INFLUENCE OF STRATEGY IN THE RELATIONSHIP BETWEEN THE OPERATING ENVIRONMENT AND PERFORMANCE OF COMMERCIAL BANKS IN KENYA

BY

NAMWAMBAH LYNN NANYINGI

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DECLARATION

This research project is my original work and has not been submitted for a degree course in this, or any other University.

Signed…………………….. Date…………………..

NAMWAMBAH LYNN NANYINGI
D61/85349/2016

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

Signed…………………….. Date…………………..

PROF. JUSTUS MULWA MUNYOKI
DEPARTMENT OF BUSINESS ADMINISTRATION
SCHOOL OF BUSINESS
UNIVERSITY OF NAIROBI

DEDICATION

This scholarly work is dedicated to my family for their tireless effort in encouraging me to pursue my MBA and their constant support throughout the program.

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ABSTRACT

The ability of organizations to survive and perform well in a turbulent business environment depends on their ability to formulate and implement good strategies. Competition in the commercial banking industry has intensified with strategic shifts in the industry resulting from various external factors including changing economic environment, restrictive legal and regulatory framework and changes in technology among other factors. Commercial Banks in Kenya have to therefore constantly adapt strategies that will help them perform well and overcome negative changes in the environment. The objective of this study was to determine the influence of strategy in the relationship between the operating environment and performance of commercial banks in Kenya. The population of the study consisted of all the Commercial banks in Kenya. Primary data was collected using structured questionnaires. Analysis of data was done using descriptive statistics which looks at measures of frequency such as percentages, measures of central tendency such as mean and measures of dispersion such as range. Data was presented in the form of tables, charts and narratives. The findings of this study indicate that today's business environment is characterized by dynamic variables leading to unique business challenges and opportunities. The findings show that government regulation is the most dominant challenge facing commercial banks in Kenya. The findings also indicate that innovation, market share and financial performance are the most frequently used measures of performance by commercial banks in Kenya with financial performance being used to a great extent as compared to other measures of performance. Majority of the respondents agreed that strategy plays an active role compared to a passive one in the performance of commercial banks and that strategy has a positive influence in mitigating challenges faced by banks in their environment and in improving performance. This satisfies our research objective and supports the fact that organizations which have a precise strategy outperform those without one. To further evidence the adoption of strategy and strategic concepts by commercial banks in Kenya, the findings suggest that the threat of substitutes and barriers to entry are the competitive forces that affect the commercial banking industry the most. Strategic Analysis tools commonly used by the banks are SWOT analysis and the balanced scorecard and research and development followed by marketing strategies are the dominant strategy used by commercial banks in improving performance.Various conclusions, recommendations for policy, practice and further studies have been made based on the findings of the study.

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CBK: Central Bank of Kenya

ICAAP: Internal Capital Adequacy Assessment Planning

IT: Information Technology

HR: Human Resources

CHAPTER ONE: INTRODUCTION

1.1 Background of the Study

Strategy links the organization and the environment enabling a company to achieve its objectives. Organizations are environment dependent, Ansoff &McDonnell (1990) and work by acquiring inputs from the environment, transforming them through value addition and exporting final output back to the environment. For organizations to survive they have to study and match their activities to the environment. Pearce & Robinson (1997) suggest that the environment consists of all factors affecting the organization's strategic options which define its competitive position. Factors beyond the entity's control are in the external environment while those within its control are in the internal environment.

This study is built on theories and concepts in Systems theory; Competitive Advantage theory which includes the resource based, knowledge based and dynamic capability views and Michael Porter's Forces of Competitive Strategy. Systems theory explains that organizations are open systems in constant interaction with the environment. They receive raw materials, process it and return output to the environment. The resource based view of competitive advantage looks at resources as the strategy driver in organizations, knowledge based view considers knowledge as the key strategic resource in the firm and the dynamic capability theory considers the organizations ability and agility as the key competitive strategy driving organization performance. Michael Porter advances five forces which are bargaining power of suppliers, bargaining power of buyers, threat from substitute products, threat of new entrants, and rivalry among existing firms used as determinants of competitive strategy in an industry.

Commercial Banks in Kenya have to constantly adapt strategies that will help them perform well and overcome negative changes in the environment. There have been immense strategic shifts in the banking industry in Kenya which have influenced commercial banks performance over time. Industrial changes have resulted from various external factors including changing economic environment, restrictive legal and regulatory framework and changes in technology among others factors. Banks respond to such changes differently depending on their history, ownership, capacity, perspectives and practices and have been forced to align their strategies to remain competitive and profitable. This study therefore undertakes to examine the influence of strategy in the relationship between the operating environment and performance of commercial banks in Kenya.

1.1.1 The Concept of Strategy

Strategy is the link between an organization and the environment that enables a company to meet its targets and achieve its objectives. Strategy aims at solving problems arising from disengagement between internal characteristics of a firm and the changes in the external environment. Actions taken by an organization to get alignment with the environment are strategic responses which result in formulation and implementation of plans aimed at achieving a firm's objectives as suggested by Pearce and Robinson (1997). Strategic decisions are made by organizations with an ultimate goal of surviving and attaining success in a tough business environment.

Porter (1998) argues that organizations have different levels of strategies which include corporate, business and functional strategies. Corporate strategies define the overall purpose of the organization, business strategies focus on strategic business units and how to compete within the industry and functional strategies focus on the short term daily activities of an organization which are flexible and aligned with environment changes. Pearce and Robinson (1997) recommend that strategy should be consistent with conditions in the environment, taking advantage of opportunities , minimizing threat impact all while being realistic to the firm's resources. Grant (2005) additionally observed that for a firm to compete in any industry, its strategy should be consistent with its goals, values and capabilities, and that it should be flexible enough to accommodate changes in the business external environment.

1.1.2 Operating Environment

The environment refers to factors outside and within the confines of an organization that impact its performance. It consists of various factors, conditions and events which interact with each other leading to constant environmental change. The internal environment consists of factors within the organization's control while the external environment comprises of factors outside the company's control. The business operating environment refers to the external environment in which a company conducts its business. Pearce & Robinson (1997) say that external environment management is a fundamental component of the strategic management process. They further split factors in the external environment into three interrelated categories; factors in the competitive environment, remote environment and industry environment.

It is critical for organizations to focus on the external environment changes and effectiveness to survive as suggested by Schendel and Hoffer (1979). Organizations are directly affected by events happening in the environment. Firms that easily adapt to the environment essentially survive and those that do not are eliminated by competition. Organizations need to continuously adapt their operations in order to survive the environmental challenges. In today's business environment, organizations have found themselves in a position where they not only have to address environmental changes but actually anticipate them.

1.1.3 Organisation Performance

Barnard (1938) defines performance as the achievement of objectives. He further contended that the measure of how efficient and effective an organization is depends on its capability to survive. Performance is an indicator of efficiency and effectiveness against a prescribed standard. Venkatraman and Ramanujam (1986) state that performance shows the overall concept of organizational effectiveness. Performance is measured in various ways. Performance indicators include efficiency, effectiveness, financial viability and relevance. Effectiveness is the extent to which goals are realized while efficiency relates to the amount of resources used in producing a unit of output.

Andersen (2010) advances that financial performance involves using monetary values as a measurement unit and that non-financial measures are equally important in the assessment of performance. Kaplan and Norton (1992) propose that performance should be assessed using a balance scorecard which utilizes both financial and operational measures which are organization specific. Drucker (2008) also proposed eight performance measures essential for the survival of a firm. They include the market share, innovation, productivity, financial and physical resources, profitability, management performance, employee attitude and public responsibility.

1.1.4 Banking Industry in Kenya

The banking sector in Kenya comprises of the regulator, Central Bank of Kenya (CBK), forty two commercial banks, one mortgage finance company, eight representative offices of foreign banks, twelve microfinance banks, three credit reference bureaus, seventeen money remittance providers and seventy seven foreign exchange bureaus as at December 31, 2016. Central Bank of Kenya Bank Supervision Report (2016). Industrial guidance is received from the Banking and Companies Act alongside CBK prudential guidelines issued on an occasional basis.

The representative offices of foreign banks are not permitted to conduct banking business but only engage in trade finance, syndicated lending, correspondent banking and project finance. Microfinance banks focus on lending to small and medium sized enterprises who usually encounter credit challenges borrowing from commercial banks. Credit reference bureaus maintain credit history data on businesses and individuals for use by prospective lenders. Money Remittance Providers provide local and cross border cash transfer services while foreign exchange bureaus deal with the exchange of foreign currency to local or other foreign denomination.

1.1.5 Commercial Banks in Kenya

Kenya has among the largest commercial banking bases in Africa. Commercial Banks act as financial intermediaries by receiving deposits and issuing loans. In Kenya, the banks are classified into three tiers based on a weighted index comprising of capital, net assets, reserves, customer deposits, loans and advances. Large banks have a weighted composite index of above 5% .Medium banks weigh between 1and 5% while small banks are below 1%.

The banking industry is constantly changing because of evolving consumer needs, new products, delivery channels and technology. Mobile and internet banking have been adopted by banks through partnerships developed with other service providers promoting financial inclusion. Agency banking has gained increased confidence and acceptability of by banks and the public as an economical, convenient delivery channel. Automated processes have increased efficiency in customer service consequently leading to the reduction of staff and rise in ICT related frauds in the recent years due to weak preventive and detective controls. Banks have also partnered with insurance companies to offer bancassurance services which entails acting as insurance company agents in the sale and distribution of insurance products. This acts as an alternative source of revenue. Banks that will not be able to meet the changes in the environment will find it hard to survive and will be acquired by other banks or end up in receivership. The banks therefore need to develop strategies to maintain their performance and enhance survival.

1.2 Research Problem

Strategy provides direction to a company over a period of time and defines the scope of business to be engaged in. Organizations should adopt strategies that deal with emerging environment changes to remain operational and competitive. Organizations especially in the banking sector operate in a very competitive environment and need to adopt strategies to build and sustain competitive advantage. Commercial banks have had to adopt new strategies to maintain and improve their performance in light with the changes in the environment. The banks have to reduce operational costs, manage bad debts, meet regulatory thresholds, improve stakeholder confidence, adopt and invent new products and technology and diversify their sources of income to remain competitive.

Kamanda (2009), states that banking in Kenya has been through numerous regulatory and financial reforms. Recent changes in the operating environment of banks in Kenya include interest rates capping which put a ceiling on lending rates by banks and a floor on the term-deposit rates. Adverse consequences have included credit rationing and reduced access to finance for small borrowers as well as a spike in the use of informal lending channels. CBK additionally decided to publish average lending rates for different loan products by commercial banks on its website on a quarterly basis to promote transparency in credit pricing. This enables the borrowing public to make informed decisions when seeking credit and has increased competitive pricing among the lenders. Regulatory guidance on Internal Capital Adequacy Assessment Planning (ICAAP) was also issued to improve capital adequacy assessment, enhance sector-wide risk and capital management. Other industry developments include the acquisition of four banks and placement of 3 banks in receivership since August 2015.

Various studies have been conducted on the strategies that banks have employed as a result of changes in the environment. Internationally, Howcroft (2011) studied the cross border strategies in banking based on the top 60 largest banks globally. Ebimobowei (2012) carried out a study on customer service strategies and continued survival of banks in Nigeria in an era of post-alliance. Locally, Mutugi (2006) did a study on strategic responses of Barclays Bank to changes in the retail banking environment and observed that they employed market strategies such product segmentation, and price discrimination and investment in ICT. Chege (2008) did a study on competitive strategies adopted by Equity Bank Kenya Ltd in response to changing environment and found out that they invested in IT, reviewed HR policies to boost staff incentive. Machau (2009) did a study on the strategic responses to changes in the external environment by Kenyan commercial banks finding that banks targeted new customer segments and additional distribution channels. Mureithi (2010) did a study on strategic responses by NIC bank to changes in the external environment and found that the bank responded with re-branding, strong customer service and hiring competent staff.

The above studies have not assessed the influence of strategy in the relationship between the operating environment and performance of commercial banks in Kenya resulting in a gap. This study therefore aims to answer the question: What influence does strategy have in the relationship between the operating environment and performance of commercial banks in Kenya?

1.3 Objectives of the Study

The objective of this study was to determine the influence of strategy in the relationship between the operating environment and performance of commercial banks in Kenya.

1.4 Value of the Study

This study will be of importance to various stakeholders. The Central Bank of Kenya which is responsible for regulating, monitoring and ensuring stability in the economy, will gain a deeper insight on the relationship between the environment, strategy and performance of the banking industry with a view of policy formulation and to protect all stakeholders involved in the industry. Scholars of Strategic Management will find this study useful as it will identify areas for further research while also contributing to new knowledge in the field.

The information will also be useful to the management and the board of directors of existing or potential banks in the formulation of appropriate policies that will guide banks strategic direction. Banks will be able to identify areas that need improvement or changes in strategy while other non-bank financial institutions facing similar challenges will benefit through the applicable survival strategies. To investors, the study will provide useful knowledge for decision making on the current environmental factors affecting the industry.

CHAPTER TWO: LITERATURE REVIEW

2.1 Introduction

This chapter reviews literature from other researchers and scholars who have studied the influence of strategy in the relationship between the operating environment and performance. The theoretical framework will cover theories relating to strategy, the environment and performance while empirical literature review will assess the range of existing global studies. A review of the literature will guide the study in determining if a research gap on the area exists.

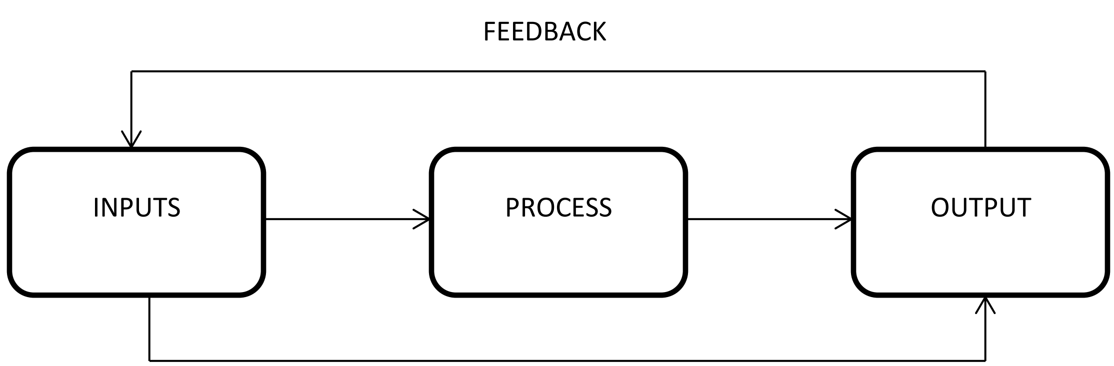
2.2 Theoretical Foundation

The theoretical framework covers various authors and scholars theorising concepts in the operating environment, strategy and organisation performance.

2.2.1 Systems Theory

The organization and the environment are interlinked and operate within a system. The organization system works by acquiring inputs from the environment, transforming the inputs by adding value and exporting final output back to the environment. To survive, organizations must read the environment and match their activities to current and expected conditions. Firms scan their surroundings to look out for opportunities and threats, while at the same time assessing their strengths and weaknesses to remain competitive.

Figure 2.1: Systems Theory of Management



Source: Lynch (1997)

Organisations achieve objectives by interacting with the environment at varying levels. They therefore have to adjust to the turbulent environment adapting to change. The level up to which an organization is able to attain its corporate objectives is contingent upon its capability to clearly understand the opportunities that come to it and the road blocks that are imposed by the environment.

2.2.2 Competitive advantage Theories

Three theories have been advanced on the competitive advantage of firms which is the contributing factor to firm performance. The theories are Resource based view, knowledge based view and dynamic capability theory. Resource based theorists view the organization as a pool of resources which provide a competitive edge Penrose (1959). Das and Teng (2000) states that the resource based view emphasizes that resources and how they are managed are central in determining competitive advantage and superior performance. Resources may not be easily imitated and can be very specific to organizations. Organizations are all different in terms of their resource base. This unique difference brought about is what leads to competitive advantage. The fundamental intent of the Resource based view is that organizations are unique in respect of the strategic resources they own and control.

The knowledge based theory is an extension of Resource based view based on the premise that organizations focus on knowledge as the most important resource. Knowledge is a tactical resource with a high return potential. It is gained through well trained and educated employees who are creative and innovative thus leading to high performance. Lastly, the dynamic capability theory states that firms develop specific competencies in response to environment changes. These competencies form the character of an organization which is the base of its dynamic capabilities. Porter (1998) noted that the eventual goal of competitiveness is to survive in the dynamic environment through changing of the firm's behaviour.

2.2.3 Michael Porter's Forces of Competitive Strategy

Porter (1980) states that organizations which have a precise strategy outperform those without one. This argument is the foundation for strategies used in enhancing competitiveness. Porter argued that higher performance can be achieved in a competitive industry through pursuing a generic strategy which includes cost leadership, differentiation, or focus approach to industry competition. Porter suggests a logical framework to evaluate the desirability of an industry by identifying five basic competitive forces seen as threats to the organizations profits.

Michael Porter advanced a theory explaining forces that drive industry competition helping firms to assess their position in the industry. The five forces is a logical framework used to evaluate the desirability of an industry by identifying competitive forces seen as threats to the organizations profits. The five forces are bargaining power of suppliers, bargaining power of buyers, threat from substitute products, threat of new entrants, and rivalry among existing firms. The impact of the five forces and structure of an industry, determines the intensity of industry competition and the ability of companies in the industry to make profits.

Bargaining power of suppliers deals with the suppliers' position in terms of strength in the control of the market. It looks at aspects such as monopoly supplier markets and the presence of cartels. Bargaining power of buyers on the other hand looks at buyer strength in controlling the market. Threat of substitute products looks at possible products or services which may be used in place of those offered by the company. The threat of new entrants is based on the ease with which competitors gain market entry and analyses barriers in place that control the entry of new competitors in the market. Rivalry among existing firms analyses the extent and nature of competition in the industry. According to Porter (1980) strategy is about gaining competitive advantage and that by identifying the forces the firm is able to decide which strategies to apply to combat competition.

2.3 The Operating Environment and Organisation Performance

The environment influences the behavior of firms which causes them to adopt strategies that determine their performance. The environment refers to all variables within the industry that the business operates in. Thompson, Strickland and Gamble (2007) argue that companies operate in an environment influenced by the economy, social values, government regulation, and technology. Thompson (1998) argued that managers must not only display awareness of environmental change instead they must manage company resources to seize opportunities and neutralize threats. This will in turn lead to good company performance.

Organizational performance is defined as achievement of organizational objectives Barnard (1938). Organization performance indicates efficiency and effectiveness against prescribed standards. Drucker (2008) advanced eight measures of performance that are critical for firm survival. They include market share, innovation, productivity, financial and physical resources, profitability, management performance, employee attitude and public responsibility. According to Drucker, the eight measures are all necessary for the long-term survival of the organization, which is the ultimate test of performance.

2.4 Role of Strategy

Quinn (1980) states that strategy is a plan which determines an organization's goals and actions; this is similar to Chandler (1962) who sees strategy as an establishment of long term goals of an organization which includes taking action and allocating resources to achieve the goals. Schendel and Hofer (1979) propose that strategy is a management tool for coping with change. It is a pattern of environmental interaction and resource deployment that shows how the organization will achieve its objectives. Thompson (1994) defines strategy as a set of predetermined actions with an aim of increasing firm's competitiveness and Pearce & Robinson (1997) see strategy as a defence against competitive forces.

Johnson and Scholes (1999) suggest that strategy is long term direction of an institution which leads to fulfilment of stakeholders' expectations. They argue that strategy should be perceived as the matching of the organization's activities to the operating environment. They further advanced that there are three levels of strategy down from operational, business to corporate level. Strategy acts as a bridge between the firms' resources, opportunities and risks the firm faces in the environment. Strategy therefore involves linking organizational competences with opportunities and threats resulting from environmental change effectively and efficiently. Grant (2005) says that a successful strategy is consistent with the business goals and values, environment, resources and systems. Competitive strategies thus provide a framework for firms to respond to change.

2.4.1 Strategic Management

Strategic management is the process through which strategies are formed and implemented in organizations. Chandler (1962) defines Strategic Management as establishment of long term goals of an organisation, adoption of action plans and resource allocation for carrying out goals. It is a continuous activity that enables the organization to plan for the exploitation of opportunities using its internal strengths while minimizing the impact of threats posed by the environment in the light of the organization's weakness, Ansoff and McDonnell (1990). Pearce and Robinson (1997) state that strategic management involves planning, organizing, directing and controlling strategy related actions. Johnson and Scholes (2002) add that strategic management deals with complexities arising out of ambiguous, non-routine situations in an organization. According to Wheelen and Hunger (2008), strategic management involves environmental scanning, strategy formulation, control and evaluation.

Porter (1980) argues that strategic management provides central purpose and direction, enables management to adapt to changing environment, credits competitive advantages and allows allocation of resources to key success factors. Strategic analysis tools are used in establishing organisation strategies which lead to good performance of firms in their operating environment. These tools include SWOT Analysis, McKinsey 7S and the Balance Scorecard. SWOT analysis is applied by the firm to establish internal strengths and weaknesses, and the opportunities and threats from the operating environment. The McKinsey's 7S model outlines that the organizations strategy, structure, shared values, skills, style, staff and systems are the determinants of good performance. Balanced scorecard provides a link between operations of a firm and its stated vision, mission and objectives. It looks at financial performance, customer satisfaction, internal processes and learning capability of an organisation. Thompson (1994) observe that the focus of strategic management lies on the business and the operating environment, management direction, strategic plan and the implementation and execution task of management.

2.4.2 Strategic Responses

Ansoff and McDonnel (1990) note that strategic responses involve a change in the entity's strategic behavior to assure successful transformation. Strategic Responses are therefore strategy related decisions and actions that are taken to respond to the firm's environment. Pearce and Robinson (1997) define strategic responses as decisions and actions that lead to formalization and implementation of plans that achieve organization goals. Strategic responses require organisations to change their strategy in line with the environment and to transform or re-design their internal capabilities to match their strategy according to Ansoff (1998).

Thompson (1997) defines strategy adoptions as changes in the strategies and objectives of an organization which occur over a period of time. The change is either gradual or dramatic. Grundy (1995) however reiterates that responsiveness and flexibility are increasingly important factors that determine the success of an organisation. Collins (1998) stated that an incremental adjustment to change in the environment is no longer satisfactory and quick transformation is required to thrive in business. The achievement of superior efficiency, quality innovation and responsiveness enables an organisation to attain competitive advantage. The usefulness and relevance of a response adapted by a firm is measured by how well it has countered the challenges emanating from external environment.

2.4.3 Types of strategies

Pearce and Robinson (1991) outlined three generic strategies that firms employ to compete in the market effectively. The three are differentiation, cost leadership and focus. Cost leadership aims at achieving overall cost leadership in an industry through vigorous pursuit of cost control. The strategy endeavours to offer the least cost in pricing of competing products and services all while maintaining a high quality standard. Differentiation involves differentiating the product or service offering of the firm while focus involves concentrating on a particular market segment. In this strategy, a firm seeks to offer a unique feature or sets of attributes of the product that is widely valued by the customer and that this differentiates it's product with that of the competitor, this then offers a basis for consequent premium pricing. Focus Strategy includes cost and differentiation strategies where cost focus seeks to maintain cost advantage in targeted market segments while differentiation focus targets differentiated products in a specific market segment.

Other strategies adopted to improve company performance include: research and development, restructuring, strategic alliances, divestiture, marketing responses, IT responses, financial responses and Human resource management response. Research and development helps companies to constantly innovate and pursue changes that create value for their customers. Products and services developed can help boost sales, discovered technology can reduce inefficiencies of costs and time and the business brand and reputation is strengthened as an innovative business. Restructuring involves designing new approaches which enhance efficiency and effectiveness in performance. According to Thompson and Strickland (1998) dramatic improvement in company efficiency and quality can be achieved through focus on processes and customers to create value. Restructuring strategies include reengineering and outsourcing. Strategic alliances on the other hand are organization collaborations involving joint sharing or development of products to achieve common goals. Divestiture is the disposal of an investment or asset through sale, exchange, closure or bankruptcy. It is normally used as a route of cutting down probable future losses and it is also used if the selling company will be paid a value much higher than its current value.

Luftman (1996) states that how an organization views its core business is critical to the successful alignment of its IT strategy. Most of an organization’s activities generate and utilize information. Information technology has radically changed the way organizations operate. Wheelen and Hunger (2008) argue that a firm must create a marketing mix that will enable it gain a competitive edge in the changing business environment. Johnson and Scholes (1999) emphasize on the need for organizations to be market oriented by producing according to customer preferences. Financial decisions are made during investing or as expenditure. Thompson (1994) observed that good finance strategies involve providing financial structure and funds to the business to achieve overall business objectives. Thorough analysis of various financial options can help a firm remain competitive. Bernerjee (1999) says that a firm’s employees are a great strategic resource. Human resource management should have well targeted policies that attract nurtures and rewards human talents that enormously contribute towards achievement of the organization goals. Thompson (1994) notes that in a turbulent environment, strategic leaders rely on people to spot opportunities create and adapt strategies.

2.5 Empirical Literature Review

Research has been carried out on strategies and performance in various industries. Internationally, Howcroft (2011) studied the strategies used in cross border banking. Data analysed was based on the world’s largest 60 banks. Their findings were that most banks concentrated on countries or geographical regions in which they have affinity in terms of culture or economy. The results also showed that most of these banks were international as opposed to global. Ebimobowei (2012) carried out a study on customer services strategies and continued survival of banks in Nigeria in an era of post-merger. The data analysis showed that a relationship exists between performance and customer service strategies as well as between the government regulatory structure and customer service strategy in the Nigeria banking industry.

In Kenya, Njau (2000) did a study on strategic responses by firms facing changed competitive conditions at the East African Breweries Limited. His study concluded that the strategic responses included manipulation of marketing mix elements, cost controls and setting up of foreign business channels. Mugambi (2003) in studying on the strategic response of tourist hotels to the changes in the environment, a case of tourist hotels in Nairobi, strategies adopted include restructuring, direct marketing and partnership with the Kenya Tourist Board. Muchelule (2010) researched on strategic responses adopted by the Kenya Ports Authority to changing external environment and found out that they introduced low-cost but high quality services. Muhoro (2009) researched on strategic responses by Commercial Bank of Africa and found that responses included forming strategic partnerships and alliances, investment in technology, developing new products and services and staff motivation.

From the above studies, it is clear that none focused on determining the influence of strategy in the relationship between the operating environment and performance of commercial banks in Kenya. This research will bridge this gap by conducting a study aimed at determining the influence of strategy in the relationship between the operating environment and performance of commercial banks in Kenya.

CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Introduction

The purpose of this research was to investigate the influence of strategy in the relationship between the operating environment and performance of commercial banks in Kenya. This chapter describes the procedures and methods used in conducting the study. The chapter focus is on the research design, target population, data collection and analysis collected and applied during the study.

3.2 Research Design

Research design is defined by Burns (2004) as a guide for conducting studies that control factors which may influence the validity of research findings. It defines how, where and when data will be collected and analyzed. Mugenda (2003) states that design is used to structure the study and to determine how the major components of the research project work in harmony to address the research questions.

The research design used in this study was descriptive cross-sectional. Saunders (2009) states that descriptive studies gathers information on current position of phenomena defining what exists in respect of variables or situations. The descriptive survey design seeks to find what is going on. For social researchers, this is a key aspect to consider. The study also used a cross sectional survey of commercial banks in Kenya. This design targets the determination of the frequency of an attribute in a given population at a specific time. This design is appropriate as information will be collected in a highly economical way at one point in time which saves on time and costs.

3.3 Population

Mugenda (2003) describes a population as a group with common characteristics being considered for a study. The population of the study consisted of all commercial banks in Kenya. During the fiscal year ended June 30, 2016, the Kenyan banking sector comprised 42 commercial banks according to the Central Bank of Kenya Annual Report (2016).

Commercial Banks in Kenya have to constantly adapt strategies that will help them perform well and overcome negative changes in the environment. There have been immense strategic shifts in the banking industry in Kenya which have influenced commercial banks performance over time. Banks that will not be able to meet the changes in the environment will find it hard to survive and will be acquired by other banks or end up in receivership. Commercial banks therefore need to develop strategies to maintain their performance and enhance survival.

3.4 Data Collection

Researchers can use one or several methods of data collection according to Mason (1996). Saunders (2009) refers to this as the mono-methods and multiple methods of data collection. This study used multiple methods of data collection from both primary and secondary sources.

Primary data was collected using a structured questionnaire; see appendix 2 attached. The questionnaire was divided into three parts with Section A seeking general information on the respondent, Section B looking at the challenges from the operating environment and measures of performance and Section C looking at the influence of strategy. The targeted respondents were middle level managers in the banks. The choice of middle level managers as respondents was informed by their availability and leadership roles in the bank which involves strategy formulation and implementation. Secondary data was also used incorporating sources of data from published annual reports, books, newspapers and websites. The use of Secondary data is economical and time saving. Secondary data enhanced the quality of data in the study as additional information was obtained where there were deficiencies in primary data collected.

3.5 Data Analysis

Primary data collected from the questionnaires was initially edited for completeness, consistency and accuracy. It was then arranged for ease of tabulation and coded for data analysis. Quantitative data was analyzed using descriptive statistical methods. Descriptive statistics uses measures of frequency such as percentages, measures of central tendency such as mean averages and measures of dispersion such as range. Qualitative data was analyzed using content analysis method which involves logical grouping of the information and enables the researcher to apply qualitative analysis, compiling results and interpretations. Data was presented in the form of tables and narratives.

CHAPTER FOUR: DATA ANALYSIS, INTERPRETATION AND PRESENTATION

4.1 Introduction

This chapter presents the results and findings of the study whose general objective was to determine the influence of strategy in the relationship between the operating environment and performance of commercial banks in Kenya. The chapter covers the data analysis, results and discussion. The findings are presented in percentages in the form of tables and narratives.

4.2 Response Rate

For the purpose of this study, 42 questionnaires were distributed to the respondents. Out of the 42 distributed questionnaires, 33 were returned presenting a response rate of 78.57%. All respondents in the study chose to remain anonymous. Champion (1969) suggests that authors need to enhance efforts made to increase questionnaire return rates and address the influence of non-respondents. Mugenda (2003) suggests that for a census, 70% or more response rate is adequate. Therefore, the achieved response rate was considered appropriate for generation of the findings to the target population, the commercial banks in Kenya.

Table 4.1 Questionnaire Response rate

Response Rate	Frequency	Percent
Responded	33	78.6%
Did not respond	9	21.4%
Total	**42**	**100%**

Source: Research Data (2017)

4.3 General Information

The general information that was considered in this study included the respondents’ position held in the bank and number of years of worked in the bank. The researcher also determined the ownership type of the commercial banks from secondary data sources.

Table 4.2 Position held in the bank

Role	Frequency	Percentage
Manager	23	69.7%
Assistant Manager	9	27.3%
Analyst	1	3.0%
Total	**33**	**100.0%**

Source: Research Data (2017)

With regard to respondents position in the banks as shown in Table 4.2, the results show that majority (69.7%) of the respondents were managers in their respective banks while 27.3% of the respondents were assistant managers. These employees rank as mid-level managerial staff and are involved in implementation of strategies in their departments. Table 4.3 below shows the departments that the various respondents work in.

Table 4.3 Department worked by Respondents

Department	Frequency	Percentage
Branch Operations	7	21.2%
Business Banking	3	9.1%
Customer Care	5	15.2%
Cash	3	9.1%
Credit	6	18.2%
Finance	2	6.1%
Operations	5	15.2%
Personal Banking	2	6.1%
Total	**33**	**100.0%**

Source: Research Data (2017)

The findings show that the respondents work in various departments in the banks with 21.2% working at branch level, 18.2% in credit and 15.2% in bank operations. This implies that strategy is applied across all departments in the commercial banks.

This section sought to establish the duration that the respondents had held their various current positions in the banks.

Table 4.4 Number of years worked in the bank

Years of experience	Frequency	Percentage
Below 5	0	0.0%
5 to 10	17	51.5%
11 to 15	15	45.5%
Above 15	1	3.0%
Total	**33**	**100%**

Source: Research Data (2017)

From the findings, the respondents number of years of experience ranges between 5 years and 16 years with 51.5% of the respondents having work experience of between 5 and 10 years. Experience is critical in the banking industry as it leads to knowledge used in developing new products, managing challenging situations and ensuring continuity of normal operations which leads to good performance.

The researcher also determined the ownership type of the commercial banks as it determines the type of strategy and strategic direction taken by the various banking institutions.

Table 4.5 Ownership of Commercial Banks in Kenya

Ownership	Number	Percentage
Local Public Commercial Banks	3	7%
Local Private Commercial Banks	26	62%
Foreign Commercial Banks	13	31%
Total	**42**	**100%**

Source: Research Data (2017)

From the findings, 62% of the banks are locally owned private commercial banks, 31% are foreign owned and 7% are owned by the government. This indicates that 69% of the commercial banks are locally owned therefore valuable to the realization of the research objective. The remaining 31% of the banks are foreign owned thus an indication of possible barriers to entry of foreign shareholders in the Kenyan Commercial Bank Industry. Most locally owned banks aim at improving their market share using expansion and growth strategies while foreign owned banks use market penetration strategies to tap into the new markets.

4.4 Operating Environment and Performance

This section sought to determine the various challenges that the banks face in their present business environment as well as the various measures used to evaluate the banks' performance as well as the extent to which they are used to determine bank performance.

4.4.1 Challenges faced by Commercial Banks in Kenya

The respondents were asked to indicate the various challenges that the banks face due to changes in the operating environment. The responses are shown in Table 4.6.

Table 4.6 Challenges facing commercial banks

Challenge	Number of respondents	Frequency	Percentage
Government regulations	who selected	31	93.9%
	who did not select	2	6.1%
	Total	**33**	**100%**
Capital requirements by CBK	who selected	6	18.2%
	who did not select	27	81.8%
	Total	**33**	**100.0%**
Cost of operations	who selected	26	78.8%
	who did not select	7	21.2%
	Total	**33**	**100.0%**
Non-performing loans	who selected	29	87.9%
	who did not select	4	12.1%
	Total	**33**	**100.0%**
Changes in Technology	who selected	28	84.8%
	who did not select	5	15.2%
	Total	**33**	**100.0%**
Changes in customer preferences	who selected	20	60.6%
	who did not select	13	39.4%
	Total	**33**	**100.0%**
Competition from other banks	who selected	16	48.5%
	who did not select	17	51.5%
	Total	**33**	**100%**

Source: Research Data (2017)

From the findings, government regulation was selected as the most dominant challenge facing commercial banks in Kenya at 93.9%. Non-performing loans and changes in technology follow at 87.9% and 84.8% respectively. The cost of operations is also pointed out as a major challenge affecting 78.8% of the commercial banks. Other challenges faced include changing customer preferences and competition from other financial institutions. The interest rate capping law introduced in 2016 which capped interest rates on loans to 400 basis points above the CBR rate has had a negative effect on the profitability of the banks posing a big regulatory challenge in the market. Slow economic growth has also led to a large number of non-performing loans across various sectors and banks have had to increase the provisioning for the bad debts. Technology changes such as use of ticketing for customer service and agency banking to reduce the queues in the banking halls has led to a shift in how banks operate and commercial banks have had to quickly adopt to new technology to retain their market share.

4.4.2 Performance measures used by Commercial Banks

Further, the researcher pursued to determine the measures of performance and the extent to which they are considered by Commercial Banks in Kenya. Range used was Greatly, Considerably and Moderately.

Table 4.7 Performance measures used by Commercial Banks

Performance Measure	Extent Used	Frequency	Percentage	Cumulative Percentage
Financial Performance	Greatly	23	69.7%	69.7%
	Considerably	7	21.2%	90.9%
	Moderately	3	9.1%	100.0%
	Not selected	0	0.0%	100.0%
	Total	**33**	**100%**	
Market share	Greatly	8	24.2%	24.2%
	Considerably	10	30.3%	54.5%
	Moderately	10	30.3%	84.8%
	Not selected	5	15.2%	100.0%
	Total	**33**	**100%**	
Innovation	Greatly	20	60.6%	60.6%
	Considerably	8	24.2%	84.8%
	Moderately	1	3.0%	87.9%
	Not selected	4	12.1%	100.0%
	Total	**33**	**100%**	
Employee turnover	Greatly	8	24.2%	24.2%
	Considerably	9	27.3%	51.5%

	Moderately	4	12.1%	63.6%
	Not selected	12	36.4%	100.0%
	Total	**33**	**100.0%**	
Corporate Social Responsibility	Greatly	3	9.1%	9.1%
	Considerably	4	12.1%	21.2%
	Moderately	3	9.1%	30.3%
	Not selected	23	69.7%	100.0%
	Total	**33**	**100%**	

Source: Research Data (2017)

The findings suggest that financial performance is the most frequently used measure of performance by commercial banks in Kenya at a 100% cumulative percentage followed by innovation and market share at 87.9% and 84.8% cumulative percentage respectively. Employee turnover is used at a cumulative percentage of 63.6% while Corporate Social Responsibility is used at 30.3%. Financial performance is used to a great extent as compared to other measures of performance at 69.7% because banks are required to publish financial statements on a quarterly basis by law. The findings support Drucker (2008) who advanced that financial performance, market share, innovation, employee attitude and public responsibility among others are necessary for the long-term survival of the organization.

4.5 Influence of Strategy in the Relationship between the Operating Environment and Performance of Commercial Banks in Kenya.

In this section, the researcher sought to determine the influence of strategy in the relationship between the operating environment and performance of commercial banks in Kenya which is the objective of the study. The purpose was to assess if and how strategy is used in mitigating challenges faced by banks in their environment and if strategy improves performance. The researcher requested the respondents to identify the role played by strategy in the performance of the banks and to state the overall influence of strategy in the relationship between the operating environment and performance of Commercial Banks in Kenya. The researcher further sought to identify specific strategic influences in the environment of commercial banks in Kenya to evidence the adoption of strategy in the commercial banks. Respondents were asked to identify the competitive forces that impact banking industry operations in Kenya. They were also requested to identify the strategic analysis tools used by the bank in the strategic management process and strategies used by the bank to improve performance and to sustain competitive advantage. Table 4.8 below shows the role of strategy in the performance of commercial banks in Kenya.

Table 4.8 Role of Strategy

Role of Strategy	Frequency	Percentage
Active	31	93.9%
Passive	2	6.1%
Total	**33**	**100%**

Source: Research Data (2017)

The findings indicate that 93.9% of the respondents agreed that strategy plays an active role compared to a passive one in the performance of the bank. This supports Porter (1980) who stated that organizations which have a precise strategy outperform those without one. Strategy is an evolving process involving linking organizational competences with opportunities and threats resulting from environmental change effectively and efficiently. Strategy is the intervening variable used to explain the link between the operating environment which constitutes the independent variable and organizational performance which is the dependent variable.

An analysis of the perceived overall influence of strategy in the relationship between the operating environment and performance of Commercial Banks in Kenya was conducted as shown in Table 4.9. Respondents were requested to state whether strategy had an overall positive or negative influence in the relationship between the operating environment and performance of the banks.

Table 4.9 Overall Influence of Strategy

Influence	Frequency	Percentage
Positive	29	87.9%
Negative	4	12.1%
Total	**33**	**100%**

Source: Research Data (2017)

From the findings, 87.9% of the respondents agree that strategy has a positive influence in mitigating challenges faced by banks in their environment and in improving performance while 12.1% of the respondents perceive that strategy has a negative influence. This satisfies our research objective which aimed at demonstrating the influence of strategy in the relationship between the operating environment and performance of commercial banks in Kenya.

4.5.1 Strategic Competitive Forces in the Commercial Bank Industry in Kenya

This section sought to establish the strategic competitive forces that impact banking industry operations in Kenya. The findings are represented in Table 4.10

Table 4.10 Competitive Forces facing Commercial Banks in Kenya

Competitive Force	Number of respondents	Frequency	Percentage
Barriers to Entry	who selected	28	84.8%
	who did not select	5	15.2%
	Total	**33**	**100%**
Rivalry in the industry	who selected	20	60.6%
	who did not select	13	39.4%
	Total	**33**	**100%**
Threat of substitutes	who selected	32	97.0%
	who did not select	1	3.0%
	Total	**33**	**100%**
Power of buyers/customers	who selected	19	57.6%
	who did not select	14	42.4%
	Total	**33**	**100%**
Power of Suppliers	who selected	18	54.5%
	who did not select	15	45.5%
	Total	**33**	**100%**

Source: Research Data (2017)

The findings suggest that the threat of substitutes 97% and barriers to entry 84.8% affect the industry the most. On the other hand, the bargaining power of suppliers was the least threatening competitive force that banks face at 54.5%. The threat of substitutes is dominant as a result of competition from other non-bank financial institutions such as SACCOs and Insurance Companies who offer alternative savings channels. This treat has also been enhanced by the presence of Mobile Telecommunication companies operating in the finance space offering money transfer services, loans and savings options more conveniently to their customers.

4.5.2 Strategic Analysis Tools used by Commercial Banks in Kenya

This section sought to establish the strategic analysis tools used by commercial banks in Kenya in the strategic management process. The findings are presented in Table 4.11 below.

Table 4.11 Strategic Analysis Tools Used by Commercial Banks in Kenya

Strategic Analysis Tools	Number of respondents	Frequency	Percentage
SWOT Analysis	who selected	24	72.7%
	who did not select	9	27.3%
	Total	**33**	**100.0%**
PESTEL Analysis	who selected	19	57.6%
	who did not select	14	42.4%
	Total	**33**	**100.0%**
McKinsey 7S framework	who selected	13	39.4%
	who did not select	20	60.6%
	Total	**33**	**100.0%**
Balanced Scorecard	who selected	21	63.6%
	who did not select	12	36.4%
	Total	**33**	**100.0%**

Source: Research Data (2017)

The findings show that SWOT Analysis 72.7% and the balanced scorecard 63.6% are the most used strategic analysis tools by commercial banks in Kenya. PESTEL analysis is used at 57.6% and McKinsey 7S framework is the least used tool at 39.4%. SWOT analysis is applied to establish internal strengths and weaknesses, and opportunities and threats from the operating environment. Balanced scorecard provides a link between operations of a firm and its stated vision, mission and objectives. It looks at financial performance, customer satisfaction, internal processes and learning capability of an organisation. PESTEL Analysis is used to establish the external environment factors affecting the company while the McKinsey's 7S model outlines that the organizations strategy, structure, shared values, skills, style, staff and systems which are the determinants of good performance.

4.5.3 Strategies used by Commercial Banks in Kenya

This section sought to establish the strategies used by banks to improve performance and to sustain competitive advantage. The results are presented in Table 4.12

Table 4.12 Strategies used by Commercial Banks in Kenya

Strategy	Number of respondents	Frequency	Percentage
Differentiation	who selected	27	81.8%
	who did not select	6	18.2%
	Total	**33**	**100%**
Cost Leadership	who selected	27	81.8%
	who did not select	6	18.2%
	Total	**33**	**100%**
Focus	who selected	18	54.5%
	who did not select	15	45.5%
	Total	**33**	**100%**
Research and development	who selected	31	93.9%
	who did not select	2	6.1%
	Total	**33**	**100%**
Restructuring	who selected	12	36.4%
	who did not select	21	63.6%
	Total	**33**	**100%**
Strategic alliances	who selected	15	45.5%
	who did not select	18	54.5%
	Total	**33**	**100%**
Divestiture	who selected	9	27.3%
	who did not select	24	72.7%
	Total	**33**	**100%**
Marketing Strategies	who selected	29	87.9%
	who did not select	4	12.1%
	Total	**33**	**100%**
IT Strategies	who selected	24	72.7%
	who did not select	9	27.3%
	Total	**33**	**100%**
Financial Strategies	who selected	23	69.7%
	who did not select	10	30.3%
	Total	**33**	**100%**
Human resource Strategies	who selected	13	39.4%
	who did not select	20	60.6%
	Total	**33**	**100%**

Source: Research Data (2017)

The results show that research and development is the most dominant strategy used by commercial banks at 93.9%. This is followed by marketing strategies at 87.9% and Cost leadership and differentiation at 81.8%. Divestiture 27.3% and restructuring 36.4% are the least popular strategies used by commercial banks in Kenya.

4.6 Discussion of the findings

The findings of this study indicate that today's business environment is characterized by dynamic variables leading to unique business challenges and opportunities. As such, the need for businesses to align their strategies for improved performance has not gone unnoticed. From the findings, government regulation was the most dominant challenge facing commercial banks in Kenya. The government has capped the interest on loans to 400 basis points above the CBR rate and this has impacted negatively on the profitability of the banks. The findings also indicate that innovation, market share and financial performance are the most frequently used measures of performance by commercial banks in Kenya with financial performance being used to a great extent as compared to other measures of performance. This is attributed to the statutory requirement that requires commercial banks to publish financial statements on a quarterly basis.

Majority of the respondents agreed that strategy plays an active role compared to a passive one in the performance of commercial banks and that strategy has a positive influence in mitigating challenges faced by banks in their environment and in improving performance. This satisfies our research objective which aimed at demonstrating the influence of strategy in the relationship between the operating environment and performance of commercial banks in Kenya and supports Porter (1980) who stated that organizations which have a precise strategy outperform those without one. To survive the dynamic turbulent changes in the environment banks need to align their strategies to the changes. To further evidence the adoption of strategy and strategic concepts by commercial banks in Kenya, the findings suggest that the threat of substitutes and barriers to entry are the competitive forces that affect the commercial banking industry the most. Strategic Analysis tools commonly used by the banks are SWOT analysis and the balanced scorecard and research and development followed by marketing strategies are the dominant strategy used by commercial banks in improving performance.

CHAPTER FIVE: SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This chapter presents a summary of the findings, conclusion, recommendations, study limitations as well as suggestions for further research from the study. The research objective was to determine the influence of strategy in the relationship between the operating environment and performance of commercial banks in Kenya

5.2 Summary

In summary, most of the respondents interviewed were managers heading various departments such as credit, operations, customer service and finance. The respondents have an average of 10 years of work experience. Experience is critical as it leads to knowledge used in developing new products, managing challenging situations and ensuring continuity of normal operations which leads to good performance. Further majority of commercial banks in Kenya are locally owned. From the findings, the most dominant challenge facing commercial banks in Kenya is government regulation followed by non-performing loans and changes in technology. The cost of operations is also pointed out as a major challenge affecting majority of the commercial banks. The findings suggest that the most frequently used measures of performance by commercial banks in Kenya are innovation, market share and financial performance. This supports Drucker (2008) who advanced that market share, innovation, financial performance, employee attitude and public responsibility among others are necessary for the long-term survival of the organization, which is the ultimate test of performance.

Majority of the respondents agreed that strategy plays an active role compared to a passive one in the performance of commercial banks and that strategy has a positive influence in mitigating challenges faced by banks in their environment and in improving performance. This satisfies our research objective which aimed at demonstrating the influence of strategy in the relationship between the operating environment and performance of commercial banks in Kenya and supports Porter (1980) who stated that organizations which have a precise strategy outperform those without one.

To further evidence the adoption of strategy and strategic concepts by commercial banks in Kenya, the findings suggest that the threat of substitutes and barriers to entry are the competitive forces affecting the commercial bank industry in Kenya the most. SWOT Analysis and the balanced scorecard are the most used strategic analysis tools by commercial banks in Kenya and research and development is the most dominant strategy used by commercial banks. Marketing strategies, Cost leadership and differentiation are also dominant strategies used in the industry.

5.3 Conclusion

Based on the research findings, the following conclusions are made regarding this study. Today's business environment is characterized by dynamic variables leading to unique business challenges and opportunities. To survive the dynamic turbulent changes in the environment commercial banks need to align their strategies to the environment changes. Strategy therefore plays an active role in the performance of commercial banks. Government regulation is increasingly a dominant challenge facing commercial banks in Kenya. The government has capped the interest on loans to 400 basis points above the CBR rate and this has impacted negatively on the profitability of the banks. To measure performance commercial banks mainly focus on innovation, market share and financial performance. Financial performance is used to a great extent due to the statutory requirement that directs banks to publish financial statements on a quarterly basis.

Competitive forces that affect the commercial banking industry the most are threat of substitutes and barriers to entry. The banking industry is not only facing competition from non-bank financial institutions but also mobile telecommunication companies who are offering alternative remittance, savings and loans services. Strategic Analysis tools commonly used by the banks are SWOT analysis and the balanced scorecard and the dominant strategies used by commercial banks in improving performance are research and development, marketing strategies, cost leadership and focus. In conclusion, strategy has a positive influence in mitigating challenges faced by banks in their environment and in improving performance.

5.4 Recommendations

The following recommendations were made based on findings and conclusions of this research study. Commercial banks should adopt strategies that will enhance their performance and survival in the industry due to the dynamic and turbulent environment in which they operate in. Government regulation is a dominant challenge affecting commercial banks, therefore, the government and the regulator CBK should engage and collaborate with commercial banks in formulation of laws and policies governing the operations of commercial banks in Kenya to smoothen the impact of regulation.

In addition to innovation, market share and financial performance, banks should adopt additional measures of performance such as customer satisfaction, employee turnover and corporate social responsibility to enhance their overall standards. The findings also supported the view that research and development and marketing strategies are the major strategies used by commercial banks. Senior management should therefore support the implementation of these strategies by allocating adequate budgets for research and development and marketing activities.

5.5 Limitations of the Study

The study which is based on Commercial Banks in Kenya is limited in scope and cannot be generalized. There is limited room for comparison of findings with other industries such as non-banking financial institutions and cooperative societies as well as other sectors such as agriculture and manufacturing.

Some respondents may have been biased considering the comments were based on their employer. It would have been essential to have more respondents for a better view of consistency of the data given.

5.6 Suggestion for Further Research

This research indicates that strategy is a positive influence in the relationship between the operating environment and performance of commercial banks in Kenya. The research also found out that strategy plays an active role in improving the performance of commercial banks. Further studies should be carried out on the effect of government regulation on the strategy and performance of commercial banks in Kenya. This is based on the fact that this research found out that the most dominant challenge facing commercial banks in Kenya is government regulation.

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APPENDICES

Appendix 1: List of Commercial Banks in Kenya

1 KCB Bank Kenya Ltd

2 Equity Bank Ltd.

3 Co - operative Bank of Kenya Ltd

4 Barclays Bank of Kenya Ltd

5 Standard Chartered Bank (K) Ltd

6 Diamond Trust Bank (K) Ltd

7 Commercial Bank of Africa Ltd

8 Stanbic Bank (K) Ltd

9 NIC Bank Ltd

10 I&M Bank Ltd

11 National Bank of Kenya Ltd

12 Citibank N.A. Kenya

13 Bank of Baroda (K) Ltd

14 Family Bank Ltd.

15 HFC Ltd

16 Prime Bank Ltd

17 Bank of Africa (K) Ltd

18 Bank of India

19 Ecobank Kenya Ltd

20	Guaranty Trust Bank Ltd
21	Gulf African Bank Ltd
22	African Banking Corporation Ltd
23	Victoria Commercial Bank Ltd
24	Sidian Bank Ltd
25	Habib Bank A.G. Zurich
26	Development Bank of Kenya Ltd
27	Giro Commercial Bank Ltd
28	Jamii Bora Bank Ltd
29	First Community Bank Ltd
30	Guardian Bank Ltd
31	Consolidated Bank of Kenya Ltd
32	Spire Bank Ltd
33	Habib Bank Ltd
34	Credit Bank Ltd
35	Trans - national Bank Ltd
36	M Oriental Commercial Bank Ltd
37	Paramount Bank Ltd
38	UBA Kenya Ltd
39	Middle East Bank (K) Ltd
40	Charterhouse Bank Ltd

41 Chase Bank Ltd

42 Fidelity Commercial Bank Ltd

Source: CBK Bank Supervision Report 2016

Appendix 2: Data Collection Introductory Letter

UNIVERSITY OF NAIROBI
SCHOOL OF BUSINESS

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

P.O. Box 30197
Nairobi, Kenya

DATE 13th October 2017.

TO WHOM IT MAY CONCERN

The bearer of this letter LYNN M. MAMWAMBAH

Registration No. D61/85349/2016

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.

UNIVERSITY OF NAIROBI
SCHOOL OF BUSINESS
08 NOV 2017
P.O. Box 30197 – 00100, NAIROBI

PATRICK NYABUTO
SENIOR ADMINISTRATIVE ASSISTANT
SCHOOL OF BUSINESS

Appendix 3: Questionnaire

TOPIC OF THE STUDY: INFLUENCE OF STRATEGY IN THE RELATIONSHIP BETWEEN THE OPERATING ENVIRONMENT AND PERFORMANCE OF COMMERCIAL BANKS IN KENYA

Information given on this questionnaire is confidential and will only be used for the purpose of the study. Please respond to the questions by ticking the boxes and/ or writing the response in spaces provided.

SECTION A: GENERAL INFORMATION

Name of respondent (Optional): ……………………………………………………….

Name of the bank you are working for: ………………………………………………..

Position held in the bank: ………………………………………………………………

Number of years worked in the bank: …………………………………………………

SECTION B: OPERATING ENVIRONMENT AND PERFORMANCE

i. What challenges is the bank facing due to changes in the operating environment?

☐ Government regulations

☐ Capital requirements by CBK

☐ Cost of operations

☐ Non-performing loans

☐ Changes in Technology

☐ Changes in customer preferences

☐ Competition from other banks

ii. Please select the performance measures and the extent to which they are considered in the bank.

	Greatly	Considerably	Moderately
☐ Financial Performance	☐	☐	☐
☐ Market share	☐	☐	☐
☐ Innovation	☐	☐	☐
☐ Employee turnover	☐	☐	☐
☐ Corporate Social Responsibility	☐	☐	☐

SECTION C: INFLUENCE OF STRATEGY

i. What role does strategy play in the performance of the bank?

☐ Active

☐ Passive

ii. Please select the strategic competitive forces that impact banking industry operations in Kenya.

☐ Barriers to Entry

☐ Rivalry in the industry

☐ Threat of substitutes

☐ Bargaining power of buyers

☐ Bargaining power of suppliers

iii. What strategic analysis tools does the bank use in the strategic management process?

☐ SWOT Analysis

☐ PESTEL Analysis

- ☐ McKinsey 7S Framework
- ☐ Balanced Scorecard

iv. Please select the strategies used by the bank to improve performance and to sustain competitive advantage

- ☐ Differentiation
- ☐ Cost Leadership
- ☐ Focus
- ☐ Research and development
- ☐ Restructuring
- ☐ Strategic alliances
- ☐ Divestiture
- ☐ Marketing Strategies
- ☐ IT Strategies
- ☐ Financial Strategies
- ☐ Human resource Strategies

v. What is the overall influence of strategy in in the relationship between the operating environment and performance of the bank?

- ☐ Positive
- ☐ Negative

Thank You.