

**INDUSTRY STRATEGIES ADOPTED BY NATIONAL BANK OF KENYA IN THE
TURBULENT BANKING INDUSTRY AND THEIR EFFECT ON ORGANIZATIONAL
PERFORMANCE**

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DECLARATION

This research project is my original work and has not been presented for the award of a degree 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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ABBREVIATION

ABM	Africa Business Magazine
ATMS	Automated Teller Machines
CBD	Central Business District
CBK	Central Bank of Kenya
CMA	Capital Markets Authority
FKE	Federation of Kenya Employers
KBA	Kenya Bankers Association
NBK	National Bank of Kenya
SWOT	Strengths, Weaknesses, Opportunities and Threats
UON	University of Nairobi

Table of Contents

DECLARATION	i
ACKNOWLEDGEMENT.....	ii
ABBREVIATION.....	iii
ABSTRACT	vi
CHAPTER ONE: INTRODUCTION.....	1
1.1 Background of the Study	1
1.1.1 Concept of Strategy.....	2
1.1.2 Industry Strategies.....	3
1.1.3 Organizational Performance	4
1.1.4 Banking Industry in Kenya	5
1.1.5 The National Bank of Kenya Limited	6
1.2 Research Problem.....	7
1.3 Research Objective.....	9
1.4 Value of the Study.....	9
CHAPTER TWO: LITERATURE REVIEW	11
2.1 Introduction.....	11
2.2 Theoretical Foundation.....	11
2.2.1 Dynamic Capabilities Theory	11
2.2.2 Resource-Based Theory.....	12
2.2.3 The McKinsey 7S Framework	13
2.2.4 Game Theory	13
2.3 Empirical Review	14
2.4 Influence of Strategy in Determining the Performance of an Organization	16
2.5 Summary of the Literature Review	19
CHAPTER THREE: RESEARCH METHODOLOGY	20
3.1 Introduction.....	20
3.2 Research Design.....	20
3.3 Data Collection Method.....	20
3.4 Data Analysis	21
3.5 Summary of the Chapter.....	21

CHAPTER FOUR: DATA ANALYSIS, RESULTS AND DISCUSSION.....	22
4.1 Introduction.....	22
4.2 Demographic Information	22
4.3 Strategies Adopted by the Bank and their Effect on the Organizational Performance.....	22
4.4 Expansion Strategies and Strategic Partnerships/Alliances.....	24
4.5 Differentiation Strategies.....	24
4.6 Other Industry Strategies the Bank is Using.....	26
4.7 Impacts of the Strategies Adopted	27
4.8 Discussion on Findings.....	27
4.9 Summary of the Chapter.....	29
CHAPTER FIVE: SUMMARY, CONCLUSION AND RECOMMENDATIONS	
.....	31
5.1 Introduction.....	31
5.2 Summary of Findings	31
5.3 Conclusion	32
5.4 Recommendation.....	33
5.5 Limitations of the Study	33
5.6 Areas For further Research.....	34
5.7 Implications of the Study on Theory, Policy and Practice	34
REFERENCES	35
APPENDIX I: INTERVIEW GUIDE	39

ABSTRACT

The banking industry has witnessed intense competition and turbulence the world over and the Kenyan banking industry is not an exception. To survive in this market, commercial banks have adopted different industry strategies to gain and sustain competitive advantage derived from their capabilities and thus influence its organizational performance. In a turbulent banking industry like the Kenyan situation, absence of well-defined industries strategies can lead to weak positions and result in performances that are below the industry average. The purpose of this study was to examine the industry strategies adopted by the National Bank of Kenya and their effect on the organizational performance. The study adopted case study design to carry out this research where an interview guide targeting 8 senior officers of the bank was employed to collect data. Both primary and secondary data were sourced and used for analysis through Content Analysis method. The study revealed that NBK has recently applied various strategies to capture the market share and sustain competition. It also came to the fore that the bank recently underwent a restructuring process and thus has been embracing cost efficiency strategy to spur growth and gain competitive edge in the competitive banking industry. Technology adoption relate to payment services and how customers conduct banking business through for instance debit cards ,smart cards, mobile banking among others. An advance in technology has reduced the need for an intermediary by providing easy access to information. Through adoption of various technology advances, communication has also been enhanced between both the internal and external customers. This has led to creating good customer relationship. The bank is also boasting of enhanced brand equity through adoption of differentiation strategies that has enabled its products and services to stand out from its competitors. The bank is also able to develop and analyze new markets and therefore able to venture into new markets. The study recommended that the bank should focus on improving its IT infrastructure, expand the branch network and train staff to be more customer-friendly to exceed customer expectations to gain and sustain competitive advantage over its competitors also that commercial banks should be able to come up with strategies that will ensure that they adapt to the changes and the intense competition that are taking place in the industry and be relevant to the challenging environment that they are operating in.

CHAPTER ONE: INTRODUCTION

1.1 Background of the Study

Today's business environment requires firms to embed in relationships with other actors in order to gain access to resources needed. Hakanson and Snehota (2007) argue that 'no business is an island' indicating that companies are involved in long-term relationships and that the atomistic company does not exist and in order to be successful, organizations must be strategically aware. They must understand how changes in their environment are unfolding. They should actively look for opportunities to exploit their strategic abilities, adapt and seek improvements in every area of the business, building on awareness and understanding of current strategies and successes. Organizations must be able to act quickly in response to opportunities and barriers in the industry (Abishua, 2010).

The resource based view theory emphasizes economic rent creation through distinctive capabilities. A company resource drives its performance through enabling the company to develop competencies to enable survival and superior performance. Companies will compete on the basis of resources they possess. Recent analysts have extended the RBV using the concept of 'dynamic capabilities' to refer to the firms' ability to develop and extend resources and competences to adapt to a changing environment (Teece, 2009). In a radically changing environment, such as the current recession, the concept of dynamic capabilities may be helpful in developing a framework for understanding why some firms succeed, some eke out survival, and some fail. The change process has a great impact on the firm's market share. The business environment has become extremely competitive and complex. Organizations must be flexible in order to adapt to changes, compete effectively and thus grow,(Curran,et al 2006).

The National Bank of Kenya Limited was incorporated on 19th June 1968 and officially opened on 14th November 1968. The objective of forming the bank was to assist Kenyans in getting access to credit and assist them to control the economy. At its formation the bank was a fully owned Government institution but reduced its shareholding to 68% by selling 32% shareholding to the public, (NBK, 2014). The National Bank of Kenya operates in a relatively deregulated environment governed environment and the various prudential guidelines issued by regulators .The financial performances of banks have in a general increasing trend and mainly has been attributed to proper management and formulation and implementation of strategy.

Relationship between industry strategy and organization performance bring about an effective part of the business component that is absolutely essential to its success. In fact, the ability to properly market a product or service is actually more important than the product itself. Even an inferior product can be a financial success if marketed properly. Successful industry strategies create a desire for a product. A strategist, therefore, needs to understand consumer likes and dislikes. In addition, organizations must know what information will convince consumers to buy their product, and whom consumers perceive as a credible source of information (Kotler, 2001).

1.1.1 Concept of Strategy

The purpose of strategy is to provide directional cues to the organization that permits it to achieve its objectives while responding to the opportunities and threats in the environment (Pearce, 2001). Ansoff (1999) viewed strategy in terms of market and product choices. According to his view, strategy is the ‘common thread’ among an organization’s activities and the market.

Strategy is a multi-dimensional concept and various authors have defined strategy in different ways. Chandler (1998) defined strategy as the determination of the basic long term goals, the objectives of an organization, the allocation of resources necessary for carrying out these goals and the adoption of courses of actions. Pearce and Robinson (2001) defined corporate strategy as the pattern of major objectives purposes or goals and essential policies or plans for achieving those goals, stated in such a way as to define what business the company it is.

The study of strategy involves identifying establishing and sustaining competitive advantage according to Porter (1980). He simplified the concept of strategy as the creation of a unique and valuable position, involving a different set of activities. It is about differentiating ones activities in order to deliver a unique mix of value added products and services.

Aosa (1992) argued that strategy is creating a fit between the external characteristics and the internal condition to solve a strategic problem. He defined a strategic problem as a mismatch between internal characteristics of an organization and its external environment. The match is achieved by developing an organization's core capabilities related to the external environment well enough to allow for exploitation of opportunities in the external environment and minimization of threats.

1.1.2 Industry Strategies

Market dynamics have created challenges to various organizations with the emergence of the global economy, increased societal demands, advances in technology and the need to provide more social services with fewer resources has increased the pressure to change, given more accessible globalized information systems and heightened media attention critical of organization inefficiencies in service delivery. Organization that decides to act on plans to achieve objectives

does not do so in a sterile environment. Its success largely depends on the knowledge and quality of the relationships it maintains with the external environment (systems) and its own internal environment (Teece, 2009).

Industry strategies are most effective when they are an integral component of corporate strategy, defining how the organization will successfully engage customers, prospects, and competitors in the market arena. It is partially derived from broader corporate strategies, corporate missions, and corporate goals. As the customer constitutes the source of a company's revenue, industry strategy is closely linked with the organization performance.

Maintaining the quality of the relationships implies that the organization's management assesses the state of the relationships with the external/internal environments, constantly monitor the dynamics that affect the relationships and adjust to maintain or improve those relationships over time in order to achieve the organizational goals. This demands constant environmental scanning to recognize trends that affect the workplace. Those trends include the changing face of the workforce, the technological, legal, social and economic environment (Buhler 2007). Managers must not only examine the way in which the company is competing but also the basis on which they are competing; this includes assessment of internal strengths and weaknesses in skills and competencies that may affect systematic growth (Aaker, 2012).

1.1.3 Organizational Performance

According to Snehota (2007), Organizational performance comprises the actual output or results of an organization as measured against its intended outputs (or goals and objectives). Organizations are constantly trying to adapt, survive, perform and influence. However, they are not always successful. To better understand what they can or should change to improve their

ability to perform, organizations conduct organizational assessments. This diagnostic tool can help organizations obtain useful data on their performance, identify important factors that aid or impede their achievement of results, and situate themselves with respect to competitors.

Robert (2004) argues that organizational performance encompasses three specific areas of firm outcomes: financial performance for instance profits, return on assets, return on investment; product market performance for instance sales, market share and shareholder return that may include total shareholder return, economic value added. Specialists in many fields are concerned with organizational performance including strategic planners, operations, finance, legal, and organizational development.

In recent years, many organizations have attempted to manage organizational performance using the balanced scorecard methodology where performance is tracked and measured in multiple dimensions such as: financial performance like shareholder return customer service social responsibility for instance corporate citizenship, community outreach employee stewardship. There is little dispute that one of the core purposes of both entrepreneurship and strategic management theory and research is the improvement of organizational performance. Many consultants maintain that various initiatives and programs improve the performance of organizations.

1.1.4 Banking Industry in Kenya

The banking industry is an integral part of the economy that plays a key role in the wellbeing of the economy. The health of the banking sector is vital for enhancing the competitiveness of an economy. The industry was liberalized back in 1995 and exchange controls revoked.

The banks have come together under the Kenya Bankers Association (KBA), which works as lobby for the local banking industry. KBA also serves as a forum to address issues affecting the banking sector (Mwende, 2014). The banking sector in Kenya operates in a relatively deregulated environment governed by the Company's Act, the Banking Act, the CBK Act and the various prudential guidelines issued by the CBK.

The financial performances of banks have in a general increasing trend and mainly have been attributed to proper management and formulation and implementation of strategy. In Kenya there are a total of 45 commercial banks which are all competing for the same market share (CBK, 2014). The Kenyan banking industry has faced challenges such as stiff competition among the existing local and foreign banks, who offer similar banking services and products at different rates. Microfinances, Sacco institutions and of late the mobile money transfer services such as M-Pesa and Airtel Money are emerging key players in delivery of financial services too.

1.1.5 The National Bank of Kenya Limited

The National Bank of Kenya Limited was incorporated on 19th June 1968 and officially opened on 14th November 1968. The objective of forming the bank was to assist Kenyans in getting access to credit and assist them to control the economy. Historically the performance of the bank was undermined by non- performing loans provided to Government parastatals. The current shareholding of the bank is now composed of: the National Social Security Fund (NSSF) 48.06%, the general public 29.44% the remainders of the shares are held by the Government of Kenya. The share capital of the bank stands at Kshs. 9 billion. Banks are our largest and most diversified intermediaries.

Adapting to environmental shocks is a capability all businesses have to develop in order to survive. Environmental shocks, or jolts, reshape the opportunities and threats the firm faces and is likely to render existing business strategies ineffective (Meyer et al.1990). Different types of environmental shock can occur with which businesses have to cope. Such shocks change the level of environmental munificence, the level of resources available in a particular environment. For instance, recession, an environment of falling GDP, is one type of shock.

Much strategy literature is concerned with strategic change in circumstances of environmental jolts, turbulence, radical institutional change, industry deregulation or hyper-competition. Markets impart pressure on firms to adapt to changing circumstances, or to risk decline and exit. Businesses always have some discretion regarding the strategies they adopt, although the degree of choice is often severely constrained by resources or circumstances (Whittington, 2009).

1.2 Research Problem

Changes in the environment have drastically affected the way in which organizations operate. These changes are within both the external and internal environment and organization strives to be innovative and agile enough to meet customers' demands. A review of the Dynamic Capabilities concept reveals that for an organization that seeks to build competitive advantage, emphasis lies in having capabilities that are of value to its customers. Competitive advantage is dependent on an organization having distinctive or unique capabilities that competitors will find difficult to imitate (Teece, 2009).

Strategic management is an ongoing process that evaluates and controls the business and industries in which the company is involved. It assesses its competitors and sets goals and strategies to meet all existing and potential competitors. It then reassesses each strategy annually

or quarterly to determine whether it has succeeded or needs replacement by a new strategy (Bowen, et al 2004). Strategic Management includes understanding the strategic position of an organization, strategic choices for the future and managing strategy in action (Johnson, Scholes, & Wittington, 2008)

International studies have documented findings on how businesses operate as open systems and they constantly interact with its environment to survive, are environment dependent and depend on environment for survival. Studies done by Snehota (2007), in 75 American firms operating in China revealed that indeed 60% of the firms depended on liquid money, equipment and human resources from the environment as the main input for performance. Elsewhere in United Emirates, Gomez, (2013) contents that resources go through transformation process in the Dubai companies as the finished products go to the environment. The firms' environment therefore consists of remote, industry and operating environment.

Locally, several scholars have carried out extensive studies in the area of banking in Kenya and especially on competitive strategy. For instance, Warugu (2001) in his research, found out that focus and product differentiation are some of the major strategies that the banks have employed in their quest to outdo each other. Similarly Ohaga (2004) looked at the strategic responses of commercial banks in Kenya to changes in their environment and he established that a proactive rather than reactive strategy such as research on changing customer needs and preferences forms the basis of its strategic planning. Mbwanyo (2005) focused on the strategies applied by commercial banks in Kenya in anti-money laundering compliance programs. He concluded that strict adherence procedures and standards have been implemented to ensure that money laundering is contained in Kenya.

These studies have looked at competitive strategies among commercial banks and response strategies at various levels in an attempt to gain a competitive edge over rivals in the banking industry but none has investigated industry strategies used by these industry players to address the turbulent Banking Industry. This study therefore seeks to provide answers to the question, “which industry strategies are adopted by National bank of Kenya in the turbulent banking industry and what is their effect on organizational performance?”

1.3 Research Objective

To determine the industry strategies adopted by National bank of Kenya and their effect on its (organization) performance.

1.4 Value of the Study

This study will enable policy makers in the banking and other industries advocate for adoption of various industry strategies in order to survive and improve their performance in the industry. The research will be beneficial to NBK specifically in that it will expose the gaps in its strategy, which if addressed in time will help it to achieve its goals and vision and improve on its performance as well as get an objective observation, criticism analysis and opinion from a business researcher who is neither party to the organization nor to the process itself.

Other researchers will use this study as a point of reference for future studies as it will add to the existing body of knowledge in this area. This is fundamental in the academic field as it becomes a valuable repository of knowledge to academic scholars which include students, lecturers and researchers who will be able to refer to the document in the future while carrying out related studies.

Furthermore, the study will be of great value in management practice in that the study will identify industry strategies adopted by banks in order to survive the turbulence in the current times and through its findings, the study will be able to recommend market strategies that can be adopted by banking and other institutions.

CHAPTER TWO: LITERATURE REVIEW

2.1 Introduction

This chapter seeks to highlight relevant literature that may be useful in not only defining the theoretical context within which this study will be carried out, but also to steer a consistent and a logical way of not only collecting and synthesizing data, but also providing a solid foundation of interpreting the findings of the study. The field of my interest in this study is Strategic Management with a clear focus on various industry strategies adopted by banking institutions in order to improve on their performance and gain competitive edge in the industry. This study is important to scholars, banking institutions, and other bodies that develop strategies with the key objective of creating an impact to beneficiaries/ customers/ publics.

2.2 Theoretical Foundation

Banks emulate various industry strategies for instance strategic positioning. Companies formulate their strategic position by finding the best defensive position against competitive forces by swaying the balance of the forces to enhance the company's position and by choosing a strategy for competitive balance prior to opponents' movement (Oliver, 2007). The competitive strategy view maintains that resources are the results obtained from the implementation of strategy and purchase from environment.

2.2.1 Dynamic Capabilities Theory

Dynamic Capabilities concept reveals that for an organization that seeks to build competitive advantage, emphasis lies in having capabilities that are of value to its customers. Competitive advantage is dependent on an organization having distinctive or unique capabilities that competitors will find difficult to imitate Invalid source specified. Dynamic capabilities may thus

imply an organization's ability to 'renew and recreate its strategic capabilities' to meet the needs of a changing environment. They are the abilities to reconfigure a firm's resources and routines in the manner envisioned and deemed appropriate by its principal decision-maker' (Dixon et al 2013).

2.2.2 Resource-Based Theory

Resource-Based theory argues that firm specific resources and capabilities are the factors determining firm performance. Industrial organization literature emphasizes the role of industry structure as the primary determinant of firm performance so that the unit of analysis is invariably the industry, Porter (2008). According to Barney, (2008) the resource based value theory suggest that competitive advantage and performance results are a consequence of firm specific resources and capabilities that are costly to copy by other competitors. These resources and capabilities can be important factors of sustainable competitive advantage and superior firm performance if they possess certain special characteristics. They should be valuable, increasing efficiency and effectiveness, rare, imperfectly imitable and non-substitutable.

The resource based approach sees firms with superior systems and structures being profitable not because they engage in strategic investments that may deter entry and raise prices above long run costs, but because they have way lower costs or offer higher quality or product performance. It is therefore evident that the resource- based perspective focuses on strategies for exploiting existing firm-specific assets.it also invites the consideration of managerial strategies for developing new capabilities (Wernefelt, 1984) .

2.2.3 The McKinsey 7S Framework

The McKinsey 7S Framework is a management model developed by well-known business consultants Robert H. Waterman, Jr. and Tom Peters in the 1980s. This was a strategic vision for groups, to include businesses, business units, and teams. The 7S are structure, strategy, systems, skills, style, staff and shared values. The model is most often used as an organizational analysis tool to assess and monitor changes in the internal situation of an organization (Claudio et al., 2013).

The model is based on the theory that, for an organization to perform well, these seven elements need to be aligned and mutually reinforcing. So, the model can be used to help identify what needs to be realigned to improve performance, or to maintain alignment (and performance) during other types of change.

Whatever the type of change restructuring, new processes, organizational merger, new systems, change of leadership, and so on the model can be used to understand how the organizational elements are interrelated, and so ensure that the wider impact of changes made in one area is taken into consideration. A review of the stewardship theory that informs a better part of this study assumes that managers in general should be assumed as good stewards. It states that managers should not be regarded as opportunistic actors but as trustworthy and collectivistic (Raymond, 2013).

2.2.4 Game Theory

Equally, the origin of game theory can be traced back to the study of war. The central idea is that the strategist has to anticipate the reactions of competitors. The assumption in the game theory is

that to a greater or lesser extent competitors are aware of the interdependencies that exist and of the sorts of move that competitors could take, (Johnson and Scholes, 2002).

In assessing competitive forces and the context within which a company operates, choice of strategy can seem like a search for a myriad forces pushing and pulling an organization to change. Strategic conflicts approach utilizes the tools of game theory to analyze the nature of competitive interaction between rival firms by revealing how a firm can influence the behavior and reactions of rival firms and thus the market environment (Teece, 2009)

2.3 Empirical Review

Strategic management informs the resources of an organization especially the human resources on the aspirations of the firm. It therefore puts measures in place to address these aspirations. These measures include but are not limited to – financial, human resources, marketing, among others (Raduan, 2009). Strategy manifests itself in three modes; planned, adaptive or realized (Ghemawat, 2002). The final, actualized strategy according to Ghemawat is the realized strategy which is partly planned and partly influenced by the prevailing environmental interference. According to Aosa (1992) strategy requires proper implementation through adequate operationalization as well as institutionalization. This way, the organization must align its strategic choices with what is tenable in the environment.

According to Albers & Caroline (2013) competitive dynamics has also emerged as a powerful tool in strategic management. Its aim is to explain and predict competitive interactions between rivals and the impact of these interactions on firm performance. In this model, awareness, motivation and capability represent the key drivers of such competitive behavior and thus are key determinants of interfirm rivalry. The various components of these drivers and their impact

include firm size and age for awareness, past performance or market dependence for motivation, and resource similarity for capability. Depending on the market definition, inter-industry rivals can also compete in various markets for example geographical markets. In this theory, resource similarity is frequently used to explain competitive setting that the similarities of resources or lack thereof has a considerable influence on the awareness and capability of similar companies (Aaker, 2012).

Competition in the recent past has become one of the major challenge and factor that has contributed to the diverse strategic behavior among organizations in general. Organizations in Kenya are characterized by an aggressive competitive environment with a lot of competitors which calls from them to re-adjust and adjust their strategies often so that they can become strategically fit. Porter (1987) has outlined the various challenges and forces that firms face from gaining competitive advantage, they include: buyer and sellers bargaining power, threats of new substitute products and rivalry among products as out lined in his five forces model. He further defines the various strategies and strategic responses that can be used by firms to curb with the various challenges within the environment in relation to competition. They include: cost efficiency strategy, product differentiation strategy, focus strategy, avoidance strategy and low cost strategy.

Environmental turbulence is explained as dynamism in the environment which involves rapid and unexpected change in the environmental sub-dimensions (Conner, 2003). A stable environment changes less often, but when it does, the change is predictable. On the other hand, in turbulent environments there are many unexpected changes. Turbulence is caused by changes in and interaction between environmental factors. The increase in environmental turbulence thus results in reduction of orderly competition, the increasing need for information and innovation,

quicker cycles of development and difficulty in understanding customer product and service requirements (Mason, 2007).

As environmental turbulence increases, strategic issues that challenge the way organizations formulate and implement strategy emerge more frequently. Management of organizations have a challenging responsibility - to closely monitor environmental conditions and to develop and implement effective strategies for dealing with those conditions. Economic conditions change; interest rates fluctuate; unemployment levels change; consumer preferences change; government regulations are modified; and new technologies are introduced in many industries including banking. All of these changes create turbulence. Firms dealing with turbulent environments must not only constantly monitor changing environmental conditions; they must also try to forecast and predict future conditions and develop strategies to cope (Meyer, 2002)

Understanding the environmental changes in the banking sector and their effect on banking business could help the players in the banking industry develop rational strategies to effectively position itself in the industry as well.

2.4 Influence of Strategy in Determining the Performance of an Organization

The concept of strategy plays a proactively adaptive role in organizational evolution through the rational determination of the organizations purposes and objectives, its products and services, market-positioning and the planning of the use of its resources and the deployment of its capabilities to achieve success in competition and or collaboration in the context of a highly dynamic external environment (Robert, 2014)

Schaap, I, (2006) defines strategy as the decisions which are related to the long term performance and progress of the organization. Strategy is a combination of the set of decisions

and actions which are viewed in the form of strategy formulation, implementation and control of plans designed to achieve a corporation's vision, mission and long term performance of the organization.

Strategy is determination of the basic long term goals, objectives and performance of the organization and taking actions, decisions and allocation of the resources essential for carrying out goals of the organizations (O'Gorman, 2006). Johnson and Scholes (2008) has also defined strategy as "the direction and scope of an organization over the long term which achieves advantage for the organization through its configuration of resources within a challenging environment, to meet the needs of markets and to fulfill stakeholder expectations." He further proposes that strategy is the pattern or plan that integrates an organizations major goal, policies and actions to long term sequences into cohesive whole.

According to Yabs (2008), strategy as practiced by army generals entailed their plans and logistics of supplying men and ammunition to defeat an enemy. These methods have been used in warfare from as early as 500 B.C and even had a significant role in the Second World War. He concludes that when the strategic methods and applications were borrowed into business lexicon and have been used to refer to long term plans for business and enterprises. The concept of strategy has been borrowed from the military with the war tactics equated to competition in industry and in business organizations.

Johnson and Scholes (2000) define strategy as the direction and scope of an organization over long term which achieves advantage for the organization through its configuration of resources within a changing environment and to fulfill stakeholder expectations. He concludes that strategy can be seen as the matching of the resources within a changing environment in which it operates.

This is sometimes known as search for strategic fit. The concept of strategy is thus built around winning, as it helps to achieve success in business or otherwise i.e. realization of objectives that are desired.

According to Hofer and Schendel (2009) strategy is the match between an organization's resources and skills and the environmental opportunities as well as the risks it faces and the purposes it wishes to accomplish. It is meant to provide guidance and direction for the activities and direction of the organization. Strategy is useful in helping managers tackle the potential problems that face companies (Aosa 1998). The manager's task is to assure success and therefore survival of the companies they manage.

Pearce et al (2010) emphasizes on the necessity of strategy; they observe that strategy directs the evolving relationship between an organization and its environment and should enable the organization to find a strategic fit with its external environment. This means that strategy is central to creation of competitive advantage, profitability and survival. The concept of strategy is important to the management of organization as it allows an institution to make best use of its resources and opportunities in achieving its objectives. It provides a basis for focus at all levels of the organization and covers the range depth of an organization involving decisions about the products and services, competition and markets, growth and the change in organizations.

In assessing competitive forces and the context within which a company operates, choice of strategy can seem like a search for a myriad forces pushing and pulling an organization to change. Strategic conflicts approach utilizes the tools of game theory to analyze the nature of competitive interaction between rival firms by revealing how a firm can influence the behavior and reactions of rival firms and thus the market environment (Teece, 1999)

2.5 Summary of the Literature Review

While the most common way to evaluate the performance of a business is financial measure, other non-financial measures can also provide better understanding of long run business health. They include market standing, product value, management development and productivity.

Strategy in organizations arises as a response to the shocks of rapidly evolving markets and technology Strategic change arises out of need for organization to exploit existing or emerging opportunities and deal with threats within the environment in which they operate.

The organization has to adapt to the changing environment that is ever dynamic in order to gain competitive advantage. It is suffice therefore to say that these literatures will add value to this study as they provide guiding principles and models to consider in assessing the behavioral aspects and reactions to change at various stages of the formulation, implementation and execution of the strategies adopted by banks and other institutions.

CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Introduction

This chapter details how the proposed study was carried out. It covers the design to be adopted to conduct the study, how data was collected and eventual analysis of the data in order to generate research findings for reporting. The study that was thus used for the case study in determining the effectiveness of Industry strategies adopted by National bank in the industry.

3.2 Research Design

The study was carried out through a case study design where the unit of study was to seek answers from the staff involved in strategy formulation for the bank. The design is most appropriate when detailed, in-depth analysis for a single unit of study is desired. Case study research design provides very focused and valuable insights to phenomena that may otherwise be vaguely known or understood. The design was to enable the researcher not only to establish factors explaining phenomena but also unearth underlying issues.

3.3 Data Collection Method

The study made use of both primary and secondary data. Primary data was obtained from managers at the National bank of Kenya head office using an interview guide. The interview guide (Appendix I) was used to solicit data on the changes in the bank's environment and the responses thereto. The respondents comprised of the top management involved in strategy formulation and implementation and they included strategic level staff comprising of the managing director's office, the chief finance officer, and General Managers of Human Resource and Marketing units. The respondents gave insight into some of the Industry strategies they adopt and any impact they have on their organizational performance.

These respondents were better placed in providing required data because they play a leading role in ensuring that they position the bank favorably within the changing market environment through instituting appropriate timely Industry strategies. The interview guide was administered through personal interviews that allowed for further probing. The secondary data was obtained from the bank's documented strategies and any other relevant information about the bank. The data was obtained through review of relevant documents, key among them the bank's strategic plan and other relevant documentations.

3.4 Data Analysis

Both the primary and secondary data was qualitative in nature. Given this fact, content analysis was used to analyze the data. According to Cooper et al (2003), content analysis is a technique for making inferences by systematically and objectively identifying specified characteristics of messages and using the same to relate trends. The data obtained was compared with existing literature in order to establish areas of agreement and disagreement.

3.5 Summary of the Chapter

The study design that was carried out through a case study design where the unit of study was to seek answers from the staff involved in strategy formulation for the bank. The design is most appropriate when detailed, in-depth analysis for a single unit of study is desired. The data collection method made use of both primary and secondary data. Both the primary and secondary data was qualitative in nature. The data obtained was compared with existing literature in order to establish areas of agreement and disagreement.

CHAPTER FOUR: DATA ANALYSIS, RESULTS AND DISCUSSION

4.1 Introduction

This Chapter highlights the findings of the study based on the data collected. The study sought to establish the industry strategies adopted by the National Bank of Kenya and its effects on the organizational performance. The data was collected using interview guides.

4.2 Demographic Information

The respondents were required to provide information on their job departments, academic levels, the number of years the bank had been operating and the size of the bank (large, middle or small sized) and the various positions held by the respondents at the bank were categorized into two major categories (directors and heads of departments). The study found that while all the respondents were first degree holders, majority of them were also master's degree holders and were also in possession of certificates in banking. The respondents were therefore highly qualified to perform their duties as senior executives at the bank. This high academic qualifications also point to the high level of reliability of the information the respondents gave to this researcher. Further enquiries showed that the bank traditionally had a thin structure with the Managing Director at the very top while the departments were headed by a General Manager at the back office.

4.3 Strategies Adopted by the Bank and their Effect on the Organizational Performance

Strategies are inevitable for any firm's success particularly in a turbulent industry such as the banking sector. The study found that building on their success, the Bank has lined up industry strategies which will ensure sustainable growth for the coming years. These strategies singled out by the Bank include innovative services delivery to customers, broadening products range and

services, and direct sales marketing. The managers believe that these strategies shall make it easier for the Bank to achieve differentiation and a sustainable competitive advantage over competitors.

Technology adoption relate to payment services and how customers conduct banking business through for instance debit cards, smart cards, mobile banking among others. An advance in technology has reduced the need for an intermediary by providing easy access to information.

According to Glenn (1992), the surge of new technologies has rendered possible globalization of the economy. Technology has led to the emergence of an increasingly digitally-networked economy, the emergence of virtual companies, with very little physical presence, and companies managed by information.

The bank introduced a new mobile and internet application to keep up with the customers need for faster and convenient banking and financial transactions online. The two applications, the mobile application dubbed Natmobile and internet application, Natconnect offers a convergence of solutions delivering both banking services and financial information through customer's mobile phones and internet.

The surge in mobile phone access and internet usage has seen a rise in both mobile and internet banking and thus more players in the industry are seeking to engage customers through these platforms. The bank has about forty offsite ATMS in addition to the introduction of internet and mobile banking and restructured operations to address the low productivity and high cost income ratio. This led to the bank laying off about 100 employees in 2013 as part of cost cutting measures. These measures put in place rendered many staff jobless. The bank also spent kshs.1

billion on staff retrenchment between March and May 2014. The bank currently has a manageable staff count of around 1600 employees.

The bank has also been involved in mass market advertising and promotion activities in order to reach more customers and increase its customer base. There has been massive radio, television and print media advertisement, sponsorships of events such as annual athletics games, websites and also in exhibitions around the country all with the aim of creating more awareness about the bank's existence.

4.4 Expansion Strategies and Strategic Partnerships/Alliances

Agency banking was introduced in 2010 according to CBK and it has been in a rapid growth phase. The banks have benefitted primarily through growth in deposits additional transaction income and better cost efficiency. In 2014, NBK signed up the postal corporation of Kenya (PCK) as its agent. This partnership is to see NBKs customers make cash deposits and withdrawals at the 470 branches of PCK. This is in a bid to grow its reach in the country and access to cheap deposits. Agency banking has enabled lenders to improve efficiency as they offer financial services to more people without incurring the cost of setting up new branches.

The bank also works closely with Pesa Point to offer more access to ATMS to their customers. Global company VISA is also in partnership with the bank through ATM link and customers are able to shop across many outlets locally and abroad by simply swiping their cards both companies' benefits in such a partnership.

4.5 Differentiation Strategies

The respondents were required to indicate the differentiation strategies at the National Bank. The respondents indicated that a banks performance determines its success thus it needs to offer

better products and services as compared to those of the competitors. National Bank of Kenya has concentrated its competitive effort and strategies on offering better products and services. The bank's products range has been diversified to an array of savings products and remittance and payment services. Deposits have also grown to millions of shillings. Kurtus (2007) states that businesses competes through performance, head to head and predatory types of competition.

In 2013, NBK rebranded from its traditional green to yellow brown colors and changed its logo. The bank also changed the old slogan —The Bank where you belong to a new slogan which is —Bank on Better. These is a brand promise to customers, shareholders as well as stakeholders, a restructuring and business rejuvenation strategy by the bank towards full turnaround and take off to be a dominant player in the local banking scene. The bank also launched other products such as National Ammanah, a portfolio of Islamic banking financial services targeted at the Muslim community who make about 1/5 of Kenyans total population. This was a strategic move to boost the bank's penetration of retail and corporate market segments and increase footprint in Muslim dominated northern and coastal counties this is also a business rejuvenation strategy by the bank to boost income and reverse dip in profits experienced in former years.

The bank has also identified its market very well and now attempts to identify its opportunities that it may be able to exploit. The market has been segmented in terms of demographics such as age, whereby they have products like accounts for kids, students, young adults, retirement savings among others; geographical in terms of cities (Nairobi, Mombasa, Kisumu, Counties, and towns to reach more customers among many others.

4.6 Other Industry Strategies the Bank is Using

The bank is undergoing major transformation changes brought about in 2013 by Mckinsey and Company. These are aimed to get the bank into the Tier 1 bank club by 2017. The company also advised the bank on other reforms such as scrapping executive suite which led to the scrapping of two positions of deputy CEOs, a freeze on recruitment and laying off 200 employees through a voluntary early retirement scheme. The current rapid profits and growth both in bank's loan book and customer deposits are being driven by new business lines, newly introduced bank and credit products as well as savings from technology driven cost cutting.

The bank has also been keen to retire the interest earning preference shares that have been weighing down its profits and forcing it into a dividend payment drought for its ordinary shareholders.

There is also a planned privatization of the state-owned corporation. The CMA is yet to give its nod to this latest strategy. The state was seeking to restructure the bank and possibly merge it with other struggling Government-owned lenders before a rights issue is approved. However the researcher never found enough information about this issue.

The bank has also embarked on a strategy to dispose most of its non-core assets and businesses as it claims it does not need real assets when they can lease them a strategy the government is adopting too. This is supported by the argument that a bank can generate more income from financial assets rather than the low earning assets such as buildings and vehicles.

The bank also engaged in the process of undertaking corporate restructuring, which mainly has been in the form of changes in the senior management, adopted the strategy of Voluntary Early

Retirement (VER) schemes, laid off most of the longest serving employees who were earning hefty salaries and recruiting new staff with the required special skills.

4.7 Impacts of the Strategies Adopted

The adoption of the above industry strategies have affected the banks performance in some way, for instance in 2014, the bank posted 16 % rise in quarter one profits from what they had in previous year, 2013. This led to increased competition of loan clientele in the industry. There has also been positive customer response in satisfaction from the newly adopted ways on how they are being served and attended to in the bank. This has led to increased customer base in the last two years.

Through adoption of various technology advances, communication has also been enhanced between both the internal and external customers. This has led to creating good customer relationship. The bank is also boasting of enhanced brand equity through adoption of differentiation strategies that has enabled its products and services to stand out from its competitors. The bank is also able to develop and analyze new markets and therefore able to venture into new markets.

4.8 Discussion on Findings

The findings of this research agree with literature review as well as similar studies conducted on the adoption of various industry strategies and their effect on the organization performance.

Dynamic Capabilities concept reveals that for an organization that seeks to build competitive advantage, emphasis lies in having capabilities that are of value to its customers. The findings of the study agree with this Theory. The study found out that National Bank of Kenya has managed

to survive in the banking industry by integrating and reconfiguring its internal environment to the external environment that it operates in.

Resource-Based theory argues that firm specific resources and capabilities are the factors determining firm performance. The study found out that the National Bank of Kenya has partnered with institutions such as Pesapoint, VISA, so as to reach a wider network. This has enabled the bank to be easily accessible to its customers. It is therefore evident that the resource-based perspective focuses on strategies for exploiting existing firm-specific assets. The bank has considered and put this into place by considering and adopting agency banking, partnerships, offering better and diversified products and services.

The McKinsey 7S Framework (structure, strategy, systems, skills, style, staff and shared values) is based on the theory that, for an organization to perform well, these seven elements need to be aligned and mutually reinforcing. The bank has used the model to help identify what needs to be realigned to improve performance, or to maintain alignment (and performance) during other types of change for instance in its retrenchment, scrapping of executive suites, new business lines, products and services among others. Whatever the type of change restructuring, new processes, organizational merger, new systems, change of leadership, and so on the model can be used to understand how the organizational elements are interrelated, and so ensure that the wider impact of changes made in one area is taken into consideration.

The assumption in the game theory is that to a greater or lesser extent competitors are aware of the interdependencies that exist and of the sorts of move that competitors could take (Johnson and Scholes, 2002). NBK has been able to counter its competitors through the application of the

game theory tactics for instance in the adoption of various expansion and partnership alliances, differentiation strategies in order to beat its competitors.

4.9 Summary of the Chapter

The findings of the study established the strategies adopted by the bank and also their effect on the organizational performance. These strategies singled out by the Bank include innovative service delivery to customers, broadening products range and services, and direct sales marketing. Technology adoption relate to payment services and how customers conduct banking business through for instance debit cards, smart cards, mobile banking among others. An advance in technology has reduced the need for an intermediary by providing easy access to information.

On expansion strategies and strategic alliances, the bank has benefitted primarily through growth in deposits additional transaction income and better cost efficiency. The bank's products range has been diversified to an array of savings products and remittance and payment services. The bank has also identified its market very well and now attempts to identify its opportunities that it may be able to exploit. The market has been segmented in terms of demographics such as age, whereby they have products like accounts for kids, students, young adults, retirement savings among others; geographical in terms of cities (Nairobi, Mombasa, Kisumu, Counties, and towns to reach more customers among many others.

The current rapid profits and growth both in bank's loan book and customer deposits are being driven by new business lines, newly introduced bank and credit products as well as savings from technology driven cost cutting. There has also been positive customer response in satisfaction

from the newly adopted ways on how they are being served and attended to in the bank. This has led to increased customer base in the last two years.

CHAPTER FIVE: SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This chapter entails findings on the industry strategies adopted by National bank of Kenya and their effect on its (organization) performance. The chapter covers the summary of findings; conclusion; recommendations; limitations of study; areas for further research and the implications of the study on theory, policy and practice.

5.2 Summary of Findings

The corporate objectives of the Bank were identified as to continuous improve the Bank's results and efficiency, enhance the quality of services offered and give customers the range of financial services they have every right to expect. The study found that each business unit has specific objectives clearly cut out from the broad corporate objectives. This practice is a clear manifestation of the strategic planning to ensure that the company stays afloat despite completion. Findings from the study indicate that the Bank considers growth, liquidity ratios and profitability trends when analyzing the industry. However, details of these key parameters were scanty. Kenyan Banks are in general also embracing sustainability principles to guide its operations beyond financial and to include social and environmental impact for greater profit margins.

New banking models are also emerging that seek to leapfrog existing banking models. In the consumer space, M-Pesa in Kenya, pioneered affordable mobile micro-payments with the support of the Kenyan banking authorities, this in turn pioneered the regulatory framework for agency banking through non-bank agents such as merchants. Along with this has been a change

in the introduction of cards, ATMs and increasingly, mobile banking. Banking and banking products are now accessible to an increasingly larger, albeit, small proportion of the population. The vast majority of Kenyans still do not have access to basic banking products and services. Thus NBK must do more research and come up with ways to bank the unbanked Kenyans before the competitors.

The commercial banks should be able to come up with strategies that will ensure that they adapt to the changes and the intense competition that are taking place in the industry and be relevant to the challenging environment that they are operating in. Despite the challenging macroeconomic environment characterized by high interest rates, high inflation and volatile exchange rates, the banks will need to position themselves strategically in order for these banks to survive in this fragile economy and to continue to provide the services without inconveniencing the customers, International Monetary Fund (IMF, 2005), prepared by Hauner and Shanakaj.

5.3 Conclusion

The study made conclusions based on the study findings and established that strategies are inevitable for any firm's success particularly in a turbulent industry such as the banking sector. The study found that building on their success, the Bank has lined up industry strategies which will ensure sustainable growth for the coming years. These strategies singled out by the Bank include innovative services delivery to customers, broadening at the products range and services, broadening at the products range and services and direct sales marketing. Technology adoption relate to payment services and how customers conduct banking business through for instance debit cards, smart cards, mobile banking among others. An advance in technology has reduced the need for an intermediary by providing easy access to information. Through adoption of various technology advances, communication has also been enhanced between both the internal

and external customers. This has led to creating good customer relationship. The bank is also boasting of enhanced brand equity through adoption of differentiation strategies that has enabled its products and services to stand out from its competitors. The bank is also able to develop and analyze new markets and therefore able to venture into new markets.

5.4 Recommendation

The study made recommendations based on the study findings that the National Bank should actively look for opportunities to exploit their strategic abilities, adapt and seek improvements in every area of the business, building on awareness and understanding of current strategies and successes. The study also made recommendations that some of the industry strategies adopted by the National bank can change to improve their ability to perform and conduct organizational assessments. The strategies adopted by the National Bank should be valuable, increasing efficiency and effectiveness, rare, imperfectly imitable and non-substitutable. The study further recommended that the commercial banks should be able to come up with strategies that will ensure that they adapt to the changes and the intense competition that are taking place in the industry and be relevant to the challenging environment that they are operating in.

5.5 Limitations of the Study

Finance and time constraints were a major limitation concern; however frequent visits to the interviewees were minimized to lunch time hours and evening just before they leave work, when the respondents had low frequencies in terms of work volumes and or when taking short breaks. The questionnaires were sent via email whenever possible too to minimize printing and travelling costs.

The other major challenge was the fact that some personnel from the bank were hesitant to give all the information needed for the research. Some respondents felt that the information was too sensitive to share. The researcher explained that the information would be used specifically for academic research and that their names would not be mentioned in the research.

5.6 Areas For further Research

The researcher recommends that a replicate study can be done on other commercial banks in Kenya. This would establish whether these industry strategies are being used by the commercial banks and whether they have any effect on their performance.

5.7 Implications of the Study on Theory, Policy and Practice

There are cost implications associated with National Bank adopting some of these strategies. As such, National Bank should continuously seek to stay afloat by being keen on the industry changes that are happening on daily basis and be ready to encourage its employees to develop themselves by issuing affordable student loans and encourage the employees to be innovative and creative.

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

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APPENDIX I: INTERVIEW GUIDE

SECTION A

Please supply the required data by filling in the blanks where space is provided or by ticking against the most appropriate answer.

Job Title..... (Optional)

1. Department

- Marketing []
- Production []
- Finance []
- Human Resource []
- Procurement []
- Others

2. Academic Level

- A- Level []
- Diploma []
- Degree []
- Postgraduate []

SECTION B: ORGANIZATIONAL DEMOGRAPHICS

3. For how long has this bank been operating in Kenya?

- Below 1 Year []
- 3-7 Years []
- 7-10 Years []
- 11-18 Years []

- 18-21 Years []
- 21 and Above years []

4. What is the size of the Bank?

- Large sized Bank []
- Medium Sized Bank []
- Small Sized Bank []

SECTION C: OBJECTIVES

5. Which of the following are the main functions performed by the industry strategies in your Bank?

- a) Increasing sales/revenue []
- b) Satisfying customers []
- c) Communicating []
- d) Developing brand equity []
- e) Developing new markets []
- f) Analyzing new markets []
- g) Facing competition []

SECTION D: INDUSTRY STRATEGIES

6. To what extent does your firm apply the following strategies to improve the the above objectives?

Industry Strategies	Very Great Extent (5)	Great Extent (4)	Moderate Extent (3)	Little Extent (2)	No Extent (1)
EXPANSION STRATEGIES					
Branch networks					
Market penetration					
Location/Distribution Networks					

ATM networks					
Restruction					
DIFFERENTIATION STRATEGIES					
New products					
Branding					
Product differentiation					
Rebranding					
STRATEGIC ALLIANCES					
PARTNERSHIPS					
MERGERS AND ACQUISITION					
TECHNOLOGY ADOPTION					
Introduction of new debit/credit cards					
ATM networks					
Mobile phone banking services					
Advertising/Promotional strategies through radio,TV,print media,Sponsorships,websites,Exhibitions					

PART E

7. Please indicate any other strategy applied by the bank if it's not among the ones listed above.

- a).....
- b).....
- c).....

8. Do the above strategies affect your organizational performance in

- a) Increasing sales/revenue []
- b) Satisfying customers []
- c) Communicating []
- d) Developing brand equity []
- e) Developing new markets []
- f) Analyzing new markets []
- g) Facing competition []

9. To what extent do the above strategies affect the organizational performance in terms of

- a) Increasing sales/revenue []
- b) Satisfying customers []
- c) Communicating []
- d) Developing brand equity []
- e) Developing new markets []
- f) Analyzing new markets []
- g) Facing competition []

Thank you for your time.