

**THE CHALLENGES OF THE IMPLEMENTATION OF  
CORPORATE GOVERNANCE STRATEGY BY THE ORIENTAL  
COMMERCIAL BANK LIMITED, KENYA**

**BY**

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## DECLARATION

This is to declare that the research project is my original work that has not been presented to any other University or Institution of Higher Learning for examination.

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This is to declare that the project has been submitted for examination with my approval as the university supervisor

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## **DEDICATION**

My study is dedicated to the following, my parents Lawrence & Joyce Mwongera, my siblings Fridah, Peter and Timothy, my wife Mercy and my mother in law Angeline Ayuya.

## **ACKNOWLEDGEMENT**

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## **ABBREVIATIONS AND ACRONYMS**

|              |  |
|--------------|--|
| <b>ICPAK</b> | - Institute of Certified Public Accountants of Kenya |
| <b>CBK</b>   | - Central Bank of Kenya                              |
| <b>OCB</b>   | - Oriental Commercial Bank Limited                   |
| <b>CG</b>    | - Corporate Governance                               |
| <b>CCG</b>   | - Center for Corporate Governance                    |
| <b>CMA</b>   | - Capital Markets Authority                          |

## **ABSTRACT**

Corporate governance is the set of processes, customs, policies, laws and institutions affecting the way a corporation is directed, administered or controlled. On the other hand strategy implementation is the process that turns implementation strategies and plans into actions to accomplish objectives. For effective strategy implementation, the strategy must be supported by decisions regarding the appropriate organization structure, reward system, organizational culture, resources and leadership. The process must have the blessings of all interested parties and the top management should play a leading role in the exercise. The general objectives of this study were to investigate the corporate governance strategy implementation challenges at OCB. This was a case study design where primary data was collected using interview guide. The data was obtained by use of an interview guide and the respondents comprised of head of departments and senior managers. Data was analyzed using qualitative analysis. The findings from the study suggest that the organization had developed strategies which were geared towards accomplishment of the organizations objectives. Involvement of employees in strategy formulation was the main reason for the slow implementation of strategies. The other major challenges faced by the organization in implementing its strategies were cited as; non commitment of senior staff and employees in general to support a new strategic plan given the start to its completion including review and supporting its recommendation, change of strategy mid-stream to suit their focus, inadequate analysis of progress being made as planned, financial constraints, lack of implementation continuity if a staff leaves due to absence of project operational manuals, duplication of activities and reporting over the same activities which calls for effective design of the programmes. This study contributes to the body of knowledge in the area of corporate governance in addition to the suggestions it makes the organization's policies and those of the entire banking sector.

# CHAPTER ONE

## INTRODUCTION

### 1.1 Background

In the last three decades, corporations in the third world countries have undertaken massive restructuring so as to realign their strategies to ever-changing business environment (ICPAK, 2012). The growing emphasis on corporate governance and its importance to the viability of an organization operating in today's global economy is the driving force to effect the necessary changes in how the business enterprises respond to the need for greater accountability and transparency in management of the organizations (Hill, 2001). The owners or funding agencies of organizations whether for profit or nonprofit, private or public have found it necessary to engage in corporate governance and accountability in order to achieve their corporate goals.

Much of the research into corporate governance derives from agency theory and resource based view. Since the early work of Berle and Means (1932), corporate governance has focused upon the separation of ownership and pedals which results in principal-agent problems arising from the dispersed ownership in the modern corporation. The seminal papers of (Alchian & Demstesz, 1972; Jensen and Meckling, 1976), describe the firm as a nexus of contracts among individual factors of production resulting in the emergence of the agency theory. In the resource based view, Edith (1959) argued that "a firm is more than an administrative unit; it is also a collection of productive resources, disposal of which is between different users and overtime is determined by administrative decisions".

The collapse of high-profile firms such as Enron, Worldcom, Tyco and Xerox and the believe that poor corporate governance contributed to their collapse have generated renewed interest in determining the best practices of corporate governance, (Sarbanes-Oxley Act, 2002; OECD, 1999; World Bank 2002). Moreover, in 1997 the East Asian financial crisis occurred as a result of the lack of corporate governance mechanisms which highlighted the weaknesses of economic institutions, Vaughn and Ryan (2006). In Kenya, corporate frauds have continued to feature as a result of inadequate system of corporate governance. They include the collapse of several financial institutions such as Euro Bank, Trust Bank, Trade Bank, Akiba Micro Finance and the recent fraudulent activities by pyramid organizations masquerading as micro finance institutions, Wanjau (2007). This view motivates the study on Oriental Commercial Bank.

This study sought to find out how Oriental Commercial Bank, (OCB), has applied the Corporate Governance Strategy and the challenges faced in its implementation. Some of these include; incompetent employees, poorly communicated strategies, inadequate commitment from management, board that lack banking experience and poor organizational culture.

### **1.1.1 Corporate Governance Strategy**

According to Knell (2006) Corporate governance is the set of processes, customs, policies, laws and institutions affecting the way a corporation is directed, administered or controlled. Corporate governance also includes the relationships among the many players involved and the goals for which the corporation is governed.

An important theme of corporate governance deals with issues of accountability, fiduciary duty and essentially advocating the implementation of guidelines and mechanisms to ensure good behavior and protect shareholders Otero (1998). Another key focus is the economic efficiency view, through which the corporate governance system should aim to optimize economic results, with a strong emphasis on shareholders welfare.

There are yet other sides to the corporate governance subject, such as the stakeholders' view, which calls for more attention and accountability to players other than the shareholders Singh (2005). Sir Adrian Cadbury in the preface to the World Bank publication 'Corporate Governance: A Framework for Implementation' (September 1999): "Corporate governance is concerned with holding the balance between economic and social goals and between individual and communal goals. Corporate governance is about how companies are directed and controlled."

Becht et al. (2002) identifies a number of reasons for the growing relevance of corporate governance, which includes the worldwide wave of privatization of the past two decades, the pension fund reform and the growth of private savings, the takeover wave of the 1980s, the deregulation and integration of capital markets, the 1997 East Asia Crisis, and the series of recent corporate scandals involving firms such as Enron and WorldCom in the USA and elsewhere.

### **1.1.2 Strategy Implementation**

Strategy implementation means acting on what has to be done internally to put the chosen strategy into place and actually achieve the targeted results Florence (2009). According to Thompson and Strickland (1989), it is a task that involves figuring out workable approaches to executing the strategy and then during the day-to-day operations, getting people to do their job in a strategy-supportive and achieving fashion.

Wheelen and Hunger (2008), observed that Strategy implementation involves establishing of programs to create a series of new organizational activities. Many organizations create great plans for strategy formulation but fail to implement the desired change. According to Mintzberg, (2008) strategy implementation precedes strategy formulation. Mintzberg argued that organizations articulate mission, goals or objectives after implementing strategies.

Implementing and executing strategy entails figuring out the entire how's, the specific techniques, actions and behaviors that are needed for a smooth strategy – supportive operation and then following through to get things done and deliver results, Thomson, Gamble and Strickland (2006). They further assert that without a smart, capable results-oriented management team, the implementation process ends up being hampered by missed deadlines and misdirected or wasteful efforts.

### **1.1.3 Challenges of the Implementation of Corporate Governance**

#### **Strategy**

According to Renee (2010) the principal challenge for corporate governance is to create a system that holds decision makers accountable while according proper respect to their authority over the corporation. Managerial challenges as was observed by Muriuki (2011) are a challenge for the board to effectively monitor management even if the power pattern held is reality. The challenge comes from the fact that such contracts are necessarily “incomplete” and it is not possible for the board to fully instruct management on the desired course of action under every possible business situation.

According to Seward (2007) Corporations do not operate in isolated environments or in vacuums, they are subject to State imposed rules and regulations as well as events and forces around them. As a result, corporate governance is affected by overall public governance. If economic and political governance at the country level is weak, the impact of that weakness almost invariably trickles down onto corporations operating within the country.

Organization culture which McCord (2002) defines as the residue of success within an organization and it is the most difficult organizational attribute to change; outlasting founders, leadership and all other physical attributes of the organization. Cultural differences in national ideologies stand to hinder the union of corporate governance mechanisms.

McDonough (2002) believes that one challenge for directors and executive management is to find outside directors who are sufficiently independent but still knowledgeable about and engaged in the business of the company on whose board they will sit and further asserts that another challenge in selecting outside directors is how to balance general business knowledge with specific industry knowledge and technical expertise.

#### **1.1.4 Banking Sector in Kenya**

According to Sashoo (2012) the origin of commercial banking in Kenya related to commercial connections in East Africa, which existed towards the end of the 19th Century. It was followed by a banking sector fragility in 1999 which resulted from poor management, and worsening economic conditions. In 1998, several major Kenyan banks collapsed, including Trust Bank, Reliance Bank, Prudential Bank, Bullion Bank; and the giant National Bank almost folded.

The Banking industry in Kenya is governed by the Companies Act, the Banking Act, the Central Bank of Kenya Act and the various prudential guidelines issued by the CBK. The banking sector has witnessed stiff competition forcing banks to re-package their services and products to satisfy the needs of the customers and retain their market share. Institutions are therefore increasingly offering e-banking services for both residents and non-residents (CBK, 2005). Some of the main challenges facing the Banking sector today include; new regulations; For instance, the Finance Act 2008, which took effect on 1 January 2009 required banks and mortgage firms to build a minimum core capital of KShs. 1 billion by December 2012.

In a study report by KPMG (2014), banks are restructuring in favor of locally capitalized, funded and client-driven business, centered on regional hubs. They are striving to introduce a real client focus at the heart of their businesses, and the right culture and people to deliver this, and they are seeking to rebuild relationship of trust with their customer, investors, regulators and other stakeholders.

### **1.1.5 Oriental Commercial Bank Limited**

The Bank started its operations in the year 2002 and is licensed to offer banking and financial services in Kenya. The Banking Act, Companies Act, the Central Bank of Kenya Act and the various prudential guidelines issued by the Central Bank of Kenya (CBK), governs its operations. The bank is categorized in the small sized banks group by Central bank of Kenya's classification. (OCB Annual Financial Report, 2014) Currently, OCB has seven Directors who constitute the Board as per the CBK Prudential Guidelines of whom six are non-executive directors including the Chairman. Further, the Board has put in place various Board Committees as required by CBK Prudential Guidelines to assist in the management of the bank.

Some of the strategic objectives that the bank has adopted as mentioned in the bank's strategic plan for 2014-2018, include; growing the volume of business by expanding the branch network by at least two branches each year, becoming an acknowledged financial services provider in Kenya for the medium net worth customer. The bank also sets to extend services and reach within the fast growing and integrating East Africa Region, introduce innovative products, build brand loyalty (OCB strategic plan 2014).

## **1.2 Research Problem**

The problem of increasing corporate failures, stagnations, fraud and corruption among top management and reduced competitiveness has been worrying the society. Governance as described by Caver (2001) involves the direction and control of the organization. Mintzberg (1998) noted that the plan rather than the implementation comes in for scrutiny, because it is less problematic to analyze.

Oriental Commercial bank in its endeavor to implement corporate governance strategy faces a host of challenges ranging from directors who lack banking experience, weak economic and political governance in Kenya, cultural differences, organization culture and high staff turnover. Moreover, internal frauds in banks have been rampant and Oriental Commercial bank is not an exception and thus they have to review their corporate governance strategy implementation planning.

Various studies have focused on strategy implementation and challenges of strategy implementation. For instance Longeneck and Pringle (1981) documented issues of corporate governance in the 1970s, Monika (2012) wrote on corporate governance in banks: problems and remedies and concluded that the scale irregularities found in banks and financial markets that led to financial crisis have brought up the need for in-depth analysis of all aspects of their operation, in particular the efficiency of corporate governance.

In India 2012 Rujitha carried out a study on challenges to corporate governance: issues and concerns and concluded that the interpretation of public company u/s292A of the companies Act needs to be effectively revised looking in to the repercussions it creates and the loop hole in the provisions has to be removed and the companies should not be left to escape by taking advantage of the limitations of the clause 49 of the listing agreement. Nadege 2014 wrote a working paper on reforming the corporate governance of Italian banks and summarized that further improvements should include: strengthening further the existing banking regulations through stricter fit-and-proper rules for directors and controlling shareholders, implementing the new related party lending regulation with tightened definitions, strengthening oversight of foundations when they are the controlling shareholders in banks and facilitating the transformation of large cooperatives into joint stock companies.

In Kenya Njagi (2010) carried out a study on challenges of strategy implementation at Equity Bank of Kenya found that the bank faced the challenge of strategy implementation time being underestimated and thus most of the implementers have a deadline that is merely an approximation due to the occurrence of unexpected developments and also experience delays by external business partners in providing the expected support in time, Githui (2008) focused on Barclays Bank Kenya to document the challenges for implementing strategies within Barclays, Muthuri (2010) carried out a study on challenges of strategy implementation at National Bank of Kenya and concluded that involvement of all staff in strategy process enables the accessibility to a greater pool of ideas, reduce resistance and promote teamwork spirit in the bank.

Kiprop (2009) researched on challenges of strategy implementation at Kenya Wildlife Services and identified that a firm should focus on formal organizational structures and control mechanisms of employees while implementing its strategy. It is therefore evident that studies have been carried out on Commercial banks; however, OCB in a different context of corporate governance strategy implementation has not yet been studied. Thus, what are the challenges of corporate governance strategy implementation by the Oriental Commercial Bank Kenya?

### **1.3 Research Objective**

To establish the challenges of implementing corporate governance strategy at Oriental Commercial Bank in Kenya.

### **1.4 Value of the Study**

The study findings are to help OCB management and employees and other banking Institutions to appreciate the challenges involved during strategy implementation and ways of addressing them in the ever changing environment. This way, and through careful practice of corporate governance, the agents are more accountable and the organization becomes more competitive.

The findings of the study are going to assist in policy development by bank regulators given the challenges facing banks. In addition; the study findings are going to assist the Government to formulate proper policies and laws to regulate the operations of banks in Kenya.

This study is also going to be useful to academicians and researchers in terms of contributing to the body of knowledge in the area of challenges for corporate governance strategy implementation and form a basis of further research as it builds on the agency theory as well as the resource based view theory and also fills gaps for past studies and gives recommendations for future studies.

## **1.5 Chapter Summary**

This chapter highlights the background of this study and introduces the concepts of corporate governance strategy, strategy implementation and challenges of the implementation of corporate governance strategy which include those brought about by the environment, organization culture and the directors' independence.

The chapter also introduces the knowledge of the banking sector in Kenya; its history, current governance of banks and the future of the banking sector. Oriental Commercial Bank Limited is also introduced, which is a focus of this study; which is to establish the challenges of implementing corporate governance strategy at OCB.

The chapter highlights various studies that have focused on strategy implementation and challenges of strategy implementation; such as Longeneck and Pringle (1981) and Monika (2012) wrote on corporate governance in banks: problems and remedies, Rujitha (2012) wrote on challenges to corporate governance among other studies.

The study findings shall contribute to the enhancement of the OCB's policies, the entire banking sector's policies and assist the government to formulate policies and laws and also contribute to the body of knowledge in the area of challenges for CG.

The next chapter presents review and literature.

## **CHAPTER TWO**

### **LITERATURE REVIEW**

#### **2.1 Introduction**

This chapter shall review the literature available on corporate governance, strategy implementation and challenges of corporate governance strategy implementation.

#### **2.2 Theoretical Foundation**

Agency theory is the relationship where the principal entrust the work to the agent and this involves risk sharing and conflict of interest between the two. It is understood that the agent may be driven by self-interest rather than a desire to maximize the profits for the principal. The principal-agent model regards the central problem of corporate governance as self-interested managerial behavior in a universal principal-agent relationship and agency problems arise when the agent does not share the principal's objectives Mallin (2010).

However, this separation is linked and governed through proper "agency relationship" at various levels; "between shareholders and boards of directors between boards and senior management, between senior and subordinate levels of management" (Hayes and Abernathy, 1980). According to ISDA (2002), all companies are exposed to agency problems, and to some extent develop action plans to deal with them. A second notion is that humans are self-interested and unwilling to sacrifice their personal interests for the interests of the others (Daily, Dalton & Cannella, 2003).

The firm is not an individual but a legal fiction, where conflicting objectives of individuals are brought into equilibrium within a framework of contractual relationships. These contractual relationships are not only with employees, but with suppliers, customers and creditors (Jensen & Meckling, 1976).

The agency role of the directors refers to the governance function of the board of directors in serving the shareholders by ratifying the decisions made by the managers and monitoring the implementation of those decisions. According to the perspective of agency theory the primary responsibility of the board of directors is towards the shareholders to ensure maximization of shareholder value.

Resource based view theory argues that firms possess resources that enable firms to achieve competitive advantage and lead to superior long term performance. Valuable and rare resources can lead to the creation of competitive advantage. That advantage can be sustained over longer time periods to the extent that the firm is able to protect against resource limitation, transfer or substitution (Frawley & Fahy, 2006). Information system resources may take on many of the attributes of dynamic capabilities and may be useful to firms operating in rapidly changing environment. Information resources may not directly lead the firm to a position of superior sustained competitive advantage but they may be critical to the firm's long term competitiveness in unstable environments if they help it develop, add, integrate and release other key resources over time (Wade & Hulland, 2004).

Resources such as adequate finance and competent and skilled managers in banks are crucial for the effectiveness management practices in a rapidly changing environment, Wade and Hlland (2004). The dynamic capabilities which consist of the activities and mechanisms of managing resources in the creation of value may have an influence on the effectiveness and success of CG that an organization that has adequate financial resources would facilitate effective/successful corporate governance strategies. This theory is relevant to the study as it explains how resources at a firm's disposal are a critical factor for effective CG strategy implementation.

## **2.3 Concept of Corporate Governance and Strategy Implementation challenges**

### **2.3.1 Introduction**

The theory on corporate governance stems from the thesis "The Modern Corporation and Private Property" by Berle and Means (1932). The thesis highlights a fundamental agency problem in modern firms where there is a separation between management and ownership. It has long been recognized that modern firms are run by professional managers, who are accountable to dispersed shareholders. The scenario fits into the well-discussed principal-agent paradigm. The question is how to ensure that managers follow the interests of shareholders in order to reduce cost associated with principal-agent theory. To do that, the principals have to deal with two problems. First, they face an adverse selection problem: that is, they must select the most capable managers. Second, they are also confronted with a moral hazard problem; that is how to adequately motivate the managers to put forth the appropriate effort and make decisions aligned with shareholders' interests.

### **2.3.2 The Concept of Corporate Governance**

Corporate governance has attracted various definitions. Metrick and Ishii (2002) define corporate governance from the perspective of the investor as “both the promise to repay a fair return on capital invested and the commitment to operate a firm efficiency given investment”. According to Noriza (2008) corporate governance (CG) refers to the broad range of policies and practices that stockholders, executive managers, and boards of directors use to manage themselves and fulfill their responsibilities to investors and other stakeholders. Over the past decade, corporate governance has been the subject of increasing stakeholder attention and scrutiny (Noriza, 2008).

These concerns have given rise to a powerful shareholder movement. Shareholder activists, composed primarily of large multi-billion-dollar pension funds, religious and socially responsible investment groups, and other institutional investors are now using a variety of vehicles to influence board behavior, including creating corporate governance standards of excellence and filing shareholder resolutions. These investors are concerned with such issues as board diversity, independence, compensation, and accountability, as well as a broad range of social issues, for example employment ethics practices, environmental policies, and community involvement (Noriza, 2008).

The concept of CG has also been defined as, “the process and structure used to direct and manage the business and affairs of the company towards enhancing business prosperity and corporate accountability with the ultimate objective of realizing long-term shareholder value, ...”(High Level Finance Committee Report, 1999, p. 10). The definition implies that investors of companies that adopt the Best Practices will be able to enjoy higher returns from their investment.

A further definition has been offered by Cornelius and Kogut (2003) who state that a system of corporate governance consists of those formal and informal institutions, laws, values, and rules that generate the menu of legal and organizational forms available in a country and which in turn determine the distribution of power on how ownership is assigned, managerial decisions are made and monitored, information is audited and released, and profits and benefits allocated and distributed.

On his part, Millstein (1998) describes corporate governance as the relationship between managers, directors and shareholders. This constricted definition encompasses also the relationship of the corporation to stakeholders and society. No matter the definition, Millsten (1998) observes that basically corporate governance concerns the means by which a corporation assures investors that it has in place well performing management who ensure that corporate assets provided by investors are being put to appropriate and profitable use. It is therefore difficult to define the concept of corporate governance in a universally acceptable way because definitions vary from country to country due to culture, legal systems and historical developments (Ramon, 2001).

Cadbury Committee (1992) defines corporate governance as “the system by which companies are directed and controlled”. On the other hand, Rajan and Zingales (1998) define a governance system as “the complex set of constraints that shape the ex post bargaining over the quasi rent registered by the firm”. Mayer (1997), corporate governance is seen as concerned with ways of bringing the interests of investors and managers into line and ensuring that firms are run for the benefit of investors.

CG also been defined by Keasey et al (1997) to include the structure, processes, cultures and systems that engender the successful operation of organizations. Corporate governance is concerned with the establishment of an appropriate legal, economic and institutional environment that would facilitate and allow business enterprises to grow and strive in order to maximize shareholders' value while being conscious of the interests of other stakeholders and the society. Ademba (2006).

According to Claessens (2003), corporate governance would include: The relationship between shareholders, creditors, and corporations; between financial markets, institutions and corporations; and between employees and corporations. Corporate governance would also encompass the issue of corporate social responsibility, including aspects such as dealing with the firm with respect to culture and the environment” (Claessens 2003, p.5).

In many developing countries, systems of corporate governance are frequently ‘relationship-based’ which can foster insider trading and corruption, Oman and Blume (2005). Ensuring better governance of corporations, financial institutions and markets are increasingly recognized in developing countries despite the limited number of firms there with widely traded shares, Oman and Blume (2005). According to Claessens, 2003 significant development in developing countries benefits can be linked to higher corporate governance standards in the private sector.

Agents or managers may not always act in the best interest of shareholders when the control of a company is separate from its ownership. In June 1959, Simon Herbert proclaimed that managers might be “satisfiers” rather than “maximisers,” that is, they tend to play it safe and seek an acceptable level of growth because they are more concerned with perpetuating their own existence than with maximizing the value of the firm to its shareholders. Shareholders delegate decision-making authority to the agent (CEO) with the expectation that the agent will act in their best interest. In contrast, Demesetz (1983) and Fama and Jensen (1983) suggest that the primary monitoring of managers comes not from the owners but from the managerial labour market. It is argued that management control of a large corporation is completely separate from its security ownership.

A comprehensive theory of the firm under agency arrangements was developed by Jensen and Meckling (1976), who show that the principals can assure themselves that the agent will make the optimal decisions only if appropriate incentives are given and only if the agent is monitored. Monitoring consists of bonding the agent, systematic reviews of management prerequisites, financial audits, and placing specific limits on management decisions. These involve costs, which are an inevitable result of the separation of corporate ownership and control. Such costs are not necessarily bad for shareholders, but the monitoring activity they cover needs to be efficient.

After independence the banking and financial industry in Kenya was highly controlled. The government relaxed the stringent rules in 1982 with the issuance of licenses to operate non-bank financial institutions (NBFI). The low capital requirement of only 5 million for non bank financial institution led to mushrooming of these institutions. The relaxed regulatory and supervisory systems, upon which the banking and financial institutions operated during this time, led to poor governance and management culture in the industry (Centre for corporate governance, 2004 p.5). 1980s saw the collapse of some banks, the first being rural urban credit finance company ltd which was liquidated. After this the government made changes in banking act as well as CBK act in order to curb further instability in the banking industry.

Despite the effort of government in streamlining the banking sector by introduction of statutory regulatory measures of containment, more banks still collapsed due to weak internal controls and bad governance and management practices. Some of the banks that collapsed then were continental bank of Kenya and continental credit finance limited collapsed in 1986, capital finance limited collapsed in 1987 and Eurobank in 2002. Adoption and emphasis on corporate governance by many companies has seen it become a household name as these companies strive to compete and satisfy all their stakeholders. The CMA came up with guidelines on corporate governance that was gazetted on 31st may 2002. The guidelines were prepared for companies listed in Nairobi stock exchange but companies in private sector are encouraged to practice good corporate governance as well.

Consultative corporate sector held in November 1998 and March 1999 resolved that a private sector initiative for corporate governance be established to: Formulate and develop a code of best practice for corporate Governance in Kenya, explore ways and means of facilitating the establishment of a national apex body (the National corporate sector foundation) to promote CG in Kenya and Co-ordinate developments in corporate governance in Kenya with other initiatives in east Africa, Africa, the Commonwealth and globally.

On 8th October 1999 the corporate sector at a seminar organized by the private sector initiative for corporate governance formally adopted a national code of best practice for corporate governance to guide corporate governance in Kenya, and mandated the private sector initiative to establish the corporate sector foundation, and collaborate with the global corporate governance forum, the commonwealth association for corporate governance, the African capital markets forum, Uganda and Tanzania in promoting good corporate governance (Edema 2006).

Since the collapse of Enron in 2001, one of America's largest companies, corporate governance has become one of the most commonly used phrases in the current global business vocabulary as indicated by Solomon and Solomon (2004). Interest in corporate governance is growing at an exponential rate and improvements in corporate governance practices are being orchestrated at a global level, while international bodies such as the Organization for Economic Development (OECD) are developing internationally acceptable standards of corporate governance.

As a result of increasing interest in corporate governance matters within the practitioner community, academic research has grown rapidly in the area. At universities across the UK, new modules are springing up on corporate governance-related issues, with corporate governance becoming central to many business-related degree courses (Solomon & Solomon, 2004).

In Kenya, the Centre for Corporate Governance (CCG) an independent organization was established in March, 1999, as the Private Sector Corporate Governance Trust. The centre seeks to improve the quality of life of people in Kenya and Africa generally, by fostering adoption and adaptation, application and implementation of the highest standards of corporate governance in all types of business enterprises that ensure that the business enterprises thrives. It does so through awareness raising, advocating for reform; initiating research, facilitating monitoring and evaluation activities; and supporting training and education programmes that build national institutional and human capacities. The values upon which CCG was founded and which guide its operations are to act in the best interest of society in promoting effective and efficient use of resources, in a manner based on accountability, integrity, responsibility and transparency.

Many countries especially in emerging markets have plunged into economic crisis due to weak legal environment and poor governance systems. This triggered discussions on the importance of corporate governance (Sung, 2003). If countries are to reap the full benefits of the global capital market and if they are to attract long term capital, their corporate governance arrangement must be credible and consistent with practices across borders (Muriithi 2004). Good corporate governance practices have become a necessity for every country and business enterprises (Jebet, 2001).

Several workshops have been held in Kenya regarding corporate governance. Workshops organized by the private sector corporate governance trust, NSE, CBK, ICPAK, and ACCA Kenya chapter have stressed the importance of corporate practices such as board composition and audit committees. Khemani & Leecher (2001) argue that competition is needed for a culture of good corporate governance to thrive. Competitive policy helps bring about efficiency, promote greater accountability and transparency in business decisions and lead to better corporate governance. Zingales (2000) discusses how the new types of firms that are emerging demand a re-evaluation of corporate governance.

The Cadbury report (1992) cites three fundamentals of good corporate governance as openness, integrity, and accountability relevant to both private and public sector. The report of Nolan committee (May 1995) stipulates seven principles that guide good corporate governance as selflessness, integrity, objectivity, accountability, openness, honesty and leadership. In all fields of human endeavor, good governance is founded upon the attitudes, ethics, practices and values of the wellbeing of the society.

The OECD principles of Corporate Governance (1999) was developed by the Organization of Economic, Co-operation and Development (OECD), in response to a call by the OECD council meeting, to develop, in conjunction with national government, other relevant international organizations and the private sector, a set of corporate governance standards and guidelines. These principles, agreed on in 1999, have formed the basis for corporate governance initiatives in both OECD and non-OECD countries.

There is no single model of good corporate governance. However, work carried out in both OECD and non-OECD countries and within the organization has identified some common elements that underlie good corporate governance. The principles are built on these common elements and are formulated to embrace the different models that exist. For example, they do not advocate any particular Board structure (OECD, 1999). The corporate governance framework should protect and facilitate the exercise of shareholder's rights (OECD, 2004). Basic shareholder rights include: secure method of ownership registration, right to transfer shares, obtain relevant material information on the corporation on a timely basis, participate and vote in general shareholder meetings, elect and remove members of the Board.

Corporate governance framework should ensure the strategic guidance of the company, the effective monitoring of management by the Board, and the Board's accountability to the company and the shareholders (OECD, 2004). The appointment of the Chief Executive Officer (C.E.O) and senior staff should also be the role of the Board (C.C.G, 2003).

### **2.3.3 Strategy Implementation Challenges**

Strategy implementation is defined as a way in which an organization should develop, utilize and amalgamate the structure, control systems and culture to follow strategy that will lead to competitive advantage and better performance (Pearce and Robinson, 2007). According to Chakravarthy and White (2001), Strategy implementation is a process by which strategies and policies are put into action through the development of programs, budgets and procedures.

Chandler (1962) defined strategy as the determination of the basic long term goals and objectives of an enterprise and the adoption of action and the allocation of resources necessary for carrying out these goals. This means that strategy is about managing new opportunities. The strategy that is chosen should be one that optimizes the resources available in order to achieve organizational goals and objectives. Strategy implementation has been defined as “the process that turns implementation strategies and plans into actions to accomplish objectives” Pride and Ferrell (2003). It addresses who, where, when, and how to carry out strategic implementation process successfully (Kotler et al, 2001)

Alexander, (1985) explain that strategy implementation involves articulating the mission, objectives and intent of the strategy to all staff, planning, acquiring and allocating organization resources and managing impact on staff and external environment, creating the right organization structure, establishing appropriate organization systems, developing a management style that is supportive of organization culture and takes a proactive approach to culture change and considering strategy at three organization levels( corporate, business and functional).

According to David (2003), both managers and employees should be involved in the implementation decision and adequate communication between all parties is important for successful implementation. Elements that require consideration during the implementation process include annual objectives, policies, resource allocation, management of conflict, organization structure, managing resistance to change, and organizational culture.

Bartlett and Ghoshal (1987) noted that in all the companies they studied “the issue was not a poor understanding of environmental forces or inappropriate strategic intent. Without exception, they knew what they had to do; their difficulties lay in how to achieve the necessary changes”. Supporting this, Miller (2002) reported that organizations fail to implement more than 70 percent of their new strategic initiatives. Given the significance of this area, the focus in the field of strategic management has now shifted from the formulation of strategy to its implementation (Hussey, 1998; Lorange, 1998).

The main steps in strategy implementation includes developing an organization having potential of carrying out strategy successfully, disburse abundant resources to strategy essential activities, create strategy- encouraging policies, employ best practices and programs for constant improvements and link reward structure to accomplishments of results, Kombo ( 2008).

The factors to be in place for successful implementation of strategy include sufficient space in the work environment to relieve staff from normal activities and to participate in the required change, the implementation process must be integrated into the organization’s operations (time schedules for meetings, planning and deliverables) so that it becomes a legitimate organizational process and having acquired appropriate resources to enable the strategy to be implemented (Cole, 2002).

Strategy implementation has attracted much less attention in strategic and organizational research than strategy formulation or strategic planning. Alexander (1991) suggests several reasons for this; strategy implementation is less glamorous than strategy formulation, people overlook it because of a belief that anyone can do it, people are not exactly sure what it includes and where it begins and ends. Furthermore, there are only a limited number of conceptual models of strategy implementation. There are many operation-related problems to implementing strategies. These are problem with suppliers, need for production software, loss of control of inventory, inapplicability of strategies to low-volume operations or batch oriented productions, management complacency and fear of late production; and conflicts with ongoing projects (Drazin and Howard, 1984).

The available literature in the 1990s on strategy implementation was examined in order to identify potential strategy implementation problems. Eisenstat (1993) indicated that most companies attempting to develop new organization capacities stumble over these common organizational hurdles, competence, coordination, and commitment.

Guth and MacMillan (1986) provide insights of how weak management roles affect implementation by identifying the relative importance of the three determinants of implementation effort: perceived ability, perceived probability of success, and perceived consistency between personal goals and the strategic change goals. Personal characteristics of the middle managers influence their perceptions and the national culture characteristics influence the perceptions of middle managers.

Heracleous (2000) indicated that if middle management do not think the strategy is the right one, or do not feel that they have the requisite skills to implement it, then they are likely to sabotage its implementation by deliberate actions or inactions, if implementing the strategy may reduce their power and influence.

The role of appropriate management in strategic success is highly significant. It has been observed that leadership plays a critical role in the success and failure of an enterprise (Kazmi, 2002). Adequate leadership is needed for effective implementation of strategy as this will ensure that all company efforts is united and directed towards achievement of company goals (Pearce and Robinson, 1988).

Chief executives should play a leading role by helping in setting company values and giving a positive lead. The chief executive role of developing motivational systems and management values is critical to the success of a company. Strategic decisions create a wave of sub-decisions that must be successfully implemented Mintzberg et al. (1976). Typically, the manager-leader (middle managers and supervisors) is held accountable for the implementation of these sub-decisions. Sub-decision implementation is defined as a sequence of tasks carefully executed so that a favorable business outcome can be achieved in the medium to short term.

It is clear that the particulars of such implementation vary widely from decision to decision, but virtually all decisions require efficient implementation to be successful (Nutt, 1993). Or in other words, a brilliant decision can prove worthless without its efficient implementation. Even the best decisions fail to be implemented due to the inadequate supervision of subordinates, among other reasons. Kenny (1999) emphasizes that those who implement decisions to the best of their ability are usually those who have made them.

Ansoff (1999) rightly noted that, “although an entire discipline is devoted to the study of organizational strategy, including strategy implementation; little attention has been given to the links between communication and strategy.” Business communication researchers have become increasingly interested in the contribution of corporate communication to a company’s ability to create and disseminate its strategy in the last decade. However there is importance of communication for the process of strategy implementation (Heide, Grønhaug and Johannessen, 2002). Organizational communication plays an important role in training, knowledge dissemination and learning during the process of strategy implementation and it is pervasive in every aspect of strategy implementation, as it relates in a complex way to organizing processes, organizational context and implementation objectives which, in turn, have an effect on the process of implementation (Pearce and Robinson 1988).

The challenging aspect when implementing strategy is the top management's commitment to the strategic direction itself. In some cases top managers may demonstrate unwillingness to give energy and loyalty to the implementation process (Marginson, 2002). This demonstrable lack of commitment becomes, at the same time, a negative signal for all the affected organizational members.

Hewlett (1999) suggests that most strategic plans are hurdled by the financial constraints during the time of their implementation. It is important, particularly at the business level, to integrate non-financial measures such as market share or market growth in the budget, so that one can better assess the extent to which improved competitive strength is being achieved as well as the extent to which deviations are due to changes in the business attractiveness. Also, since most budgets will be based on operating departments, it is important to superimpose key non-dollar factors that would signal whether the strategic programs are proceeding on schedule. The concern for financial measurement accuracy in the budgets seems to have jeopardized the concern for relevance in some companies' budgets.

The various program alternatives need to be economically evaluated in two respects. First, there are different ways to achieve a particular strategic implementation action and these alternatives should be compared. A cost/benefit analysis is needed, but unfortunately is done too often on narrow grounds. By only looking at the financial costs and benefits without taking a strategic risk-assessment into account one might easily pursue the less favorable project or fail to search for less risky alternatives (Porter 1985).

To assess risk in this strategic context three steps of analysis must be carried out: a specific assessment of which budgetary factors might significantly affect the strategic plan's success; an assessment of the degree of predictability of each factor; and an assessment of one's own potential for responding to a particular environmental development to ameliorate adverse effects or to take advantage of favorable developments. Thus, the choice of plan alternative should put major emphasis on maintaining strategic flexibility (Eisenstat 1993). Unfortunately, a too narrow financial analysis typically seems to take place which does not pay proper attention to maintaining strategic flexibility. The second aspect of the economic evaluation of the strategic planning activities relates to the aggregation of strategic programs into an overall "package" for the division. Many businesses do not take existing programs into account when choosing the overall "package" of strategic programs; thus, the continued relevance of existing strategic programs is not examined (Kaplan, 2005).

However, even if a "zero-base" approach has been taken to the program package evaluation, another problem seems to be that the package is chosen according to some cut-off point on a cost-benefit ranking, without paying proper attention to how the combination of strategic programs provides the direction agreed upon for the business during the objectives-setting stage. Too often, the strategic programming activities are left open-ended without proper assessment of overall business strategy impact and consistency with the business objectives. When a set of strategic programs has been decided upon it is implied that resource allocations have been made for these programs, often for several years into the future. Without providing for the necessary assets and strategic expenditures a strategic program cannot be implemented (Eisenstat 1993).

However, in most companies there is a long tradition of allocating resources to capital investments through capital budgeting and for strategic expenditures through discretionary expenditure budgets. There is a problem when these traditional resource allocation procedures are not modified to be consistent with the resource allocation pattern implied by the strategic programme activities; the new role for the traditional capital budgeting and strategic expenditure tools should be as fine-tuning and safety-checking devices for the strategic resource allocation pattern, and not as devices to frustrate the progress of strategic programs. Unfortunately the latter might easily become the case, particularly when different organizational staff groups are primarily responsible for the activities (Peng and Litteljohn, 2001).

Many projects are based on cost budget. There is a tendency in the private sector to not properly estimate the true costs of implementing strategic plan for fear of not getting the project funded adequately. The most common of the forgotten costs are the indirect or non-project costs. There is a tendency in some departments to underestimate the true costs of implementing strategic plan for fear of not getting the project funded. The most common of the forgotten costs are the indirect or non-project costs. Some of the most often overlooked costs include staff related costs for example recruitment costs, training, benefits and statutory payments, start-up costs, overhead or core costs. After all that have been considered, then a budget is drawn for the whole organization (Heller & Aghvelli, 2005).

The primary concern during the budget implementation process is to ensure the fulfillment of the financial and economic aspects of the budget. The financial tasks include; spending the amounts for the purposes specified, minimizing savings and avoiding lapses or rush of expenditures during the end of the year. The economic tasks on the other hand are; ensuring that the physical targets of programmes and projects are achieved and the macro-economic aspects of the budget such as borrowing and deficit levels are also achieved. In managing budget implementation one of the key areas of focus is the revenue and expenditure flow pattern. Aggregate revenues tend to be below the projections on which the budget is based (Kiringai and West, 2000).

In situations when revenue inflow is low and therefore cash releases are affected as budgeted, ministries are often forced to reduce expenditures. As a rule, personnel emoluments and statutory obligations for example debt payments are exempt from expenditure reductions, therefore implementation of development projects and purchase of goods and services suffer severe budgetary reductions (Kiringai and West 2000). This results in distortion of priorities and reduction in productivity as the recurrent costs of development projects cannot be met. One of the major problems in the implementation of the budget especially the development budget is the recurrent cost problem. Heller & Aghvelli (2005) define the recurrent cost problem as the failure to provide adequate funds to operate and maintain a project or programme. The recurrent cost problem arises when the recurrent outlays are sufficiently below the level necessary to operate or maintain a project at its intended level to result in a noticeable loss in output, inefficiency or an obvious deterioration in plant and facilities (Heller & Aghvelli, 2005).

The budgetary and economic tasks are rendered operational through the administrative process that comprises four major interrelated phases of work namely; an allocation system under which expenditure is controlled by release of funds, (Muleri, 2001). Supervision of the acquisition of goods and services to ensure value for the money spent, (Brigham, 2005).

Many strategic planning managers have resorted into unrealistic and unattainable strategic plan schedules. It is easy to ignore reality at times when developing a schedule, to skip some fundamental steps in completing the schedule. Very often, everything may look good on paper but the result may deviate significantly from reality. One of the way of ensuring that paper designs are in tandem or synergistic with reality is to ensure that the strategic plan schedule correctly addressees dependencies between strategic plan tasks. When designing strategic plan schedule, it is always good to keep in mind how some activities relate to other activities and define them accordingly. Establishing clear dependencies between tasks and having a true understanding of the critical path, (the string of tasks that are the longest point between the start and finish of the strategic plan) is the most important component of any building construction strategic plan schedule.

Pacelli (2004) established that one other way of ensuring that the strategic plan schedule is realistic is to make sure that the strategic planning schedule is not too long, the strategic planning team understands it clearly and all the strategic plan tasks produce useful deliverables. When designing the strategic plan schedule, it is always good to ask continually what is the deliverable that will be produced out of any anticipated activity. What will the deliverable look like? What happens if the activity is not done?

(Buckout *et al.*, 1999) points out that having a realistic and attainable strategic plan schedule guarantees successful delivery of any strategic plan. Lack of a proper strategic planning schedule is one of the surest causes of strategic plan failure especially when the clients is under pressure from the strategic plan sponsors who insist on quick returns on their financial investment. This is specifically so if the strategic plan is funded by borrowed funds. It is imperative for all the strategic plan stakeholders to emphasize on a properly designed strategic plan schedule. Without the schedule, a strategic plan might linger for month after another, consuming resource and missing opportunities. Time is one of the critical factors that need to be managed for a successful implementation of a strategic plan.

## **2.4 Empirical Studies and Research Gaps**

Rujitha in (2012) did a research on challenges to corporate governance : issues and concerns and noted that corporate governance deals with the entire networks of formal and informal relationships with the management of the company and company's stakeholders including employees, customers, creditors, local communities, and society in general. The objective of this paper was to examine the challenges faced in the present corporate governance practices in India. Some of the issues observed are how far "independent" is the "independent director who plays a key role in the audit committee for the practices of good corporate governance. The paper also analyzed regulatory deficiencies in corporate governance and also discussed short comings in the provisions of the companies Act, stock exchange listing criteria, codes of good practice in corporate governance of listed companies which have incorporated provisions of corporate governance and required to have audit committee.

Monika (2002) in the study corporate governance in banks: problems and remedies, highlights the weak and ineffective corporate governance mechanisms in banks and are pointed out as the main factors contributing to the recent financial crisis. Deep changes in this area are necessary to reinforce the financial sector stability. The paper presents key aspects requiring reforms: the role, constitution and accountability of board, risk management, management remuneration, transparency, new regulations and guidance are presented, creating the foundations for a new order of the financial market. The paper also points out the banks' stakeholders' accountability.

Agency theory and resource based view theory highlight the challenges between the principal and agents while the resource based view theory elaborates how proper use of resources can be profitable to the organization respectively. Various reviews reveal studies on strategy implementation. However, little research has been carried out in Kenya regarding challenges faced by organizations in corporate governance implementation. Principals and agents from various organizations do not seem to understand their obligations as far as corporate governance implementation is concerned and those who understand face some seemingly insurmountable challenges which this study will focus to highlight.

## **2.5 Chapter Summary**

This chapter reveals two theories in the area of corporate governance; Resource based theory which explains that firms possess variable resources that enable them achieve competitive advantage and Agency theory describe the relationship where the principal entrusts the work to the agent.

The chapter provides a detailed knowledge of the concepts of CG and strategy implementation challenges have also been discussed. Some of the challenges include; adequate communication, environmental forces, weak management, financial constraints and other budgetary factors among other challenges.

The chapter mentions some empirical studies that have been done both locally and by international scholars. From some of the studies, some of the issues observed in CG are: the independence of directors, regulatory deficiency in CG, management remuneration and stakeholder responsibility among others.

The chapter concludes by highlighting the research gaps; studies have been done on strategy implementation, however little research has been carried out in Kenya regarding challenges faced by organizations in CG implementation. The next chapter presents the research methodology.

## **CHAPTER THREE**

### **RESEARCH METHODOLOGY**

#### **3.1 Introduction**

This chapter covers the research design used, data collection methods and data analysis.

#### **3.2 Research Design**

The research design is a case study. A case study is an in-depth investigation of an individual, institution or phenomenon of a particular unit under consideration (Kothari, 2004). The study is used to identify the challenges of corporate governance strategy implementation at Oriental Commercial Bank in Kenya.

In this light therefore, a case study design is deemed the best design to fulfill the objectives of the study as the results will be expected to provide an in-depth understanding of how the bank responds to the corporate governance strategy implementation challenges.

#### **3.3 Data Collection**

The study used primary data which was collected through a face to face interview guide with the researcher at the Oriental Commercial Bank. The interview guide had a mix of questions, with open ended and specific responses to a range of questions (Mugenda & Mugenda, 2003). The interviewer listed down all the responses given by each interviewee.

The interviewees were 9 functional departmental heads and 8 Senior Managers from different department who are in charge of Finance & Administration, Audit & Enterprise Risk Management, Information Technology, Operations and Human Resources. They were considered to be key informants for this research because of their involvement in strategy formulation and implementation. In addition the departments in which the intended respondents work in are the key developers and implementers of the banks strategies.

### **3.4 Data Analysis**

The data obtained from the interview guide was analyzed using qualitative analysis. Qualitative data analysis makes general statements on how categories or themes of data are related (Mugenda & Mugenda, 2003).

The qualitative analysis was done using content analysis; which is the systematic qualitative description of the composition of the objectives or materials of the study (Mugenda & Mugenda, 2003). It involves observation and detailed in-depth description of objects, items or things that comprise the object of study. The variables that were used in the analysis are broadly classified into two: corporate governance and strategy implementation challenges.

### **3.5 Chapter Summary**

The chapter reveals the research design of the study as a case study; which is an in-depth investigation of how the bank responds to the corporate governance strategy implementation challenges. a case study design is deemed the best design to fulfill the objective of the study.

Data was collected by use of an interview guide with a mix of questions, with open ended and specific responses. The interviewer listed all responses from the functional heads of departments interviewed. The interviewees were considered to be the key informants for the research because of their involvement in strategy formulation and implementation.

Data collected was analyzed through qualitative analysis which was using content analysis; a systematic qualitative description of the composition of the objectives of the study. The variables involved were classified into corporate governance and strategy implementation challenges.

## **CHAPTER FOUR DATA ANALYSIS, RESULTS AND DISCUSSION**

### **4.1 Introduction**

This chapter presents the results, analysis and discussions with regard to the objective and discussion of the same. The research objective was to determine the challenges of implementing corporate governance at Oriental Commercial Bank in Kenya. The interviewees comprised the top level managers of the bank and the researcher interviewed ten respondents out of the intended seventeen interviewees. All the interviewees had worked in the organization between five to ten years. It was therefore felt that the interviewees were knowledgeable enough on the research subject matter and help in the achievement of the research objective.

### **4.2 Challenges of the implementation of Corporate Governance**

#### **Strategy**

OCB faces a number of challenges in implementing its strategies. The study established that different factors that have hindered effective implementation of the strategy. The challenges comprised of: inadequate resources, ineffective reward system, culture diversity, inexperienced employees, lack of feedback and a monitoring system, organizational culture and structure and other external environmental factors which include: bank customers, intense competition and technology.

The study requested the informants to confirm if there was a corporate governance strategy. All the respondents confirmed that there was. However the findings from respondents indicated that the original strategy plan was poorly conceived and that the strategy is not properly understood by the bank employees therefore causing the implementation process to take more time than planned, Unanticipated internal/external problems arising, poor coordination of activities, crises or competing activities diverted attention, assigned employees lacked necessary skills, assigned employees being inadequately trained, insufficient allocation of resources, uncontrollable external environmental factors, inadequate lower-level leadership and direction, poorly defined key tasks and activities and inadequate monitoring of activities and progress.

Inadequate information systems used to monitor strategy implementation was identified from the findings as another challenge. Majority of the respondents indicated that when vertical communication is not frequent, strategic consensus that is shared understanding about strategic priorities is not enhanced and corporate governance strategy implementation fails. The study further found that senior-level leaders failure to communicate the OCB's direction and business strategy to all of their subordinates causing unsuccessful strategy implementation due to inadequate information systems used to monitor strategy implementation. This implies that inadequacy of information systems constitute the key barrier to the implementation of planned strategic activities.

It was established that the culture in the organization hindered implementation of corporate governance strategy. The cultural factors that were identified by the respondents included resistance to change and general lack of commitment and sense of obligation by some employees. Some senior staff members that are used to certain ways of doing things in the organization and whenever new changes were introduced or change of strategy was required to capture a certain opportunity or counter a given threat, the same group would be slow in decision making that lead to the loss of opportunity. The interviews established that when employees are used to a certain way of life or a way of doing things, normally new ideas are seen as a threat to the existing culture and will naturally be resisted.

The researcher also established that leadership and management was a challenge to the process of corporate strategy implementation. To this extent 100% of the respondents were of the opinion that indeed leadership was a big challenge to the process. They supported this by pointing out the various kinds of challenges faced by the organization resulted from the leadership in place. First, rigidity and bureaucracy together with the failure to embrace new ideas and innovational technology in business was noted as a challenge. In addition, some of the managers have been known to lack expected competence to ensure actualization of the strategies. Management resistance to change and new ideas, lack of visionary leadership together with poor leadership skills and knowledge are still additional challenges facing the organization. Some of these leadership skills were found to be due to lack of proper training.

The customers' influence on the implementation of the organization's corporate governance strategy was also noted to be a challenge. The bank has known its customers to desire quality service and abhorring high expectations. Thus in some circumstances, demands from some high net worth customers cause bank officials to infringe policies that are already in place and consequently jeopardize shareholders interests at the risk of losing the customers. For example, some customers demand high interest rates which are out of scope on fixed deposits and on the other hand, other customers demand low interest rates to be charged on loans and other facilities and therefore causing a challenge to bank officials who are always required to maximize profits for the shareholders and at the same time retain the customers.

Further, the respondents noted another challenge to be the introduction of products which were not market driven. The bank for example could discontinue a particular product line and introduce a new product that is not received well by customers or unaligned products in line with the consumer needs and also increasingly sophisticated clients who gave out organization's vital information to the competitors. This cause the organization's strategy not to be realized however much effort is taken to implement the same. In addition, the respondents also highlighted negative criticism from customers as a big downturn to the implementation strategy because the customers might be reluctant to share information on how they want the new system improved but at the same time being the critics of efforts purposed for their benefit.

The interviewer established that the organization's structure is also a challenge to corporate governance strategy implementation. The structure of an organization is designed to facilitate how work is to be carried out in business units and functional departments and not to be an impediment in the development or implementing of the organization's strategies. It was observed that the vertical structure that has been adopted by the organization though good for controlling the activities of the organization, has influenced its decision making process. Its response structure was found to be slow and in some cases lead to loss of opportunities. Further when asked about other challenges in strategy implementation which is brought about by the way the structure was organized, the respondents pointed out that some roles and functions were not clearly structured and that they lacked the supporting structure. In addition the management's failure to take initiative in creating and sustaining a favorable environment within the firm that could incorporate all the stakeholders in the implementation process was identified as a major challenge.

The study sought the Opinion whether there were sufficient resources for the strategy implementation. From the findings, majority of the respondents indicated that the available resources (physical, financial, technological and human) were inadequate for the strategy implementation in the bank. From the findings majority of the respondents indicated that inadequacy of finances and human resources in terms of qualifications, competence and numbers were identified as major constrain that hinder the strategy implementation. This clearly indicated that insufficient funds and insufficient personnel in the company were challenges facing implementation of strategies at OCB.

Information gathered show that external partners also delayed in providing expected support in time. Poor time planning may lead to disillusionment of the partners on strategic decisions who may quit the business before implementation is completed. Partners such as legal firms, property valuers for example delay to provide required information which is vital for decision making. Such delays frustrate corporate governance implementation and ultimately lead to loss of business for the bank.

The researcher also confirmed through the interviewees that employees are a challenge to the process of corporate governance implementation; employees play roles including formulation of strategic objective and execution of activities in order to realize plans. The argument is that since policies were formulated to profit the organization, employees are in the frontline and directly involved in implementing strategies though with the help of line managers; for example, if a new system was introduced, employees are required to implement the same and hence constitute a critical part of the organization.

Asked whether there was resistance experience from the employees in relation to strategy implementation, the respondents were in full agreement adding that at times there was lack of commitment to agreeing to new ideas and diminishing feeling of ownership to the new policies. They outlined some of the ways on how to overcome these resistances to include the involvement of all the staff in devising strategic objectives, communication, motivating employees and encouraging team work together with frequent recognition of employee's achievement.

The interviewees further added that dissemination of vision through constant communication was paramount in overcoming resistances as the employees would feel as part of the process. Further, resistance to change and the fear of new technologies by the old staff were considerable challenges as well. The pursuance of other goals different from those of the organization by the staff was also identified as another great challenge. The interviewees pointed out that they faced not only criticism and lack of cooperation but also strategy failure and implementation delays together with lack of self-motivation. The greatest challenge is in bringing all employees on board to adopt new ideas.

The researcher also established that other stakeholder requirements cause challenges to the process of corporate governance strategy implementation. Issues like the alignment of strategies in line with other stakeholders' expectations, especially the shareholders are a challenge. Shareholders expect dividends which may conflict with company's strategy to retain profits in order to expand.

Technology is a challenge to the process of corporate governance strategy implementation. All interviewees agreed that the bank requires a robust technology for efficient processes and to be consistent with global electronic banking. The organization needs to do a lot in terms of internet and branchless banking that requires huge investment of resources to maintain in terms of capital and human resources. The interviewees noted that economic change, technological advancement, political changes and the change of guiding policies by the regulator bodies for example CBK and KBA. In addition, unaligned organizational systems together with stiff competition were pointed out as major problems which were a big setback to strategy implementation.

The interviewees agreed that the organization does not have a clear reward system which they feel that it interferes with the corporate governance implementation. Lack of an elaborative reward system means lack of a transparent remuneration formula which consequently causes demotivation among employees who feel that they are not equitably rewarded. This feeling appears as a form of discrimination which causes disillusionment and loose of focus in corporate governance implementation.

### **4.3 Discussion**

The results of this research suggested that for effective corporate strategy implementation, several factors need to be put into consideration. The first most important factor for effective strategy implementation is the involvement of all stakeholders at the corporate strategy making process. A great majority of the respondents reported that organizations needed to come up with strategy formulation that is supported with an action plan for effective strategy formulation process and implementation. The organization structure, culture, employees, customers and shareholders, according to all the respondents, should be put into consideration for effective corporate governance strategy implementation Kiplagat (2008).

The interviewees indicated that the involvement of the senior management in strategy implementation and training together with communication of benefits of corporate governance strategy to all staff were key ways to overcome most of the challenges realized in strategy implementation. Respondents recommended the openness of board meetings to create an all-inclusive process where not only the staff but also the customers could feel part and parcel of the process. This way, the management would win the support of employees and own up the process which is extremely important for strategy implementation (Beer & Eisenstat, 2000)

The interviewees recommended the involvement of customers through the research and design process for them to understand fully their specific needs and their ideas and needs factored in before the final strategy which is meant for implementation is adopted. In addition communication, education through the media ought to be enhanced for them to be conversant with the new policies and products, holding introductory sessions with customers in order for them to appreciate new strategies, trying to understand the consumers and educating them on what policies are there for implementation especially on the matters that affect them. Therefore involving customers at all levels of the implementation process is important for effective decision-making, guidance and support. Muthuri (2010)

The most significant opportunity to improve the rate of success of strategy implementation is employee motivation. When incentive plans are tied to successful implementation of strategies, managers come to see improved performance as a necessary and normal part of their jobs. Without this linkage, staffs get demoralized and lose the work ethics. Therefore, organizations should design effective rewards and incentive schemes for motivating their people to contribute their best to the implementation process. This agrees with the finding from the study by Githui (2008).

Proper planning of financial resources and prioritizing on the policies is a key factor to be considered in avoiding wastage. It is also important to set aside enough finances for the project while ensuring that staff are motivated and recognized through reward and appreciation schemes. The staffs with adequate training in their roles in strategy implementation are resource centers in boosting the organization competence and qualification to handle demanding tasks. (Peng and Litteljohn, 2001)

Some of the remedial measures recommended by the informants deal with the challenges posed by management and leadership included, hiring of experts to engage senior management on the need for change, in addition they proposed that retreats for senior management and the board ought to be scheduled to discuss the need for corporate governance strategy implementation. Moreover leadership training sessions to instill a set of management competencies was advocated for which the respondents said could deliver better competitive and commercial practice, appraisal of individuals was recommended as there was a believe that performing individuals could be identified and rewarded. Guth and Macmillan (1986)

The informants were in agreement of the challenges posed by ineffective coordination and poor sharing of responsibilities which is as a result of poor communication, overworking of some staff leading to errors. The respondents recommended various ways of addressing these challenges, among them engaging human resource department and business units in harmonizing all roles in the company. Communication of roles and responsibilities at an early stage and involvement of middle line managers at the tender stage was further advocated for by the respondent views. The interviewees in addition emphasized on responsibility and accuracy as a great remedy to the challenges (Pearce and Robinson 1988)

#### **4.4 Chapter Summary**

The chapter presents the results, analysis and discussions with regard to the objective; to determine the challenges of implementing corporate governance at OCB. The challenges comprise inadequate resources, ineffective reward systems, culture diversity, inexperienced employees and other external environmental factors.

The chapter reveals that the strategic plan at OCB is poorly conceived and therefore causing delay in its implementation. In addition, unanticipated internal and external problems arising, poor coordination of activities, diverted attention, lack of vital skills among employees also contributed in a major way towards slowing down the strategy implementation process.

The discussions revealed that several factors need to be into consideration for effective corporate strategy implementation. Some of these are involvement of all stakeholders at the corporate making process, involvement of senior management in strategy implementation. The discussions agree with findings from similar studies done.

## **CHAPTER FIVE**

### **SUMMARY, CONCLUSION AND RECOMMENDATION**

#### **5.1 Introduction**

This chapter summarizes the findings, conclusions and makes recommendations as per the research findings. It also includes suggestions for further research, research gaps and contributions to the body of knowledge.

#### **5.2 Summary**

In summary, the study revealed that the respondents are aware of the corporate strategies adopted by OCB and the implementation process and the challenges that the organization is facing in the process of achieving its objectives. As a result of the above, the researcher felt that the results obtained from the respondents reflect the true position as in the organization.

OCB has responsibilities to shareholders, customers, employees and communities together with the underlying objective of the firm which is providing banking services to Kenyans. Towards the attainment of this objective, the firm has endeavored to modernize its infrastructure through the employment of new technologies and maintain a workforce that is motivated and willing to steer the organization towards the attainment of the same objectives.

The organization's corporate governance strategy is clear and concise and can be understood by the employees though the organization adopts a top-down approach in its strategy development. As a result the employees feel that they need to be involved more by the top managers especially in strategy policies that affect them. As a result of the non-involvement of the employees in the development of the strategies, implementation of these strategies has faced challenges such as staff being hesitant to act.

In addition, the organization has recognized the importance of availing enough resources to the implementation process especially the human resource. Continuous training and development programs have been initiated to help in building capacity of these employees to face the different challenges coming from the business environment.

In the pursuit of achieving implementation success of the organization strategies, the company has faced a number of challenges. The challenges ranged from: inappropriate organization structure, technology, reward system, inadequate resources, and capacity of staff, un-adaptive organizational culture, and high stakeholder and customer expectations. It was also noted that organization structure should be restructured to facilitate quick response than is currently witnessed.

On the role that communication plays in the process of strategy implementation at OCB, the researcher found that proper communication of strategic awareness can act as a cohesive force and succeed in connecting those with ultimate responsibility for formulation of organization's strategy with those directly implementing policies.

Communication is pervasive in every aspect of strategy implementation, and it is related in a complex way to organizational processes, organizational context and implementation objectives which, in turn, have an impact on the implementation process and also enhances timely feedback on the progress and challenges met in the process of strategy implementation. The study also found that effective communication throughout the organization enhance clear understanding of key roles and responsibilities of all stakeholders including middle managers, whose role is often pivotal and ensures that everybody understands success levels at all times.

The researcher found that factors leading to strategy implementation success includes clear aims and planning, a conducive climate, giving implementation priority, having abundant resources, an appropriate organizational structure and implementing flexibly, advancements in technology, control mechanisms, strategic consensus, leadership and positive attitude towards strategy implementation success.

### **5.3 Conclusion**

The study concurs with Simons and Thompson (1998) proposition that an organization is affected by various factors. As revealed by the study, economic factors and trends are highest influencing external agent for the implementation of the corporate governance strategic plan of OCB. Alongside the legal and Political activities within the country and hence for the organization to be strategic, these identified factors must be effectively be monitored and the processes be adjusted accordingly.

From the findings, the organization's corporate governance strategy seem to be clear and can be understood by the employees though the organization adopts a top-down approach in its strategy development and therefore established that strategy formulation follows a defined process and involves some organizations employees, management and other stakeholders.

Engagement and involvement of all staff in the corporate governance strategy formulation was found to be a prerequisite for effective implementation. Managers surveyed accorded great importance to the employee involvement for effective strategy implementation. Information gathered confirm that this factor was responsible for the management engagement to win the support of employees and own up the process which is extremely important for strategy implementation. The organization has a team of qualified and experienced staff who are committed to their work. In addition, the researcher felt it is important for the organization to have in place adequate mechanism of incorporating the views of stakeholders especially the ones that will be affected by the implementation of some strategies. This agrees with findings by Pearce& Robinson (2003).

Effective monitoring and evaluation of the strategies during implementation was found to be critical. An organization should be efficient in making decisions and therefore increase the chances of achieving the same strategies. In an effort to improve monitoring and evaluation, external consultant will be recommended in order to give independent and objective guidance towards the achievement of the same organization.

## **5.4 Recommendations and Implications of the Study**

Board of directors and management need to have a corporate governance code and charter subscribed annually. Internal monitoring intervals need to be increased to quarterly basis and feedback of performance provided. This shall portray the seriousness and commitment to the organization's corporate governance.

To improve on technological advancement, the bank needs to train key staff on administration of the systems, review the job allocations, reward system and the organization structure. The bank has generally realized great achievement in terms of revenue growth however a better reward system would be a great boost that will increase commitment to implementation of corporate governance strategy and therefore increase the shareholders' value for their investment.

The researcher recommends that the company carries out an evaluation on the application of the corporate governance strategy if this has been running in the company. I suggest that this starts from the department level and all the concerned parties can do the same to the whole company. From the research there is need for a well-planned training program for staff at the department level and those involved in implementation of the strategy. Regular trainings would be valuable to the growth and sustainability of OCB market share. It is necessary for the company to adopt capacity building sessions.

From this study; it has become apparent that various policies are not inclined to support the implementation of CG. The most pronounced in this study is the reward system at OCB which appears to mismatch the achievements of the employees as far as implementation of CG is concerned. This study challenges and recommends an overall scrutiny of the various policies in place so that to realign them in order to eliminate constraints that either hinders or slows down the process of CG implementation.

This study affirms agency theory; that the principal entrusts the work to the agent however conflicts are inevitable due to self-interests of the two parties. The conflicts are surmountable by finding a balance between the two parties; by the principal understanding the interests of the agent and by the agent understanding and maximizing the principal's objectives. This fact extends to all the organizations' stakeholders. Similarly, this study agrees to the argument of resource based view theory. The organizations ought to invest in adequate resources such as technology and competent employees among others which are crucial for organizations to achieve competitive advantage and lead to superior long term performance. In summary this study verifies the arguments of the two theories and provides an understanding of the theories in a different dimension.

Strategic plans are normally a blue print of what an organization should do so as to achieve its objective, mission and survive in a turbulent environment. However, implementation of the same normally experience challenges and only a portion of the strategic plans are successfully implemented. According to this study, some of the challenges are lack of commitment in implementing strategic plans and if it has to be implemented it is costly in terms of time and finances. In practice the implementation does not follow bottom-up approach but top down hence often gets resistances from the staff.

This study has scrutinized various challenges in the practice of the implementation of CG and in summary the implementation can be achieved through sound management of the various functions of the bank. From the study, therefore, OCB and other companies need to involve employees in both strategy formulation and implementation and in evaluation of the same. This shall increase their commitment towards implementation of the same and implementations of the strategic plans will experience less resistance.

There are still untapped opportunities in the market which OCB with appropriate strategies can take advantage of to increase its market share. For example a focus on customer satisfaction among others would enable the bank maximize on CG implementation and therefore attract more customers. At the same time, in its future strategic plan, it has equally to consider the challenges brought about by environmental factors since the world has become a global village and the business environment could impact negatively on the bank's operations.

CBK as the regulator need to develop a policy and guideline for commercial banks on the aspect of corporate governance considering the seriousness of this matter. The policy should include a guideline for the ideal blend of board of directors. The regulator need also put up an inspection unit for corporate governance which shall monitor and audit corporate governance practices in commercial banks in Kenya.

### **5.5 Limitations of the Study**

A limitation for the purpose of this research was regarded as a factor that was present and contributed to the researcher getting either inadequate information or responses provided being totally different from the researcher's expectation. Some interviewees refused to be interviewed; reducing the chances of reaching a more conclusive study. Some of the interviewees were busy throughout and had to continuously be reminded to provide the required information. However, conclusions were made with response provided. This study depended on interviews and discussions with management and the employees of the organization. It would have been of more value to obtain the views of those served by the organization or other stakeholders in the firm. The research design was a case study limited to one organization. Thus, any generalizing to other organizations operating under different environment, leadership and resource abilities can be misleading.

### **5.6 Area of Further Research**

The study suggests that research needs to be carried out on challenges facing implementation of corporate governance strategy in other banks and other public listed organizations so as to obtain comprehensive and exhaustive findings on the same since every organization has unique challenges and different strategic plans are adopted.

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## **APPENDICES**

### **Appendix 1: Interview guide**

1. Which department are you in?
2. What is your job title?
3. How many years have you worked in the bank?
4. Do you have laid down procedures for corporate governance implementation process in your section?
5. Do you have regular feedback and monitoring system concerning corporate governance implementation?
6. In your opinion, are the available resources (physical, financial, technological and Human resources) adequate for corporate governance implementation?
7. What are the specific challenges the bank is facing in corporate governance implementation?
8. What measures has the bank used to mitigate the challenges?
9. Are your reward systems tied to ability to implement strategies?
10. What suggestions would you make regarding the challenges in corporate governance implementation process to the bank specifically and the entire industry in general?
11. Do you experience any uncontrollable factors in the external environment that adversely impact on corporate governance strategy implementation?
12. Is there a system of monitoring corporate governance implementation? Who does it and how frequent?

Any other comment

Thank you for your co-operation

## **Appendix II: Letter of Introduction**

Date: .....

Dear Respondent,

**RE: Interview for Academic Research**

My name is Paul Mwenda Mwongera, a student of Master of Business Administration at University of Nairobi carrying out a research study on the challenges of implementing of corporate governance strategy by Oriental Commercial Bank Limited Kenya.

This is to kindly request you to participate as a respondent in an interview with a view of obtaining your input from your experience. Your feedback will be handled with confidentiality and results of the report will be used solely for academic purposes.

Yours Faithfully,

**Paul Mwenda**

## Appendix III: Letter from School of Business



**UNIVERSITY OF NAIROBI**  
**SCHOOL OF BUSINESS**  
**MBA PROGRAMME**

Telephone: 020-2059162  
Telegrams: "Varsity", Nairobi  
Telex: 22095 Varsity

P.O. Box 30197  
Nairobi, Kenya

DATE 14/Sept/15

**TO WHOM IT MAY CONCERN**

The bearer of this letter MUNONGERA PAUL MWENDA

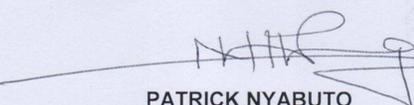
Registration No. 261/70961/2014

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

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

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

Thank you.

  
**PATRICK NYABUTO**  
**MBA ADMINISTRATOR**  
**SCHOOL OF BUSINESS**



## Appendix IV: Letter from the Institution



MBA Administrator,  
School of Business  
University of Nairobi  
**Nairobi.**

15<sup>th</sup> September, 2015

Dear Sir/Madam,

**REF: D61/70961/2014 - MWONGERA PAUL MWENDA.**

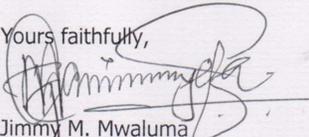
The above mentioned student at your School of Business-University of Nairobi has requested to collect data through conducting interviews.

The same was allowed by the bank and I confirm that he has concluded the exercise and we hope the information gathered shall be useful for his academic purposes.

We also expect that the information provided will be treated with STRICTLY CONFIDENTIALITY both during and after the expiry of the research exercise/course work.

For any more information, please don't hesitate to contact us.

Yours faithfully,

  
Jimmy M. Mwaluma  
Head – Human Resources & Administration.  
Human Resource & Administration Department  
Oriental Commercial Bank Ltd,  
Head Office-Finance House 1<sup>st</sup> Floor, Koinange Street.  
Nairobi.

### **Oriental Commercial Bank Limited.**

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