

**STRATEGIES ADOPTED BY COMMERCIAL BANKS IN KENYA IN
RESPONSE TO THE LAW CAPPING INTEREST RATES**

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DECLARATION

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

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DEDICATION

This project is dedicated to my lovely wife Brenda, and my son Ryan for their encouragement, love, support and care.

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I would like to thank the almighty God for his grace, abundance and the good health enjoyed throughout my studies.

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ABSTRACT

The ability of an organization to adjust its operation in light of the evolving changes in their operating environment determines the sustainability of the business unit in both the short and long term. The objective of the study was to determine the response strategies adopted by Kenyan commercial banks in response to the interest capping laws. A descriptive cross-sectional design was used. The population of the study was 42 commercial banks operating in Kenya. Primary data was collected using a questionnaire that was both closed and open ended. Data was analysed using the descriptive statistics. The study found that banks have employed adaptation strategies through working with other partners in the banking sector to leverage their synergy and concentrate on areas that enhance competitive advantage. The research findings also reinforced the need for the banks to work together as a sector and attempt and change the laws that inhibit their operations through lobby groups in parliament and other forums. The study also show that there exists a link between firms' strategic activities and their strategic responses and therefore, bank managers should diversify their product range especially to the youth who are apt in using the mobile technology to access services and improve the bank level of efficiency and effectiveness in their operations. The study recommends that the commercial banks ought to conform to the regulations to attract customers while the Central Bank as a regulator should likewise be sensitive to the operating environment and should be flexible in setting the rules in order to attract investment and support the growth in the banking industry. The Interest capping law is still at its infancy stage in Kenya and thus there is room for further research as the full impact of the law is realized in the long term.

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ABBREVIATIONS AND ACRONYMS

CBK	-	Central Bank of Kenya
DCT	-	Dynamic Capability Theory
KBA	-	Kenya Bankers Association
MBV	-	Market based view
R & D	-	Research and Development

CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

The competitive organizational environment is characterized by changes that make organizations to continuously adopt agile and flexible strategic options with an aim of gaining competitive advantages that guarantee a superior position in the market. Ormanidhi and Stringa (2012) advance that the whole process of an organization striving to maintain competitive advantage is a dynamic strategic activity that never ends since they will need to adjustment their internal process to match the demands of their operating environment. From the previous studies on strategy (Miles & Snow, 1978; Porter 1980), the different strategies that can be adopted by a firm can either be inward looking through the utilization of internal resources to gain appropriate competitive advantage (Barney, 1991) or a firm a firm can prioritize the analysis of the external environment and from the same develop an appropriate response strategy. As a result, managers should constantly get to understand what changes are needed to respond to the market changes and at the same time come up with a roadmap for sustaining improvements in the internal operations of the firm with an aim to improve organizational performance (Tarraf, 2011).

The study was anchored on the Dynamic Capabilities theory by Teece (1997). Dynamic capability is a learned process and activities that enable a company to achieve certain outcome. He distinguished between the ordinary capabilities which he defined as the best practices which emanate from one company but spread to the entire industry and dynamic capability which is unique to each organization and is rooted in the organizations history which he termed as “the way of doing things here”.

Pisano (1994) defined dynamic capabilities as the antecedent organizational and strategic routines by which managers alter their resource base, acquire and shed resources and integrate them to create new value creating strategies. It's the ability to configure internal and external competence and resources to address the rapidly changing environment

The Institutional theory as advanced by Hoffman and Ventresca (1999) has been progressive in advancing several levels of analysis and literature on organizational change. It explains how institutions are impacted by external environmental forces and the perception that organizational environments are socially created (DiMaggio & Powell, 1983 & Hoffman 1999). It is from this standpoint, that a firm needs to conform to external changes to be acceptable and enjoy public support. Hence, the organizational framework is regarded as essential in creating the appropriate institutional behaviors, but also in setting structures that conform to the general organizational beliefs in society.

Interest capping in Kenya took effect in August 2016 which required that commercial banks lend 4% of points above Central Bank Rate. The effect of coming into force of the interest capping law has been manifested on the performance of Kenyan commercial banks. Almost all commercial banks recorded a dip in their profits as well as loan disbursements, especially to the small and medium enterprises. The Kenyan banking industry has witnessed major changes in the last decade that range from the effects of embracing the open market, developments and advancement in information and technology systems and internalization of business, and more recently the capping of the interest rate charged on loans. Indeed the speed with which the Kenyan banks

have been experiencing the changes has been so rapid that, in most cases, has affected their performance. In order to respond appropriately to market changes, the banks have had to strategically respond by seeking new revenue avenues resulting in the application of financial models for risk analysis and elimination, and have generated a better cognizance of their liabilities and efficiency gains achieved from organizational restructuring and commercial innovations (PricewaterhouseCoopers, 2013). Subsequently, apart from the general banking services, commercial banks have moved to in high volatility stock options and complex financial instruments such as derivatives, mutual funds, leveraged buyouts, commercial papers, junk bonds and assets securitization.

1.1.1 Response Strategies

A firm strategy is a position, perspectives or plan of how an organization can realize sustainable competitive advantage and attain its organizational objectives and goals (Thompson & Strickland, 2010). A firm' competitive strategies consist of the tactics that an organization has and employs to appeal to buyers, reduce the vigor of competitive forces and advance its market standing). On his part, Lester (2013) contended that organization response strategies assist an organization to describe its business at present and tomorrow, and determine the industries or marketplaces to participate in. Therefore, since organizations face different competitive pressures, organizational strategies will vary even though they might be operating in the a similar environmental setting since they are subjected to a set of requirements from stakeholder's and possible solutions and as a result resolve problems differently (Johnson & Scholes, 2008). Therefore, a strategy is bigger than just a belief and comprises a concerted search for a plan of action that will advance a firms competitive position and grow it over time.

The importance of a firm's strategy has seen different topologies being advanced to explain what is perceived to be the best strategies to be undertaken under different environment settings. Porter (1980) advanced three main strategies which when adopted can lead to higher level of competitiveness to a firm. Porter's main strategic response typologies of cost leadership, differentiation focus are popular among managers. These response strategies support the organization realize, grow, defend and sustain its competitive advantage. Focused differentiation and focused cost leadership plans center on lean market or product segments and are suitable for firms with limited incomes thus concentrating on small niche markets (Ormanidhi & Stringa, 2008). The Cost leadership strategic plan is a ploy undertaken to offer services or produce goods with exclusive features and are made available to consumers at the least cost point in comparison to competition or at a lower cost base to realize better profit margins. In the whole process of a firm's strategy, the business steward or owner is involved a vital and critical role in the firm's strategic process and their personal drive define the application and understanding of strategic planning and management (Postma & Zwart, 2001). Differentiation, the third strategic option, involves a firm offering unique product or service to customers that allows a firm to charge a premium price tag.

Miles and Snow (1978) developed three types of strategic responses that may be effective for small businesses, referred to by the author's as 'the defender, the prospector, and the analyzer. The defender-type response strategy involves the development of a narrow product/market niche and the erection of barriers to protect it. Unlike the defender, the prospector aims at constantly scanning the business environment for new opportunities, be they new products, services or markets. This

response strategy will therefore be an appropriate one for an entrepreneur who has a predisposition to identify new opportunities. Finally, the analyzer is a combination of the defender and prospector in that it simultaneously defends its niche while scanning for new opportunities.

1.1.2 Interest Rate Capping Law

Interest rate capping is a form of government regulation in the financial sector and because many countries have tended to de-regularize their financial sector, there has been a decline on the number of countries using this form of control (Kashyap, Raghuram & Jeremy 2014). Shim (2013) opine that there exist several economic and political reasons why governments may opt to use interest rate caps. One of the reason is that them could be need by a government to support an industry or sector where there is a market failure or in areas where a huge financial resource is needed having been neglected by the mainstream financial players. In Kenya for example, the government introduced interest capping because of an outcry from the general public of the high interest rates that was being charged by commercial banks on borrowing which in some case led to an interest gap of over 20%. Market failures usually result from market information asymmetries, moral hazards, adverse selections or the inability of financial organizations to distinguish between high risk and low risk clients.

Barth, Caprio, and Revine (2012) highlight however that the capping of interest rates has a tendency to distort the market and cause adverse biases in that the financial institutions will tend to favor their lending to low risk clients, which in most cases are large corporate at the expense of the small scale business people who are perceived to be more risky. According to Ramsey (2013), this segregation of borrowers tend to

lead to a situation whereby those in dire need of financial assistance are locked out of the available finances because they are considered high risk. Financial institutions can however still remain profitable in the midst of interest rate capping by the government by venturing into other sources of income such as non-funded income as well as cutting their costs. Restrictions brought by the capping of interest rates may lead into alternative lending by the financial sectors such as lending to the government and in extreme cases where the capping may become unprofitable, banks and microfinance institutions may streamline operations or withdraw fully from certain areas such as in rural areas or from expensive market segments since they cannot fully cover their costs.

1.1.3 Banking Industry in Kenya

In Kenya the banking sector plays a critical and important role in national growth and development. Being a focus point in the money creation process, payment system, financing of investments and driving growth (Fayoumi & Abuzayed, 2014). The banking sector has faced unique challenges with privatization and globalization in economy and despite these challenges, they are expected to perform. According to Zamil (2010), the main goal of a management team is to maximise shareholder wealth, but being able to achieve the same under pressure in an environment characterized by increased regulation and government intervention on market forces is no mean task. One of the sectors affected by government regulation is the banking sector. In Kenya, the banking sector is composed of 42 commercial banks and one institution financial offering mortgage services.

In Kenya's the banking industry is controlled by large foreign-based banks, although some are partly locally owned/controlled. In total, there are 11 commercial banks enlisted at the Nairobi Stock and Securities Exchange. They have been united together

under one umbrella by Kenya Bankers Association (KBA), The Kenya Bankers Association serves as the lobby body for banks on matters impacting the members. The non-banking financial institution and the commercial banks offer retail and corporate services however a there is small number of commercial banks, offering other financial services such investment banking (CBK Annual Report, 2015).

1.1.4 Commercial Banks in Kenya

A commercial bank is a financial institution that accepts deposits, makes business loans, and offers basic investment products (Brooks, 2008). In Kenya, the CBK (2016) annual report specifies that there are forty two commercial banks that operate in Kenya. The asset base in the Kenya banking industry has continues to grow. The product offering and profits though the Tier one commercial banks takes up 78 % of the total profit earned by all the banks in 2016. The growth in the bank profitability level has been mainly attributed to the automation of the banks processes, expansion strategy in the East African region, though some banks have lately scaled down their operation in the Kenyan market as witnessed by the closure of some branches. In addition, PricewaterhouseCoopers (2016) notes that Kenyan bank have moved from offering the traditional off-the-shelf products to the complex arrangement such as organizing syndicated loans to governments, as one way of diversifying their income and risks.

The CBK (2015) supervision report produced annually highlighted that the banking industry will need to manage the robust business environment in which they operate and continued changes in the operating environment and requirements through a robust in information communication and technology platform, while remaining adaptive and agile. Customers will remain to demand for personalized services, and

they shall ask them faster than before (CBK, 2014). In Kenya the banking sector has incorporated business integration as strategic moves in reacting to the ever shifting consumer needs. Customers have become more discerning, informed and demand for efficient and robust service provision as the industry grows. Mweiga (2016) contended that there are some key challenges facing the Kenyan Banking industry such as money laundering, but they were being addressed through embracing integration of the bank services and coming into force of the anti-money laundering laws where various departments are able to share real time information. Kenya being a country dominated by commercial banks, a failure in this economic segment has a huge repercussion on the financial industry and overall economic growth. This is due to the fact that any financial bankruptcy could drive a contagion effect leads to bank runs, economic downturn and general financial crisis

1.2 Research Problem

The ability of an organization to adjust its operation in light of the evolving changes in their operating environment determines the sustainability of the business unit in both the short and long term. Regulatory agencies have in the last decade maintained tighter control over standardized practices of banking institutions because of the need to maintain a stable financial system whereby the banks do not pursue sub-optimal policies that will endanger the economic operations of a country (Treacy & Carey, 2015). Banking regulations are governed by principles such as minimum requirement, supervisory review and market discipline (Brunnermeier et al., 2009). However the financial institutions might be vulnerable to imbalances between real and financial sector of the economy and consequently, they need to develop appropriate strategies that will maintain or improve their competitiveness.

The need for banks to adopt appropriate response strategies to the market turbulence has necessitated different studies being undertaken to identify the various strategic responses that banks can employ, Kume and Cipi (2015) examined the effect of competitive strategies on performance of Albanian Commercial banks and established significant positive effects of the three competitive strategies: Differentiation, cost leadership, and focus strategies on performance. Dirisu, Iyiola and Ibidunni (2013) researched on the effect of bank competitive strategies on Uniliver, Nigerian concentrating on product differentiation as a means of competitive advantage on organizational performance. The study established that product differentiation has a positive and significant influence on the performance of Unilever Nigeria PLC.

Locally, Njoki (2015) researched on the influence of regulatory enforcement on the connection between strategic decisions and performance of commercial banks in Kenya. The results indicated that regulatory enforcement mediated the relationship between strategic decision influences on the performance of the banks. The research concludes that there is need for appropriate regulations to be developed to guide the sector and the same regulation should evolve with the changes happening in the banking sector. Similarly, Kaaba (2016) researched on the competitive strategies and performance of Kenyan commercial banks and found that local banks need to re-examine their employee training needs with an aim of equipping them with appropriate skills to guide the organization to fully automation of services.

On the basis of the above studies and the fact that interest capping is a new regulation in Kenya, the researcher acknowledges that though attempts has been made to establish the strategies employed by banks under different scenarios, there has been know study that identifies the response strategies that Kenyan banks have employed

to the interest capping regulation. Consequently, this gap lead to the following research question: what response strategies have been adopted by Kenyan commercial banks in response to the law capping interest rates?

1.3 Research Objectives

The objective of the study was to establish the response strategies adopted by commercial banks in Kenya in response to the law capping interest rates.

1.4 Value of the Study

The study will be of great importance as it will add to the existing theories in strategic management, competitive strategies, organizational performance and form a basis for further research on this topic. The study will assist in finding out the connection between competitive strategies and performance of the commercial banks during turbulent times. The appreciation of the concept of an organization competitive advantage would aid the Kenyan to be receptive to changes to the operating environment. The management of the Kenyan banks will be able to understand the various strategies that their competitors are pursuing in the face of the interest capping laws. These strategies will inform them on what other strategies banks outside the country are pursuing and domesticating the same in the Kenyan context. The study will help the banks in identifying their core competencies and how to harness them. This will eventually lead to performance of these banks and give the banks competitive edge in the banking industry.

The study will also add value to the practitioners as they are aware of the competitive strategies but they do not know the reasons some organizations fail to achieve their desired goals. Through this study, they will be able to understand how competitive strategies lead to performance of an organisation which eventually leads to survival.

They will also understand the importance of an organization responding appropriately to the market demands. The findings will also be of great importance to the regulators such as the government and CBK as it will give guidance to develop suitable policies and engage the banks to so that they can concentrate on core competencies. This will improve the overall performance of the financial sector and cases of bank failure of banks will decline.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This section presents literature relating to the impact of interest capping and its influence on firm performance. Main areas that were covered include the theoretical framework that underpins the study. The study discusses the various facets of interest and how it affects the performance among commercial banks in Kenya.

2.2 Theoretical Foundation of the Study

The study was anchored on the Dynamic capability theory (DCT) and the market based theory.

2.2.1 Dynamic Capabilities Theory

The dynamic capability theory (DCT) was advanced by Teece and Pisano (1994) and further refined by Teece, Pisano, and Shuen (1997), and Eisenhardt and Martin (2000). Firm dynamic capabilities are resources both internal and external that enable an organization to integrate, learn and reconfigure its assets and process to achieve improved performance. The theory predisposes that firm level differences in capabilities are rooted on their asset positions such that a firm's future position to change its operating condition is determined by their current stock of capabilities. In addition, firm's processes such as governance structures, resource allocation processes and managerial systems will shape the organizational flexibility and adoptability. Similarly, a firm's capability will be determined by a path taken such that the power of a firm to identify and commit to the path for capability enhancement that lead to competitive advantage is an important resource.

Eisenhardt and Martin (2000) established that dynamic capability view explains the important role of capabilities to reconfigure resources that a firm has at present to cope with the highly changing environment. Therefore in business environments that are fast-changing DCV explains the critical place of dynamic capabilities in explaining an organizations level of competitiveness (Barreto, 2010). This is because, dynamic capabilities are considered as a transformer for translating resources into better performance. According to King and Tucci (2012) established that by incorporating past practices in previous markets, a firm can raise the chance of succeeding in a fresh market hunt, and that the capacity to integrate industry technology during product or service development is an important dynamic capability for new technology-based organizations.

Amit and Schoemaker (1993) while appreciating the step of re-assembling a firms external and internal resources in a rapidly changing industrial setting, they also highlight the need to create a more cost effective process to other opponents that will configure and transform their input into tangible output. Therefore, reconfiguration capability is largely deliberated as a key dynamic capability for monitoring business environment and technology developments, and for an appropriate response action through resource transformation. Similarly, Zhou and Wu (2010) suggest that strategic flexibility, involving the flexible application and reconfiguration of resources, reinforces positive influence of technological capability and thus enhances organizational performance. Therefore, in dealing with dynamic business environments, organizations ought to swiftly react to the market and the strategic maneuvers applied by competitors.

Dynamic capabilities has nonetheless been criticized. In practice for the reason that firms face a trade-off between focusing on dynamic as opposed to operational capabilities. Thus placing a lot of importance on dynamic capabilities may lead to interferences to the efficiency of prevailing operational capabilities. Equally, focusing on operational capabilities may ultimately result in rigidities thus future studies could identify an optimal solution given the degree of environmental turbulence.

2.2.2 Market Based View

Market based view (MBV) is a group of strategic perspectives that focus on a firm's strategy on trends and nature by which the business environment is evolving. Hence, as Schendel (1994) proposed that, the competitive environment in which a firm operates determines its end product strategic position, and performing activities that are similar to other firms, but in ways that are very different. Therefore according to these group of theories, the organizational structure and competitive dynamics environment or industry under which the firm operates, determines a firm's profitability or performance.

The MBV highlights the multifaceted power of institutions on firms and competition level prevailing in a particular industry. Ault and Spicer(2014) outlines institutions humanly generated constraints that influence the structure of the economic, political, and the social interaction of firms within its purview and that in order to limit the effects of institution actions, firms will either pursue relational strategies, infrastructure building strategies or the socio-cultural bridging strategies (Marquis & Qian, 2014). Relational strategies are concerned with the networking relationships and efforts to cultivate and bring about symbiotic between the government and important stakeholders. On the other hand, infrastructure-building strategies focuses on the

absent technological, regulatory, and the physical infrastructures framework that enhance business undertakings while the socio-cultural bridging strategies challenge cultural and population patterns that may deter economic trade development.

The Market-Based View (MBV) sums up various strategy theories belonging to the positioning school and those theories advanced during the industrial organization economics period of development of strategic thinking (Li, Peng & Macaulay 2013). In developing strategy, organizations usually make a complete assessment of their construed competitive position through by assessing of their external environment centered on (Porter, 1985) five forces model. Michael Porter's five Forces framework, currently used by scholars and management, is arguably one of the most pervasive frameworks that have been taught in business school to date (Knecht, 2014). The five forces, according to porter, are threats from substitutes, barriers to entry, suppliers' power to bargain, buyer's bargaining power and degree of competitor rivalry. According to Wang (2014), under market based view; strategy is viewed in the framework of the whole industry and the organizations market position relative to its competitors.

In spite of Market based view developments, it has been criticized of being a responsive and reactive strategy to the external stimuli. It is based on defensive approach to strategic thinking as a consequence impeding innovations.

2.3 Strategic Responses and Business Environment

The literature on the various strategic responses that can be employed by a firm can be synthesized into two perspectives. Romanelli and Tushman (1986) highlight the need for a firm to consider its external control when developing a strategy and the

need to consider environmental constraints in coming up with an appropriate strategic response. Another approach is the strategic choice; this viewpoint emphasizes the ability of firms to select and interpret their environments, respond to its internal variables and modify the environmental components that inhibit its operations (Hitt and Tyler, 2011). Indeed, there has been a convergence of views that both viewpoints are important in the appreciating the firm strategic responses and adaptation.

According to Porter (1998), firms develop appropriate strategies in order to survive in a turbulent business environment. By having an appropriate strategy, a firm can efficiently manage its costs of operations, innovate new products, effectively implement projects and subsequently have superior market. According to Porter (2008) the five forces that bring the need to establish appropriate strategy by a firm include the power of buyers and power of suppliers, threat to entry, threat to substitutes and increased rivalry among firms. The effect of the five forces is different from industry to industry and thus a company needs have a separate strategy for each industry. Consequently, the understanding of the correct forces that affect an industry is the starting point for developing an appropriate strategy.

On the other hand, Kim and Mcintoch (2002) acknowledged that rapid technological changes and innovations, ease of entry by large foreign competitors, and the failure of traditional industry expose new organizations to unpredictable competitive forces. As a result business entities that operate in dynamic market have to handle these unforeseen events by adopting appropriate strategies that allow rapid configuration and deployment of resources to deal with the new environmental changes. Manimala (2011) assert that a firm's strategic response aims at improving the firm's product quality, cost reduction, productivity and culture-building, notwithstanding finding new partnerships and assistance from across the boundaries.

The importance of a firm's strategy has seen different topologies being advanced to explain what is perceived to be the best strategies to be undertaken under different environment settings. Porter (1980) advanced three main strategies which when adopted can lead to higher level of competitiveness to a firm. Porter's main strategy typologies of cost leadership, differentiation and focus are popular among managers. Focused differentiation and cost leadership strategies focus on narrow market segments or product path and are suitable for firms with the limited assets in small niche markets (Ormanidhi and Stringa, 2008). Cost leadership strategy on the other hand is a combined set of plans undertaken to deliver services or produce goods with unique features that are sold to consumers at the lowest cost base in comparison to completion.

Miles and Snow (1978) developed three types of strategic direction that may be effective for a small business, referred to by the authors as the defender, the prospector, and the analyzer. The defender type strategy involves the developing of a narrow market or product niche and the establishments of barriers to protect it. In contrast the prospector strategy is driven by constantly scanning the environment for new opportunities, be they new products, services or markets. This strategy will therefore be an appropriate one for an entrepreneur who has a predisposition to identify new opportunities. Finally, the analyzer is a combination of the defender and prospector in that it simultaneously defends its niche while scanning for new opportunities

Cao and Pederzoli (2013) noted that business entities operating under an environment that has increased regulation can either choose to adhere to government regulations and rules; diversify its operations to a geographical location based on favourable

regulation to the firm, lobby for changes in existing regulation or by creating rules and regulations that benefit them. Conformance is thus a suitable strategy. Zimmerman and Zeitz, (2002) argument that a firm might also manipulate the environment by making changes that are not consistent between the firm and its operating environment. This strategy may include lobbying to manipulate their regulatory framework or environment. The other strategy will be the reducing the impact of political risk in the long-term through adhering to proper governance practices and transparency, reducing procedures and regulations while promoting economic growth. Child and Tsai (2005) note that a firm can manipulate its environment by entering into partnership with other firms, a single entity would lack the muscle and resource power to considerably alter its operating environment.

2.4 Empirical Studies

Several studies have been undertaken to establish the strategic responses of organizations in relation to the turbulent business environment they operate in. These studies, spanning different countries, cultures and social settings, have however arrived at varied conclusions. Sarac, Ertan and Yucel (2014) sought to establish how business strategies predict firm performance among the companies listed at Borsa Istanbul 100 Index. The organizations were categorized into 3 strategic typologies with independent variables investigated being; the effect of firm industry, size and strategy on firms performance as measured by return on investment (ROA). The variables were analyzed using logistic regression and ANOVA and. The study findings showed that there is no significant difference in performance (ROA) between firms that pursued the prospector, defender or analyzer strategies. Further, the findings concluded that although firm size and strategy alone does not affect

performance, logical regression results confirmed that interaction of firm size and firm strategy significantly enhanced performance.

Cao and Pederzoli (2013) investigated the strategic response of international the retailers' to the institutional framework of emerging market with reference to multiple cases of Chinese firms. Through the use of in depth interviews with top management and based on grounded the theoretical perspective over their firms five year operating period, the results were that the choice of the international retailer's strategic options and position are usually determined by public policy-orientation, dynamism, leadership position and pragmatism, in the market notwithstanding decentralization of decision making. The physical proximity between the host country and home country and is also huge contributor. In addition, the findings concluded that international retailers are able to respond better to institutional environment and endeavor to develop and create a shared added value.

Teece (1980) explains that multi-product firms can achieve better economies of scale if the production of more than one products depends on the same production know how and when a specialized indivisible resource is used to manufacture two or more goods. Bettis, Richard & William (1981) opine that strategists have to base their diversifications decisions on the future expectations of the firm. Corporate strategists can evaluate as to whether a particular diversification move is capable of increasing shareholder wealth. A firm that is interested in venturing into any form of diversification could pursue strategies of: entering a new market, perusing retrenchment and restructuring, divestiture and liquidation, related diversification, unrelated diversification or corporate turnaround. A firm that utilizes activity-cost

chain interrelationships can seize the benefits of strategic fit to achieve performance level that is greater than what can be earned pursuing independent strategies.

Innovation is a very important source of scale and scope of economies. According to Schumpeter (1934) innovation gives firms temporary monopolies because they have no competitors on the same play field until a firm duplicates the innovation or the products/service. Research and Development (R&D) is part and parcel of innovation which enables the first industry players to spread the fixed costs of R & D over many customers. This gives industry pioneers a competitive edge over new entrants although the latter is likely to incur fewer costs in its R & D because they generally put less effort to legitimize its innovation in the market.

Mwangi and Ngahu (2015) investigated the influence of central bank of Kenya lending rates towards loan uptake by commercial banks customers in Eldoret, Kenya. The research applied descriptive research design and targeted commercial bank clients using a sample of size 341 with each bank sampling 56 individuals. Stratified simple random sampling technique was used with closed ended questionnaires used in data collection. The conclusion of the research was that there exist a significant influence between lending rates and loan uptake by commercial banks customers and therefore concluding that lending rates highly influences loan uptake by bank clients. Consequently, the study recommended that there is need for reduction of lending rates in order to increase loan uptake by bank clients.

Kibet, Koyier and Wachira (2017) sought to evaluate strategic responses to gaining competitive advantage in Cement industry firms in Kenya. By employing descriptive

research design and targeting management staff of selected cement firms, the study findings indicated that existence of high level of competition between the cement manufacturing companies necessitated the need to put in place strategies to counter the competition to achieve competitive advantage. The popular strategies adopted by the cement firms included innovation, integration, outsourcing and diversification.

2.5 Summary of Literature and Research Gap

The literature covered as well as the empirical studies undertaken have reinforced the need for business units as well as non-profit organizations to continuously scan their operating environments with a view to identifying market forces that will impact on their operating conditions. The studies reinforced the existing position that organizations operate in an open society whose actions are affected by other actors in the society. The environmental changes that were identified to affect firms operations include technological changes, the collapse of traditional industry boundaries and ease of entry by external competitors. In addition, rivalry among firms, power of suppliers and buyers and threat to substitutes, among other changes exerted increased pressure to business units.

Several local as well as international empirical studies have been undertaken to attempt and identify various strategic responses undertaken by various firms. The commercial banks have had their fair share of studies. For example, Kibet *et al.* (2017); and Mwangi and Ngahu (2015) sort to establish response strategies to Kenyan firms as a consequence to changes in business environment. However, the interest capping regulation to Kenyan banks came into effect in August 2016 and the effect of the same is presently being felt by the commercial banks. Consequently, there is need to find out the strategies that the Kenyan commercial banks have adopted under the interest capping regulation.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter covers the methods and techniques that were used to carry out the research. It covers the research design, target population, data collection techniques and methods to be used for analyzing and presenting the data.

3.2 Research Design

Burns and Grove (2003) defined a research design being a plan for conducting a research with total control over elements that may impact on the validity of the study. The research employed the cross sectional descriptive survey. Cross sectional surveys aims at determining the frequency or level of a specific attribute of population at a particular point in time (Jorde, 2008).

According to Saunders et al., (2003) descriptive studies are used to obtain evidence regarding the existing status of phenomena "what exists" with respect to variables or the condition in a state. This study adopted a cross sectional survey of all the commercial banks in Kenya given that all the banks studied at the same point in time. The study also used the descriptive survey design as it will sought to answer the question of what is going on among the commercial banks which is an important aspect to consider for social researchers.

3.3 Population of the Study

Mugenda, (2003), defined population as, the whole group of items or persons under consideration in any field of analysis and have a common attribute. According to the Central Bank of Kenya (2016), there were 42 commercial banks operating in Kenya

(Appendix II). This study was conducted using a census targeting all the commercial banks in Kenya since the population of the study is small.

3.4 Data Collection

Primary data was collected using a semi-structured questionnaire. The questionnaire was administered to the senior management in the commercial banks. The researcher targeted one respondents per bank and included either the directors, head of departments or senior managers in finance or business development departments. The researcher personally administered the questionnaires to the respondents with the help of research assistant. Drop and pick method was used to collect the questionnaires.

3.5 Data Analysis

The data was refined for quality through correction of detected errors and omissions. Thereafter, the data was coded to facilitate categorization. Descriptive statistics measurements such as percentages, means, and frequency distributions were used to evaluate the responses. Presentation of the findings was made using tables, pie charts and bar graphs. Pearson product model was be used to establish the strength of each of the response strategies employed by commercial banks.

CHAPTER FOUR

DATA ANALYSIS, RESULTS AND DISCUSSION

4.1 Introduction

This chapter presents the analysis, findings and the discussion with regard to the objectives. A total of 42 questionnaires were issued out. The completed questionnaires were edited for completeness and consistency. Of the 42 questionnaires distributed, 34 were returned. The returned questionnaires' represented a response rate of 80.9% and this response rate was deemed to be adequate in the realization of the research objectives (Mugenda and Mugenda, 2003).

4.2 Demographic Characteristics

The demographic information considered in this study included highest level of education, length of service with the commercial bank, duration of commercial banks operation and number of employees

4.2.1 Level of Education

The study sought to analyse the level of education of the respondents. The results are presented in Table 4.1.

Table 4.1 Level of Education

Level of Education	Frequency	Percent	Cumulative Percent
Graduate	18	52.9	52.9
Post graduate	16	47.1	100.0
Total	34	100.0	

Source: Research Data (2017)

The result in Table 4.1 indicates that 52.9% of the respondents were graduate level while 47.1% had a post graduate education qualification. Cumulatively all the respondents had attained university level of education.

4.2.2 Length of Continuous Service

The study also sought to know the length of continuous service of which the respondents had worked with the commercial banks. The results on the respondent and bank information are presented in Table 4.2.

Table 4.2 Length of Continuous Service

Length of Continuous Service	Frequen cy	Percent	Cumulative Percent
Less than 5 yrs.	4	11.8	11.8
5-10 yrs.	8	23.5	35.3
over 10 yrs.	22	64.7	100.0

Source: Research Data (2017)

The findings was that majority of the respondent (64.7%) had worked in the banks for over 10 years while 23.5% had worked for a period between 5-10 yrs. Cumulatively, over 88% of the respondents had worked in the banks form more than 5 years and coupled with the fact that all of the respondents had university level of education, ceteris paribus, they will be presumed to be knowledgeable to be knowledgeable to answer appropriately the research questions.

4.2.3 Duration of Operation in Kenya

The study sought to examine the duration of commercial banks operation in Kenya. The results are presented in Table 4.3.

Table 4.3 Duration of Operation in Kenya

Duration of Operation in Kenya	Frequency	Percent	Cumulative Percent
11-15 yrs.	4	11.8	11.8
16-20 yrs.	4	11.8	23.6
Over 25 yrs.	26	76.4	100.0

Source: Research Data (2017)

To assess the bank size and level of operations in Kenya, the researcher sought to determine the number of years that the bank had operated in Kenya as well as the number of employees that it had. The results indicate that 76.4% of the commercial banks had been in operated in Kenya for over 25 years while 11.8% stated that the commercial banks had between 11-15years. In total therefore, over 90% of the banks sampled had operated for over 10 years in Kenya, implying that they have faced the interest capping law and consequently come up with appropriate strategies.

4.2.4 Number of Employees

The demographic information considered in this study included number of employees.

The results are presented in Table 4.4.

Table 4.4 Number of Employees

Number of Employees	Frequency	Percent	Cumulative Percent
201-499	6	17.6	17.6
Above 500	28	82.4	100.0
Total	34	100.0	

Source: Research Data (2017)

With regard to the question of the size of the workforce, the results are that 82.4% of the commercial banks have over 500 employees while 17.6% of the commercial banks have between 201-499 employees. Taken together, the findings reveal that majority of the banks had been in operation for long period and also have a large branch network such that they have employed a high workforce.

4.3 Strategic Responses

This study sought to establish the various strategies that the Kenyan commercial banks had initiated in response to the interest capping interest rates. The range was ‘not at all (1) to ‘very great extent’ (5).

4.3.1 Conformance Strategy

The study sought to establish the extent to which commercial banks have adopted the conformance strategy; the findings are presented in Table 4.5.

Table 4.5: Conformance Strategy

Statement	N	Mean	Std. Deviation
The bank have endeavored to satisfy consumer preference by adhering to central bank guidelines and other relevant Laws set	34	4.02	0.90
The bank has opened up new branches to increase the customer reach and deposit volume	34	3.72	0.99
The bank has undertaken an audit of its top management to ensure corporate governance principles are adhered to	34	3.51	1.05
Collaboration with other financial sector players has reduced the bank operating costs	34	3.44	1.09
Average Score	34	3.67	1.01

Source Research data (2017)

The result in Table 4.5 reveals that the common strategy with regard to the conformance strategy among the banks is the bank endeavoring to satisfy consumer

preference by adhering to central bank guidelines and other relevant Laws set (M=4.019, SD=0.901. In addition, the results show that the banks, to a moderate extent, have opened up new branches to increase the customer reach and deposit volume (M=3.715, SD=.992) and also to undertaken an audit of its top management to ensure corporate governance principles are adhered to (M=3.511, SD=1.054). The low standard deviation in the responses indicates that there was concurrence among the respondents on the questions with regard to the conformance strategies employed by the banks in response to the interest capping laws.

4.3.2 Adaptation Strategy

Adaptation strategy is concerned with findings new ways of working with the new situation that affects organizations operations. The findings on the various adaptation strategies that the banks had implemented are presented in Table 4.6.

Table 4.6: Adaptation Strategy

Statement	N	Mean	Std. Deviation
The bank is working with other partners in the banking sector to leverage its synergy and be able to concentrate in areas it has competitive advantage.	34	4.07	0.99
The bank has decentralized its services to improve its flexibility and agility	34	3.86	0.91
The bank has strengthened its internal controls and embraced good governance principles to reduce political risk	34	3.80	0.90
Cost controls have been implemented to manage operating costs	34	3.63	1.00
The bank management has created an organizational system that is perceived by employees as fair, caring and open	34	3.49	1.04
Average Score	34	3.77	0.97

Source Research data (2017)

The finding in Table 4.6 indicates that as one of the adaptation strategies, the banks were found to be working with other partners in the banking sector to leverage their synergy and concentrate on areas it has competitive advantage (M=4.067, SD=0.989) as well as decentralized its services to improve its flexibility and agility (M=3.852, SD=0.909). Similarly, the banks were found to have strengthened their internal controls and embraced good governance principles to reduce political risk (M= 3.796, SD=.898) in addition to creating an organizational system that is perceived by employees as fair, caring.

4.3.3 Strategic Lobbying

The study sought to establish the extent to which strategy can be employed by the commercial banks by lobbying the various government institutions that are able to change the existing rules to review the interest capping laws. The findings on the various actions under this strategy are presented in Table 4.7.

Table 4.7 Strategic Lobbying

Statement	N	Mean	Std. Deviation
The bank together with other players in the industry have been lobbying the government, to review the interest capping rates law through its umbrella body the Kenya bankers association	34	3.95	0.86
The bank has been committed to public interest and has pursued Philanthropic and other corporate social responsibilities.	34	3.76	0.87
The bank has collaborated with other well established organizations to manage the market conditions.	34	3.35	1.05
To influence the government's decision making, the bank has cooperated with government regulations and paid taxes in time	34	3.15	1.11
Average Score	34	3.55	0.97

Source: Research data (2017)

The result in Table 4.7 reveal that as one form of lobbying with an aim of changing environmental demands, the banks together with other players in the industry have been lobbying the relevant government institutions, to review the interest capping rates law through its umbrella body the Kenya bankers association (M=3.952, SD=.856) and at the same time undertaken philanthropic activities and other corporate social responsibilities (M=3.759, SD= 0.867) with a view to endearing itself to the general public. The findings on the strategies show that there was high level of uniformity among the respondents on their answers to these questions by virtue of the low standard deviations of the responses. Similarly, one other action undertaken by the banks with regard to their lobbying strategy is to collaborate with other well established organizations to manage the market conditions (M=3.352, SD=1.049).

4.3.4 Strategic Adaptation to the Environment

The other strategy that a bank can pursue is to adapt its operations to the changes in the operating environment. This came on the realisation by the banks that the law introduced was a long term initiative by the Government and as a result the banks needed to adapt its working operations. The findings of this strategy are presented in Table 4.8.

Table 4.8 Strategic Environmental adaptation

Statement	N	Mean	Std. Deviation
The bank has introduced new products and services to increase its income streams that were not present before the interest capping law came into effect.	34	4.04	0.56
The bank is perusing productivity and cost cutting activities aimed at driving efficiency and effectiveness	34	3.82	0.98
The bank has recently automated its operations and introduced mobile and online banking platforms	34	3.79	0.91
The bank had adopted large scale procurement, changed its purchase procedures and streamlined the purchase process.	34	3.57	0.89
The bank has introduced agency banking system recently	34	3.08	0.90
Average Score	34	3.66	0.85

Source: Research data (2017)

The finding in Table 4.8 reveal that the common bank adaptation strategy is to introduce new products and services to increase its income streams that were not present before the interest capping law came into effect (M=4.037, SD= 0.558) well as undertaking productivity and cost cutting activities aimed at driving efficiency and effectiveness in the bank operations (M= 3.822, SD= 0.980). In addition, the banks were found to have automated its operations and introduced mobile and online banking platforms that are convenient to the customers and also introduced agency banking system (M=3.082).

4.4 Correlation Analysis

A Pearson correlation analysis to indicate a degree of association between the explanatory variables was also carried out. Consistent with Shin and Soenen (1998), the spearman's rank correlation coefficients are on the upper right triangle while the

Pearson product moment correlation coefficients are on the lower left triangle. Pearson's Correlation analysis is used to establish the relationship between variables such as those between the conformance strategy, adaptation strategy, Strategic lobbying and changing environmental demands and adaptation to the environment. The results on the correlation between the variables was found by establishing the mean of each of the strategy and the resulting are presented in Table 4.9.

Table 4.9: Correlations Analysis

		Conformance strategy	Adaptation strategy	Strategic Lobbying	Strategic Environmental adaptation
Conformance strategy	Pearson Correlation	1	.667	.518**	.398*
	Sig. (2-tailed)		.001	.000	.014
Adaptation strategy	Pearson Correlation	.667	1	.016	.005
	Sig. (2-tailed)	.001		.898	.965
Strategic Lobbying	Pearson Correlation	.518**	.016	1	.746**
	Sig. (2-tailed)	.000	.898		.000
Strategic Environmental adaptation	Pearson Correlation	.398*	.005	.746**	1
	Sig. (2-tailed)	.014	.965	.000	

Source: Research Data (2017)

From the finding in the Table 4.9, there exists a strong positive correlation between the bank conformance strategy and adaptation strategy of $r=0.667$ and the relationship were found to be statistically significant (0.001) which is less than 0.05. In addition, there was a weak correlation between strategic lobbying to changing environmental demands and adaptation strategy of $r = 0.016$ and this association were not significant at the 5% significance level. However, the association between environmental adaptation and the banks' quest to change environmental demands was found to have a strong correlation of $r= 0.746$.

4.5 Discussion of the Findings

The study set to explore the strategies adopted by commercial banks in Kenya in response to the law capping interest rates. The findings have demonstrated that most of the commercial banks have been in operation for over 25 years and the staff length of continuous service with the commercial bank is high implying that the respondents had the requisite experience in the banking industry and academic qualification to be a valuable source to the research.

The introduction of the interest capping law in Kenya in 2016 creates an increased challenge to the Kenyan commercial banks because it fails to consider the risk characterized of every borrower and instead assumes that all borrowers have the same risk level and therefore should be charged an interest rate that is above the Treasury rate by 400 basis points. This move was also against the liberalized market dictates which allows the principle of demand and supply to determine product and service prices (Zhou & Poppo, 2010). Pursuant to the interest rate capping law, banks have come up with different strategies. Cao and Pederzoli (2013) suggest that business entities operating under an environment that has increased regulation can either choose to adhere to government regulations and rules; diversify its operations to a geographical location based on favorable regulation to the firm, lobby for changes in existing regulation or by creating rules and regulations that benefit them.

Conformance strategy entails the banks adhering to government rules and regulations with regard to the interest rate capping laws. The findings were that the Kenyan banks have endeavoured to satisfy consumer preference and expectations by adhering to central bank guidelines and other relevant laws set under Banking Act, Banking (Amendment) Bill. One other strategy that was noted to have been employed by the banks was increasing observance of corporate governance tenets whereby the banks

have instituted increased vetting to the top management in order to ensure that government regulations are observed and upheld in all times of their operations.

This findings of the need for organizations top management to observe the rules of corporate governance has been supported by Teece (2007) who opined for internal governance to be realised through internal controls to avoid any potential abuse of power that might cause banks to violate local laws and regulations. In addition, Huang and Sternquist (2007) support the need for banks to pursue normative conformance, through satisfy local consumer preferences and follow local retail practices because customers will remain to demand for personalized services that meet their taste and preference (CBK, 2014).

The banks were also found to have employed adaptation strategies through working with other partners in the banking sector to leverage their synergy and concentrate on areas it has competitive advantage. The findings show that banks have had to identify a market whereby their risk profile is low and minimise their default risk. Porter and Kramer (2011) asserted the need for organizations in the same industry to leverage each other operations and by identifying ways in which they can work together for the common good. The findings also show that banks had increased the use of the credit referencing bureaus to try and identify borrowers that have failed in meeting their obligations in other institutions. As the dynamic capabilities theory posit, the bank dynamic capabilities predisposes that firm level differences in capabilities are rooted on their asset positions such that a firm's future position to change its operating condition is determined by their current stock of capabilities.

As Mweiga (2016) point out, banks will need to review their business plans and change to adopt to the new environment. They will have to break down customers into risk categories and increase the prominence of credit reference bureaus so that

they provide both bad and good information. Some banks will definitely lose businesses that lack collateral to savings and credit cooperatives and to microfinance institutions. Hitt and Tyler, (2011) further emphasized on the need of firms to select and interpret their environments, respond to its internal variables and modify the environmental components that inhibit its operations. Through the automation of its processes, the findings show that banks have limited the number of its branch network and instead increased the agency banking avenue of serving its customers. In addition, it was found that banks through their umbrella body, Kenya Bankers Association have been lobbying the government, to review the interest capping rates law. The study established that the Kenyan banks have introduced new products and services to increase its income streams that were not present before the interest capping law came into effect. It also found that bank is perusing productivity and cost cutting activities aimed at driving efficiency and effectiveness. Zimmerman and Zeitz, (2002) argument that a firm might also manipulate the environment by making changes that are not consistent between the firm and its operating environment.

CHAPTER FIVE: SUMMARY OF FINDINGS, CONCLUSION, LIMITATIONS AND RECOMMENDATIONS

5.1 Introduction

This section covers the summary of findings, conclusion, limitations and recommendations in line with the topic of study which is to establish the strategies adopted by commercial banks in Kenya in response to the law capping interest rates.

5.2 Summary of Findings

The findings show that majority of the banks in Kenya have been in operation for more than 15 years and the respondents that participated in the research were all graduates and have worked in the sector for more than five years. Consequently, they were deemed to be versed with the research subject area and therefore valuable to the attainment of the research objectives. The study found out that commercial banks have adopted various strategies to cope with the interest rate capping law notably, conformance, adaptation, lobbying with a view to change environmental demands and also adaptation of the environment strategies.

The study established that banks together with other players in the industry have been lobbying the government, to review the interest capping rates law through its umbrella body the Kenya bankers association. The findings were that the Kenyan banks have endeavored to satisfy consumer preference and expectations by adhering to central bank guidelines and other relevant laws set under Banking Act, Banking (Amendment) Bill. Moreover we noted that banks have an increase observance of corporate governance tenets. The study found that banks have had to break down customers into segments to match their risk exposure categories and this has led to a decreased lending to customers and firms that are perceived to have a high rate of

interest rate. In addition, the banks were found to have increased the use of the credit reference bureaus so that they provide both bad and good information about the potential borrowers and coupled with the bank has introduced new products and services to increase its income streams that were not present before the interest capping law came into effect, the banks have diversified their income generating activities.

5.3 Conclusion

The research examines the response strategies employed by Kenyan commercial banks to the introduction of the interest rate capping law. From the findings, it was found that the banks adaptation strategy was the most preferred strategy by the commercial banks and this could be because of the enlightened customer base that are able to identify a variation in or a non-adherence to the laws by the banks. In this regard, banks should consider the laws introduced to be as a result of them not being sensitive to the plight of the consumers in the earlier period and it is only through introduction of regulations that their actions can be controlled. In this context, it is necessary that banks be responsive to the needs of their customers.

The research findings reinforced the need for the banks to work together as a sector and attempt and change the laws that inhibit their operations and to this regard, the use of the lobby groups to act on their behalf in parliament and other forums was found to be more effective. Further, the leveraging of one another activities through lending to the respective firms and utilizing a common infrastructure outlet to roll out their products will be a more effective strategy than individual banks development their own infrastructure which will be more expensive. Banks should consider using

more of the digital media and self-service technologies to offer their services to the customers.

5.4 Limitations of the study

The study focused on key corporate executives and decision makers who are very busy and scheduling appointments was a challenge which resulted in rescheduling meetings in some cases. However we managed to obtain the information we required. Additionally, the sample came from a single industry and hence the generalizability of the results is limited.

Secondly, the results represent a cross-sectional position in time and do not capture the ability of some of the participants to be motivated by individual interests as is possible with qualitative methods. Further, it is possible that the common methods bias might have arisen since a single respondent answered all questions per bank though the same was not captured but at the same time it cannot be completely ruled out.

5.5 Recommendations for Policy and Practice

The study established that conformance strategy has enabled the commercial banks to satisfy consumer preference by adhering to central bank guidelines and other relevant Laws set. It is recommended that the commercial banks ought to conform to the regulations to attract customers. The Central Bank as a regulator should likewise be sensitive to the operating environment and should be flexible in setting the rules in order to attract investment and support the growth in the banking industry.

Secondly, the research findings show that there exists a link between a firms' strategic activities and their strategic responses and therefore, bank managers should

participate in institutional development through lobbying and diversify their product range to especially the youth who are apt in using the mobile technology to access services and this improves the bank level of efficiency in operations.

The findings also identify the strategic choices in Kenyan commercial banks and therefore, they need to pay special attention to these specificities when taking strategic decisions. For example, the banks need to be sensitive to the concern of their customers with regard to the perceived high interest rates. In addition, although Kenya is transitioning progressively towards a market economy, it still possesses some unique characteristics that challenge the way foreign banks conduct their businesses and therefore, banks should actively monitor and learn from their local competitors to survive and succeed. Similarly, the study recommends that the Central Bank of Kenya, as a regulator, should endeavor to promote a favorable operating environment through advising according the government to pass appropriate legislations.

5.6 Suggestions for Further Research

This study opens up the path for other quantitative studies on a larger scale, for example to understand how institutional pressure and process evoke business strategic actions, which in turn, affect firm performance. This study focused only on the key strategies adopted in the banking sector, there is opportunity to study other factors such as the firm internal capability and resources which may also impact organizational performance.

Furthermore, the Interest capping law is still at its infancy stage in Kenya and as a result there is room for further research, as the full effect of the law will be realized in the long run. Further research may also be done to measure the effectiveness of the

strategies adopted by a firm to the organizational overall performance in a regulated financial environment.

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Appendix I: Licensed Commercial Banks in Kenya

1. ABC Bank (Kenya)
2. Bank of Africa
3. Bank of Baroda
4. Bank of India
5. Barclays Bank of Kenya
6. CfCStanbic Holdings
7. Charterhouse Bank Limited (Under - Statutory Management)
8. Chase Bank Kenya (In Receivership)
9. Citibank
10. Commercial Bank of Africa
11. Consolidated Bank of Kenya
12. Cooperative Bank of Kenya
13. Credit Bank
14. Development Bank of Kenya
15. Diamond Trust Bank
16. Ecobank Kenya
17. Equity Bank
18. Family Bank
19. Fidelity Commercial Bank Limited
20. First Community Bank
21. Giro Commercial Bank
22. Guaranty Trust Bank Kenya
23. Guardian Bank
24. Gulf African Bank

25. Habib Bank
26. Habib Bank AG Zurich
27. Housing Finance Company of Kenya
28. I&M Bank
29. Jamii Bora Bank
30. Kenya Commercial Bank
31. Middle East Bank Kenya
32. National Bank of Kenya
33. NIC Bank
34. Oriental Commercial Bank
35. Paramount Universal Bank
36. Prime Bank (Kenya)
37. Sidian Bank
38. Spire Bank
39. Standard Chartered Kenya
40. Trans National Bank Kenya
41. United Bank for Africa
42. Victoria Commercial Bank

Source: Central Bank of Kenya (CBK) report 2016

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APPENDIX I: LETTER OF INTRODUCTION

Date.....

To.....

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Dear Sir/Madam,

RE: COLLECTION OF RESEARCH DATA

My name is **Rodgers Kiptoo Ragor** and an MBA student in Business Administration – Strategic Management Option at The University of Nairobi. Currently, I am carrying out a research on the “Strategies adopted by Commercial Banks in Kenya in Response to the Law Capping Interest Rates”. I am in the process of gathering relevant data for this study. You have been identified as one of the collaborators and respondents in this study and kindly request for your assistance towards making this study a success.

I therefore kindly request you to take some time to respond to the attached questionnaire. I wish to assure you that your responses will be treated with confidentiality and will be used solely for the purpose of this study.

I thank you in advance for your time and responses. It will be appreciated if you can fill the questionnaire within the next 5 days to enable early finalization of the study.

Yours Sincerely

Rodgers Kiptoo Ragor

Student Reg No. D61/84143/2015

APPENDIX II: QUESTIONNAIRE

Section A: Demographic Characteristics of Respondents

1. Name of the commercial bank (Optional).....
2. What is your highest level of education qualification?
 - a) Tertiary College ()
 - b) Graduate ()
 - c) Post Graduate ()
3. Length of continuous service with the Commercial Bank?
 - a) Less than five years ()
 - b) 5-10 years ()
 - c) Over 10 years ()
4. How long has your commercial bank been in operation in Kenya?
 - a) Under 5 years () b) 6 – 10 years ()
 - c) 11 – 15 years () d) 16 – 20 years ()
 - e) Over 25 years ()
5. How many employees are there in your bank?
 - a) Less than 200 ()
 - b) 201 – 499 ()
 - c) Above 500 ()

Section B: Strategic Responses

6. The following are strategic responses that your bank can pursue to the introduction of the interest capping law in Kenya. Please indicate the extent to which the strategies have been adopted by the bank. Use 1-Not at all, 2-Small extent, 3-Moderate extent, 4-Great extent and 5-Very great extent.

Conformance Strategy	5	4	3	2	1
The bank has opened up new branches to increase the customer reach and deposit volume					
The bank has undertaken an audit of its top management to ensure corporate governance principles are adhered to					
Collaboration with other financial sector players has reduced the bank operating costs					
The bank have endeavored to satisfy consumer preference by adhering to central bank guidelines and other relevant Laws set					
Adaptation Strategy					
The bank has decentralized its services to improve its flexibility and agility					
The bank is working with other partners in the banking sector to leverage its synergy and be able to concentrate in areas it has Competitive advantage.					
Cost controls have been implemented to manage operating costs					
The bank has strengthened its internal controls and embraced good governance principles to reduce political risk					
The bank management has created an organizational system that is perceived by employees as fair, caring and open					
Strategic lobbying					
The bank together with other players in the industry have been lobbying the government, to review the interest capping rates law through its umbrella body the Kenya bankers association					
To influence the government's decision making, the bank has cooperated with government regulations and paid taxes in time					
The bank has been committed to public interest and has pursued philanthropic and other corporate social responsibilities					
The bank has collaborated with other well established organizations to manage the market conditions					
Environment strategic adaptation					

The bank has introduced new products and services to increase its income streams that were not present before the interest capping law came into effect					
The bank has recently automated its operations and introduced mobile and online banking platforms					
The bank had adopted large scale procurement, changed its purchase procedures and streamlined the purchase process					
The bank has introduced agency banking system recently					
The bank is perusing productivity and cost cutting activities aimed at driving efficiency and effectiveness					

7. What other strategy has been adopted by the bank (not covered above) in the face of interest capping law.

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THANK YOU SO MUCH FOR YOUR TIME