STRATEGIC RESPONSES TO CHANGING ENVIRONMENTAL CONDITIONS: CASE OF CENTRAL BANK OF KENYA

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Declaration

I, the undersigned declare that this is my original work and has not been submitted to any other college, institution or university other than University of Nairobi for academic purposes.

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This project has been presented for examination with my approval as the appointed supervisor.

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Dedication

To my sons, Kenneth and John.

Acknowledgement

I wish to acknowledge my supervisor Mr. Duncan Ochoro for his valuable guidance towards the completion of this project, my family for their encouragement and continued support and the respondents for the information provided.

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Abstract

An organization does not operate in a vacuum but in business environment which is external to it and has effects on its functions/operations. The changes taking place outside the organization will affect its main function and its strategies. The objective of the case study was to examine and document strategic responses by Central bank to changes in the external environment. The case study was conducted by carrying out in-depth interviews with senior managers. The study confirmed that Central bank operates in a rapidly changing environment characterized by many challenges which it cannot run away from in spite of its unique position as a regulator of the banking industry. The study established several responses by Central bank which include restructuring of business processes, downsizing of the staff compliment, modernization of facilities and embracing of new technology which includes computerization among others.

It is recommended that a similar study should be carried out to establish how regulators of other sectors in the economy have responded to changes in the environment brought about by globalization and liberalization.

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CHAPTER ONE
INTRODUCTION

1.1 Background

1.1.1 Business Environment

An organization does not operate in a vacuum but in a business environment which is external to it and has effects on its operations. The external environment is dynamic and keeps changing posing new challenges in terms of opportunities and threats for an organization. Understanding this dynamism or environmental turbulence is very important because an organization on a continuous basis has to make strategies to respond to the new challenges posed in order to survive. Innovations and strategic responses to the environmental changes is the only guarantee to continued existence of organization/firms. (Pearce and Robinson, 1991)

An environment can be defined as anything which surrounds a system. Therefore, the business environment is anything which surrounds the business organization. It affects the decisions, strategies, processes and performance of the business. The micro environment consists of different types of stakeholder's i.e customers, employees, suppliers, board of directors and creditors. The macro environment consists of factors which are beyond the control of the business namely Political, Economic, Social and Technological (PEST.) (Pearce and Robinson, 1991)

Changes in the micro environment will directly affect and impinge on the firm's activities. Changes in the macro environment will indirectly affect the business but will nonetheless affect it. Changes in the environment are brought about by the following factors, changes in consumer tastes, economic changes, and changes in technology, change in government policies, political changes and liberalization. Organizations respond to these changes by coming up with strategies which will ensure sustainable strategic advantage.

Environmental Changes

The external environment is largely uncontrollable and very wide in scope. This is significant to an organization because changes brought by the external environment are uncontrollable and require to be responded to otherwise the organization will experience a strategic misfit and success will be difficult. The success of every organization is therefore determined by its responsiveness to the environment. To be able to retain competitive advantage, organizations need to examine their environment both external and internal and respond accordingly. (Porter 1985) .Available knowledge reveals that changes in the environment require new strategies which in turn call for reformed organizational capabilities. Organizations must adopt their strategies to new environment. (Ansoff and Mc Donnell, 1990)

According to Thompson and Strickland (1993) it is necessary for organisations to use scanning techniques so as to predict environmental changes. Such scanning techniques involve studying and interpreting the social, political, economic and technological events in order to identify trends that could affect the industry.

The Kenyan business environment has been changing over the years. The changes have been in the areas of liberalisation of the economy, globalization, price controls and introduction of new government regulations. These changes have affected the business operating environment regardless of the sector in which it operates. It is now imperative for organisations to continuously adapt their activities in order to survive in the current turbulent environment that is constantly changing (Mittra 2001) The changes that affected the environment in Central bank during the period of liberalization were political legal and involved the removal of all controls that were embedded in the economy. Through a government legislation price and foreign exchange controls were removed paving the way for the liberalization of the economy.

One of the primary functions of effective management is to organize and use the available resources in ways which minimize the impact of environmental threats and pressures on the organization. (Johnson and Scholes, 2002). Organizations must adapt to their environments if they are to remain viable. To maintain and maximize long-term effectiveness, organizations need to develop the capability not only to cope with daily events in the environment, but also to cope with external events that are both unexpected and of critical importance (crises). For many organizations crises are unique and rare events. However, in many industries crises may be a regular feature of corporate life. Consequently, a central issue in the process of organizational adaptation is not only coping with uncertainty, but understanding situations where uncertainty can degenerate into a crisis.

1.1.2 Strategic Response

Strategy refers to the machinery of the resources and activities of an organization to the environment in which it operates (Johnson and Scholes 2002). According to Ansoff and McDonnell (1990), it is through Strategic management that a firm will be able to position and relate itself to the environment to ensure its continued success and also secure itself from surprises brought about by the changing environment. He further argues that this can be done by firstly, positioning of the firm through strategy and capability planning in its rightful competitiveness, and secondly, use of real time response through and thirdly, systematic management of resistance during strategic implementation.

Strategy answers the fundamental questions of 'where do we want to go?
Where are we now? how do we get there?' Three areas of a company strategy are important in identifying the responses of a firm to its environmental challenges. These include objective setting, the vision and mission of the company, strategic, competitive strategy where after considerations of the firm's competitive strengths and weaknesses vis-à-vis competition and customer needs, the company establishes a position of competitive advantage.

Pearce and Robinson (1991) defined strategic responses as the set of decisions and actions that result in the formalization and implementation of plans designed to achieve a firm's objectives. Therefore it is a reaction to what is happening in the economic environment of organizations. Porter (1979), views operational responses as part of a planning process that coordinates operational goals with those of the larger organization. Hence operational issues are mostly concerned with certain broad policies and policies for utilizing the resources of a firm to the best support of its long term competitive strategy

A response is a move taken to counter the effects of the environmental changes, it relates to the action taken by a firm to cope with the shift of the environment. (Hoskisson et al 1997) Responses are actions and decisions which result in the formation and implementation of plans designed to achieve organizational objectives.

Strategic response can be seen as the matching of activities of an organisation to the environment in which it operates. When firms are faced with unfamiliar changes they should revise their strategies to match the turbulence (Ansoff and McDonnell 1990). Strategic responses affect the long-term direction of an organisation and require commitments and resources both human and financial. According to Pearce and Robinson (1991) strategic response is the set of decisions and actions that result in the formulation and implementation of plans designed to achieve a firm's objective. It is thus a reaction to what is happening in the environment of the organisation. Strategic responses are concerned with decisions and actions meant to achieve business objectives and purpose.

Pearce and Robinson (1997), says that there is need to adopt new strategies that match the challenges from the environment. Reengineering, downsizing, self-management and outsourcing are some of the dominant strategies that have been used for restructuring in the 1990's. Ansoff and McDonnell (1990) asserts that the management system used by a firm is a determining component of the firm's responsiveness to environment changes because it determines the way that management perceives the environment, diagnosis their impact on the firm, decides what to do and implements the decisions.

There are two types of responses to the environment strategic and operational. (Barton and Martin,1998) Strategic responses represent a significant commitment to specific and distinctive organisation of resources.

This case study will seek to establish the strategic responses by Central Bank of Kenya to changes in the external business environment brought about by the liberalization of the economy.

1.1.3 Central Bank of Kenya

The Central Bank of Kenya was established in 1966 through an Act of parliament - the Central Bank of Kenya Act 1966. The establishment of the Bank was a direct result of the desire among the 3 East African member states to have independent monetary and financial policies. This led to the collapse of the East African Currency Board which was a precursor of the Central Bank established by the colonialists.

The Central Bank plays a unique role in the economy and performs various functions not normally carried out by commercial banks. Over time the functions of the Bank have evolved with the changing economic conditions and the Central Bank Act has been amended accordingly. Its main task is that of "maintaining price stability and fostering liquidity, solvency and proper functioning of a stable market-based financial system". It is therefore responsible for formulating and executing monetary policy, supervising and regulating depository institutions, assisting the Government's financing operations and serving as Government banker.

In addition to these primary responsibilities, the Central Bank performs other specific functions:

Issue of notes and coins: The Central Bank of Kenya is entrusted with the making, issuing and withdrawing worn out notes and coins in Kenya Shillings. The monopoly of issuing notes and coins enables it to exercise control over the money in circulation and thereby fulfil its primary responsibility of safeguarding the domestic value of the Kenya shilling.

Provision of Banking Services to Banks: The Central Bank provides commercial banks with clearing facilities, a task laid down in the Central Bank amendment Act of promoting the smooth operation of payments, clearing and settlement systems. The Bank is also entrusted with the supervision of commercial banks in order to ensure efficient and sound financial system in the interest of depositors and the economy as a whole.

Provision of Banking Services to Government: As banker and fiscal agent of Government, the Bank accepts deposits and effects payments on behalf of Government. It also maintains and operates special accounts for the Government. The Central Bank also administers the public debt, that is, effecting issuance, payment of interest on, and redeeming of bonds and other securities of the Government.

Foreign Exchange Operations: The Central Bank holds official foreign exchange reserves of the country for the purposes of: repaying and servicing the country's public external debt; and intervening in the inter-bank foreign exchange market largely to smooth out erratic exchange rate fluctuations, thus helping to maintain orderly market conditions crucial for the shilling exchange rate stability.

To provide an efficient service to commercial banks and satisfy their requirements for notes, the Central Bank operates three branches in the country. The branch responsibility is to ensure that there is adequate supply of new notes to meet the demand, and to replace unfit notes. (www.centralbank.go.ke) .

During the period after Kenya's independence there was a massive outflow of foreign exchange, and it therefore became necessary for the country to introduce exchange controls. The Exchange Control Act Cap 133 was therefore enacted in 1965. Its primary objective was to stem the outflow of capital. The Bank was to administer the Exchange Control Act by virtue of section 30 of Central Bank Act. Cap 491. This section mandated the Bank to administer any law relating to exchange control that may be in force at any time in Kenya. This therefore meant that the Ministry of Commerce and Industry was to licence all imports with Central Bank allocating foreign exchange. The government also imposed controls on travel tickets to deter capital flight and curtail travel.

However, through government legislation in May 1993 Exchange Control Act was repelled setting in motion the era of liberalisation of the economy. Many of the functions performed by Central Bank staff were delegated to commercial banks thus reducing the functions of the Central bank.

1.2 Statement of the Problem

Firms respond to changes in the environment in different ways. There are those that choose to influence the environment favourably by shifting the domain of operations away from others while there are those that choose to adapt to the environmental influence. Central Bank of Kenya is one of those organisations that over time has been influenced by its external environment and has therefore been coming up with ways to respond to the challenges posed by the change. Some of the factors in the external environment that affected Central bank are political-legal issues which came about in the 1990s.

In 1993 there was a paradigm shift brought about by change in government legislation removing the regime of exchange controls, price controls and other restrictions. With the removal of the controls the economy was liberalised. Central Bank was one of the organs the government used to exercise the controls and with the removal of the controls it had to come up with strategies to respond to this paradigm shift.

The need for this study arose from the fact that Central Bank is a very important institution as it is the regulator of the commercial banks and as such is expected to provide direction to all the banks as well as the other players in the financial sector. The manner in which it responds to the environmental changes is therefore of great interest to the entire business community.

Several studies have been carried out to demonstrate the response of various organisations to the changing environment (Aosa 1998) (Bett 1995) (Wairegi, 2004) (Okoko 2004). A study carried out in the aviation industry confirmed that firms are environmentally dependent and hence have to constantly adapt their activities and internal configuration to reflect new external realities, and failure to do this may jeopardize a firm's future success (Aosa 1998). Another study in the dairy industry in Kenya concluded that due to the ongoing reforms in the country, firms in the industry made certain adjustments in their marketing mix components of product, price, promotion and place in-order to adapt to changes and remain competitive in a liberalised industry (Bett 1995). It has, however, been established to the best of my knowledge that no study to establish the strategic responses of Central Bank to changes in the environment has been done consequently there exists a knowledge gap. With the ever changing external environment, it is also worthwhile studying the strategic responses that the Central Bank of Kenya uses to remain competitive.

1.3 Objectives of the study

The objectives of the study are:

i. To determine the changes in the external environment that affected the Central Bank of Kenya in the period after liberalisation of the economy.

ii. To establish the strategic responses of Central Bank to changes in the environment

1.4 Importance of the study

- Scholars who may wish to pursue this area further can use the study as a foundation as it is hoped it will stimulate further research into responses of organizations to the external environmental changes.
- It will contribute to the body of knowledge in strategic responses to external environment by organizations.
- The study will also be important to various other users as the area it covers is not adequately researched.

CHAPTER TWO

LITERATURE REVIEW

2.1 Strategic Management

Strategic management is the set of decisions and actions that result in the formulation and implementation of plans designed to achieve a company's objectives (Pearce and Robinson 1991). Strategic management is also described as the process of specifying an organization's objectives, developing policies and plans to achieve these objectives, and allocating resources so as to implement the plans. It is the highest level of managerial activity, usually performed by the company's top management and executive team and it is aimed at providing overall direction to the whole enterprise.

Strategy formulation involves long-term decisions and is an important management tool. Diverse authors acknowledge these two factors. Johnson and Scholes (2002) defined strategy as the "direction and scope of an organization over the long term", which achieve advantage for the organization through its configuration of resources within a changing environment, to fulfill stakeholder's expectations. Strategy is a unifying comprehensive and integrated plan that relates the strategic advantages of the firm to the challenges of the environment and is designed to ensure that the basic objectives of the enterprise are achieved through proper execution by the organization.

Hamel (2000) argues that the best strategy is geared towards radical change and creating a new vision of the future in which you are a leader rather than a follower of trends set by others. It is all about winning strategy which is equal to foresight + vision. Strategy therefore is concerned with the survival of the organization in the long term in the face of changing environmental conditions and situation. It is in essence a tool for guiding the organization forward and providing a framework through which it will operate. Strategy is no longer about planning or vision because we are deluded if we think we can predict or worse control the future. It is about using careful analysis to understand and influence a company's position in the market place.

The essence of strategy is to relate the organization to the changes in the environment (Ansoff and McDonnell, 1990). Organizations therefore have to respond to relevant strategies that match the changed environment. Failure to respond may lead to organizational decline. Strategy implementation has to be supported by resources and competencies of the organization. This make up the strategic capability. Just as there are outside influences on the organization and its choice of strategies, so there are internal influences. These comprises of the organization's strengths and weaknesses (Johnson and Scholes, 2002). Thomson, (1997) emphasizes on the internal processes that he says can add value to an organization. Porter (1998) also emphasizes on the importance of internal capability by pointing out that companies must be flexible to respond rapidly to competitive and market changes. They must nurture a few competencies in the race to stay ahead of the competition.

The concept of strategy can be seen as a multidimensional aspect that embraces all the critical activities of the firm providing it with a sense of unity, direction and purpose as well as facilitating the necessary changes induced by its environment (Hax and Majluf, 1996). Strategic thinking and analysis require a clear understanding of the concept of strategy. However, such a simple truth has not always been appreciated in the field of strategy. Few would question the centrality of the concept of strategy to market competition today. Yet, the continual and pointless redefinition of concepts reflects an ongoing frustration many have with the seeming aimlessness with which the concept has been defined over the years. Diversity of views on the definition of strategy has evolved over the past years, ranging in terminology from policies to patterns. Faced with this uncertainty of concept, Quinn & Mintzberg (1994) offered not one but five conceptual equivalents of strategy, perhaps hoping that in so doing he could at least encircle the elusive concept: plan (a guide or course of action into the future), ploy (a specific maneuver intended to outwit an opponent or competitor), position (determination of particular products in particular markets), perspective (an organization's way of doing things), and pattern (consistency in behavior over time).

The study of strategic management emphasizes on monitoring and evaluation of external opportunities and threats in light of corporation's strengths and weaknesses. This statement emphasizes that the environment is constantly changing and so it is imperative that an organization has to constantly adapt its activities to reflect the new environmental requirement. Having a strategy enables you to ensure the day-to-day decisions fit in with the long-term interest of an organization. Without a strategy, decisions made today would have a negative impact on future results.

The major task of managers is to ensure survival of the companies they manage. In order to achieve success, the companies have to adequately adjust to meet environmental challenges. Failure to do this will cause the companies to experience a big strategic problem. Therefore strategy is a tool which offers significant help that enable the firm cope with turbulent environment facing the firms (Johnson and Scholes, 2002). This problem arises out of the mismatch between the output of the company and the demand in the market place. Strategy is useful in helping managers tackle the potential problems that face their companies. Strategy is the tool which offers help for coping with the turbulence confronted by the business firms. Strategy requires to be taken seriously as a managerial tool, not only for the firm but also for a broad spectrum of social organization (Ansoff and McDonnell, 1990).

2.2 Strategy and the Environment

The emergence of environmental influences and their effect on firm strategy has gained tremendous traction in the management literature in recent years (Pearce and Robinson, 1991 Johnson and Scholes, 2001). Fueled by societal concerns over global warming, globalization, poverty, ecosystem destruction, and social degradation, environmental pressures have gained substantial attention in strategic management classrooms, corporate boardrooms and academic journals (Pearce and Robinson, 1991. While these concerns are global in nature, they manifest themselves differently based on a firm's context. Environmental concerns are now quite prevalent in developed countries while disease and poverty have remained prominent in developing nations. All in all, most business environments represent substantial environmental forces that impact the development and implementation of strategy. Yet the nature of a firm's strategic response to these influences is presently understudied. Moreover, the process by which firms incorporate environmental forces and strategies into market strategies has not yet been examined.

As the external environment changes, organizations find themselves in unfamiliar environment and have to respond by integrating change and internalizing the ability to adapt to the new environment for survival and growth. Organizations respond to turbulence in the environment by formulating new strategies. These provide directional cues to the organization that permit it to achieve its objectives while responding to the opportunities and threats in the environment. Pearce and Robinson (1991) urges that organizations have to respond to the turbulence by crafting new strategies that they define as a large- scale, future –oriented plans for interacting with the environment.

Environment has been characterized as complex, dynamic and having far reaching impact. As a result, of these characteristics, the environment is composed of various factors, events, conditions and influence which interact with each other to create an entirely new set of influences leading to constant environmental change in its shape and character. A fundamental change is occurring in the world economy whereby the world economies are witnessing the forces of globalization and liberalization of trade.

In today's global environment, change rather than stability is the order of the day. Increased trade liberalization reduces country-based trade barriers, thus increasing the opportunity for cross-border entry. If new entrants have adopted new technologies and/or developed more efficient business operations systems, the competitive intensity will increase pressure of existing industry to internationalize by weakening their competitive position. Virtually, most industries across the globe are currently experiencing increased pressures for globalization, banking industry included. Environmental forces of change are the forces which are increasing pressure for globalization of the banking industry and have led to trade liberalization and opening of the banking market. These forces have also increased the rate at which companies need to alter their strategies and structures in order to survive in the market.

During the last decade, the economic and political environment has changed dramatically. These changes have had a tremendous impact on the global economic outlook. Continued globalization, coupled with the technological revolution led by the Internet has changed the way most of the banks operate. These changes have created both enormous opportunities and challenges for global organizations. The change in environment has forced most banks to develop a global strategy based on flexible systems that can adapt to the changing external environment.

Competitive flexibility provides a company with the capability to compete in a global market that has high competitive intensity and demand uncertainty. Competitive intensity is the degree of competition a company faces, that requires firms to take a flexible approach so that they can adapt and improvise to the changing conditions to put their best foot forward. In highly competitive environments, strategic responses become a valuable asset often a technological shift or a strategic move by a competitor in a particular market has the potential to change the very basis of competition. Firms that have the flexibility to respond to new competitive behaviors are at a definite advantage; they can easily redeploy critical resources and use the diversity of strategic options available to them to compete effectively.

Similarly, demand uncertainty creates difficulty in assimilating information and devising strategic plans. Managing in uncertain environments requires concerted deployment of resources devoted to the product-market operations and response to demand. Competitive flexibility, by definition, emphasizes answering to the unique needs of consumers, business partners, and institutional constituents. Because firms are more likely to face challenging and unique situations in uncertain markets than in stable markets, competitive flexibility becomes a key asset to a company at times of demand uncertainty.

Change in technology stemming from product and process innovations contributes to technological uncertainty. Strategic responses involve capability building to respond quickly to changing market conditions. Such capability building usually involves investing in diverse resources and possessing a wide array of strategic options. Because technologically uncertain markets are likely to offer a greater number and range of threats and opportunities for firms to adapt and improvise, we expect competitive flexibility to be of crucial importance in an environment that is characterized by high levels of technological uncertainty.

2.3 Organizational Strategic Responses

Strategic responses are closely linked to environmental uncertainty. As the external environment becomes more volatile companies need to develop greater flexibility in order to respond to the emerging conditions. According to Pearce and Robinson (1991) flexibility is composed of a number of "senses" including "adaptability, agility, corrigibility, elasticity, hedging, liquidity, malleability, plasticity, resilience, robustness, and versatility". He argued that each of these organizational flexibilities would be in response to some form of external environmental uncertainties or pressures. The type of reaction could be "offensive" or "defensive" and he categorized these senses into those categories.

While flexibility is normally considered solely as an adaptive response to environmental uncertainty, it is important to realize that a firm may use its strategic responses to proactively re-define market uncertainties and make it the cornerstone of its ability to compete. This is exemplified by Toyota and its actions in global automobile industry in the 1980s and the 1990s. Unfortunately, such proactive behavior in using flexibility is often neglected by researchers.

Strategic responses imply that the entity has the ability to change according to its needs. Flexibility is the ability to adapt, in a reversible manner, to an existing situation, as opposed to evolution, which is irreversible. This notion reflects the ability to stay operational in changing conditions, whether those conditions are predictable or not, or completely different from conditions known in advance. This adaptability is required from firms that, for economic reasons, are currently turning to efficient techniques of organization and management of the zero stock, just-in-time and tight-flow type which can make them fragile. Strategic responses are crucial in hypercompetitive environments because, the established paradigms of sustainability of competitive advantage and stability of organizational form have limited applicability.

Strategy researchers have emphasized stability in a firm's pattern of resource commitments. Through resource commitments, firms erect entry barriers, mobility barriers (Porter 1997), and isolating mechanisms that protect their competitive advantages. Although such patterns of resource commitments provide a firm with competitive advantage they can also become impediments to strategic reorientations.

In order to develop strong strategic responses capabilities a firm needs to have the three types of flexibilities: (a) market flexibility, (b) production flexibility, and (c) competitive flexibility (Porter 1979). Market flexibility deals with organizations, ability to have a high global market share, ability to sell its major products in a large number of international and geographic markets, and have a strong presence in those markets that are the home bases of global competitors. For most organizations, production flexibility arises from spreading its value creation activities in those markets where it has a major market share. An organization can shift production from one base to another, in order to take advantage of the foreign exchange rate fluctuations and access the best factors of production (Porter, 1990). Similarly, the competitive flexibility of an organization arises from its ability to coordinate its global competitive moves. This helps the organization to have a large number of competitive points and a bigger strategic space to build appropriate offensive and defensive moves that may often include counter-parry, cross-subsidization and sequential competitive entries.

Aosa (1992) noted that the action of competitors have a direct impact on a firm's strategy. He further stated that strategy will only make sense if the markets to which it relates are known; and pointed out that the nature of the industry in which the company operates needs to be understood. The structure of an industry and trend in that industry will help the current and future attractiveness of that industry.

In the 1990's, many companies acknowledged the critical importance of being customer oriented, customers paid attention to after sales services, and responsiveness of employers (Kotler, 1996). Hamael and Prahalad (1989), noted that restructuring and re-engineering – "while both are legitimate and important tasks, they have more to do with sharing today's business than with building tomorrow's industry". According to Aarker (1989), long - term success involves creating, managing and exploiting assets and skills that competitors find difficult to match or counter. This involves three steps:

- Identifying relevant skills and assets by observing successful and unsuccessful firms, key customer motivations, large value added items and mobility barriers,
- Selecting those skills and assets that will provide an advantage over competitors, will be relevant and appropriate for the future, and will be feasible, sustainable and appropriate for the future.
- He further observed that there are three basic ways to compete namely on the basis of delivery, quality and price.

Porter (1985) noted that competitive advantage is the ability of the firm to out perform rivals on the primary performance goal of profitability. Bennet (1983), also emphasizes the importance of improving a company's image and points out that the first step in doing this is finding out where you are currently; which can be done by determining the target audience, especially the employees.

Global trends have had adverse effect on many sectors, the financial sector included. Every organization has to develop strategies that will enable it fit within the environment it operates in. This is necessary because the environment is dynamic, multi-faceted and complex; as a result of which organizations have to plan how to respond to the challenges posed by it. An organization can either plan on how to cope with the many changes brought about by the environment or handle them as they emerge.

2.4 Corporate Level Responses

The company's corporate strategy should help in the process of establishing a distinctive competence and competitive advantage at the business level. There is a very important link between corporate-level and business level. According to Johnson and Scholes (2002), corporate level responses is the first level of strategy at the top of the organization, which is concerned with the overall purpose and scope of the organization to meet the expectations of owners or major stakeholders and add value to different parts of the enterprise. This includes issues of geographical coverage, diversity of product / services or business units and how resources are to be allocated between the different parts of the organization.

2.5 Business - Level Responses

Hill and Jones (1999) argue that focus strategy concentrates on serving particular market niche, which can be defined geographically by type of customer or by segment of the product line. It differs from the first two because it is directed towards serving the needs of a limited customer group or a segment. Hence the company is specialized in some way. A focus strategy provides an opportunity for an entrepreneur to find and then exploit the gap in the market by developing an innovative product that a customer cannot do without. The company has enormous opportunity to develop its own niche and compete against low-cost and differentiated enterprises which tend to be larger.

It differs from corporate strategy in that whereas corporate strategy involves decisions about the entire organization, strategic decision under the business units are basically concerned with how customers needs can best be met. According to Johnson and Scholes (2002) "Business unit strategy is about how to compete successfully in particular markets".

Hill and Jones (1999), states that strategic choice is a process of choosing among the alternatives generated by a SWOT analysis. The strategic alternatives generated can encompass business level, function level and global strategy. According to Thompson and Strickland (2001), Business-level responses - refers to plans of action the strategy manager adapt for using a company's resources and distinctive competences to gain a competitive advantage over it is rival in the market or industry. Companies therefore pursue a business level strategy to gain competitive advantage that allows them to out perform rivals and achieve above overage returns.

CHAPTER THREE
RESEARCH METHODOLOGY

3.1 Research Design

The research methodology will be in form of a case study and seeks to achieve the objectives of determining strategic response to changing environment of central bank of Kenya. A case study has been chosen because it enables the researcher to have an in-depth understanding of the behavior pattern of central Bank of Kenya. A case study design is most appropriate where a detailed analysis of a single unit of study is desired as it provides focused and detailed insight to phenomenon that may otherwise be unclear. The importance of a case study is emphasized by Young (1960) and also by Kothari (1990) who both acknowledge that a case study is a powerful form of qualitative analysis that involves a careful and complete observation of a social unit, irrespective of what type of unit is under study.

Non-probability sampling method was used to select the sample.

3.2 Data collection

Primary data was collected from the senior managers of the Central bank of Kenya drawn from various departments/divisions (see table). The respondents are holding key departmental positions and therefore they are the ones who are spearheading the Bank while changes continue. Most fundamental changes have taken place in the last twenty years.

Institutional Representation

	Department/Division	No of Respondents
1.	Finance & Strategy	3
2.	Human Resources & Administration	3
3.	Bank Supervision	3
4.	Banking Services	3
5.	External Payments & Financial Markets	3
	Total	**15**

The organization structure of Central Bank is made up in such a way that the top has few people while the bottom has the majority of the employees. The senior managers are not many and therefore the figure of 15 in total is quite representative. These senior managers are the ones responsible for the policy decisions in the Bank and it was therefore found not necessary to interview the Governors because decisions are arrived at collectively.

Personal interviews were used to collect data. An interview based on comprehensive structured and unstructured questionnaire as a guide was used. This enabled oral administration of questions in a face to face encounter therefore allowing collection of in-depth data. This involved in-depth discussion through individual meetings with the senior managers of the Bank. Copper and Schindler (1998), emphasize the value of personal interview when they stated that it enables in depth and detailed information to be obtained.

3.3 Data Analysis

The data on strategic responses of Central bank was analyzed using conceptual content analysis which is the most appropriate tool for analysis of in-depth qualitative data that was collected. This type of analysis has been used in similar studies in the past (Bett 1995) (Kandie 2001). Conceptual content analysis is the systematic qualitative description of the composition of the objects or materials of the study. According to Mugenda and Mugenda (2003) the main purpose of content analysis is to study the existing information in order to determine factors that explain a specific phenomenon. Content is defined by Nachmias and Nachmias (1996) as a technique for making inferences by systematically and objectively identifying specific characteristic of messages and using the same approach to relate to trends.

CHAPTER FOUR
ANALYSIS AND FINDINGS

Strategic responses require the organizations to change their strategy to match the environment and transform or redesign their internal capabilities to match the strategy. Managers usually have 3 options when responding to environmental influence. These options are adapting to environmental influence or elements, attempting to influence the environment favorably and shifting the domain of operations away from threatening environmental elements towards more beneficial ones (Barton and Martin 1998). Central bank used adapting of the environment approach which involves making changes in the internal operational activities to make the organization more competitive to its environment. In attempting to adapt to the environment Central bank undertook several strategic responses to counter the environmental changes which include the following:

Restructuring

This is based on the notion that some activities in a business value chain are more critical to the success of its strategy than others. (Pearce and Robinson 1998). In the case of Central bank the activities relating to administering of controls were found to be no longer viable and therefore the Bank was forced to re-organize its structure and effect other changes. To achieve these objectives the government appointed a new governor and deputy governor to spearhead the move from a restricted regime to a liberalized environment. The Exchange Control department was dismantled and abolished. The members of staff in this department were either re-deployed to other departments within the Bank while others were sent home on early retirement. The functions of Exchange control department not directly related to exercising of controls were decentralized and passed over to the commercial banks.

Introduction of new technology

From the time Central bank was set up in 1966 its operations were manual and information flow was slow. The new era of liberalization called for the introduction of new technology to speed up the processes. Consequently in 1994 a new information management system department was created which enabled faster exchange of information within the Bank. Computerization of business processes was embarked on and staff was forced to be computer literate otherwise they would be sent home. Massive computer training programs were developed and computers bought.

Modernization of facilities

The Central Bank building was put up in 1966 and therefore the office planning was found to be outdated and conservative. In order to modernize the facilities a new policy of open offices was adopted. Walls were pulled down and glass partitioning of offices was undertaken where staff could see one another as they worked to enhance transparency and accountability.

Training and development

In order to cope with the changes introduced and also to prepare for the other changes in the pipe - line seminars for all the members of staff were organized. The main theme of the seminars was management of change. To develop the staff further a clear career path was designed and staff sent for further training.

Downsizing

Due to reduced functions of Central bank, the staff compliment was found to be too large and policy decisions were made to downsize. This was done in 1997 when voluntary early retirement scheme was introduced (vers). Incentives which included the golden handshake were offered to members of staff who volunteered to take up the vers. The scheme succeeded in reducing the number of employees by about twenty percent. The remaining employees were retrained and their remuneration enhanced to ensure that the institution retained them.

CHAPTER FIVE

SUMMARY, CONCLUSION, RECOMMENDATIONS

5.1 Summary

The research was a case study of strategic responses of Central bank to the environmental changes. A case study was chosen to get in-depth information regarding how Central bank responded to environmental changes brought about by liberalization of the economy, globalization, removal of price controls and introduction of new government regulations .The environment within which the business operates has been changing constantly, the changes have been sensitive and complex requiring a lot of speed. For a business to survive it must adapt to changes taking place within the environment and Central Bank is not an exception.

5.2 Limitations of the study

Since the study was carried out many years after the actual liberalization in 1993 some of the senior managers who spearheaded and implemented the strategic responses have left the organization due to retirement and other reasons. However, the ones that are still there did their best to provide the information

5.3 Conclusion

Central bank has witnessed tremendous improvements due to strategic responses undertaken which include restructuring, introduction of new technology, modernization of facilities, training and development and downsizing. From the findings it is clear that any business entity faced with environmental discontinuity will adjust its operations in line with the changes within its environment.

5.4 Recommendation

It is recommended that a similar study should be carried out to establish how regulators of other sectors in the economy have responded to changes in the environment brought about by globalization and liberalization

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APPENDICES

Appendix 1: Introduction Letter.

TO WHOM IT MAY CONCERN,

Dear Sir/ Madam,

RE: STRATEGIC RESPONSES TO CHANGING ENVIRONMENTAL CONDITIONS

I am a postgraduate student studying at the University of Nairobi and currently undertaking research on the strategic responses to changing environmental conditions in Kenya. You have been selected as one of the members of the sample for the study. The choice is based on your position in the organization with regard to strategic decision making and length of service.

I kindly request your assistance by availing time to respond to an interview or completing a questionnaire whichever may be convenient for you. The information collected is solely for academic purposes and will remain confidential. A copy of the final report will be made available to you at your request.

Your assistance will be highly appreciated.

Yours faithfully,

Elizabeth M Maina

Appendix 2: Questionnaire

Instructions: Kindly answer all the questions truthfully either by filling in the blank spaces or by ticking in the appropriate box.

SECTION A: GENERAL INFORMATION

1. Please state your position in the organization

____

2. Department ____

3. Please indicate the number of years you have served in this position in the organization by ticking the appropriate box below.

   a. 0-5 years [ ]
   b. 6-10 years [ ]
   c. 11-15 years [ ]
   d. 16-20 [ ]
   e. Over 20 years [ ]

4. What are three major roles that you perform in your position?(Explain briefly)

____
____
____
____
____
____

SECTION B: CHALLENGES FACING THE CENTRAL BANK

5. Kindly list down the major environmental changes you have witnessed affect the operations of Central Bank within the last 10 years.

____
____
____

6. What challenges have the changes posed to the Central Bank?

SECTION C: STRATEGIC RESPONSES

7. Has Central Bank responded to the environmental changes?

   Yes [ ]

   No [ ]

8. Kindly explain in details how Central Bank has responded if at all, to each of the changes.

9. a) Are there some changes that Central Bank has not responded to?

Yes [ ]

No [ ]

b) If Yes in question 9 a), kindly explain briefly.

10. To what extent do you think the strategies adopted by Central Bank to respond to the changing environment have been successful?

a) A great extent [ ]

b) Moderate extent [ ]

c) A small extent [ ]

d) Not at all [ ]

e) What is Central Bank intending to do in the future about the challenges that you have not responded to?.

f) Do you consider the Bank's strategic responses to competition adequate?(Explain briefly)

g) What else do you think Central Bank should do to stay competitive?

11. What areas have improved in the Bank?

12. In your assessment, explain whether Central Bank currently possess the necessary capability to adopt aggressive strategies to match the external environmental changes?

Thank you very much for your time and cooperation