STRATEGIC RESPONSE TO THE GLOBAL FINANCIAL CRISIS OF 2008 IN SELECTED MAJOR COMMERCIAL BANKS IN KENYA

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RESEARCH PROJECT SUBMITTED IN PARTIAL FULFILMENT OF THE REQUIREMENT FOR THE DEGREE OF MASTER OF BUSINESS ADMINISTRATION (MBA)

SCHOOL OF BUSINESS

UNIVERSITY OF NAIROBI

OCTOBER 2011

DECLARATION

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

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12/10/2011

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DEDICATION

To my lovely wife Caren, my daughter Sharleen, my Parents for the support, encouragement and for their understanding.

ACKNOWLEDGEMENTS

My acknowledgement goes to the Almighty God for enabling me this far, good health and ability to further my studies. Second is to my parents Mr. and Mrs. Muriuki for initial support in my MBA enrolment while I was still young in employment and for their emphasis on the importance of furthering in academics. To my lovely wife Caren and daughter Sharleen for their support and understanding; thanks so much.

I thank my Supervisor Dr Zakary Awino for his invaluable input in my project and the panel at the defending table for their invaluable contribution and constructive criticism to my management project proposal. I thank my lecturers of University of Nairobi, School of business for the thoroughly preparing me during my course work; to all respondents of my questionnaires, thanks for sharing your time from the busy schedule and volunteering the much needed information.

Special thanks to my fellow colleagues at work for understanding me and giving me a favorable environment to pursue my studies. My fellow student, thanks for the support in advice and encouragement, Mr. Joseph Muriuki for your great support and encouragement. Last but not least the support-staff of University of Nairobi at Education complex, 15th Floor at Ambank house and the Jomo Kenyatta library. May God bless all for your immense contribution.

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ABSTRACT

The major objective of this study is to identify the strategic responses by the selected major commercial banks in Kenya to the recent global financial crises of 2008. Many banks in other parts of the world were negatively affected and even closed down. It is therefore important to understand how the banks were able to cushion themselves against the adverse effects of the global financial crises. For this study the banks that were selected are Barclays Bank, Kenya Commercial Bank, Equity Bank and cooperative Bank of Kenya. Global financial crises of 2008 started in the USA where Banks doing mortgage faced a liquidity problem due to lending to sub-prime borrowers who could not be able to pay back loans. They would repossess the houses sold to other sub-prime borrowers. The circle continued until there were more houses repossessed than the market could absorb. The value of the property dropped and banks had a lot of worthless properties and little money to support operations. This saw some big banks close down or run bankrupt. This study has revealed the strategic responses adapted by the selected major commercial banks in Kenya to cushion them. This included prudent cost management and review of existing products and policies especially in lending. Among the fourteen respondents it was noted that all the banks strategically responded to the global financial crises in order to remain competitive. Using s five-point Likert scale with (A lot, average, less, No change and I don't know) the study was able to reveal that more attention was focused on realigning and reviewing policies around products as well as prudent cost management. It is incumbent that upon firms keep on scanning the environment to identify any threats or opportunities so as to be able to strategically respond. From the study it is important to note that the banks responded in different ways towards the effects of Global financial crisis. While some were slowing down in expansion programs, others were accelerating in the same. Going forward it is important that Kenya Bankers Association which is a linking body and a policy custodian with all Commercial bank in collaboration with the central bank of Kenya to come up with a nerve centre for research. This would help raise a flag in case of any expected force from the environment. Banks should also invest a lot in research and development not only in products but also on matters relating to global economics.

CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

The world economy is being shaped by several forces such as globalization dere&m feU1 ation, technology advancement and privatization (Kotler, 1985). Regional economies | become integrated though global network of communication, transport and trado The economy has become a global basket. What is happening in the other countries » Neatly affects any national economy. Globalization is fast spreading to all comers of the ^orld through multinational organizations expansion to seek new opportunities in ^nder developed markets.

The general tendency for globalization is available for the changes inside the fin la Hcial and banking system, too. These changes are compulsory for the agents having a (,| ^ calling to view the internationalization on a basis of interaction between internal j international growth respectively. This vision about the internationalization of h-dn king services sector turns the globalization concept and effort into a multidimensional l one. The banking products, the markets for banking services, the internationali?a • operating strategies and the organizational ability for internationalization are the ^ain determinants of globalization of the banking system. The global financial crisis Ui u to a liquidity/ confidence crisis which led to an economic crisis hence economic rece* bs • ion. The banks which had lent money out for mortgage to sub-prime borrowers were unab) recover the loans. The houses which were to act as the security for the loans had u very little value in the market and probably no buyer to acquire it. This is how the liquj^ problem among the multinational banks started triggering a global financial crisis.

1.1.1 Strategic Responses

Organization depends on the environment as a source of input in the form of resm Ur ces and as an outlet for their inputs. Since the organization has to interact with its environment it must establish a match between itself and their environment in wh^ it operates (Pearce and Robinson 1999). This match is crucial for the survival 0f the organization.

David (1999) acknowledges that the natural environment has certainly become an important strategic issue which requires the conservation by an organization management. Johnson and Scholes (1999) observe in this context that this match is the underlying purposes of strategy. Pearson and Robinson (1999) identify two types of external environments which consist of all conditions and forces that originate beyond the immediate operating environment under considerations. Irrespective of the type of environment the organization must adjust to the changes taking place for them to achieve set objectives and goals. When a firm's environment moves to a new turbulence level, the responses of the firm's capability to the environment stimulants must also move to a different level. If the capability fails to keep pace with the environment, the firm is in danger of losing its competitive position and become unprofitable. (Ansoff and McDonnel, 1990).

According to Priter (1980), a firm attempts to seek a competitive advantage is bound on three generic strategies. First is striving for overall local leadership in the industry, the second being striving to create and market unique products for varied customer groups through differentiation. Last is having a special appeal to one or more groups of consumer or industrial buyer for any of their costs in differentiation concerns. Priter (1985) further emphasizes on the organization's competitive environment and then organizing value-adding activities to support the chosen strategy.

Tompson, Shikland and Gangle (2007) outline the company's five methods of strategic options or responses:-The first strategic choice is the generic competitive strategy option which includes the cost of leadership; differentiation and focus strategies. The second set of strategic choices is the complimentary option which includes employing strategic alliances and partnerships, merger with or acquiring other companies; backward or forward integration outsourcing and selected value chain activities. The sampling technique to be used to select will be the stratified random sampling method strategic moves and employing defensive strategic moves. The third are functional area strategies to support the above strategic choices, the fourth being timing a company strategic move in the market place and fifth being the website strategy being employed.

The bulk of managerial time in business firms is devoted to coping with uncertainties induced by the environment. Competition moves, economic fluctuations, availability of raw materials, labour demands (Ansoff and McDonnell, 1990). All organizations are environment serving and therefore totally dependent on the environment. The banking sector in Kenya is not an exception to this interdependency with environment.

1.1.2 Global Financial Crisis of 2008

The genesis of the crisis can be traced to the availability of cheaper credit in the world financial system since 2000. The situation encouraged banks to undertake riskier projects. They were riskier because their true risks were not analyzed or appropriately priced. Specifically, mortgage lending to borrowers who in ordinary circumstances would not have been eligible for these facilities pushed up housing prices [sub-prime mortgage]. While housing prices were on the rise, institutions could easily realize the underlying security. Further, institutions that originated the mortgages would securitize them i.e. issue mortgage backed securities that other institutions would then invest in.

In 2008, the US saw the worst financial crisis. This period was galvanized by the housing boom. The banks gave so many non performing mortgage loans. A number of Banks collapsed forcing the federal government to intervene by giving the much needed funds in form of loans to financial institutions (central Bank of Kenya 2009). There was a major liquidity crunch caused largely by reluctance by banks to lend to each other on the overnight markets as they did not know what exposure the borrowing counteipart had.

Consequently, many businesses were in turn affected as they could not access short term working capital facilities such as overdrafts to pay suppliers or salaries or even purchase assets vital for the toxic assets that lend to the financial crisis and therefore, the counter party's ability to repay the loan to use in the business (business Daily, Monday June 7, 2010). The situation was followed by housing bubble burst; house prices declined in the United States and it became harder to realize mortgage securities. Financial institutions that invested in mortgage backed securities found them holding "worthless assets." The crisis escalated against a backdrop of lack of trust between institutions as the exposures to these assets amongst the various institutions could not be ascertained. This resulted in a credit and liquidity crunch as well as loss of customer confidence.

The effects have spread to consumers who are uncertain about the future and firms which **cannot** access credit. At the household level, the households that acquired these **mortizages** found themselves in negative net worth. The financial crisis led to a liquidity/ **confidence** crisis which led to an economic crisis hence economic recession. (Central **bank of** Kenya, 2009)

The shilling depreciated to the US dollar between September 1 and November 30, 2008 following pressure from the global financial crisis as foreign investors "fled to safety" while consolidating their finances to meet their obligations abroad. The stock markets, and respective investors, recorded a sharp fall in the value of their investments and general financial net worth following the current global financial meltdown. Stock markets fell by 21 percent in Uganda, 24 percent in the South Africa and 27 percent in Kenya between September 1 and November 30. Kenya foreign assistance from overseas for official use to finance development projects for example roads, energy, and through NGOs to finance poverty reduction activities was likely to reduce due to the crisis.

1.1.3 Overview of Kenya's Banking Industry

The banking industry in Kenya comprise 43 commercial banks, two non- financial institutions, four building societies, two mortgage financial companies and fifty forex bureaus. (The Banking Survey, 2009) The banking Industry in Kenya is governed by the companies Act, the Banking Act, the Central Bank Act and the various prudential guidelines issued by the central Bank of Kenya. The banking sector was liberalized in 1995 and exchange control lifted. Under the Central bank is the Bank Supervisory board.

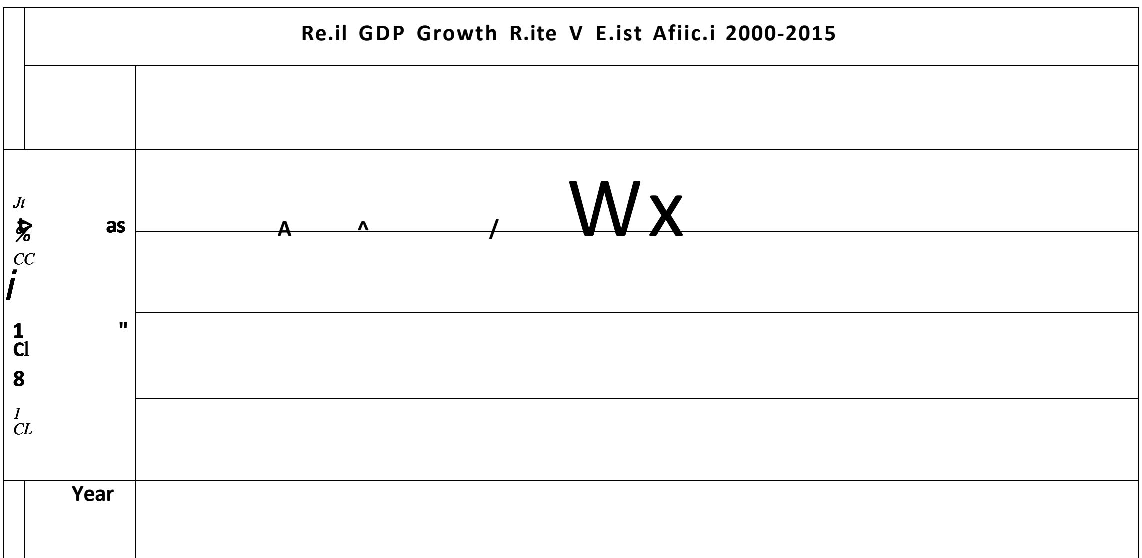
The core mandate of **Bank Supervision Department (BSD)** is to foster liquidity, solvency and proper functioning of a stable market-based financial system as stipulated under Section 4 (2) of the Central Bank of Kenya Act. This mandate is aimed at promoting and maintaining the safety, soundness and integrity of the banking system. This is undertaken through the implementation of policies and standards that are in line with international best practice for bank supervision and regulation. BSD has two divisions, **Surveillance** and **Policy.** The broad functions of the Department are to develop a legal and regulatory framework to foster stability, efficiency and access to financial services. The Department achieves this objective through continuous review of the

Banking and Building Societies Acts and guidelines issued there under which lay the legal foundation for banking institutions and building societies. It is also mandated in formulation and implementation of the Microfinance Act and regulations issued there under which govern the operations of Deposit Taking Microfinance Institutions. It also does continuous review of guidelines for Foreign Exchange Bureaus licensed under the Central Bank of Kenya Act.

The Central Bank of Kenya which falls under the finance docket is responsible for formulating and implementing monetary policy and fostering the liquidity, solvency and proper functioning of the financial system. The banks are under one umbrella called the Kenya Bankers Association which serves as a lobby for the banking sector interests. Over the last years the banking industry in Kenya has continued to grow in assets, deposits, profitability and products offering. The growth has been as a result of wide branch network expansion strategy both in Kenya and East African community region. There has been a lot of automation of a large number of services and move towards emphasis on the complex customer needs rather than traditional off-the-shelf banking products.

Players in the banking sector have experienced increased competition over the past years resulting from increased innovation. The Kenyan banking industry is faced by several challenges. One of the challenges is the effect of the Finance Act of 2008 which requires banks to have a core capital of Kenya shillings one billion. This will see many small banks merging to be able to raise this capital. The other challenge is the effect of Global financial crises of 2008 which would see banks educe in deposit mobilization, reduction in the trade volumes and the performance of assets. Other challenge includes declining of interest margins. Equally the banks have had a spectacular performance. For the period ended March 31, 2010, the Kenyan Banking sector registered an increase in asset base largely supported by growth in deposits. Assets increased by 20.8 percent to stand at Ksh.1.5 trillion while deposits increased by 22.8 percent to Ksh.1.1 trillion. This growth is by and large attributed to the growth of our economy that increases opportunities for investment and demand for credit.

Kenyans in Diaspora lowered remittances with unemployment in advanced economies leading many to default their loan payments to Kenyan banks, Forex inflows from tourists also declined due to lower consumption demand by foreign tourists from the main source markets for Kenya tourists. As shown in the graph below the branches in Kenya were more adversely hit than in Uganda and Sudan as Kenya's GDP growth rate stood at 1.5% in 2008 and 2.1% in 2009 as opposed to Uganda at 8.4% and 8.7% over the same period and Sudan (including South Sudan) at 6.84% and 4. 52%. This is because Kenya is more relatively interconnected with Advanced Economies than the other Sub Sahara Africa countries more so in terms of exports to these countries as well as in depth of financial system level of inter-linkages to the North American and European financial centers. The business by Equity Bank Diaspora agents in North America and Europe also received a big hit as many Kenyans in Diaspora got hit by braising levels of blue collar unemployment in those countries following negative GDP growth rates as shown in the diagram below.



	200	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Kenya	06	47	05	2.8	4.6	59	6.4	7.0	1.5	11	4.1	5.8	6.3	65	6 5	65
-*–Sud*i	8379	6166	5 361	7 146	5.114	6 320	11 280	10.163	6 841	452	5.521	6.006	6 159	555	5392	4 962
Tare ana	4 934	5 996	7 164	6 886	7.328	737	6 737	7 148	7437	5 468	6.175	6 73	7 474	7 498	7 505	7 003
– Uganda	5 437	5 IN	8 733	6 473	6.807	6.333	10 785	8 412	8 709	7063	5 564	6.401	7	72	7 4	75

Source: httpi/Avvvv; -nf.org/exte^a /pubs/ftAveo/2010/'01/weQdata/dov;n oad aspx(

I. Figure 2.1 Real GDP growth rate % East Africa 200-2015

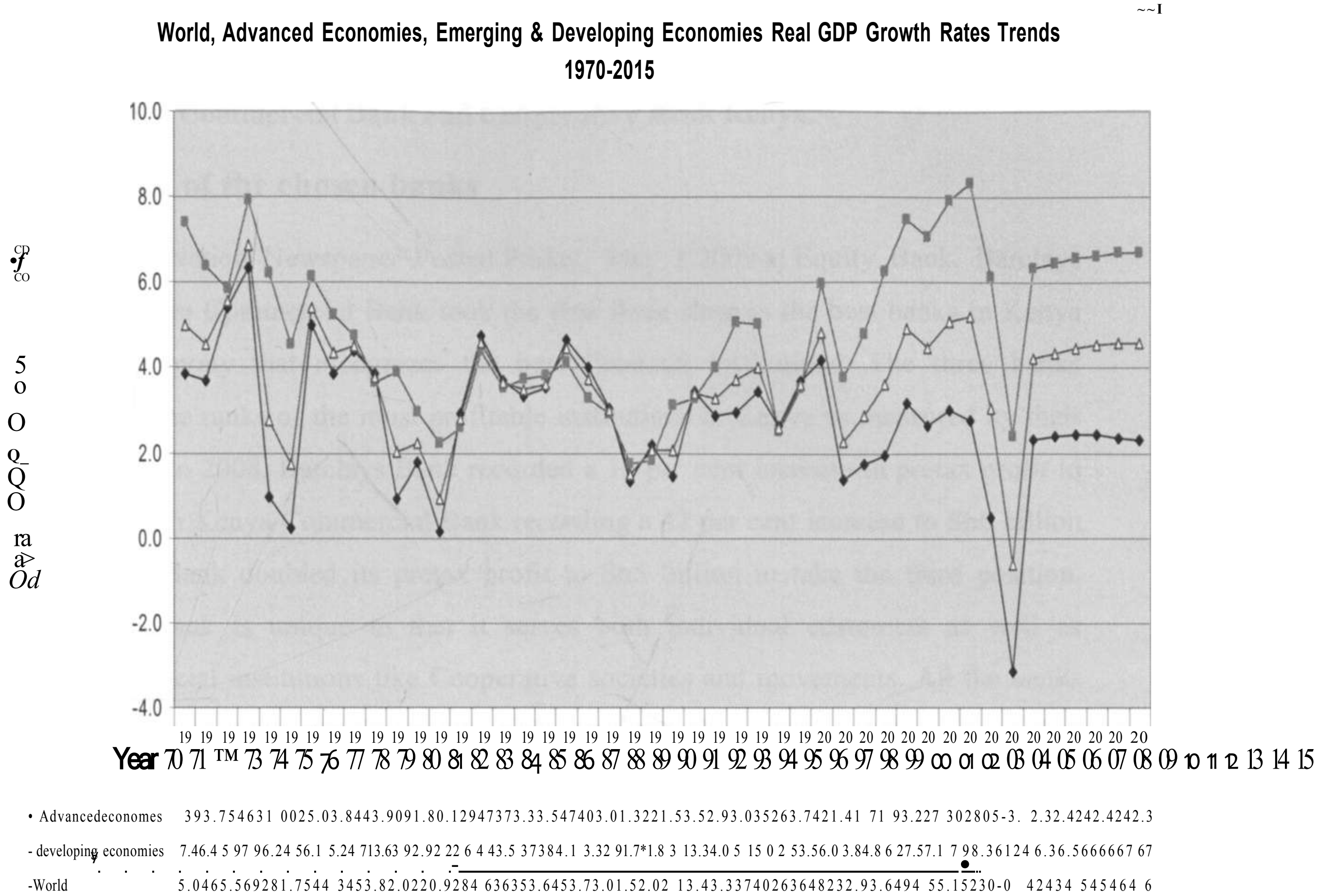


Figure 2.2 World advanced Economies, Emerging & Developing Economies Real GDP Growth rates Trends 1970-2015

There were immediate responses which included slowing down on mortgage lending to Kenyans in Diaspora and loan repayment rescheduling as these customers got hit by the general rise in unemployment in North America and Europe. To reduce the political risk idiosyncratic to Kenya, the bank engaged in diversification of exposures via regional expansion to other countries. Like most other banks which embarked on reduction of lending to the private sector due to the poor economic growth forecast for Kenya , this was marked by increased in investment in government securities treasury operations .

I 1.4 Selected major Commercial Banks in Kenya

The selected major banks for this study were **Barclays Bank of Kenya, Equity Bank of Kenva, Kenya Commercial Bank and Cooperative Bank Kenya.**

Justification of the chosen banks

According to Nation Newspaper Posted Friday, May 1 2009 at Equity Bank, Barclays Bank and Kenya Commercial Bank took the first three slots as the best banks in Kenya during a ceremony that recognizes the best financial institutions. The three banks currently top the ranks of the most profitable institutions in Kenya as measured by their pre-tax profit. In 2008, Barclays Bank recorded a 13 per cent increase in pretax profit to Sh8 billion with Kenya Commercial Bank recording a 42 per cent increase to Sh6 billion while Equity Bank doubled its pretax profit to Sh5 billion to take the third position. Cooperative Bank is unique in that it serves both individual customers as well as corporate financial institutions like Cooperative societies and movements. All the banks selected in this study are also listed in the Nairobi Stock Exchange and thus assumed to be transparent in their disclosure of financial reporting. Barclays Bank has its roots in abroad while the other banks have their roots in Kenya.

Barclays Bank of Kenya Limited is the leading bank in Kenya in terms of profitability, and market share in the areas of loans and deposits. It has operated in Kenya for more than 90 years, and has an extensive network of over 115 outlets with 236 Automated Teller Machines countrywide.

Barclay's business units fall under Retail Banking, Commercial Banking. Treasury and Card Services with cross-functional relationships to support the segments of local business and small to mid-sized enterprises. Each of these businesses is well positioned tor growth and caters to the dynamic needs of diverse customer segments. The vision of Barclays bank is "to be the best retail and commercial bank for every customer, every market, every product, every time" The Mission statement of Barclays is to remain the leading retail and commercial bank in Kenya".

Equity Bank commenced business on registration in 1984. It has evolved from a Building Society; a Microfinance Institution to now the all inclusive Nairobi Stock Exchange and Uganda Securities Exchange public listed Commercial Bank. With over 5 million accounts, accounting for over 57% of all bank accounts in Kenya, Equity Bank is the largest bank in the region in terms of customer base. The solidness of Equity Bank is underpinned by its shareholder's funds base of over Kshs. 19 billion, making Equity Bank one of the most capitalized banks in the region. Equity Bank has received both local and global accolades for its unique and transformational financial model. The bank is credited for taking banking services to the people through its accessible, affordable and flexible service provision. Equity Bank has branches in Uganda, Southern Sudan and is currently hoping to open subsidiaries in Rwanda and Tanzania

The history of **Kenya Commercial Bank** dates back to 1896 when its predecessor, the National Bank of India opened an outlet in Mombasa. In pursuit of its Vision: To be the preferred financial solutions provider in Africa with a global reach by 2013, in May 2006 Kenya Commercial Bank extended its operations to Southern Sudan to provide conventional banking services. The subsidiary has six branches. The latest addition into the Kenya Commercial Bank Family came in November, 2007 with the opening of Kenya Commercial Bank Uganda Limited which has eleven branches. In December 2008 Kenya Commercial Bank Rwanda began operations with one branch at Kigali. The Government has over the years reduced its shareholding to 35% and more recently to 26.2% following the rights issue exercise in 2004, which raised KShs 2.45 billion in additional capital for the bank.

The **Co-operative Bank of Kenya Limited** was registered under the Co-operative Societies Act in June 1965 and licensed as a commercial bank under the Banking Act in 1968. The bank is one of the four largest banks in Kenya. . The Bank deals indirectly with the microfinance institution's type of operations through co-operatives. The Bank addresses among others, the needs of many SACCO members who upon retiring from employment have plans to become Micro and Small Entrepreneurs. The bank also offers other banking services offered by other commercial banks, being a Fully-fledged commercial bank with special emphasis on the coiporate sector.

1.2 Research Problem

Business operates in an environment that is characterized by uncertainties. The environment can either be external or internal. Internal environment is normally within the control of the business while the external environment is hard to control. The global financial crisis, experienced in year 2008 is an example of external environment. The **crisis** spread its negative effects to the whole world. This saw many investors in the developing world running to their countries abroad to safe guard their companies back at home. Banking sector in many countries were affected negatively. Studies on the effects of external environment have been done by many scholars.

Bett (1995), found that as a result of ongoing economic reforms in Kenya firms in the dairy industry made substantial adjustments to their strategies. The variable targeted for adoption included branding, pricing and value preposition. Kombo (1997) noted that firms in motor vehicle industries in the light of changing competitive situation were constantly adapting their strategies to fit with the environmental shifts. The strategic lesponses were mainly based on new technologies, product differentiation and market mix elements. Njau (2000) established that East African Breweries limited undertook situational adjustments in various strategic responses variable in order to fight competition. They adapted manipulation of marketing mix elements, cost efficiency control measures and setting up of foreign market distribution centers. Kiptugen (2003) in his study on the strategic responses to changing competitive environment by Kenya Commercial Bank noted that the adapted strategies included restructuring, marketing information technology advancement and culture change.

Murgo (2008) in his study of strategic responses of sugar companies to the changing environment found that several strategies were adapted. These included the financing of the industry, intensified research, enforcement of standards, social economic developments, lobbying for industry and products. Mwanthi (2003) in her study on strategic responses by BAT Kenya ltd to current environmental changes saw that strategies adopted included establishment of appropriate marketing and consumer information across all the operations by utilizing international marketing standards, training and developing of staff to ensure continuous improvement and exposure to business, advising farmers to adopt environmentally friendly farming practices like afforestation, corporate social responsibilities, restructuring the organisation and product diversification together with rebranding the products to make them more appealing to customers. All above scholars through empirical studies have studied strategic responses to the environment against the five market forces as stipulated by Porter. Kenyan banks were not affected as much as other Banks in the world. It is important that a study is done to understand the strategies that the banks used in cushioning themselves from the advance effects of the global economic downturn. Specifically this study will seek to answer, what strategic responses did the selected commercial banks in Kenya use to cushion against the negative effects of the Global Financial crises of 2008?

1.3 Objectives of the Study

The objective of this study was to identify the strategic responses of selected major commercial banks in Kenya to the global economic down turn of 2008.

1.4 Value of the Study

This study will add more knowledge to the theory and practice in the area of strategic responses in respect to the Global financial crisis. This will help organizations to shield themselves from such phenomenon as the global financial crisis and also help respond efficiently to the financial crisis in future. Strategy, a word of military origin, referring to a plan of action designed to achieve a particular goal has been studied by many scholars as demonstrated in chapter 2 of literature review. This has led to many theories that explain how different businesses respond to the external and internal factors in order to be successful. Pearson and Robinson (2002) 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 objective. It is the direction and scope of an organization over the long-term: which achieves advantage for the organization through its configuration of resources within a challenging environment, to meet the needs of markets and to fulfill stakeholder expectations" (Johnson and Scholes, 1999). This study will add more knowledge to the theory of how banking industries can devise strategies to help react to turbulent conditions in the environment such as global financial crises of **2008.**

According to Mosbys dictionary (2009) policy is a principle or guideline that governs activities in a facility that employees or members of the institution or organization are expected to follow. This study will help policy formulators and implementers to be able to get quick solutions to that in future or present situation can shelter an organization against the any external forces such as the Global financial crises of 2008. The study overall affects the practice in the financial sector locally and globally. The recommendations in this study are directed not only to the banks but also the regulators such as Kenya bankers association and the central bank.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter looks in to the various scholars and writers who have written on the topic being studied. This gives us an in depth of the knowledge already existing in the field. This helps us to identify gaps and further areas of study.

2.2 Strategy Concept

Strategy, a word of military origin, refers to a plan of action designed to achieve a particular goal. Strategy is a unifying pattern of decisions. It defines organization purpose that is goals objectives and priorities. Strategy deals with organization competitive advantage thus positioning the organization in the environment. Strategy also defines obligations of the organization to its stakeholders, and helps in defining the scope of the organization product and market scope.

Pearson and Robinson (2002) 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 objective. It is the direction and scope of an organization over the long-term: which achieves advantage for the organization through its configuration of resources within a challenging environment, to meet the needs of markets and to fulfill stakeholder expectations" (Johnson and Scholes, 1999). Strategy can help in determining the course of action where an external environment is likely to affect the competitiveness of an organization. Strategies exist at several levels in any organization ranging from the overall business through to individuals working in it. This can be classified as corporate strategy, business unit strategy and operational strategy. Corporate Strategy is concerned with the overall purpose and scope of the business to meet stakeholder expectations. This is a crucial level since it is heavily influenced by investors in the business and acts to guide strategic decision-making throughout the business. Coiporate strategy is often stated explicitly in a "mission statement". Strategic decisions are therefore decisions that managers will make to cushion an organization against environmental turbulences in order to remain competitive and profitable.

We can call this strategic management because it relates to positioning and relating as firm to its environment in a way that will assure continued success. Competitive strategy refers to how a company competes in a particular business competitive strategy is concerned with how a company can gain a competitive advantage through a distinctive way of competing. In a situation where an organization is expecting to face a certain threat in the market, then the strategy approach is more proactive. It is deliberate; it involves a conscious planning ahead of the action. In simple terms, the phenomenon of 'globalization' is perceived as increased inter-conceitedness of the world. However there are three primary defining pillars of globalization that includes cultural, political and economic dimensions (Porter, 2002). It was argued that 'cultural globalization' is increasing convergence of cultural styles on a global norm, with that norm being codified and defined by the global capitalist system. Now cultural values and norms are shared and adopted among people in a way where we are giving rise to one global culture. Similarly it was asserted that 'political globalization" is regarding as erosion of the former role and power of the nation-state.

Keynes (1924) pointed out that the importance of banking is supporting investments. Most studies in the recent years have explored the role of bank behavior in macro outcomes by investigating the actions of a representative bank. This is analytically attractive as it suggests that insights from micro-foundational frame work can be generalized to the economy as a whole without taking on the distinct challenges of aggregate analysis. One partial exemption involves the recent literature on banking contagion effects, which has been spurred by recurrent global financial crisis. Modeling contagion effects requires models with multiple banks. In most of the heterodox and orthodox work, multiple banks affect one another through linkages that involve either asymmetric information or perceived uncertainty.

2.3 Contextual issues of the Global Financial crisis

UNDP (2004) Globalization describes a process by which regional economies, societies, and cultures have become integrated through a global network of communication, **transportation,** and trade. The term is sometimes used to refer specifically to economic **globalization:** the integration of national economies into the international economy **through** trade, foreign direct investment, capital flows, migration, and the spread of technology. However, globalization is usually recognized as being driven by a **combination** of economic, technological, socio-cultural, political, and biological factors. **The** term can also refer to the transnational circulation of ideas, languages, or popular culture through acculturation.

Levitt (1983) in discussing the globalization of markets state that "We live in a rapid globalizing world and certain national identifiers like taste, technology, market and finance are no longer constrained by national boundaries. They operate on a global basis. The defining features of globalization are the interdependence and connectedness of the economics, politics and culture of nations and not uniformity of markets and taste of a single country" (Yong M. 1989). Globalization is fast spreading to all comers of the world through multinational organizations spreading their business due to expansion to seek new opportunities in under developed markets. Well this is very noticeable in all sectors or industry of the Nigeria economy oil industry, aviation industry, education, health, manufacturing, information technology and to mention a few the banking industries. But for the purpose of this dissertation we will focus on the effect of globalization to the banking sector. The development has it being very helpful or not. Like every other sector globalization has its benefits and their disadvantages.

The general tendency for globalization is available for the changes inside the financial and banking system, too. These changes are compulsory for the agents having a global calling to view the internationalization on a basis of interaction between internal and international growth respectively. This vision about the internationalization of banking services sector turns the globalization concept and effort into a multidimensional one.

The banking products, the markets for banking services, the internationalization and operating strategies and the organizational ability for internationalization are the main determinants of globalization of the banking system and for the framework of which they are supporting this process. As for as the banks are able to obtain, detain and utilize the main determinant factors, in a dynamic and effective manner, they may be in position to go to the different stages of internationalization process reaching the stage of organizations with a global calling and activity. Strategic management should address the dynamics of markets systems and behavior. The forces of globalization have necessitated the alignment and realignment and activities to match the ever changing environment (porter, 1998). Cole (1990) argues that open systems are those, which do not interact with their environment for survival as it give better parts of its resources to those firms that conform to its standards and weeds away those that don't. Environment has been characterized as complex, dynamic, multi-facet and having far reaching impact.

Subprime lending, in simple terms giving credit to un-credit worthy borrowers. Subprime lending has been described as "the practice by making loans to borrowers who do not qualify for the best market interest rate because of their undeiprovided credit history[v]. "The lender banks were responsive of the fact that the borrower profile is poor and hedged this risk by charging higher rates of interests, but not fully people became owners of houses without having sufficient income level to pay back the loans.

Bird (2008)The global financial crisis, brewing for a while, really started to show its effects in the middle of 2007 and into 2008. Around the world stock markets have fallen, large financial institutions have collapsed or been bought out, and governments in even the wealthiest nations have had to come up with rescue packages to bail out their financial systems. On the one hand many people are concerned that those responsible for the financial problems are the ones being bailed out, while on the other hand, a global financial meltdown will affect the livelihoods of almost everyone in an increasingly inter-connected world. The problem could have been avoided, if ideologues supporting the current economics models weren't so vocal, influential and inconsiderate of others' viewpoints and concerns. A collapse of the US sub-prime mortgage market and the

reversal of the housing boom in other industrialized economies have had a ripple effect **around** the world. Furthermore, other weaknesses in the global financial system have surfaced. Some financial products and instruments have become so complex and twisted, that as things start to unravel, trust **in** the whole system started to fail.

Kanaga (2008) in his notes titled "the scale of crisis" notes that the extent of the problems has been so severe that some of the world's largest financial institutions have collapsed. Others have been bought out by their competition at low prices and in other cases, the governments of the wealthiest nations in the world have resorted to extensive bail-out and rescue packages for the remaining large banks and financial institutions. He further notes, the global economy is teetering on the brink of recession. The downturn after four years of relatively fast growth is due to a number of factors: the global fallout from the financial crisis in the United States, the bursting of the housing bubbles in the US and in other large economies, soaring commodity prices, increasingly restrictive monetary policies in a number of countries, and stock market volatility. The fallout from the collapse of the US mortgage market and the reversal of the housing boom in various important countries has turned out to be more profound and persistent than expected in 2007 and beginning of 2008. As more and more evidence is gathered and as the lag effects are showing up, we are seeing more and more countries around the world being affected by this rather profound and persistent negative effect from the reversal of housing booms in various countries.

Krugman (2008) some of the bail-outs have also been accompanied with charges of hypocrisy due to the appearance of "socializing the costs while privatizing the profits." The bail-outs appear to help the financial institutions that got into trouble (many of whom pushed for the kind of lax policies that allowed this to happen in the first place). Some governments have moved to make it harder to manipulate the markets by shorting during the financial crisis blaming them for worsening an already bad situation. It should be noted that during the debilitating Asian financial crisis in the late 1990s, Asian nations affected by short-selling complained, without success that currency speculators—operating through hedge funds or through the currency operations of commercial banks and other financial institutions—were attacking their currencies through short selling and in doing so, bringing the rates of the local currencies far below their real economic levels. Paul (2008) However, when they complained to the Western governments and International Monetary Fund (IMF), they dismissed the claims of the Asian governments, blaming it on their own economic mismanagement instead. Other governments moved to try and reassure investors and savers that their money was safe. In a number of European countries, for example, governments have tried to increase or fully guarantee depositors' savings. In other cases, banks have been nationalized (socializing profits as well as costs, potentially.)

There seems to be little sympathy—and even growing resentment—for workers in the financial sector, as they are seen as having gambled with other people's money, and hence lives, while getting fat bonuses and pay rises for it in the past. Although in raw dollar terms the huge pay rises and bonuses are small compared to the magnitude of the problem, the encouragement such practices have given in the past, as well as the type of culture it creates, is what has angered so many people.

Joseph (2008) Because of the critical role banks play in the current market system, when the larger banks show signs of crisis, it is not just the wealthy that suffer, but potentially everyone. With a globalized system, a credit crunch can ripple through the entire (real) economy very quickly turning a global financial crisis into a global economic crisis. For example, an entire banking system that lacks confidence in lending as it faces massive losses will try to shore up reserves and may reduce access to credit, or make it more difficult and expensive to obtain.

He also noted that in the wider economy, this '"credit crunch" and higher costs of borrowing will affect many sectors, leading to job cuts. People may find their mortgages harder to pay, or remortgaging could become expensive. For any recent home buyers, the values of their homes are likely to fall in value leaving them in negative equity. As people cut back on consumption to try and weather this economic storm, more businesses will struggle to survive leading to further job losses. Many blame the greed of Wall Street tor causing the problem in the first place because it is in the US that the most influential banks, institutions and ideologues that pushed for the policies that caused the problems are found. The crisis became so severe that after the failure and buyouts of major institutions, the Bush Administration offered a $700 billion bailout plan for the US financial system

Stiglitz (2008) This bailout package was controversial because it was unpopular with the public, seen as a bailout for the culprits while the ordinary person would be left to pay for their folly. The US House of Representatives initial rejected the package as a result, sending shock waves around the world. It took a second attempt to pass the plan, but with add-ons to the bill to get the additional congressmen and women to accept the plan. However, as former Nobel prize winner for Economics, former Chief Economist of the World Bank and university professor at Columbia University, he argued, the plan "remains a very bad bill:"

I think it remains a very bad bill. It is a disappointment, but not a surprise, that the administration came up with a bill that is again based on trickle-down economics. You throw enough money at Wall Street, and some of it will trickle down to the rest of the economy. It's like a patient suffering from giving a massive blood transfusion while there's internal bleeding; it doesn't do anything about the basic source of the hemorrhaging, the foreclosure problem. But that having been said, it is better than doing nothing, and hopefully after the election, we can repair the very many mistakes in it.

Reynolds (2008) Even before this global financial crisis took hold, some commentators were writing that the US was in decline, evidenced by its challenges in Iraq and Afghanistan, and its declining image in Europe, Asia and elsewhere. The BBC also asked if the US's superpower status was shaken by this financial crisis. The financial crisis is likely to diminish the status of the United States as the world's only superpower. On the practical level, the US is already stretched militarily, in Afghanistan and Iraq, and is now stretched financially. On the philosophical level, it will be harder for it to argue in favor ot its free market ideas, if its own markets have collapsed. 'The era of American global leadership, reaching back to the Second World War, is over. The American free-market creed has self-destructed.

ICanaga (2008) for the developing world, the rise in food prices as well as the knock-on effects from the financial instability. Uncertainty in industrialized nations is having a compounding effect. High fuel costs, soaring commodity prices together with fears of global recession are worrying many developing country analysts. Summarizing a United Nations Conference on Trade and Development report, the Third World Network notes the impacts the crisis could have around the world, especially on developing countries that are dependent on commodities for import or export. Uncertainty and instability in international financial, currency and commodity markets, coupled with doubts about the direction of monetary policy in some major developed countries, are contributing to a gloomy outlook for the world economy and could present considerable risks for the developing world, the UN Conference on Trade and Development (UNCTAD) said Thursday. Market liberalization and privatization in the commodity sector have not resulted in greater stability of international commodity prices. There is widespread dissatisfaction with the outcomes of unregulated financial and commodity markets, which fail to transmit reliable price signals for commodity producers. In recent years, the global economic policy environment seems to have become more favorable to fresh thinking about the need for multilateral actions against the negative impacts of large commodity price fluctuations on development and macroeconomic stability in the world economy.

Kristin (2009) writing on the effect of the Global financial crises to Asian countries noted, countries in Asia are increasingly worried about what is happening in the West. A number of nations urged the US to provide meaningful assurances and bailout packages for the US economy, as that would have a knock-on effect of reassuring foreign investors and helping ease concerns in other parts of the world. Many believed Asia was sufficiently decoupled from the Western financial systems. Asia has not had a subprime mortgage crisis like many nations in the West have, for example. Many Asian nations have witnessed rapid growth and wealth creation in recent years. In addition, there was increased foreign investment in Asia, mostly from the West. However, this crisis has shown that in an increasingly inter-connected world means there are always knock-on effects and as a result, Asia has had more exposure to problems stemming from the West. Many Asian countries have seen their stock markets suffer and currency values going on a downward trend. Asian products and services are also global, and a slowdown in wealthy countries means increased chances of a slowdown in Asia and the risk of job losses and associated problems such as social unrest.

Stiglitz (2008) this problem of credit crunch could have been averted (in theory) as people had been pointing to these issues for decades. Yet, of course, during periods of boom no-one (let alone the financial institutions and their supporting ideologues and politicians largely believed to be responsible for the bulk of the problems) would want to hear of caution and even thoughts of the kind of regulation that many are now advocating. To suggest anything would be anti-capitalism or socialism or some other label that could effectively shut up even the most prominent of economists raising concerns. Of course, the irony that those same institutions would now agree that those "anti-capitalist" regulations are required is of course barely noted. Such options now being considered are not anti-capitalist. However, they could be described as more regulatory or managed rather than completely free or laissez faire capitalism, which critics of regulation have often preferred. But a regulatory capitalist economy is very different to a state-based command economy, the style of which the Soviet Union was known for. The point is that there are various forms of capitalism, not just the black-and-white capitalism and communism. And at the same time, the most extreme forms of capitalism can also lead to the bigger bubbles and the bigger busts.

Joseph (2008) Quoting Stiglitz, he captures the sentiments of a number of people. We had become accustomed to the hypocrisy. The banks reject any suggestion they should face regulation, rebuff any move towards anti-trust measures, yet when trouble strikes, all of a sudden they demand state intervention: they must be bailed out: they are too big, too important to be allowed to fail. Another person stated. "America's financial system failed in its two crucial responsibilities: managing risk and allocating capital. The industry as a whole has not been doing what it should be doing and it must now face change in its regulatory structures. Regrettably, many of the worst elements of the US financial system were exported to the rest of the \vorld."However, this crisis wasted almost a generation of talent. It was all done in the name of innovation, and any regulatory initiative was fought away with claims that it would suppress that innovation. They were innovating, all right, but not in ways that made the economy stronger. Some of America's best and brightest were devoting their talents to getting around standards and regulations designed to ensure the efficiency of the economy and the safety of the banking system. Unfortunately, they were far too successful, and we are all — homeowners, workers, investors, taxpayers — paying the price.

Krugman (2008) most economic regions are now facing recession, or are in it. This includes the US, the Euro zone, and many others. At such times governments attempt to stimulate the economy. Standard macroeconomic policy includes policies to increase borrowing, reduce interest rates, reduce taxes and spend on public works such as infrastructure. Borrowing at a time of recession seems risky, but the idea is that this should be complimented with paying back during times of growth. Likewise, reducing interest rates sounds like there would be less incentive for people to save money, when banks need to build up their capital reserves. However, as the real economy starts to feel the pinch, reduced interest rate is an attempt to encourage people to take part in the economy. Tax reduction is something that most people favor, and yet during times of economic downturn it would seem that a reduction in tax would result in reduced government revenues just when they need it and then spending on health, education, etc, would be at risk. However, because higher taxes during downturns mean more hardship for more people, increased borrowing is supposed to offset the reduction in taxes, hopefully affording people a better chance to weather the economic storm.

Stiglitz (2008) we may be at a new "Bretton Woods" moment. The old institutions have recognized the need for reform, but they have been moving at glacial speed. They did nothing to prevent the current crisis; and there is concern about their effectiveness in responding to it now that it has hit. It took the world 15 years and a world war to come together to address the weaknesses in the global financial system that contributed to the Great Depression. It is to be hoped that it will not take us that long this time: given the level of global interdependence, the costs would simply be too high.

Krugman (2008) In Iceland, where the economy was very dependent on the finance sector, economic problems have hit them hard. The banking system virtually collapsed and the government had to borrow from the IMF and other neighbors to try and rescue the economy. However, Iceland has raised its interest rates to some 18%, partly on advice from the IMF. It would appear to be an example where high interest rates may be inappropriate. The economic problems have led to political challenges including protests and clashes. He also noted that capital controls may have also helped Iceland as well as having its own currency and making the banks pay for the problems rather than making the public pay, which is what has since happened in Ireland which now faces a massive bailout and very severe austerity measures. It may be that this time round a more fundamental set of measures needs to be considered, possibly global in scope. The very core of the global financial system is something many are now turning their attention to.

Joseph (2008) argues that failures in financial markets have come about because of poorly designed incentive structures, inadequate competition, and inadequate transparency. Part of this is because larger institutions have been resistant to changes that would actually create more healthy competition, something Adam Smith had long noted in his Wealth of Nations, often regarded as the Bible of capitalism. Better regulation is required to reign in the financial markets and bring back trust in the system. Part of the problem has been our regulatory structures. If government appoints as regulators those who do not believe in regulation, one is not likely to get strong enforcement. We have to design robust regulatory systems, where gaps in enforcement are transparent. Relatively simple regulatory systems may be easier to implement and more robust, and more resistant to regulatory capture. Well-designed regulations may protect us in the short run and encourage real innovation in the long. Much of our financial market's creativity was directed to circumventing regulations and taxes. Accounting was so creative that no one, not even the banks, knew their financial position. Meanwhile, the financial system has resisted many of the innovations that would have increased the efficiency of our economy. By reducing the scope for these socially unproductive innovations, we can divert creative activity in more productive directions.

The combination of a deteriorating credit market and liquidity strains precipitated the current financial crisis, and the collapse of America's largest mortgage institutions (Fannie Mae and Freddie Mac), and globally important investment banks such as Bear Stearns, Lehman. (Nyangito, 2009) Systemic risk was a major fear of the global financial crisis. This is financial system instability, potentially catastrophic, caused or exacerbated by idiosyncratic events or conditions in financial intermediaries. Systemic risk entails collapsing many financial intermediaries, financial markets or payments systems due to collapse of single entity. The greatest systemic risk fear is contagion risk, where if one bank collapses, customers go en masses to other banks deemed to be weak or peers of the collapsed bank and withdraw their demand deposits in panic. The problem is that the coverage of deposit protection funds is limited to relatively low figure for example Kshs 100,000 so as to incentivize depositors to review the strength and liquidity of their banks. Besides most central banks follow the implicit moral hazard ''too big to fail" as well as the Walter Bagehot of bailing out solvent but illiquid banks. The cross border systemic risk contagion from one country to another was also a big concern of many financial services regulator and this led to unprecedented collaboration by regulators both intra-country for example USA Fed collaborated with Federal Deposit Insurance Company, Office of the Comptroller of Currency-OCC and cross country. According to Schendel and Hofer (1979) 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 (2002)urges that the organization have to respond to the turbulence by creating new strategies that they define as a large scale, future oriented plans for interacting with environment.

The fear of Economic Depression was also eminent, fear of collapse in the financial system (systemic risk) leading to drastic and prolonged fall in GDP growth rates, high unemployment, low industrial production , widespread social unrest like in the 1930s Great depression. Already the US Democrats political party lost heavily in the recent US elections due to sluggish economic recovery despite unprecedented government expansionary fiscal policy. There was heavy impairment in government ability to use monetary and fiscal policies to influence economic resuscitation.

Because the economy is in the doldrums, these countries could not rely on raising taxes to fund government expenditure need to create jobs and spur growth. The USA Federal Reserve Bank (US central bank) has resulted to printing money for use in spurring the economy. The repercussions of this can be seen in the so called currency wars between nations for example China and USA, Japan and China as the country which is printing money devalues her currency against all other countries making her exports cheaper and thus aiding her economic spurring objectives but at the disadvantage of her trading partners. As the turbulence levels changes, management develops systematic approaches to handling the increasing unpredictability, novelty ad complexity. Competitive advantage is having an edge over rivals in attracting customers and defending against competitive forces (Johnson and Scholes, 2002) competitive strategies are those approaches and initiatives a firm takes to strengthen its market positioning. 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 (Juach and Glueck, 1988).

It is often difficult to know, in the midst of a crisis, whether distressed businesses are experiencing a crisis of solvency or a temporary liquidity crisis. In the case of a credit crunch, it may be preferable to "mark to market" - and if necessary, sell or go into liquidation if the capital of the business affected is insufficient to survive the post-boom phase of the credit cycle. In the case of a liquidity crisis on the other hand, it may be preferable to attempt to access additional lines of credit, as opportunities for growth may exist once the liquidity crisis is overcome. Porter (1980) states that due to the fact that environment is constantly changing, it is imperative that an organization has to constantly adopt its activities to reflect to the new environmental requirements. As past experience cannot be used to predict what to expect in the future, companies which would like to survive must adopt and adapt change. Kay (1995) argues that strategy is no longer about planning or visioning because we decide if we think we can predict or worse control the future.

A prolonged credit crunch is the opposite of cheap, easy and plentiful lending practices. During the upward phase in the credit cycle, asset prices may experience bouts of frenzied competitive, leveraged bidding, inducing inflation in a particular asset market. This can then cause a speculative price "bubble" to develop. As this upswing in new debt creation also increases the money supply and stimulates economic activity, this also tends to temporarily raise economic growth and employment. Often it is only in retrospect that participants in an economic bubble realize that the point of collapse was obvious. In this respect, economic bubbles can have dynamic characteristics not unlike Ponzi schemes or Pyramid schemes. As John Maynard Keynes (1931) observed during the Great Depression: "A sound banker, alas, is not one who foresees danger and avoids it, but one who, when he is ruined, is mined in a conventional way along with his fellows, so that no one can really blame him."

Bumes (2000) focuses on the real time responses to minimize the sum total losses and restore profitability to ensure organization's success in a turbulent and unpredictable environment. He further observed that unstable and unpredictable condition in which organizations have to operate today means that the ability to think strategically and manage strategic change successfully is key competitive strength, for a sustainable competitive advantage ,real time strategic issues response are necessary to facilitate the firm's preparedness in handling the impending issues, which may have a profound impact on the firm. Hill and Jones (2001) states that strategic choice is a process of choosing among the alternatives generated SWOT analysis.

Pearson and Robinson (2000) say that there is need to adopt new strategies that match the challenges from the environment. Re-engineering, downsizing; self-management and outsourcing are some of the dominant strategies that have been used for restructuring in the I990's. Some institutions were paying for risk on margin so you didn't have to lay down the actual full values in advance, allowing people to make big profits and big losses with little capital. As Nick Leeson (of the famous Barings Bank collapse) explained in the same documentary, each loss resulted in more betting and more risk taking hoping to recoup the earlier losses, much like gambling. Derivatives caused the destruction of that bank. Hedge funds have received a lot of criticism for betting on things going badly. In the recent crisis they were criticized for shorting on banks, driving down their prices. Some countries temporarily banned shorting on banks.

In some regards, hedge funds may have been signaling an underlying weakness with banks, which were encouraging borrowing beyond people's means. On the other hand the more it continued the more they could profit. The market for credit default swaps market (a derivative on insurance on when a business defaults), for example, was enormous, exceeding the entire world economic output of $50 trillion by summer 2008. It was also poorly regulated.

Kazmi (2002) as a result of these characteristics, the environment is composed of various factors, events, with each other to create an entirely new set of influences leading to constant environmental change in its shape and character. According to Ross et al (1996) the firm has to learn and reorient themselves to the changing environment. For organizations to remain truly competitive to the changing environment over time in a turbulent environment; the firm should therefore closely monitor the changes in events and trends in the industry it operate in, for it to adopt on time.

2.4 Strategic Responses

Strategy as a tool of management is the helper in managing a company during turbulent times. It is therefore a tool that should be taken seriously as, not only for the firm but also for a broad spectrum of social organization. Ansoff and McDonnel (1990) define strategy as a set of decision making rules for guidance of organization behaviour. It is used as a yardstick to measure firm's performance and to define relationship with the external environment. It is important that strategy takes into consideration both the immediate and remote environment

Organization must position them properly in the market. This means that they must be adequately equipped to deal with environmental challenges, failure to which they will face problems. Strategy is the tool to apply to enable the firm cope with turbulent environment facing the firms (Johnson and Scholes, 2003). It helps to position a firm in the wider external environment and also defines the obligation of the firm to its stakeholders (Johnson and Scholes, 1999). It helps to define specific business of the firm in terms of products, market and geographical scope. Strategy can also be defined as firm's game plan to enable a firm to create competitive advantage (Pearson and Robinson, 2000) the firm needs to look at itself in terms of what the competitors are doing. This is critical because firms in the same industry tend to compete for the same customers.

The concept of strategy can be seen as a multidimensional aspect that embraces all 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). According to Ansoff and Mc Donnel (1990), when firms are faced by unfamiliar changes, they should revise their strategies to match the turbulence level.

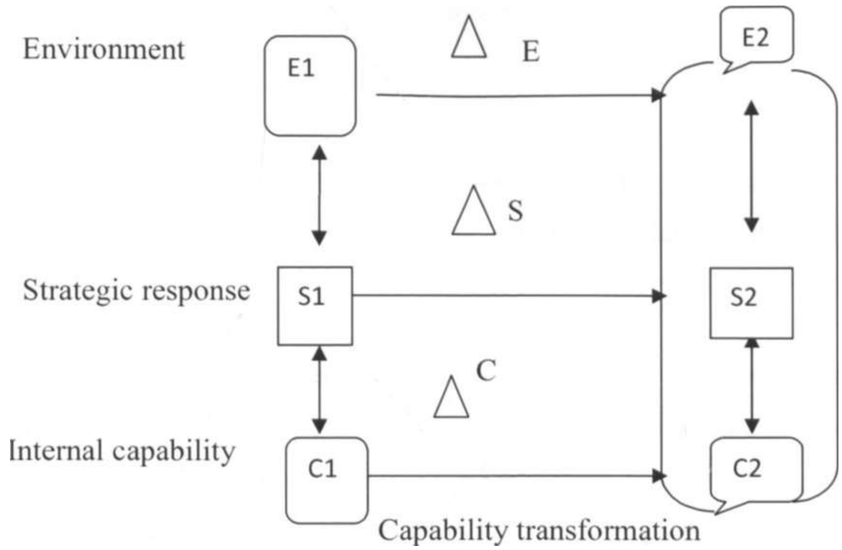
The strategic alternatives generated can encompass business level function level and global strategy. They further noted that by planning, an organization is able to identify the problems and plan how to solve them by using appropriate strategies depends on where it wants to go and how it intends to get there. It depends on the extent to which knowledge and core competency can be shared across the various businesses that comprise the origin (Andrew; 1987) the company cooperate strategy should help in the process of establishing a destructive competence and a competitive advantage at the business level. This is very important link between cooperate level and business level. (Johnson and Scholes, 2003). Kombo (1997) established that for firms to be effective and hence successful, they should adapt appropriately to changes that occur in their respective environments. And adaptations may be referred to as strategic response (Schendel and Hofer; 1979).

Ansoff and McDonnel (1990), notes that strategic responses involve changing the organization's strategic behaviour. Such responses may take many forms depending on the organization's capability and environment in which it operates. Well developed and targeted strategic responses are formidable weapon for a firm in acquiring and sustaining a competitive edge. A company strategy should help in the process of establishing a destructive competency and competitive advantage at the business level.

Strategic response can be seen as matching of activities of an organization to the environment in which it operates. Strategic responses affect the long term direction of an organization and requires large amount of resources. It is aimed at achieving advantage for the organization and as such it is concerned with the scope of the entire organization activities (Johnson and Scholes, 1999) Pearce and Robinson (1997) argue that response is the set of decisions and actions that result in the formulation and implementation of plans designed to achieve a firms objective.

Thompson and Strickland (1989) define strategy formulation as the management function of establishing organizational direction, setting objectives and devising a managerial game plan for organization to pursue. There are two major approaches to strategy formulation that is deliberate design and emergent process. The planning mode is deliberate and proactive involving conscious planning ahead and is an outcome of formal and deliberate effort. Porter (1980) look at the planned change from a design perspective; viewing strategy development as the deliberate positioning of the organization through a rational analytical structure and directive process. Emergent approach to strategy is continuous open ended and unpredictable.

El to E2, this requires a shift in the firm's strategy from SI to S2. A shift in strategy will be possible only if an organizational capability is shifted from capability CI toC2.



II. **Figure 2.3 Illustration of a shift in environment**

Source: Ansoff, H.I and McDonnell, E.J, (1990), Implanting strategic Management, 2nd edition prentice Hall, Page 40.

Key to figure 2.3:

f\ E-Shift in environment

f\ S -strategic transformation

f\ C~Capability transformation

E1 - Present Strategy,

E2-Future Environment,

51-Present strategy,

52- Future Strategy,

CI - presents Internal Capability,

C2 Future Internal Capability

CHAPTER THREE

RESEARCH METHODOLOGY

3.1. Introduction

This chapter sets out the research methodology that was used to meet objective of the research study. It covers the population, sample, the data collection technique.

3.2 Research Design

The research problem was studied through a survey of selected four major commercial banks in Kenya. Representative sample was selected from the management level in the major banks. The respondents were mainly from Finance, Risk, Corporate banking and Business Development departments. These were considered as the key departments that are instrumental in strategy development. This method was in expensive, efficient and accurate means of assessing information about the population.

3.3 Population

The respondents were from the selected four major commercial banks in Kenya. These commercial banks were Kenya commercial bank. Equity Bank, Barclays Bank of Kenya and Cooperative Bank of Kenya. **Justification of the chosen banks,** according to Nation Newspaper Posted Friday, May 1 2009, Equity Bank, Barclays Bank and Kenya Commercial Bank took the first three slots as the best banks in Kenya during in a ceremony that recognizes the best financial institutions.

The three banks currently top the ranks of the most profitable institutions in Kenya as measured by their pre-tax profit. In 2008, Barclays Bank recorded a 13 per cent increase in pretax profit to Sh8 billion with Kenya Commercial Bank recording a 42 per cent increase to Sh6 billion while Equity Bank doubled its pretax profit to Sh5 billion to take the third position. Cooperative Bank is unique in that it serves both individual customers as well as corporate financial institutions like Cooperative societies and movements.

3.4 Data Collection

Data collection was done using a detailed questionnaire to the selected respondents. These respondents included people conversant with the strategy of selected major banks for example risk managers, coiporate bankers and in the finance department. This was done though direct interviews, dropping of questionnaires while some respondents preferred a soft copy to be mailed to them.

3.5 Data Analysis

After the data was collected, it was checked for completeness and consistency. The processed data was summarized and presented in form of tables and percentages charts and mode with explanations.

CHAPTER FOUR

DATA ANALYSIS AND INTERPRETATION OF RESULTS

4.1 Introduction

This chapter is looks into the data collected from the four Banks being studied that is Barclays, Equity, Kenya Commercial Bank and Cooperative bank of Kenya. The raw data collected has been arranged in tabular form to make it easy to read. It has also been analyzed in chart form for easier interpretation. A total of 16 questionnaires were distributed out of which 14 were completed and analyzed. The study therefore achieved a 87.5% response rate. Part A and B of the questionnaire was asking general questions about the firms. Part C carried the objective of the study which was "Strategic responses to the Global financial crisis of 2008 by selected major commercial banks in Kenya". The respondent profile in terms of experience was as follows.

Table 4.1: Age of operation profile of respondents

Age range in years of operation	Frequency
1 - 5	10
5.1- 10	1
10.1- 15	1
15.1-20	2
Total	14

4.2 Awareness of the global financial crisis

100% of the respondents were aware of the recent global financial crisis of 2008. This is an indication of the importance of this phenomenon to the banking business in Kenya

Table 4.2: Summary of response to the awareness of the global financial crisis.

Bank	Number of respondents	Yes	No
Barclays	4	4	0
Equity	3	3	0
Coop	3	3	0
KCB	4	4	0

4.3: Main fears as a result of the Global financial crisis

The fears across board were characterized by similarities. Table 4.3 shows how different banks pre-empted the likely effects of the global financial crisis to their business.

Table 4.3: Fears of global financial crisis in the selected banks

Bank	Fears
Barclays	Large withdrawal by customers as a result of insecurity Job losses Business going down Reduced expansion Reduced investment by customers Low number loan advances More liabilities in banks Economy going down
Equity /	Securities would lose value Corporate would not be able to support themselves Massive job retrenchments Individuals would lose property due to inability to repay loans Collapse of financial institutions Investors confidence in banks Drop of currency value
Cooperative	High cost of leading money to customers due to risk in the market. Depreciation of prices of securities in mortgages Non payments in loans Customer borrowings would be affected Deposits would go down
Kenya Commercial Bank	Loss of market shares Loss of jobs Decline in business Bad debts were likely to increase due to poor economy performance. Increased volatility of foreign currencies Slowdown in tourism sector that relies heavily on the foreign tourist hence affecting the deposits for the bank customers I that industry Slowdown of construction industry and the stock market which rely heavily on remittances from abroad and thus reduced earnings for the banks from construction loans. Slowdown of horticultural industry which is considered a key foreign exchange earner thus affecting the CBK liquidity Reduced foreign direct investments.

News of the Global financial crisis was seriously taken by all the banks. Out of 14 respondents 93% indicate that the news was taken very seriously. 7 % indicate that the news was of less concern to the business.

Table 4.4 Summary of seriousness of the Global financial crisis to the bank

Bank	Serious	Less concerned	Ignored	Don't know
Barclays	4	0	0	0
Equity	3	0	0	0
Cooperative	3	0	0	0
KCB	3	1	0	0
TOTAL	13	1	0	0

Above summary has also been represented in a figure that gives a perfect percentage of the response to the news of the global financial crises.

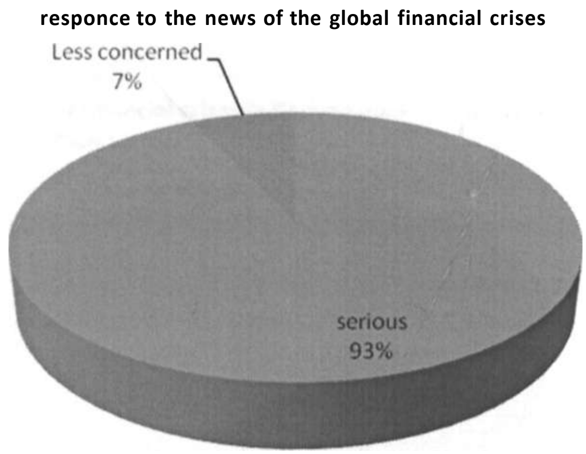


Figure 4.1 Summary of the seriousness of the Global financial crisis to the selected Banks.

The effects of the global financial crisis in Kenyan banks differed from bank to bank. As per the analysis majority of respondents felt lie there was no effect to the business. 43% indicated no effect as 36% indicated a negative impact. A little number represented by 14% indicated a positive impact to their business as other banks were shying off with loans and expansion; it was the opportunity to expand. Table 4 gives a summary of how the selected banks in Kenya were affected by the Global financial crisis.

Table 4.5: Effects of global financial crisis to selected Banks in Kenya.

Bank	Positively	Negatively	No effect	Don't know
Barclays	0	2	1	1
Equity	2	0	1	0
Cooperative	0	2	1	0
Kenya Commercial Bank	0	1	3	0
Total	2	5	6	1

Below is a figure presentation of the impact of the global financial crises in Kenyan Banks within the country.

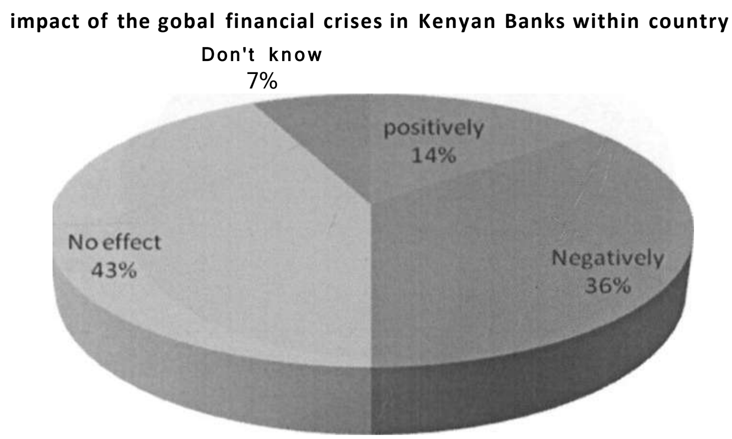


Figure 4.2: Percentage summary of effects of global financial crisis in the selected banks in Kenya

It was however very different in other countries. Branches in other countries were adversely affected as compared to Kenyan counterparts. The study results indicate that 71% of the respondents had a negative impact in business. While 29% were not aware of what business in other countries experienced, there was no indication of any Bank that had a positive or no effect to the business. Table 5 shows a summary of the effects to other branches in other countries.

Table 4.6: Summary of the effects of global financial crisis to other branches in other countries

Bank	Positively	Negatively	No effect	Don't know
Barclays	0	3	0	1
Equity	0	2	0	1
Cooperative	0	1	0	2
Kenya Commercial Bank	0	4	0	0
Total	0	10	0	4

Below is a figurative representation of the effects of global financial crises in bank branches outside Kenya.

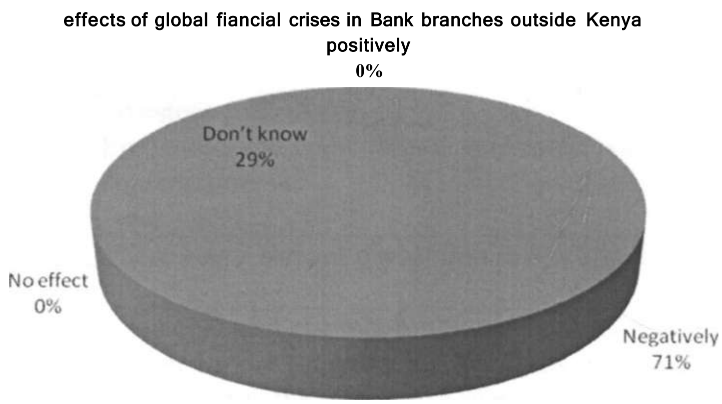


Figure 4.3 Summary of the effects of global financial crisis to Branches in other countries

Some of the explanations given to back the negative effects were merging of some branches to be able to sustain themselves. Some banks like Barclays in UK had to issue a rights issue to be able to sustain them as some Barclays bank in Pakistan closed down. Profitability went down. At equity branches outside countries made losses and Escrow accounts in United States of America made losses.

4.4. Measures to counter effects of Global financial crisis

Different banks made several measures to counter effects of any impact of the crisis. Table 4.7 shows the various measures per bank that were put in place to counter any expected negative effect to the business. These according to respondents were the first precautionary measures at receiving the news.

Table 4.7: Measures taken by banks to counter any expected effect to the business.

Bank	Measures
Barclays	Lending rates increased to mitigate risks involved No overtime was paid to staff and any other unnecessary costs were avoided for example entertainment. Encouraged saving unlike loans. More awareness was created through increased sales campaign Expansion of new branches was halted to avoid venturing into uncertain markets.
Equity	Huge provisions for bad debts Reduced lending to avoid risks, this was mainly in sectors heavily affected by the crisis especially fanning and horticulture industry. Increased public relations expenditure Increased briefing to investors and stakeholder through talks and giving investors confidence Embarked on cost cutting measures; slowed down expansion and re-construction
Cooperative	There was a serious precaution in lending; lending was reduced.
Kenya Commercial Bank	Price changes; cheaper products to attract more business Focused more on mass markets; this was backed by expansive expansion to other parts the region to cover a wider market segment Review lending to the affected industries for example horticulture, tourism and construction; lending policies were reviewed. Closer regulation and monitoring of accounts and enhanced risk management practices Risk management by each financial institution, with the regulator risk profiling ad continuously reviewing the risks independently. More information sharing by the financial sector regulator in Kenya on the risk profiles as well as other pertinent information. There was more investment into research to enable bank pre-empt any changes in the global economy which may affect the bank's profitability.

Five key parameters picked to measure the intensity of changes. These parameters included Products offered in the bank, procedures followed in day to day operations of the bank business, human resources or the staff, pricing of the products and cost or the expenses. The ranking used in measuring were; 1 for a lot, 2 for less, 3 for no change and 4 for those not sure. Mode was used to show the most popular intensity per parameter.

Table4.8 represents the intensity of changes that were made to the chosen key parameters of the banking business.

Table 4.8: Mode representation of the changes that were made

Banks/ Area of operations	Barclays	Equity	Coop	KCB	Mode	Weight
Products; loans/forex/trade finance	3,3,1,2,	3,1,1	2,2,1	2,1,1,1	**1**	**7=50%**
Operations/ Procedures	3,3,1,3	2,2 ,1	3,3,2	1,1,2,1	3	**5=36%**
Management / staff	3,3,1,3	1,2,3	3,3,1	2,2,1 **,4**	**3**	**6=43%**
Pricing	3,3,1,2	2,3,1	3,3,1	2,1,1,1	**1**	**6=43%**
Cost	3,2,1,2	1,1,1	1,1,1	1,1,1,2	**1**	**10=71%**

Products received a lot of attention with a weight of 7 which is 50% of the response. Operation/ procedures received 50/50 attention between a lot and no change. Most of the banks had no change in staff or management, that is, there was little investment in human resource in terms of retrenchment/ recruiting or training. There were a lot of changes in pricing by most banks giving a weight of 6 among other 14 responses that is about 42.9%. Cost management seemed to be a key parameter that was given a lot of emphasis, carrying 71% of the responses. Table 4.9 shows the **changes** around the parameters discussed above per bank.

Table 4.9 Changes that were made during the global financial crisis as responded by different banks.

Bank	Changes
Barclays	Launch of new attractive products Efficiency in operations Lending policies were tightened/ reviewed Employment was frozen Costs were cut down in some areas of operations.
Equity	New products were launched and existing ones reviewed for example e-banking Restructuring of departments took place. Increased layoffs and more recruitment. Increase in interest rates. Reduced expenditure in key areas such as operations There was an increase in branches and auto-branches Procedures were tightened; risk averse.
Cooperative	Rescheduling of loans-pushing the payment dates further Cut on staff expenses like overtimes. Foreign exchange rates were negatively affected. Reduced lending attributed to wait and see attitude. Cost cutting on staff expenses and operations.
Kenya Commercial Bank	Introduction of low and attractive products to the youth and women The bank out-sourced certain skills from the market More coaching/ training to staff. Reduced costs especially on overtime and encouraged recycling of resources. Some loans for companies affected were restructured to prevent default, there was also slowdown in lending to the industries affected Risk management practice was enhanced, risk based pricing was enhanced

A lot of attention was given to accounts, loans, operations and cost management. Table 4.10 however shows that accounts by bank and cost managements received a lot of weight carrying 71% and 86% respectively.

Table 4.10 Summarized ranking of attention focused on accounts, loans operation and cost management.

Ranking/ area of study	4(great)	3(average)	2 (low)	l(no attention)	Mode	Weight in %
Accounts	10	4	0	0	4	**71%**
loans	7	6	0	1	4	**50%**
operations	7	5	2	0	4	**50%**
Cost	12	2	0	0	4	**86%**

4.5 Effectiveness of the strategy chosen

Most of the respondents were in agreement that among the strategies that were adopted Products review and cost management were the most effective strategies among others like operations , staff management and pricing that ranked number 3, 4, 4 respectively. Products and cost management ranked number 1 with products having a weight of 46% and cost management a weight of 36% among the ranking of number 1 to 5.

Table 4.11 Summary of the effectiveness ranking for strategies that were chosen ***(numerical 1, 2. 3 were used with I being the most effective one, mode was used to determine the most popular rank.)***

Area of ranking	**Products**	**Operations**	**Management/ staff**	**Pricing**	**Cost**
Distribution	1,1,1,3,2,2,2,1,3,3,1,2,1	3,2,4,1,3,5,1,2,2,2,4,3,3,4	2,2,5,5,4,1,4,5,4,5,4,4,4	4,2,2,4,1,3,5,4,5,2,1,4	5,1,3,2,1,3,2,3,1,1,3,3,1,4
Mode	**1**	3	**4**	**4**	**1**
Weight	**6=46%**	**4=29%**	**6=46%**	**4=29%**	**5=36%**

Study indicated that there were some strategies that were not given a chance which could have also worked well for the necessary strategies. Some of the strategies are educating the staff on global financial crisis in depth. Skills and knowledge to manage risks for the staff were not given emphasis too. If there was another global financial crisis respondents would thus create more awareness and invest in staff training. They would also focus on non interest revenue earning products for example accounts. Crisis communication plan would be put in place to ensure stakeholders are properly informed. Customers would also be educated on risk identification, mitigation and management.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This chapter gives a summary deduced from the data analysis, conclusion and recommendation as deemed by the scholar doing the study.

5.2 Discussions of the findings

From the analysis of the data, most respondents are in agreement that the global financial crisis was a matter of concern to the business. They thus had to come up with strategic responses to the phenomenon. In this study any move that the bank made, be it in products, procedures, pricing, staff management or cost management was a strategic response. This is so because the move was either to counter any expected effect or to heal an already experienced effect. When a firm's environment moves to a new turbulence level, the responses of the firm's capability to the environment stimulants must also move to a different level. If the capability fails to keep pace with the environment, the firm is in danger of losing its competitive position and become unprofitable. (Ansoff and DCDonnel,1990).

The bulk of managerial time in business firms is devoted to coping with uncertainties induced by the environment. Competition moves, economic fluctuations, availability of raw materials, labour demands (Ansoff and MCDonnell, 1990). The strategies that were adopted included; review of the lending policies to ensure that they were water tight. This would help mitigate any risk that the bank was to be exposed to by lending money when the economy was facing too many uncertainties. Interest rates were increased to ensure that the risk is well mitigated and compensated. This also discouraged borrowing as the bank had little appetite for the loans.

Cost management was a key strategy that was adopted. Most respondents put it straight that expenses like overtime were scrapped off. Entertainment allowances were also halted to allow savings. This cost was transferred to other more returning areas like creation of awareness though advertising, public relations and awareness creation. Barclays stopped their expansion project as Kenya commercial bank and Cooperative embarked in expanding to the mass market areas to increase their touch with volumes of customers. Equity slowed down the expansion exercise. The banks also entered in to agreement on customer information sharing. This would help in managing risks involved in banking industry especially the loan defaulters. Kenya Commercial Bank invested in research to identify any likely effect of the Global financial crisis to the Bank profitability. Strategic management should address the dynamics of markets systems and behavior. The forces of globalization have necessitated the alignment and realignment and activities to match the ever changing environment (porter, 1998).

According to Schendel and Hofer (1979) 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. Most respondents agree that there were changes in the key areas and parameters of operation. There were changes around the products, procedures, prices, cost and staff management. Banks like Kenya Commercial Bank and Equity launched cheaper products that would attract youth and women. The two categories of customers hold a key stake in the country's economy. Equity restructured some of the departments while some like alternate business channels were scrapped off and people lost jobs. More auto-branches were established to help increase volumes of transaction for more revenue. Banks became more risk averse. Banks like Kenya Commercial Bank and Cooperative restructured loans especially for the worse hit industries for example agriculture and tourism. The restructuring included pushing payment date further or changing the repayment amount to affordable amounts. This prevented default rates. Equity increased provision for bad debts to cater for any irregularities in loan payment.

5.3 Summary

Pearson and Robinson (2002) 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 objective. It is the direction and scope of an organization over the long-term: which achieves advantage for the organization through its configuration of resources within a challenging environment, to meet the needs of markets and to fulfill stakeholder expectations" (Johnson and Scholes, 1999). The study has shown clearly that cushioning of the selected major banks to the effects f the global financial crisis was a matter of choice. The banks did not sit down and wait; they were pro-active in configuration of the resources within the challenging environment.

In summary the strategic responses by the banks repeated across board and can be broadly aligning products to meet the market needs and demand by ensuing they are affordable and accessible. This was demonstrated by coming up with cheap and affordable products especially for youth and women and expanding to mass markets to increase the base of customers and thus revenue. Alignment of procedures to ensure they were efficient and cost effective to the business. This was demonstrated by merging some departments, scrapping off some, efficient risk monitoring and management skills, and finally restructuring loans to ensure both the borrower and lender benefited while increasing the interest rates on loans to ensure the risk of lending was well compensated. This discouraged lending too. Cost management was also a key strategic response in this study. This was demonstrated by the banks reducing expenses in expansion activities, recruitment was halted, overtimes and entertainment were scrapped off. This cost was better put in place by being spent in advertisement, creation of awareness and public relations activities.

5.4 Conclusion

Strategic responses to the dynamics of the environment still remain a top most issue in organizations. The business environment is very turbulent and may never stabilize easily due to many factors like liberalized markets and globalization. It is important for companies to align themselves properly to be able to response strategically to any change. This ensures that the business is able to respond effectively to the changes in the environment. This helped Kenyan banks to remain profitable despite the global financial crisis that affected banks in other parts of the world. Kombo (1997) established that for firms to be effective and hence successful, they should adapt appropriately to changes that occur in their respective environments. Any adaptations may be referred to as strategic response (Schendel and Hofer, 1979)

5.5 Limitations of the Study

This study was faced by several limitations. It was very hard to get ready respondents to rely the needed information; this is because banking sector is a very confidential guided business. Giving out information that the bank would consider classified can easily led to job termination. Securing an appointment to interview the willing respondents was also very challenging. Those who preferred a mailed questionnaire too had to be constantly reminded to reply; some to date have never. My study was limited to the Nairobi region alone as I was not able to travel upcountry to get views from there.

5.6 Recommendations

From the study it is important to note that the banks responded in different ways towards the effects of Global financial crisis. While some were slowing down in expansion programs, others were accelerating in the same. Going forward it is important that Kenya Bankers Association which is a linking body and a policy custodian with all Commercial bank in collaboration with the central bank of Kenya to come up with a nerve centre for research. This would help raise a Hag in case of any expected force from the environment. Banks should also invest a lot in research and development not only in products but also on matters relating to global economics.

Banks should also ensure that communication is efficient to all stake holders in matters likely to affect business negatively or positively. It is also recommendable that in such situations closer relations with major stakeholder be enhanced to be able to gather views on how better to tackle issues likely to crop up such restructuring of loan repayment schedules.

5.7 Suggestions for Further Research

This study was only limited to four major commercial banks. I believe other businesses too like Kenya breweries cushioned themselves against the global financial crisis, it is important for other industries in Kenya to be studied to determine how they responded to the same. It is also important to determine whether the relevant economic stakeholder like government helped in enlightening and protecting its industries against this phenomenon.

5.8 Implication on Policy and Practice

These recommendations have an implication to the already set policies. They will only reinforce and protect the business from any effect of economic recession. However as institutions governed by the central bank Act, any change in pricing products must be approved by the central bank as it has to reflect in the standard tariff guide which is a requirement to be displayed in the banking hall. The banking sector would benefit by being able to cushion its self from any future effects of the global financial crisis.

The strategy of expansion by some banks would ensure that more capital expenditure is incurred by banks however it is going to create a wider base of customers. This is also likely to create more employment opportunities to Kenyans and people around the area. The banking industry is likely to reach more who are unbanked thus create more awareness in the importance of banking to the growth of both micro and macro economy.

Automation of the banks is likely to cut cost in the operations of the bank. This might on the other hand risk jobs as automation means lesser work force. This is a wide fear even in other sectors as tea industry where the union has been fighting against automation. Increase of banking charges and interest rate may have a negative implication to the economy as the real cost of capital may become very expensive. This may lock out many entrepreneurs who may wish to borrow and expand their businesses. This may affect direct foreign investments as they would want to invest in an environment with cheap investment.

Little returns to fixed deposit in the other hand may affect the deposits placed by investors. This would reduce funds available in the bank for investments either short term or long term. Lack of investments on staff through cutting overtimes and other incentives may kill the high spirit of working to employees. This may also cause anxiety to staff who may feel insecure and opt to move from institutions in search for greener pastures. However if the banks may be able to save in costs and increase in profits then the government would benefit from increased revenue.

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APPENDICES C ^ ^ X) ^ L

Appendix I: Letter of Introduction

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UNIVERSITY of NAIROBI

^.SCHOOL (EBUSINESS

PROGRAM - LO^feE KASETE C£M?US

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TetegjanisL"Varsity.,-Nairobi
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P.O. Box 30197
Nairobi, Kenya

DATE 1 ocTo&e^ 3L.OIG

TO WHOM IT MAY CONCERN

The bearer of this letter... .....hO.^T^).... }. Z....

Registration No:........

is a Master of Business Administration (MBA) student of the University of Nairobi.

He/she is required to submit a research project report on a management problem. We would like the students to do their projects on real problems affecting firms in Kenya. We would, therefore, appreciate if you assist him/her by allowing him/her to collect data in your organization for the research.

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

Thank you.

Mhj- -

DR. W.N. IRAKI

CO-ORDINATOR, MBA PROGRAM

Appendix II

Questionnaire

On behalf of your organization, 1 kindly request you to spare some time and answer the following questions to facilitate completion of this study. Your response will be treated purely for academic purpose.

1. Your Name (Optional)
2. Bank
3. Job title
4. Station/ Department
5. Duration of operations
6. Ownership of the organization

(a) Public limited company (b) Private limited company (c) Government/ Public

7. Contacts (optional).

<u>Part B</u>

1. Who are your target customers?

2. How many customers do you have in Kenya?

3. In which other countries do you have a branch

PartC

1. Are you aware of the recent Global financial crisis of 2008? (a) Yes (b) No

   b. What were the main fears as a result of the Global financial crisis?

2. How did your bank take the news of the Global financial crisis?

   ( ) Seriously

   ( ) Less concerned

   ( )Ignored

   ( ) Don't know

3. How did the global financial crisis affect your business in Kenya?

   ( ) Positively

   ( ) Negatively

   ( ) No effect

   ( ) Don't Know

4. How did the global financial crisis affect your business in other countries?

   ( ) Positively

   ( ) Negatively

   ( ) No effect

   ( ) Don't Know

Explain

5. What measures did your organization take to counter any effect or expected effect in to the business?

6. Were there changes in the following areas?

	A lot	less	no change	not sure
1. Products/ Loans/ forex / Trade finance	( )	( )	( )	( )
2. Operations/procedures	( )	( )	( )	( )
3. Management/Staff	( )	( )	( )	( )
4. Pricing	( )	( )	( )	( )
5. Cost	( )	( )	( )	( )
6. Any other.				

b) Please briefly explain the changes in the above areas:-

1. Products

2. Operations

3. Management/Staff

4. Pricing

5. Cost

Any other.

7. How would you rate the attention that was accorded to below area?

	(Great)	(Average)	(Low)	(No Attention)
Accounts (Liabilities)	4	3	2	1
Loans and advances	4	3	2	1
Operations	4	3	2	1
Cost	4	3	2	

8. Among the changes that were adopted please rank them with the order of effectiveness. *Use numerical 1, 2, 3 with 1 being the most effective one.*

( ) Products ( ) Operations ( ) Management/Staff ( ) Pricing ( ) Costs

9. What strategies in your opinion were left out in the move to position your company against any effect of global financial crisis?

10. If there was another global financial crisis what would you do differently?

Thank you

A sample of a completed questionnaire

Questionnaire

On behalf of your organization, I kindly request you to spare some time and answer the following questions to facilitate completion of this study. Your response will be treated purely for academic purpose.

1. Your Name (Optional)

2. Bank......**KCB**

3. Job title......**Corporate Banker**

4. Station/ Department.........**Corporate**

   Banking

5. Duration of operations......**4 years**

6. Ownership of the organization

(a X) Public limited company (b) Private limited company (c) Government/ Public

8. Contacts...020-3270902

<u>Part B</u>

1. Give your organization's mission statement ....**To grow our existing business whilst building the platform to be the preferred Financial Solutions Provider in Africa with Global Reach**

2. Who are your target customers? **...Retail and Corporate Customers**

3. How many customers do you have in Kenya?.........**About 1**.2 **million**

4. In which other countries do you have a branch**...Uganda, Tanzania, South Sudan and Rwanda**

PartC

1. **Are you aware of the recent Global financial crises?** (a - **X)** Yes **(b)** No

b. What were the main fears as a result of the Global economic downturn?

- **Increased volatility of foreign currencies.**
- **Slowdown of the tourism sector that relies heavily on the foreign tourist hence affecting the deposits for bank customers in that industry.**
- **Slowdown of the construction industry and the stock market w hich rely heavily on remittances from abroad and thus reduced earnings for the banks from construction loans.**
- **Slowdown of the horticulture industry which is considered a key foreign exchange earner thus affecting the CBK liquidity.**
- **Reduced foreign direct investments.**

2. **How did your bank take the news of the Global financial crises?**

(X) Seriously

( ) Less concerned

( ) Ignored

() Don't know

3. **How did the global economic downturn affect your business in Kenya?**

( ) Positively

(X) Negatively

( ) No effect

() Don't Know

4. **How did the global economic downturn affect your business in other countries compared to branches in Kenya?**

( ) Positively

(X) Negatively

( ) No effect

() I don't know

Explain ...The downturn affected business in all countries negatively as the problem was widespread and beyond any single country control.

5. What measures did your organization take to counter any effect or expected effect in to the business?

- **Review lending to the affected industries e.g. horticulture, tourism and construction. In addition, lending policies were review.**
- **Closer regulation and monitoring of accounts and enhanced risk management practices.**
- **Risk management by each financial institution, with the regulator risk profiling and continuously reviewing the risks independently.**
- **More information sharing by the financial sector regulators in Kenya on the risk profiles as well as other pertinent information**
- **Good corporate governance.**

6. Were there changes in the following areas?

	A lot	**less**	**no change**	**not sure**
1. Products/ Loans/ forex / a. Trade finance	(X)	( )	( )	( )
2. Operations/procedures	(X)	( )	()	( )
3. Management/Staff	( )	( )	( )	(X)
4. Pricing	(X)	( )	( )	( )

5. Cost	( )	(X)	( )	( )

6. Any other

b) Please briefly explain the changes in the above areas:-

1. Products

....Some of the loans for companies in industries that were affected by the crisis were restructured to prevent default. There was also a slowdown in lending to the industries that were affected. Also the availability of foreign currency determined the tenures of products at times e.g. loans

2. Operations

..Risk management practices were enhanced as were research and strategic management to enable the Bank pre-empt any changes in the global economy which may affect the Banks profitability.

3. Management/Staff

.Am not certain that there were any changes to the management/staff fuelled by the global economic crisis

4. Pricing

Risk based pricing w as enhanced through models.

Cost of funds was high as the shilling depreciated against the dollar

5. Cost

.The cost of doing business w as high.

Any other.

7. Which areas according to you received great attention? Rank

	(Great)	(Average)	(Low)	(No Attention)
Accounts (Liabilities)	4X	3	2	\
Loans and advances	4X	3	2	i
Operations/ procedures	4	3X	2	1
Cost	4	3X	2	1

8. Among the changes that were adopted please rank them with the order of effectiveness.

Use numerical 1,2,3 with I being the most effective one.

(1) Products (4) Operations (5) Management/ Staff (2) Pricing (3) Costs

9. What strategies in your opinion were left out in the move to position your company against any effect of global financial crises?

Proper pricing policies/models

Strategies to do with risk management

10. If there was another global financial crisis what would you do differently?

...Sufficiently diversify portfolios to ensure that the affected industries do not drive down profitability.

Thank you.