and relationships in an organization's external environment (Costa, 2010).

Innovation is the successful bringing of new commodities to the market (Cakar and Erturk, 2010).

Performance is the achievement of organizational goals in pursuit of business strategies that lead to sustainable competitive advantage (Gephardt & Van Buren, 1996).

Strategy is the analysis of the firm's environment, leading to what the firm, given its environment, should achieve a fit (Wheeller & Hunger, 2008).

Strategic drift is the progressive failure of existing strategies to address the competitive position of the company (Johnson et al., 2005).

Organizational culture refers to a system of shared meaning that members hold that distinguishes the organization from other organizations (Johnson et al., 2005).

ABSTRACT

The current business age is characterized by a constantly changing environment caused by external and market factors which drive all sorts of change impacting business performance. Hence there is need to re-evaluate strategy constantly and align it with the changes in the environment. This not only enables them to survive in the turbulent environment but also enhance organizational performance. The main objective of this study was to establish the determinants of strategic drift and their effects on the performance of commercial banks in Kenya. The study reviewed theories related to the topic as well as the relevant empirical literature focusing on the studies that have been done by other researchers guided by the specific objectives. Descriptive research design was used in the study because it gives a detailed description of events, situations and interactions between people and things with minimum bias. The target population was all the 43 commercial banks in Kenya. Questionnaires were used to collect data and contained mainly closed ended questions structured on a five-point Likert scale. Descriptive statistics was used to analyze data with the aid of Scientific Package of Social Science and MS Excel. The analyzed data was presented in frequency tables, graphs and charts. The findings indicated that the main determinants of strategic drift are strategic planning, leadership, responsiveness to change, culture, organizational climate, innovation and communication. The study concluded that the process of strategic planning should be consultative to ensure that the structure aligns with the strategy. Also, in case of strategic drift, the key is flexibility and that banks have to know how to manage change. The management has to fill the gap between what is planned and what is done. Hence, the study recommends that the management team of commercial banks in Kenya should conduct proper analysis of the environment to be able to detect slight changes and hence make necessary strategic adjustments. They have to communicate the strategy in order to enhance attainment of organizational objectives and improve the performance of the bank. In addition, the management should align their organizational structures with strategic objectives to allow for efficiency in service delivery to customers and allow for adaptability to changes in the business environment.

CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

The current business age is characterized by constantly changing environment caused by external and market factors which affects business performance. There is need to re-evaluate strategy constantly, agility is vital in order to respond to turbulent and shorter unstable life cycles so as to avoid strategic drift (Aguilar, 2009). Organizations need to respond to these changes by continuously scanning the environment and adopt strategies that position them as viable in the market and enhance their performance (Fahey & King, 2010).

This study is anchored on Porter's (1980) framework which builds on the structure-conduct-performance (SCP) paradigm from industrial organization economics. The essence of this paradigm is that the firm's performance in the marketplace depends critically on the characteristics of the industry in which it competes, that is, the structure (Porter, 1980). Porter (1980) acknowledges the role of firms in formulating appropriate competitive strategies to achieve superior economic performance and that may change the industry rules in the firm's favour. Nonetheless, in Porter's (1980) work, the source of profits is not to be found in the firm but rather in the structure of the industry, especially the nature and balance of its competitive forces (Schoemaker, 1990). Porter's strategy is about positioning a business in a given industry structure so as to avoid strategic drifts and eventually enhance organizational performance (Prahalad & Hamel, 1994).

For organizations to remain very competitive over time as the environment changes, they have to learn to adapt and reorient themselves to the changing environment to avoid strategic drift (Auster & Choo, 2004). There has to be a deliberate and coordinated learning to a gradual systematic realignment between the environment and the organization's strategic positioning that result in improvement in performance, efficiency and effectiveness so as to achieve the long term growth and improve their performance (O'Regan et al., 2012). There is need to understand the challenges, opportunities and threats that are provided by the external environment, so that these organizations can take advantage of the opportunities and avoid threats by applying appropriate response strategies as well as avoid strategic drift that will hinder their performance, survival and competitiveness (Xu et al., 2003).

The banking industry is under pressure in today's business climate. For banks to complete successfully in this environment, continuous scanning of the environment is necessary to purposely identify opportunities and threats posed by the state of the industry so as to match strategy to industry conditions. Banks need to have a clear understanding of the external economic trends that directly or indirectly affect their industry because they will ultimately affect consumption patterns (Johnson & Scholes, 2008).

1.1.1 Concept of Strategic Drift

The concept of strategic drift is defined as the progressive failure of existing strategies to address the competitive position of the company. It is the tendency for strategies to develop

incrementally on the basis of historical and cultural influences but fail to keep pace with a changing environment (Johnson et al., 2005).

Strategic drift can also be defined as a gradual deterioration of competitive action that results in the failure of an organization to acknowledge and respond to changes in the business environment. The symptoms of strategic drift are a homogeneous mind set at managerial and board levels, preservation of the status quo, lack of focus on the external environment and decline in performance. The causes of strategic drift are found in cognitive mapping and organizational culture (Sammut-Bonnici, 2015).

Strategic drift is a concept of strategic management that refers to the response of an organization when going through a changing environment. Different situations and unexpected challenges are very common aspects that may arise anytime when driving and developing strategic change within the organization (Dwyer & Edwards, 2009). Danciu (2010) proposes four sets of causes to address strategic drift: change in consumers' expectations and needs, change in market structure and competition, change in macro-environment and internal strategies. Not only does strategic drift distract the management but also causes a loss of momentum. It can also waste time, money and valuable resources. Thus, it increases the total operating cost and sometimes it leads organizations far away from achieving competitive advantage (Grant, 2008).

Consequently, it is very crucial for organizations to make sure that they can avoid unnecessary strategic actions or strategic drifts. Some effective ways to avoid strategic

drifts are: Firstly, to develop a flexible environment within the organization so that the middle and lower management can effectively participate in the decision making process. Secondly, managers need to be willing to listen to the views and opinions of their subordinates. They should welcome and encourage feedback. Thirdly, managers need to be able to clearly identify the nature of new challenges and prioritize them according to importance. Finally, organizations must have to plan a comprehensive, well-focused and clearly stated set of strategies (Danciu, 2010).

1.1.2 Organizational Performance

Performance is a measure of attainment achieved by an individual, team or organization (Mathur, 2004). Richard & Stevenson (2009) argue that organizational performance encompasses three specific areas of firm outcome, that is, financial performance (profits, return on assets, return on investment); product market performance (sales, market share); and shareholder return (total shareholder return, economic value added).

Kaplan & Norton (1996) noted that business enterprises must keep track of the non-financial measures of performance such as market share, speed of response and product quality; pay attention to externally focused measures such as customer satisfaction and brand preference; and take into account forward-looking measures such as employee satisfaction, retention and succession planning. Performance measurement becomes the basis of strategy establishment and achievement in the future because it can definitely bring a company's vision and strategic target to all organization members and performs a role that makes efficient internal business processes possible (Chang & Chuang, 2009).

The resulting deduction is that organizational performance is a multidimensional construct tapping into the financial, operational and customer-related domains (Karanja et al., 2014). Hence, performance may be regarded as resulting from two variables: firm specific which are the internal capabilities of the firm and non-firm-specific variables and what can best be described as environmental variables because they exist outside the immediate boundaries of the firm (Mugambi et al., 2011). Conceptually therefore, organizational performance has been viewed as the comparison of the value created by a firm, measured through the three general elements (efficiency, effectiveness and relevance) of organizational performance, with the value the owners expect to receive from the firm (Fahey & King, 2010). The firm's performance can therefore be reflected by indicators like product sustainability, reliability, quality, productivity, profitability, cost management and market share among others (Mathur, 2004).

1.1.3 The Banking Industry in Kenya

The banking industry in Kenya is regulated by the Central Bank of Kenya Act, Banking Act and Companies Act among other guidelines issued by the Central Bank of Kenya (CBK). These Acts are used together with the Prudential Guidelines which the CBK issues from time to time. The banking sector was liberalized back in 1995 and exchange controls revoked. The banks have come together under the Kenya Bankers Association, which acts as lobby for the local banking industry (CBK, 2013).

Kenya's banking sector has improved tremendously over the past 10 years not just in size and profitability but also in terms of product offerings and service quality. According to

Bank Supervision Annual report (2013), the banking sector comprised of the Central Bank of Kenya, as the regulatory authority, 44 banking institutions (43 commercial banks and 1 mortgage finance company- MFC), 7 representative offices of foreign banks, 9 Microfinance Banks (MFBs), 2 credit reference bureaus (CRBs), 1 money remittance provider (MRP) and 101 forex bureaus. Out of the 44 banking institutions, 30 locally owned banks comprise 3 with public shareholding and 27 privately owned while 14 are foreign owned. The 9 MFBs, 2 CRBs and 101 forex bureaus are privately owned. The foreign owned financial institutions comprise of 10 locally incorporated foreign banks and 4 branches of foreign incorporated banks (CBK, 2013).

The industry has over the past years enjoyed exponential growth in deposits, assets, profitability and products offering, mainly attributed to automation of services and branch network expansion both locally and regionally. The CBK is tasked with formulating and implementation of monetary and fiscal policies. They ensure the proper functioning of the Kenya financial system, the liquidity of the country and the solvency of the Kenya shilling. The major issues facing the banking industry include: new regulations; the global financial crisis experienced and more so the mobilization of deposits and trade reduction; and the interest margin declines (CBK, 2013).

The major elements of a well-developed financial system have been put in place. Firstly, the creation of a credit-reference bureau in 2010. Credit has grown rapidly in recent years as the use of credit referencing is entrenched in banks' credit appraisal system. Secondly, rollout of the agency banking model. The creation of agency banking is intended to enable

institutions to provide banking services more cost effectively to customers. It is expected that the initiative will enhance financial access to those people who are currently unbanked on under banked (CBK, 2014).

1.1.4 Commercial Banks in Kenya

According to Bank Supervision Annual report (2013), the banking sector in Kenya had 43 licensed commercial banks. Out of the 43 commercial banking institutions, 29 locally owned banks comprise 3 with public shareholding and 26 privately owned while 14 are foreign owned (CBK, 2013).

The increased use of technological innovations continued to have a positive effect on banks performance over the years. The bank staff productivity grew, as evidenced by the fact that in 2012, the ratio of bank staff to customers served was 1 to 501 while in 2013 the ratio stood at 1 to 640 customers (CBK, 2013). Further, banking sector performance has also continued to grow owing to increased uptake of technology driven financial services. As growth in mobile phone subscriptions increases, more banks have signed partnerships with mobile services providers. This has increased the number of banks facilitating money transfer services for their customers from 13 in 2011 to 17 in 2012 (Communications Commission of Kenya [CCK], 2013).

1.2 Research Problem

Banks are essential in every country and have a vital role in supporting economic development through efficient financial services. For over a decade, banks have been

affected by changes associated with globalization and financial liberalization as well as the emergence of new technologies (Ayrga, 2011). In response to these changes, banks have opted to provide a choice of services offered to the customers and enhance their reliance on technology as well as develop strategic positioning that will enhance their survival and attain sustainable competitiveness (Al-Smadi & Al-Wabel, 2011). In addition, banks leadership have to employ right strategies in order to deal effectively with everything that affects the performance and profitability of their organizations so that it can position itself optimally in its competitive environment by maximizing the anticipation of environmental change to avoid strategic drift (Ayrga, 2011).

In Kenya, some of the forces of change that have greatly influenced the banking industry include intense competition, regulation and technological advancement (Banking Supervision Survey Kenya, 2010). Studies have been conducted in relation to the concept of strategic drift. Fitchet & Giraud (2007) did a study on how the information flow is processed in project-based companies compared to others and how it affects strategic drift. Dziri (2011) conducted a study on avoiding strategic drifts in a hypercompetitive market with the case study of Nokia. Kiveu (2013) researched on challenges of implementation of turnaround strategy at the new Kenya cooperative creameries in Kenya where one of the objectives was strategic drift.

Taking into account the dynamism and turbulence in the banking industry in Kenya the emphasis of this study is undertake an in depth evaluation of the determinants of strategic drifts and their effects on performance of commercial banks in Kenya. In addition, the

empirical studies show that the concept is under-researched more so in the Kenyan institutions and specifically the banking sector. Hence this study aims to fill the gap by seeking to provide answers to the following questions:

i. What are the determinants of strategic drift in commercial banks in Kenya?
ii. To what extent does strategic drift affect the performance of commercial banks in Kenya?

1.3 Research Objectives

The objectives of the study are:

i. To establish the determinants of strategic drift in commercial banks in Kenya.
ii. To determine the effects of strategic drift on the performance of commercial banks in Kenya.

1.4 Value of the Study

The findings of this study are intended to make theoretical, practical and methodological contributions specifically to the banking industry. The industry will greatly benefit as it will know the type of strategies to adopt to fit every situations that would result in the expected strategic outcome and hence improve their performance and competitiveness.

Policy makers in the industry will use the findings of this study to come up with universally applicable strategies that may make their organizations well aligned with stakeholder needs and facilitate the attainment of strategic ambitions and goals of both private and public organizations.

The findings of this study would also be of great benefit to the practicing staff and management of commercial banks in Kenya since it would shade light on the practices that ought to be corrected in order to make the best out of the strategies adopted. This would lead to high performance levels and aid in the achievement of the commercial banks strategic goals and objectives. Lastly, the academia and business researchers will be able to borrow from the findings of this research to support literary citations as well as develop themes for further research.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter presents the theoretical review of literature. It details the theories that explain the underlying causal relationship between the study variables. This will be followed by an empirical review of literature done in this area relevant to the study. Finally, the study will present the research gaps that need to be addressed as per the study objectives.

2.2 Theoretical Foundation

A theoretical framework is a collection of interrelated concepts. Theoretical frameworks are structures that can hold or support a theory of a research work and explain why the problem under study exists. In this study, the path dependency theory is considered useful in making decisions on strategic drift with the main aim of achieving the desired goals of an organization.

Path dependency is a dynamic theory with different stages. Building on the theoretical explanations by Brian Arthur (1994), three phases of a path-dependence process can be distinguished: Phase one is characterized by an undirected search process. Choices are still unconstrained; decisions are seen as contingent events that cannot be explained by prior events or initial conditions (Mahoney, 2000). This means that decision outcomes are contingent occurrences. Once these decisions have been made, dynamic self-reinforcing processes may be set into motion, which eventually lead to deterministic patterns. This moment of setting the path dependency into motion represents a 'critical juncture' (Collier

& Collier, 1991). These junctures are 'critical' because, once a particular option has been selected; it becomes progressively difficult to return to the initial point when multiple alternatives were still available (Mahoney, 2000).

In Phase two options are increasingly narrowed to an extent that agents eventually do not seem to have a choice anymore (Mahoney, 2000). In this phase a causal pattern evolves that tracks a particular type of behavior building on social mechanisms by which the pattern is likely to be reproduced over a certain period of time. Or, to use a notion from complexity theory, the transition is marked by 'bifurcation' (Kauffman, 1993), that is, the contingent or even random emergence of a small event that nonetheless has a significant and sustainable impact upon the development, diffusion and adoption of a technology or an institution. In this regard, it triggers a self-reinforcing process that is likely to become essentially governed by the regime of increasing returns (Arthur, 1994).

The final transition to Phase three is marked by a lock-in (Arthur, 1994). In this Phase, one particular technology or institution has been generally adopted and forcefully makes new entrants adopt it too. Processes continue to bring about this particular outcome. Viable alternatives are no longer at hand. The classical model of path dependency is based upon rational choices. Individuals take rational decisions, but these may have unintended and irrational consequences at a collective or system level (Arthur, 1994).

This theory is relevant to the study because it is increasingly important to identify actions and events that may actually trigger a path-dependent process in and across organizations

as early as possible. The detection of strategic dissonance signals at 'strategic inflection points' (Burgelman & Grove, 1996) was proposed in order to describe when one type of industry dynamics gives way to another and/or when, on the firm or business unit-level, one strategy changes into another, no matter whether deliberate or emergent. Once identified, management should not give up, but join in the process of path-shaping, even of path-breaking and creating so as to avoid strategic drifts (Ebbinghaus, 2005).

2.3 Determinants of Strategic Drift

This empirical review section presents a review of literature related to the problem and purpose. The specific areas covered in this section are: organizational culture; leadership; strategic planning and innovation.

2.3.1 Organizational Culture

Organizational culture refers to a system of shared meaning that members hold that distinguishes the organization from other organizations (Johnson et al., 2005). This system of shared meaning is a set of key characteristics that the organization values. Culture can also be defined as 'the collection of traditions, values, policies beliefs and attitudes that constitute a pervasive context for everything we do and think in an organization' (McLean & Marshall, 1993). Culture is supported through the system of rites and rituals; patterns of communication, the informal organization expected patterns of behaviour and perceptions of the psychological contract (Johnson & Scholes, 2008). A study further asserts that a mismatch between the perceptions of the employees about the organization and the organizational strategy results in strategic drift (Burton et al., 2004).

Heskett (2011) pointed out that firms might avoid strategic drifts by aligning strategy and competitive environment but they cannot be successful if there is no fit between both aspects and the culture within the organization. The success of a firm to face increasingly complex and dynamic environments and ultimately to attain a profitable growth, depends on its ability to simultaneously explore new opportunities and exploit existing business models and amalgamate with its culture (Schmitt et al., 2010; Raisch et al., 2009). Schmitt et al. (2010) propose an organizational quality culture that consists in reconciling adaptability, capacity to adjust to a dynamic environment by exploring new markets, products alignment and ability to exploit existing business models and operations by optimizing assets' use in order to enhance performance.

2.3.2 Leadership

Leadership in an organization is very crucial as it determines the strategic planning of the organization which has an impact in its performance. Good leadership pays attention to leadership strategy along with the business strategy in order to identify any gap and enable the organization to reach their performance potential (Pasmore, 2009). Organizational leadership addresses the challenges most relevant to their business and creates the direction, alignment and commitment needed to achieve the enduring performance of the organization (Dinwoodie, 2013).

Van Velsor & Wright (2012) points out a number of aspects of a good leader: A good manager should be the leader of change. Secondly, a leader should be able to shape

organizational culture. Thirdly, leaders understand and leverage organizational priorities that may appear to be diametrically opposed, avoiding an 'either/or' approach, they find 'both/and' solutions. Fourthly, Leaders span organizational boundaries (Van Velsor & Wright, 2012).

McGuire & Rhodes (2009) emphasize the importance of leadership culture in determining the performance of organization. They define leadership culture as the self-reinforcing web of individual and collective beliefs, practices, behaviors and patterns in an organization. Leadership culture has a direct impact on organization's ability to achieve the business strategies set (McGuire & Rhodes, 2009).

According to Välikangas (2010) organizational leaders should develop strategic resilience in order to avoid strategic drifts. Contrary to the situation of confronting (or recovering from) a crisis, strategic resilience suggests preemptive actions to redefine the company's strategic course before suffering negative consequences (Välikangas, 2010). Starting from the observation of an increased frequency of bankruptcies and a strong fluctuation of corporate benefits, Hamel & Välikangas (2003) conclude that the 'world is becoming turbulent faster than organizations are becoming resilient'. They explain this 'resilience gap' by the erosion of factors that insulated, so far, companies from competition, such as regulatory protection and oligopolistic practices relatively stable product paradigms or high entry barriers (Välikangas, 2010).

In order to achieve strategic resilience and increase the company's strategic renewal capability as well as avoid strategic drifts, Hamel & Välikangas (2003) propose mastering four management challenges: The cognitive challenge whereby the company's management must acknowledge that its current success cannot be perpetual. The strategic challenge where the organization must be aware that there are other strategic options – than its own- and that it is capable of successfully pursuing them. Third, the political challenge whereby the company must be able to redirect financial and human resources from its current businesses to ventures expected to strengthen its future prospects. Fourth, the ideological challenge where the leaders should be able to question the 'doctrine of optimization' by prioritizing the continuous renewal of its business plan.

While it is important to be aware of potential environmental discontinuities and how they could impact the company's business, it is even more important to be prepared with alternative strategies and resources to allocate (Van Velsor & Wright, 2012).

2.3.3 Strategic Planning

Strategic planning is inextricably interwoven into the entire fabric of management. It provides a framework for decision-making throughout the company and forces the setting of objectives, which provides a basis for measuring performance (Thompson et al., 2008). Strategic planning results in a viable match between the firm and its external environment. Strategy concerns an analysis of the firm's environment, leading to what the firm, given its environment, should achieve a fit (Wheeller & Hunger, 2008). Environmental analysis reveals the market dynamics, business opportunities and challenges, customer

expectations, technological advancements and the firm’s internal capacities and this provides the basis for strategy selection (Grant, 2008).

Strategic planning entails an attempt to alter a company’s strength relative to that of its competitors, in the most efficient and effective way (Thompson et al., 2008). Strategic planning focuses on the direction of the organization and actions necessary to improve its performance. It is the process by which firms derive a strategy to enable them to anticipate and respond to the changing dynamic environment in which they operate (Harrison & Pelletier, 2000). Johnson et al. (2005) note that strategic drift occurs when the organization’s strategy gradually moves away from relevance to the forces at work in its environment. Effective strategic planning can transform the performance of an organization, make fortunes for shareholders, or change the structure of an industry (Wheeller & Hunger, 2008).

It is argued by Ambrosini & Bowman (2003) that every successful model must include vision and mission, environmental analysis, setting objectives and strategic analysis choice. Strategic planning, or any other management technique is of limited value by itself, only a partnership with all parts of the management particularly execution, controls and rewards can result in synergy and lead to substantial advancement (Grant, 2010).

To prevent the worn-out of the company’s strategies, it is important to apprehend the complexity of the environment and incorporate it into the strategic development process

(Grant, 2010). Information collection should go beyond the formal information system by including the environment indicators and signals (Miller, 2005).

2.3.4 Innovation

Innovation is one of the most emphasized sources of organizations' sustainable competitive advantage (Grant, 2010). Empirical and academic evidence verified the powerful impact of faster releases of better versions of a product to capture and retain market shares and increase profitability (Tidd & Bessant, 2009). A greater emphasis is made on the role that innovation plays to grow stakeholders' value in high-velocity markets where competition is more dynamic and environment conditions are unstable (Teece, 2007).

Planning and implementing innovation strategies require addressing several paradoxes inherent to innovation nature and requirements (Dziri, 2011). The first paradox emerges from the dynamic capabilities theory (Teece, 2007) and posits that, with the influence of external events, such as competitors' innovation, new technologies emergence and internal factors like insularity, excessive focus on the same goals, innovation turns certainly from organizational core capability into core rigidity. Hence, from competitive strength, an innovation capability can become a threat to the company's performance future potential (Dziri, 2011).

The second paradox concerns the required organizational structure in order to foster innovation (Dziri, 2011). For instance, developing new products and bringing them to global markets require an increasing scale and important financial and human investments,

while at the same time creativity, crucial to innovation, is better stimulated in small teams working with entrepreneurial conditions.

The third paradox, which is also related to the exploration/exploitation organizational configuration dilemma (Wang & Jiang, 2009), is highlighted by Haour (2004) who shows that despite its recognized importance, top managers tend to dedicate relatively little time to (explorative) innovation-related activities. The main explanation he advances is the direct and immediate impact on shareholder's value of the (exploitative) short-term activities they would rather focus on which would eventually lead to strategic drift.

Any organization could possibly be confronted to a challenging course and ultimately risk demise. According to Miller (2005), not only does this eventuality stand true for outperforming firms, but these latter's downfall derives often from their source of success. In their pursuit for efficiency and/or a superior competitive advantage, organizations tend to focus on what they are competent at, ending up losing their ability to adapt to external changes thus leading to strategic drift (Doz & Kosonen, 2008).

Long-term involvement from top managers is required in order to tackle uncertainty that comes with innovation (Tidd & Bessant, 2009). Addressing the third innovation paradox maximizes success chances of new projects. However, in certain cases, such commitment may lead the organization to follow inappropriate strategic directions. Välikangas (2010) analyze the cases of different firms, which committed to particular innovations, wrongly thinking they correspond to 'big opportunities'.

2.4 Strategic Drift and Organizational Performance

History suggests that most organizations run into difficulties because of failure to acknowledge and address strategic drift. Strategic drift is a situation where strategies progressively fail to address the strategic position of the organization (Hill & Jones, 2001). Strategic drift is the strategy that gradually fails to meet the exigencies of the environment (Johnson & Whittington, 2006).

Strong forces from organizational environment are likely then to push firms into a strategic drift. Incremental strategic change is a natural outcome of the influence of organizational culture, individual and collective experience, political processes and prior decisions (Grant, 2010). However, if changes in an organization's environment are at a greater rate than that rate of incremental strategic change, the organizations will get out of line with its environment (Miller, 2005).

Strategy development processes in organizations need to encourage people to have the capacity and willingness to challenge and change their core assumptions and ways of doing things so as to improve the company's performance and avoid strategic gaps (Grant, 2010). When a strategic gap occurs, it may have different reasons and different forms. Strategic drift is a kind of strategic gap and is characterized by the fact that the strategy does not fit anymore with its environment (Thompson et al., 2008).

According to Mark & Spencer (2008), strategic drift occurs when strategies fail to keep pace with environmental change. Secondly, due to uncertainty of change hence a tendency

to stick to the familiar. Thirdly due to core rigidities whereby capabilities that are taken for granted and deeply ingrained in routines are difficult to change even when they are no longer suitable. Strategic drift is therefore characterized by highly homogeneous organizational culture and paradigm, questioning is discouraged, there are major power blockages to change, for instance, resistant dominant leaders and there is little focus on the external environment of the organization (Mark & Spencer, 2008).

This study examined the determinants of strategic drift, namely, organization culture, leadership, strategic planning, innovation versus their effect of the performance of commercial banks in Kenya. Both financial and non-financial measures of performance will be analyzed. The financial performance measures used included profitability, return on assets and return on equity. The non-financial measures included market share, product quality, customer satisfaction, organization branch network growth and employee's satisfaction among others.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter describes how the study was conducted. It explains the research design, population of the study, the data collection methods to be applied and how the data was analyzed to produce the required information necessary for this study.

3.2 Research Design

The study used descriptive survey. This design gives a detailed description of events, situations and interactions between people and things (Cooper & Schindler, 2006). The descriptive research design was preferred because it ensures complete description of the situation, making sure that there is minimum bias in the collection of data (Kothari, 2008).

3.3 Population of the study

Population is the entire group under study as specified by objectives of the research; it is the universe from which the sample is to be selected (Ghauri & Gronhaug, 2005). Mugenda & Mugenda (2003), explain that the target population should have some observable characteristics, to which the researcher intends to generalize the results of the study. This definition ensures that population of interest is homogeneous. The target population will comprise all the forty three licensed commercial banks in Kenya (Appendix II).

3.4 Data Collection

The data collected was mainly primary data through questionnaires. Questionnaires are practical, large amounts of information can be collected from a large number of people in a short period of time and in a relatively cost effective way. It can also be carried out by the researcher with limited effect to its validity and reliability and the results of the questionnaires can be quickly and easily quantified through the use of a software package. The questionnaires contained closed ended questions on a Likert scale so as to permit more direct comparability of the responses and eliminate question/statement variability. The study used purposive sampling technique to select the respondent. The researcher selected the manager in charge of strategy in each bank to provide the information required for the study. The researcher used the drop and pick method of administering the questionnaires.

3.4.1 Validity

The objective of validity is to ensure that the scale (each item or question of the questionnaire) measures what it is supposed to measure (Kothari, 2008). In this study content validity of the construct (composing, wording) measurements (of questionnaire items) was of concern from early stage of questionnaire development. To ensure validity of the instrument, the researcher thoroughly reviewed the relevant literature, to enable development of an initial list of items representing each of the study's constructs. The list of items was then modified based on recommendations from the supervisor.

3.4.2 Reliability

According to Mugenda & Mugenda (2003), reliability refers to the degree to which the research instrument can yield consistent results and data from repeated trials. Cronbach's Alpha test was used to examine the internal consistency of the data. A score over 0.70 was considered appropriate for the study. Hence this was used as a benchmark for ascertaining the reliability of factors extracted from the Likert scale in the questionnaire.

3.5 Data analysis

The data collected was first thoroughly edited and checked for completeness and comprehensibility. Quantitative data, was collected using closed ended questions in the questionnaires, was chronologically arranged with respect to the questionnaire outline to ensure that the correct code was entered for the correct variable. The data was then cleaned, tabulated and subjected to appropriate descriptive statistics, that is, the mean for central tendency and standard deviation for variability and percentages and inferential statistics. The data was then presented using tables, bar graphs and charts.

CHAPTER FOUR

DATA ANALYSIS, RESULTS AND DISCUSSION

4.1 Introduction

This chapter presents research findings, data analysis and interpretation of the results of the study based on the objectives of the study. The main objective of the study was to establish the determinants of strategic drift and their effect on the performance of commercial banks in Kenya. To achieve the objective of the study, the research was conducted through questionnaires which were used to obtain the required information. The questionnaire was divided into four sections; section one sought to find the demographic characteristics of the respondents, the second section sought to find the demographic characteristics of commercial banks in Kenya, the third section sought to establish the determinants of strategic drift in commercial banks in Kenya while the fourth section sought to determine the effects of strategic drift on the performance of commercial banks in Kenya.

4.2 Response Rate

Primary data collection was done through the use of a questionnaire and was administered by 'drop and pick' to respondents of the study. The study targeted the 43 commercial banks in Kenya. The questionnaires targeted senior managers, middle level managers and low level managers who were conversant with the strategy of the organization. A total of 43 questionnaires were sent to every bank in the study population. Out of this, 41 questionnaires were completed representing a 95% valid response rate. The response rate was significant enough to provide a valid and reliable conclusion on the determinants of

strategic drift and their effect on the performance of commercial banks in Kenya.

4.2.1 Reliability Test

The data collected using questionnaires was pretested to establish whether the proposed constructs and the items that were to measure the proposed constructs were valid and reliable.

Table 4.1: Reliability coefficients

Scale	**Cronbach's Alpha**	**Number of Items**
Determinants of strategic drift	0.858	41
Performance of commercial banks	0.804	41

Source: Research Data, (2015)

The reliability of the questionnaire was evaluated through Cronbach's Alpha which measures the internal consistency. It measures the internal consistency by establishing if certain items measure the same construct. Cronbach's Alpha was established for every objective in order to determine if each scale (objective) would produce consistent results should the research be done later on. The findings of the study showed that all the two scales were reliable as their reliability values exceeded the prescribed threshold of 0.70 (Mugenda & Mugenda, 2003). The findings are presented in Table 4.1 above.

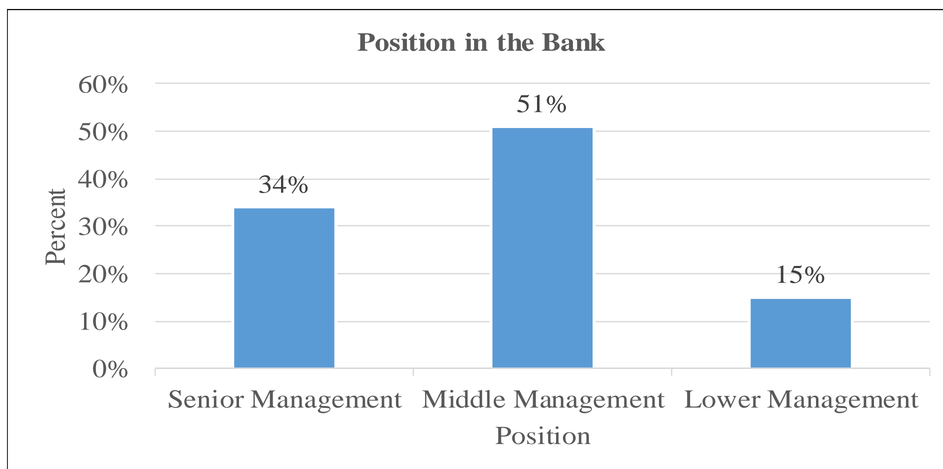
4.3 Demographic Information of the Respondents

The demographic characteristics of the respondents in this study were measured with respect to position held in the bank, their gender and work experience in the bank. The demographic information of the respondents was captured under section A of the questionnaire.

4.3.1 Position held by Respondent

The study sought to determine the position held by the responding managers in the bank. Respondents were categorized into three groups based on the positions they hold within the bank. 34% of the responses were from the senior management, 51% from the middle level management and 15% from the lower level management. This indicates that the senior managers and the middle level managers were the major respondents in the study. These findings are presented in the chart below.

Figure 1: Position of the respondents

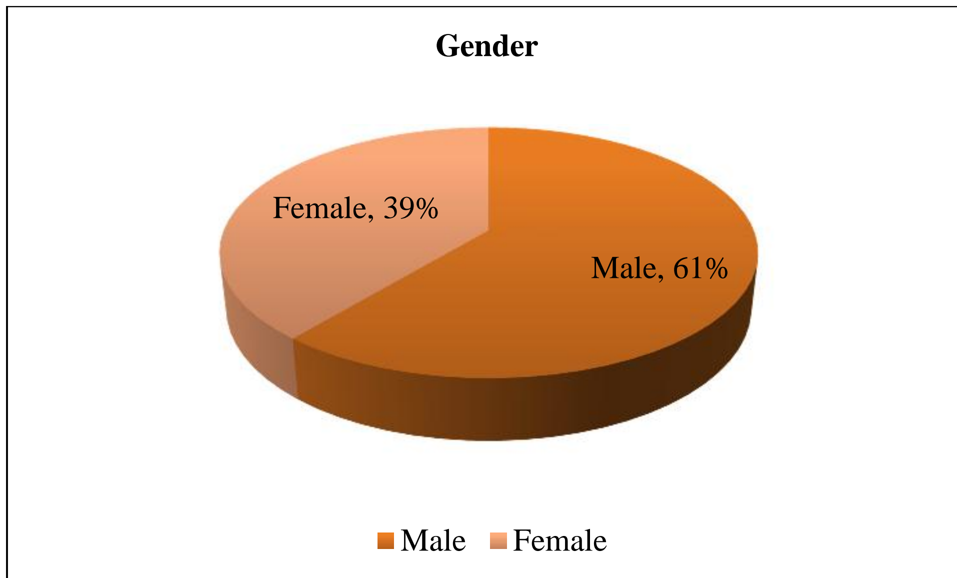


Source: Research Data, (2015)

4.3.2 Gender of the Respondents

Among the 41 respondents, 25 (61%) of the participants were male while the remaining 16 (39%) were female as shown in the pie chart below. This was because majority of the employees holding management positions in most banks are male.

Figure 2: Gender of the respondents

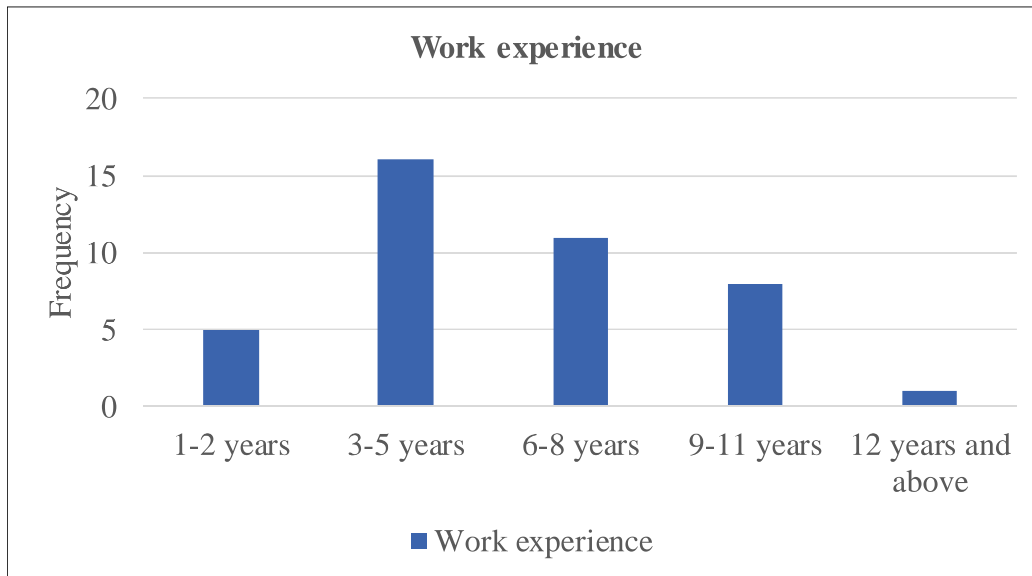


Source: Research Data, (2015)

4.3.3 Number of Years Worked

The study sought to establish the number of years that the respondents had worked in the commercial banks. From the data collected, it was established that majority of the employees had worked in the bank for periods ranging between 3 and 8 years (66%) as shown in the Figure 3 below.

Figure 3: Years of experience



Source: Research Data, (2015)

4.4 Bank Demographic Information

The study sought to establish the demographic characteristics of the commercial banks in Kenya. The information sought was related to the length of time the bank has been operational in Kenya, number of branches, number of employees, number of customers, listing status in the Nairobi Securities Exchange (NSE), bank ownership and the classification of the banks based on the size of the asset book. This information was captured under section B of the questionnaire.

4.4.1 Age of the Bank in Kenya

From the data collected, it was established that majority of the banks have been operational in Kenya for a period not exceeding 40 years. Only 12% of the commercial banks have been operational in Kenya for a period exceeding 60 years. The finding are tabulated below.

Table 4.2: Age of the bank

Number of years	Frequency	Percentage
1-20	16	39%
21-40	15	37%
41-60	5	12%
61-80	3	7%
81 and above	2	5%
Total	**41**	**100%**

Source: Research Data, (2015)

4.4.2 Number of Bank Branches

The study established that 80% of the commercial banks in Kenya have a network distribution of less than 40 branches countrywide as shown in Table 4.3 below.

Table 4.3: Number of branches

Number of Branches	Frequency	Percentage
1-20	21	51%
21-40	12	29%
41-60	2	5%
61-80	1	2%
81-100	1	2%
Above 101	4	10%
Total	**41**	**100%**

Source: Research Data, (2015)

4.4.3 Number of Employees

The study established that 73% of the banks had employees ranging between 1 and 600, followed by those with more than 1,000 employees at 15% whilst those with employees ranging between 601 and 1,000 was at 12%. The findings are presented in Table 4.4 below.

Table 4.4: Number of employees

Number of Employees	Frequency	Percentage
1-200	17	41%
201-400	9	22%
401-600	4	10%
601-800	3	7%
801-1,000	2	5%
Above 1,000	6	15%
Total	**41**	**100%**

Source: Research Data, (2015)

4.4.4 Number of Customers

The study sought to determine the number of customers that are maintained by commercial banks in Kenya. It was established that 34% of the commercial banks in Kenya have a customer base of less than 10,000 customers, 29% with a customer base of between 10,001 and 50,000 customers whereas 37% have a customer base in excess of 50,000 customers. The findings are presented in Table 4.5 below.

Table 4.5: Number of customers

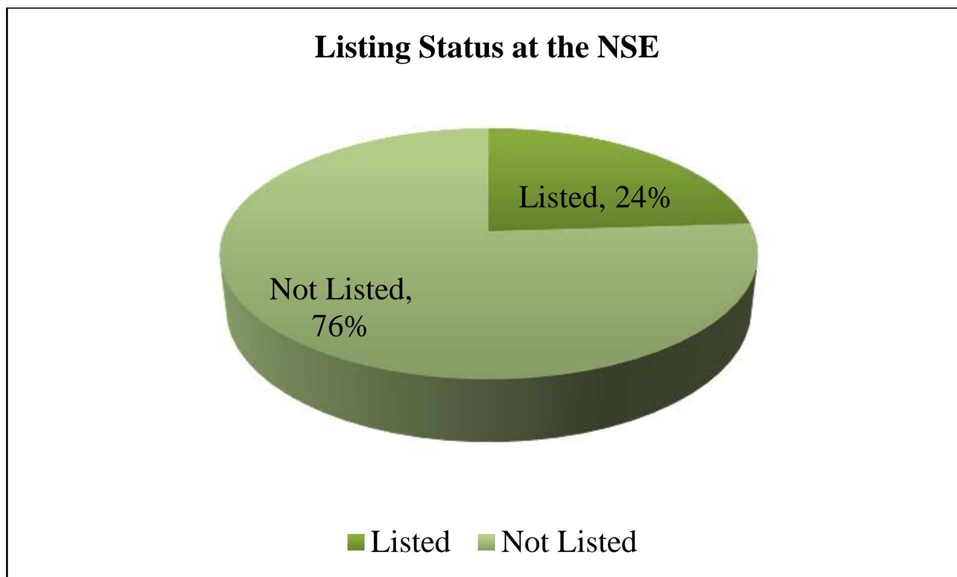
Number of Customers	Frequency	Percentage
1-10,000	14	34%
10,001-20,000	5	12%
20,001-30,000	3	7%
30,001-40,000	2	5%
40,001-50,000	2	5%
Above 50,001	15	37%
Total	**41**	**100%**

Source: Research Data, (2015)

4.4.5 Listing Status at the NSE

The study found out that 24% of the banks were listed at the Nairobi Securities Exchange (NSE) whilst 76% were not listed. The findings are presented in the pie chart below.

Figure 4: Listing status at the NSE



Source: Research Data, (2015)

4.4.6 Ownership Structure of the Bank

The study sought to determine the ownership structure of the commercial banks in Kenya. Locally owned commercial banks are the majority at 69%. The findings are presented in Table 4.6 below.

Table 4.6: Ownership structure of the bank

Ownership	Frequency	Percentage
Private locally owned	22	54%
Foreign owned	13	32%
Public locally owned	6	15%
Total	**41**	**100%**

Source: Research Data, (2015)

4.4.7 Classification of the Bank

The study sought to establish the classification of the banks into ‘tiers’ based on the size of their asset book. Tier III and Tier IV banks account for 56% of the commercial banks in Kenya. The findings are shown in Table 4.7 below.

Table 4.7: Bank classification

Classification	Frequency	Percentage
Tier I - Assets above Ksh. 150 billion	7	17%
Tier II - Assets between Ksh. 50-150 billion	11	27%
Tier III - Assets between Ksh. 15-50 billion	12	29%
Tier IV- Assets below Ksh. 15 billion	11	27%
Total	**41**	**100%**

Source: Research Data, (2015)

4.5 Determinants of Strategic Drift

The objective of the research was to establish the determinants of strategic drifts and their effect in the performance of commercial banks in Kenya. This section was necessary for establishing the specific determinants of strategic in the performance of commercial banks in Kenya. A 5 point Likert scale was used to collect data. The scale signified the extent to which specific banks agreed or disagreed with the proposed determinants of strategic drift in the questionnaire. On the 5 point Likert scale, 1 represented a position of strong disagreement, whereas 5, which was the maximum score represented a position of strong agreement. This information was captured under section C of the questionnaire.

Sixteen items were used to seek the respondents' degree of agreement or disagreement on the determinants of strategic drift in commercial banks in Kenya. On the basis of mean response scores, the respondents tended to agree to a greater extent with most of the aspects provided. Specifically, they strongly agreed that strategic planning is the key determinant of strategic drift (M=4.487, SD=0.5060), followed by leadership (M=4.292, SD=0.5587), responsiveness to change (M=4.243, SD=0.8596), culture (M=4.195, SD=0.5576),

organizational climate (M=4.170, SD=0.7036) and innovation (M=4.073, SD=0.7870). They also agreed that team cohesion in the organization, organizational structure, bank policies, clarity and relevance of mission as well as the internal and external pressures have a significant influence on strategic drift as shown by their mean score responses in Table 4.8 below. However, the respondents tended to be neutral as to whether diversity is a determinant of strategic drift as shown by its scores (M=3.192, SD=1.1234).

Table 4.8: Determinants of strategic drift

Determinants of strategic drift	**1 %**	**2 %**	**3 %**	**4 %**	**5 %**	**Mean**	**Standard Deviation**
Culture	0.0	0.0	7.3	65.9	26.8	4.20	0.5576
Leadership	0.0	0.0	4.9	61.0	34.0	4.29	0.5587
Strategic planning	0.0	0.0	0.0	51.2	48.8	4.49	0.5060
Innovation	0.0	0.0	26.8	39.0	34.2	4.07	0.7870
Communication	0.0	9.8	22.0	36.6	31.7	3.90	0.9696
Team cohesion	0.0	9.8	26.8	36.6	26.8	3.80	0.9544
Skills and abilities	0.0	14.6	29.3	34.1	22.0	3.63	0.9938
Organizational structure	0.0	4.9	24.4	43.9	26.8	3.93	0.8482
Policies	0.0	2.4	29.3	36.6	31.7	3.87	0.8511
Organizational climate	0.0	0.0	17.1	48.8	34.1	4.17	0.7036
Responsiveness to change	0.0	4.9	12.2	36.6	46.3	4.24	0.8596
Clarity and relevance of mission	0.0	0.0	29.3	51.2	19.5	3.90	0.7001
Internal and external pressures	0.0	4.9	17.1	58.5	19.5	3.93	0.7546
Staff motivation	0.0	4.9	34.1	46.3	14.6	3.71	0.7824
Diversity	9.8	9.8	34.1	34.1	12.2	3.19	1.1234
Values and beliefs	0.0	9.8	29.3	41.5	19.5	3.72	0.9012

Source: Research Data, (2015)

4.6 Effect of Strategic Drift on Bank Performance

Strategic drift is the strategy that gradually fails to meet the pressures of the environment. Performance measurement is essential because it enables management to evaluate the strategy and its implementation, and hence determine its effect on the bank. Without credible and accurate measures of performance, it is difficult for the management to have a good grasp of the banks activities that will allow them to make good and informed decisions as well as avoid strategic gaps.

In order to establish the performance of commercial banks in Kenya, the respondents were provided with eight statements with different aspects of performance measurement. They were required to state the extent to which they agreed or disagreed with the statements on a 5 point Likert scale. This information was captured under section D of the questionnaire. The findings of the study established that majority of the banks have been performing well as shown by their mean responses summarized in Table 4.9 below.

Table 4.9: Bank performance

Bank performance	1 %	2 %	3 %	4 %	5 %	Mean	Standard Deviation
Yearly objectives	0.0	0.0	17.1	70.7	12.2	3.95	0.5455
Growth in market share	0.0	4.9	9.8	63.4	22.0	4.02	0.7242
Customer growth	0.0	0.0	7.3	65.9	26.8	4.20	0.5577
Dividends to shareholders	0.0	0.0	4.9	61.0	34.1	4.09	0.5587
Increased products	0.0	2.4	12.2	48.8	36.6	4.20	0.7490
Financial performance	0.0	0.0	4.9	51.2	43.9	4.39	0.5864
Branch expansion	0.0	14.6	14.6	34.1	36.6	3.93	1.0581
Employee management	0.0	7.3	7.3	48.8	34.1	4.12	0.8425

Source: Research Data, (2015)

4.7 Discussion of the Findings

4.7.1 Comparison with Theory

The emphasis of this study was to undertake an in depth evaluation and understanding of the determinants of strategic drifts and their effects on performance of commercial banks in Kenya. The findings of the study established that the process of strategic planning should be consultative and flexible in order to ensure that structure aligns with the strategic objectives of the bank. Communication of strategy is vital in order to enhance attainment of organizational objectives and improved performance of the bank. This is in tandem with Porter’s strategy which is about positioning a business in a given industry structure so as to avoid strategic drifts and eventually enhance organizational performance (Prahalad & Hamel, 1994).

The results of this study have also supported the path dependency theory by Arthur (1994), because it is increasingly important to identify actions and events that may actually trigger a path-dependent process in and across organizations as early as possible. Once identified, management should not give up, but join in the process of path-shaping, even of path-breaking and creating so as to avoid strategic drifts (Ebbinghaus, 2005).

The path dependency theory points to the irreversibility or the lock-in of certain processes and their underlying decisions. The theory assumes that initially decisions are open to revision, but from a certain point in time onwards, decisions taken increasingly restrain present and future choices. As a result, decisions that have been taken in the past may increasingly amount to an imperative for the future course of action. However, because of market pressures, the most efficient solution will finally prevail, and that decisions are principally reversible and will be reversed if better solutions are available.

This theory is therefore relevant to the study because the success of a firm to face increasingly complex and dynamic environments, and eventually to attain a profitable growth, depends on its ability to simultaneously explore new opportunities and exploit existing business models (Schmitt et al., 2010; Raisch, 2008). Hence, for commercial banks in Kenya to endure a highly competitive market, they need to balance the exploration of new knowledge and the exploitation of existing knowledge.

4.7.2 Comparison with other Empirical Studies

Commercial banks in Kenya are faced by a myriad of changes in their environment regardless of their size, number of branches, numbers of employees, number of customers, listing status at the NSE, the number of years in operation or in the scope of business. Strong forces from the environment are likely then to push banks into a strategic drift. This concurs with Miller (2005) who stated that if changes in an organization's environment are at a greater rate than that rate of incremental strategic change, the organizations will get out of line with its environment.

The finding of this study established that commercial banks that are in touch with their environment and address the exigencies emanating in a timely, effective and efficient manner are more likely to have a positive performance. This is supported by Chang & Chuang (2009) who argue that performance measurement becomes the basis of strategy establishment and achievement in the future because it can definitely bring a company's vision and strategic target to all organization members and performs a role that makes efficient internal business processes possible.

This study shares some similarities with several studies that have been conducted in the past. The findings indicate that strategic planning is a key determinant of strategic drift because it centers on the direction of the organization and actions needed to improve its performance. This is in agreement with Wheeller & Hunger (2008) who note that effective strategic planning can transform the performance of an organization, make fortunes for shareholders, or change the structure of an industry.

Organizational structure was also established to be a key determinant of strategic because it influences communication flow within the organization. A study conducted by Kariuki (2004) on the IT strategy and organization structure relationship in companies listed on the NSE established that changes in IT strategy almost always meant changes in the organization structure. The findings of this study indicated that the organization structure had a very high effect on the response rate to technological changes in companies. This finding was a confirmation of the need for commercial banks to adopt organization structures that allow for adaptation to changes in strategy within the business environment.

Further, Otieno (2011) conducted a study on the strategy-structure alignment at Kenya Commercial Bank Group Limited while Munyiva (2012) conducted a study on the strategy and structure alignment at Barclays Bank of Kenya. Both researchers observed that every organization needs an organization structure that is capable of delivering its strategic intent. Therefore, the findings of this study affirmed the empirical findings of the other scholars on the need for alignment of organization structure with the expected strategic objectives.

A majority of the commercial banks agreed to a greater extent that the determinants of strategic drift must be tackled on an ongoing basis as an ingredient for positive performance. This is supported by Aguilar (2009) and Fahey & King (2010) who argue that there is need to re-evaluate strategy constantly in order to respond to turbulent and shorter unstable life cycles so as to avoid strategic drift. Organizations need to respond to these changes by continuously scanning the environment and adopt strategies that position them as viable in the market and enhance their performance.

CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

This chapter presents a summary of the findings with the main aim of answering the research questions and draw conclusions based on those findings. In addition, appropriate recommendations will be made and insights provided in the areas for further research.

5.2 Summary of Findings

The study sought to establish the determinants of strategic drift and their effects on the performance of commercial banks in Kenya. The study conducted a census targeting all the 43 commercial banks in Kenya. The response rate was at 95% and from the data collected, majority of the respondents were male in the middle and senior management levels and had worked in the commercial banks for more than three years.

According to the findings of this study, it was established that the main determinants of strategic drift are strategic planning, leadership, responsiveness to change, culture, organizational climate, innovation and communication. The respondents also agreed that team cohesion, organizational structure, policies of the bank, clarity and relevance of mission as well as internal and external pressures have a significant influence on strategic drift and the performance of commercial banks in Kenya.

The study also established that there has been a tremendous improvement in the performance of commercial banks in Kenya over the last five years. This is reflected by

the positive financial performance, increase in customer base, increase in competitive products being introduced into the market, achievement of set yearly objectives as well as the expansion in branch network in a majority of the banks. However, to achieve improved bank performance, there is need to continuously monitor the implementation of strategy in order to establish and detect if the strategy is correctly executed. Monitoring also allows the management of commercial banks to determine if the strategy fits well with the company's environment and thus avoid strategic gaps that could lead to strategic drift.

5.3 Conclusions

From the analysis, the study concludes that all the variables under study, that is, organizational culture, leadership, strategic planning, innovation and communication among other determinants of strategic drift have a significant effect on the performance of commercial banks in Kenya. First and foremost, the findings imply that the process of strategic planning should be consultative to ensure that structures align with strategy. This alignment will ensure that banks avoid strategic gaps and allow for the satisfaction of all stakeholders' needs and expectations.

Secondly, the findings also imply that the leadership and organization structure should be flexible to facilitate prompt responses to environmental changes including political, technological, economic and natural factors. Lastly, the findings imply that commercial banks in Kenya need to adopt a learning culture so that the discipline of organization learning practices are inculcated into the daily routine of the banks. By doing this, they can be able to respond to both internal and external pressures of change in a holistic manner.

In case of a strategic drift situation, the key is flexibility. Commercial banks must know how to manage changes in their domain and how to address and fill the gaps between what is planned and what is delivered. This is because the study has established that strategic drift could be caused by either a combination of many factors or due to a multitude of small problems ranging from team cohesion, values and beliefs, staff motivation and clarity of mission among others. It can also be caused by negligence from the top management if they fail to monitor the direction of the company or they neglect the implementation of the strategy. Strategic drift may also be due to either a bad analysis of the environment by the top management and its inability to communicate the strategy, or by a low-quality feedback from the operational level that is in direct contact with the environment on day-to-day activities.

5.4 Recommendations for Policy and Practice

There is need for the management teams of commercial banks in Kenya to conduct proper analysis of the environment. This will enable them to detect even the slightest changes in the environment and hence make the necessary strategic adjustments and communicate the refreshed strategy to their teams with the main aim of enhancing the attainment of organizational objectives and improvement of bank performance.

There is also need for management to align the organization structures with strategic objectives to allow for efficiency in service delivery to customers and allow for adaptability to changes in the business environment. Further, to prevent a strategic drift of the

company's strategies, it is important to appreciate the complexity of the environment and incorporate it into the strategy development process.

The management teams of commercial banks in Kenya should ensure that their organization structures allow for enhanced implementations of new strategies. This will allow proper communication and hence facilitate a quicker response to competition, technological changes, economic changes and socio-cultural changes in the business environment. The culture in the organization should not be resistant to change. The mission of the bank should be clear. The values and beliefs of the employees should be aligned with the mission and vision of the bank hence enabling flexibility and efficiency in the operations of the bank and thus enhancing bank performance.

5.5 Recommendations for Further Study

The researcher suggests that a study whose respondents include non-management staff be carried out to provide a greater insight into their perception of the influence of strategic drift on the performance of commercial banks in Kenya. Also, another study should be conducted to examine whether the same results will be obtained as well as establish ways of preventing strategic drift in not only banks but in other institutions.

Given that the study focused on one industry, a similar kind of study and research approach can be used to establish the determinants of strategic drift and their effect on the performance of other industries and sectors in Kenya such as micro finance, insurance companies, non-bank lending companies and leasing companies among others to allow for

the establishment of whether the same determinants of strategic drift have the same effects on the performance of other industries and sectors.

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APPENDICES

APPENDIX I: INTRODUCTORY LETTER

To whom it may concern,

Ref: Academic Research

I am a student at the University of Nairobi doing an academic research about the 'Determinants of strategic drift and their effects on performance of commercial banks in Kenya'. The study is in partial fulfilment for the award of a Master Degree in Business Administration (Strategic Management Option).

The purpose of this letter is therefore to request that you fill the attached questionnaire that provides the necessary data to be used in the research. The data provided in the questionnaire will be used solely for academic purposes and will be treated with utmost confidentiality.

Your assistance will be highly appreciated.

Yours Sincerely,

Henry O. Maosa

APPENDIX II: LICENSED COMMERCIAL BANKS

1. ABC Bank (Kenya)
2. Bank of Africa
3. Bank of Baroda
4. Bank of India
5. Barclays Bank Kenya
6. CFC Stanbic Holdings
7. Chase Bank Kenya
8. Citibank
9. Commercial Bank of Africa
10. Consolidated Bank of Kenya
11. Cooperative Bank of Kenya
12. Credit Bank
13. Development Bank of Kenya
14. Diamond Trust Bank
15. Dubai Bank
16. Ecobank Kenya
17. Equatorial Commercial Bank
18. Equity Bank
19. Family Bank
20. Fidelity Commercial Bank Limited
21. First Community Bank
22. Giro Commercial Bank

23. Guaranty Trust Bank Kenya

24. Guardian Bank

25. Gulf African Bank

26. Habib Bank

27. Habib Bank AG Zurich

28. Housing Finance Company of Kenya

29. I&M Bank

30. Imperial Bank Kenya

31. Jamii Bora Bank

32. Kenya Commercial Bank

33. K-Rep Bank

34. Middle East Bank Kenya

35. National Bank of Kenya

36. NIC Bank

37. Oriental Commercial Bank

38. Paramount Universal Bank

39. Prime Bank (Kenya)

40. Standard Chartered Kenya

41. Trans National Bank Kenya

42. United Bank for Africa

43. Victoria Commercial Bank

Adopted from http://www.centralbank.go.ke/financial system/banks/register.aspx

APPENDIX III: RESEARCH QUESTIONNAIRE

This is a research to enquire the determinants of strategic drift and their effect on the performance of commercial banks in Kenya. The information gathered by this questionnaire will only be used for the academic purposes.

SECTION A: Respondents' Demographic Characteristics

1. Which bank do you work for?..

2. What is your position in the organization?

   Senior management [ ] Middle management [ ] Lower management [ ]

   Position held…………………………………………………

3. Indicate your gender

   Male [ ] Female [ ]

4. How long have you worked with this bank?

   1-2 Years [ ] 3-5 Years [ ] 6-8 Years [ ] 9-11 Years [ ]

   12 Years and above [ ]

SECTION B: Commercial Bank Demographics Characteristics

1. How long has your bank been operational in Kenya (years)?......................................

2. How many branches does your bank have?...

3. What is the total number of employees in your bank?..

4. What is the total number of customers held by your bank?................................

5. Listing status at the Nairobi Securities Exchange.

   Listed [ ] Not Listed [ ]

6. How would you describe the ownership of your bank?

   Private Local [ ] Foreign [ ] Public Local [ ]

7. What is the classification of your bank your bank?

   Tier I [ ] Tier II [ ] Tier III [ ] Tier IV [ ]

SECTION C: Determinants of Strategic Drift in Commercial Banks in Kenya

To what extent does each of the following factors determine strategic drift in your bank? Please tick appropriately.

Where, **1**= Strongly disagree **2**= Disagree **3**= Neither disagree nor agree **4**=Agree **5**= Strongly agree

	1	**2**	**3**	**4**	**5**
1. Organizational culture					
2. Leadership					
3. Strategic planning					
4. Innovation					
5. Communication					
6. Team cohesion					
7. Skills and abilities					
8. Organization structure					
9. Policies					
10. Atmosphere and climate in an organization					
11. Responsiveness to change					
12. Clarity and relevance of missions					
13. Internal and external pressures					
14. Staff motivation					
15. Diversity					
16. Values and beliefs					

For questions in this section, please answer to the best of your knowledge as required.

SECTION D: Effects of Strategic Drift on the Performance of Commercial Banks in Kenya

To what extent do you agree with the following statements? Please tick appropriately.

Where, **1**= Strongly disagree **2**= Disagree **3**= Neither disagree nor agree **4**=Agree **5**= Strongly agree

	1	**2**	**3**	**4**	**5**
1. The bank has been able to achieve yearly objectives and goals for the last 5 years.					
2. The market share of the bank has had a positive growth in the last 5 years.					
3. The bank's customer base has had a positive growth in the last 5 years.					
4. The bank has been paying dividends to its shareholders in the last 5 years.					
5. The bank has had growth in competitive products offering in the last 5 years.					
6. The bank has had a positive financial performance (Profitability, Return on Assets and Return on Equity) in the last 5 years.					
7. The bank has had branch expansion in Kenya in the last 5 years.					
8. Employees' terms and conditions of engagement (remuneration, retention, succession planning, benefits and priviledges) have improved over the last 5 years.					

Thank you for taking your time to fill this questionnaire.