# IMPLEMENTATION OF STRATEGIC DECISIONS AT FAMILY BANK LIMITED

BY

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## DECLARATION

This management research project is my original work and has not been presented for a degree in any other university or any other examination body. No part of this research should be reproduced without my consent or that of the University of Nairobi.

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This project has been submitted for examination with my approval as university supervisor.

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## DEDICATION

To my parents for facilitating my becoming of what I am today.

To my immediate family members; my wife Stellah and my sons Brian & Royford, you have been a great source of inspiration.

## ACKNOWLEDGEMENT

I would wish to express my gratitude to my supervisor Mr. Jeremiah Kagwe for his unequivocal support and guidance throughout this research.

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God bless all.

## ABSTRACT

The objectives of this study were to establish the practices and challenges of strategy implementation at Family Bank Limited Data collection was conducted by way of face to face interviews with respondents comprising head of strategy i.e. the Chief Executive Officer and heads of functional units. Focus was on getting in depth information on issues of strategy implementation practices and challenges at the bank.

The Chief Executive Officer and 9 out of 11 functional level managers were interviewed giving the respective response rate of 100% and 81%. Respondents indicated that there exists a formal and co-coordinated strategic planning and implementation process at Family Bank Limited. Under the corporate strategy there are functional strategies that include marketing strategy, new product development strategy, human resource and legal strategy, finance strategy, and information technology management strategy. The emphasis is on short and medium term plans and is limited to the domain of each department's functional responsibility. Each functional department attempts to do its part in meeting overall corporate objectives, and hence their strategies are derived from the overall corporate strategy.

The study recommended that strategy formulation and implementation at Family Bank Limited should be considered as an on-going, never ending, integrated process requiring continuous reassessment and reformation. It should centre more on specifying the bank's objectives, developing policies and plans to achieve these objectives, and allocating resources for effective strategy implementation. It should shift focus to be seen as providing overall direction to the entire institution, and involving everyone from the board, top and line management and staff.

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# CHAPTER ONE: INTRODUCTION

## 1.1 Background of the Study

### 1.1.1 Concept of Strategy Implementation

Strategy implementation involves organization of the firm's resources and motivation of the staff to achieve objectives. The environmental conditions facing many firms have changed rapidly. Today's global competitive environment is complex, dynamic, and largely unpredictable. To deal with this unprecedented level of change, a lot of thinking has gone into the issue of how strategies are best formulated. Strategic management is about managing the future, and effective strategy formulation is crucial, as it directs the attention and actions of an organization, even if in some cases actual implemented strategy can be very different from what was initially intended, planned or thought. The assessment of strategy formulation processes becomes crucial for practitioners and researchers alike in order to conduct and evaluate different formulation processes (Olson et al. 2005).

Historically, numerous researchers in strategic management bestowed great significance to the strategic formulation process and considered strategy implementation as a mere by-product or invariable consequence of planning (Wind and Robertson, 1983). Fortunately, insights in this area have been made recently which temper our knowledge of developing strategy with the reality of executing that which is crafted (Olson et al., 2005). However, as strategy implementation is both a multifaceted and complex organizational process, it is only by taking a broad view that a wide span of potentially valuable insights is generated.

The fatal problem with strategy implementation is the de facto success rate of intended strategies. In research studies it is as low at 10 percent (Judson, 1991). Despite this abysmal record, strategy implementation does not seem to be a popular topic at all. In fact, some managers mistake implementation as a strategic afterthought and a pure top-down-approach. Instead, management spends most of its attention on strategy formulation. Research emphasizing strategy implementation is classified by Bourgeois and Brodwin (1984) as part of a first wave of studies proposing structural views as important facilitators for strategy implementation success.

Beyond the preoccupation of many authors with firm structure, a second wave of investigations advocated interpersonal processes and issues as crucial to any marketing strategy implementation effort (Noble and Mokwa, 1999). Conflicting empirical results founded upon contrasting theoretical premises indicate that strategy implementation is a complex phenomenon. In response, generalizations have been advanced to encourage early involvement in the strategy process by firm members (Hambrick and Cannella, 1989); fluid processes for adaptation and adjustment (Drazin and Howard, 1984); and, leadership style and structure (Bourgeois and Brodwin, 1984).

### 1.1.2 Family Bank Limited

Family Bank Limited (FBL), formerly Family Finance Building Society, commenced operations in early 1985. The Bank has a fair history having been registered as a Building Society in October 1984, under the Building Societies Act and converted into a fully fledged Bank in May 2007, driven by the need to offer a wider range of products and services to the customers. The Bank which started with a single branch in 1985 currently has 44 branches across the country complete with ATMs and anticipates growing the number to over 50 by the end of 2009 (www.familybank.co.ke).

FBL is now owned by over 7,000 local shareholders plans to list in the Nairobi Stocks Exchange later this year as a way of giving more investors an opportunity to own it. The Bank has experienced a steady growth in its assets, customer base and profitability. The Bank has an asset base of Kshs. 7.4 Billion and a capitalization of Kshs. 1.1 Billion making it a significant player in the banking industry in Kenya. It recorded an after tax profit of Kshs. 49 million in 2007 financial year (www.familybank.co.ke).

As part of its strategy, the Bank has defined its customers and its target market as micro, small and medium enterprises and low income earners of the society. This market consists three broad segments based on the customers' sources of income. These are small scale commercial farmers in the sectors of tea, coffee, dairy, pyrethrum, grain, fisheries etc. micro, Small and medium entrepreneurs who include those in formal and informal businesses, waged employees both in private and public sectors (Family Bank Report, 2007-2008). The key areas identified in the strategy revolve around the Bank's modern infrastructure such as robust IT system, implementation of performance management system and balanced score card. Other strategies include delighting customers through quality customer service, products innovations, acquisition of the right skills and creating new organizational structure.

The initiative of the bank to partner with the government to on-lend both the Youth and the Women Enterprise Development Funds with an objective of economically empowering the youth and women entrepreneurs of this country is no doubt a boost to its strategy. The Bank has however faced various challenges in the process of implementing its strategies. As some functional areas/departments have been merged and new ones created, a number of strategies under implementation failed to fit in the present organizational structure. This has made it difficult to divide roles and effectively monitor implementation.

The high levels of competition coupled to intense rivalry in the banking industry has resulted to key and experienced staff particularly middle level managers exiting the Bank for greener pastures. Some new branches, products and services which were to be rolled out as per the Bank's strategic plan failed due to in adequate resources. To support implementation of various strategies, the Bank diverted resources to install a robust operating systems, intranet and e-mail systems to improve on communication.

## 1.2 Problem Statement

Strategy implementation is an enigma in many companies. The problem is illustrated by the unsatisfying low success rate (only 10 to 30 percent) of intended strategies (Raps and Kauffman, 2005). The primary objectives are somehow dissipated as the strategy moves into implementation and the initial momentum is lost before the expected benefits are realized. Successful implementation is a challenge that demands patience, stamina and energy from the involved managers. The key to success is an integrative view of the implementation process (Raps and Kauffman, 2005). Given the important role commercial banks play in the economy, it is important that in order for them to survive, the whole process of strategy formulation and implementation need to be successful.

FBL has been very instrumental in employment creation in the country. It has contributed immensely to the economic growth by effectively participating in the financial sector. From 1984 when it started as a building society the bank has come along way to be a significant player in the banking industry especially with regard to its microfinance orientation.

FBL focuses on the micro, small and medium enterprises and has segmented its market to enable offer customized products and services. The bank has increased its network to enable reach as many customers as possible with the total number of branches standing at 50 up from 25 in 2006.

Several studies have been done on the strategies that banks have employed over time. Despite the success of these strategies, no study has been done to explore the challenges encountered in strategy implementation by banks in Kenya; and herein lay the study gap. For instance, Kiptugen (2003) did a study to determine the strategic responses of Kenya Commercial Bank to a changing competitive environment. This study however, did not focus on the process and challenges of strategy implementation. Muturi (2005) on the other hand did a study to determine the strategic responses of Christian churches in Kenya to changes in the external environment. He based his survey on evangelical churches in Nairobi. This study focused on a different context and concept from what the current study sought to cover. Kamanda (2006) also did a study on KCB with the objective of determining the factors that influence its regional growth strategy. The study did not cover the issue of strategy implementation and its challenges. Situma (2006) also covered KCB but focused on its turnaround strategy. Muguni (2007) studied the role of executive development in strategy implementation. His was a comparative study of KCB and National Bank of Kenya. The study also failed to capture the process of strategy implementation and challenges.

Other studies have focused on strategies in various sectors and approaches. Wanjere (1999) proposed that companies should be more involved in strategic marketing and especially as they operate in competitive and turbulent environments. Similar studies such as Kombo (1997) on the motor vehicle franchise holders, Muturi (2000) on the East African Breweries and Thiga (2000) on the airline companies confirm that firms respond differently to environmental challenges. Mwanthi (2003) did a case study of strategic responses to environmental challenges by British American Tobacco while Cheluget (2003), studied the responses of milk processing firms to increased environmental turbulence with emphasis on

New KCC Limited. Oluoch (2003) studied the perceived attractiveness of the freight forwarding industry in relation to Porter's modified framework.

As the business environment continues changing and presenting new challenges, it is important that the existing knowledge from these previous studies be updated. Previous studies have dwelt more on strategic practices and responses and less on strategy implementation. Given the passage of time and the very numerous and significant changes in the business environment, and the increasing importance of strategy implementation, this study intended to fill the gap by seeking answers to the question of what the Bank's practices and challenges during strategy implementation are.

## 1.3 Objectives of the Study

The objective of the study was to establish the practices and challenges of strategy implementation at FBL.

## 1.4 Importance of the Study

The policy makers will obtain knowledge of the financial sector dynamics and the process of strategy implementation and challenges thereof. They will therefore obtain guidance from this study in designing appropriate policies that will regulate the sector participation.

The study will provide information to potential and current scholars on strategic management among commercial banks in Kenya. This will expand their knowledge on strategy implementation in financial institutions and also identify areas of further study.

# CHAPTER TWO: LITERATURE REVIEW

## 2.1 Concept of Strategy

Strategy is the central concept in strategy analysis. Although this statement might seem so obvious, it explains that the field of business strategy is still somewhat unresolved on what strategy actually is. A number of reasons contribute to this complexity. First, the field represents the convergence of multiple disciplines, including economics, organization theory, general business, marketing, finance, and geography (to name but a few). As a result, strategy is often viewed through different lenses, depending on one's background and purpose. Second, and perhaps more important, business strategy is a very young field. As a result, not all of the concepts and approaches to analysis are yet well established or agreed on (Grant, 1991).

## 2.2 The Strategic Management Process

Strategic management is an ongoing process to develop and revise future-oriented strategies that allow an organization to achieve its objectives, considering its capabilities, constraints, and the environment in which it operates (Fuerer and Chaharbaghi, 1997). The process comprises four phases. These phases are diagnosis, formulation, implementation and monitoring.

### 2.2.1 Diagnosis

Diagnosis includes performing a situation analysis (analysis of the internal environment of the organization), including identification and evaluation of current mission, strategic objectives, strategies, and results, plus major strengths and weaknesses (Grant, 1991). Analyzing the organization's external environment, including major opportunities and threats and identifying the major critical issues, which are a small set, typically two to five, of major problems, threats, weaknesses, and/or opportunities that require particularly high priority attention by management.

### 2.2.2 Formulation

Formulation in the strategic management process produces a clear set of recommendations, with supporting justification, that revise as necessary the mission and objectives of the organization, and supply the strategies for accomplishing them (Fuerer and Chaharbaghi, 1997). Formulation tries to modify the current objectives and strategies in a way to make organizations more successful. This includes trying to create sustainable competitive advantages although most competitive advantages are eroded steadily by the efforts of competitors.

A good recommendation should be effective in solving the stated problem(s), practical (can be implemented in this situation, with the resources available), feasible within a reasonable time frame, cost-effective, not overly disruptive, and acceptable to key stakeholders in the organization. It is important to consider fits between resources plus competencies with opportunities, and also fits between risks and expectations.

According to early scholars in this field such as Andrews (1971), strategy is a rational decision-making process by which the organization's resources are matched with opportunities arising from the competitive environment. Others, such as Aldrich (1979), state that the environment has a strong deterministic influence on the strategy-making processes in organizations. On the other hand, proponents of the resource-based view argue that it is not the environment but the resources of the organization which form the foundation of firm strategy (Grant, 1991).

There is now a growing cognizance that no single strategy process or single strategic capability will lead to a sustainable competitive advantage. Organizations increasingly have to adjust dynamically their characteristics to the requirements of the environment by constantly changing their strategies and strategic capabilities. Recent research has shown that organizations achieve superior results if they can select from a wide range of strategic capabilities rather than concentrating on a single capability or process (Fuerer and Chaharbaghi, 1997).

### 2.2.3 Implementation

Despite the increasing awareness for a more dynamic approach to strategy formulation and implementation, research up-to-date provides little guidance on how such an approach may be realized. Only a small number of concepts have been proposed which sketch out the basic parameters for a dynamic approach (Fuerer and Chaharbaghi, 1997).

Other researchers highlight that superior performance does not originate from strategies which have been successful in the past. Successful organizations are those organizations which focus on new concepts, creativity and strategy innovation. Such an approach in turn requires the involvement of a large number of individuals, strategic knowledge generation throughout the organization and the application of a systems thinking approach to strategy development. This change in the understanding of strategy formulation and implementation is also reflected in the increasing amount of research that is directed towards organization learning, the emergence of new organization structures and the importance given to the redesign of business processes in the context of strategic change (Fuerer and Chaharbaghi, 1997).

### 2.2.4 Monitoring

Monitoring the progress of strategy implementation is critical. Changes in the environment can make flawless plans ineffective. Rarely do intended strategies see the light of the day after strategies are fully implemented. It is therefore important to evaluate the effectiveness of strategy implementation by continuously reflecting on the performance of the process at various stages with a view to making the necessary adjustments to enable move closer to intended strategy as much as possible.

## 2.3 Strategy Implementation Process

The main functions of strategic management have been explained by Robbins and Coulter (1996) as identifying the organization's current mission, objectives, and strategies, analyzing the environment, identifying the opportunities and threats, analyzing the organization's resources, identifying the strengths and weaknesses, formulating and implementing strategies, and evaluating results. Strategic decisions determine the organizational relations to its external environment, encompass the entire organization, depend on input from all of functional areas in the organization, have a direct influence on the administrative and operational activities, and are vitally important to long-term health of an organization (Shirley, 1982). According to Schermerhorn (1989), strategies must be well formulated and implemented in order to attain organizational objectives.

Schermerhorn (1989) determined that the strategy implementation process included the many components of management and had to be successfully acted upon to achieve the desired results. Effective and successful strategy implementation therefore depends on the achievement of good "fits" between the strategies and their means of implementation.

Robbins and Coulter (1996) have taken into consideration that no matter how effectively a company has planned its strategies, it could not succeed if the strategies were not implemented properly. Harrison (1996) also clarified that the more ineffective the top management decisions, the more ineffective are the choices made at lower levels of management. Similarly, if top management's strategic choices tend to be successful, it reflects favorably on choices made in other parts of the organization. Simons and Thompson (1998) refer to three categories of factors that affected strategic decision-making process. They are as a result of the environmental, the organization and decision-specific factors. Environmental factors imply external agents such as national culture, national economic conditions, and industry conditions. Organizational factors refer to organizational structure, organizational culture, structure of decision making board of directors, impact of upward influence, and employee involvement. Decision-specific factors can be explained as time, risk, complexity, and politics.

### 2.3.1 Strategy Implementation Decisions

Beer et al. (1990), and Woolridge and Floyd (1990) emphasized that strategy implementation could be more difficult than thinking up a good strategy. Harrison and Pelletier (1998) explained that the real value of a decision surfaced only after the implementation of a decision. In other words, it will not be enough to select a good decision and effective results will not be attained unless the decision is adequately implemented. Hitt and Tyler (1991) argued that it was essential that strategic level manager's demographic characteristics should have been examined for the formulation and implementation of strategic decisions.

Wessel (1993) stated that there were mostly individual barriers to strategy implementation such as too many and conflicting priorities, insufficient top team functions, a top down management style, inter-functional conflicts, poor vertical communication, and inadequate management development. Eisenstat (1993) pointed out that most companies trying to develop new organization capacities failed to get over these organizational hurdles of competence, co-ordination, and commitment. Sandelands (1994) indicated that there were difficulties to conjecture the commitment, time, emotion, and energy needed to translate plans into action. McGrath et al. (1994) explained that the political turbulence might be the most important issue facing any implementation process. Lingle and Schieman (1994) stated that market, people, finance, operation, adaptability, and environmental factors play a vital role to long-term successful strategy implementation.

Christensen and Donovan (1998) mentioned that intended strategies would be implemented as they have been envisioned if three conditions were met. First, those in the organization must understand each important detail in management's intended strategy. Second, if the organization is to take collective action, the strategy needs to make as much sense to each of the members in the organization as they view the world from their own context, as it does to top management. Finally, the collective intentions must be realized with little unanticipated influence from outside political, technological, or market forces.

### 2.3.2 Dimensions of Strategy Implementation

Peng and Litteljohn (2001) noted two dimensions of strategy implementation: structural arrangements, and the selection and development of key roles. According to Govindarajan (1989), effective strategy implementation is affected by the quality of people involved in the process. Peng and Litteljohn (2001) claimed the quality of people as skills, attitudes, capabilities, experiences and other characteristics required by a specific task or position.

McKinsey's (1982) model describes the seven factors critical for effective strategy execution. The 7-S model identifies the seven factors as strategy, structure, systems, staff, skills, style/culture, and shared values. Strategy is the plan of action an organization prepares in response to, or anticipation of, changes in its external environment. Strategy is differentiated by tactics or operational actions by its nature of being premeditated, well thought through and often practically rehearsed. It deals with essentially three questions, (1) where the organization is at this moment in time, (2) where the organization wants to be in a particular length of time and (3) how to get there. Thus, strategy is designed to transform the firm from the present position to the new position described by objectives, subject to constraints of the capabilities or the potential (Kaplan, 2005).

### 2.3.3 Structure and Strategy Implementation

Structure refers to the way in which tasks and people are specialized and divided, and authority is distributed; how activities and reporting relationships are grouped; the mechanisms by which activities in the organization are coordinated (Kaplan, 2005). Organizations are structured in a variety of ways, dependent on their objectives and culture.

The structure of the company often dictates the way it operates and performs (Waterman et al., 1980). Traditionally, the businesses have been structured in a hierarchical way with several divisions and departments, each responsible for a specific task such as human resources management, production or marketing. Many layers of management controlled the operations, with each answerable to the upper layer of management. Although this is still the most widely used organizational structure, the recent trend is increasingly towards a flat structure where the work is done in teams of specialists rather than fixed departments. The idea is to make the organization more flexible and devolve the power by empowering the employees and eliminate the middle management layers (Boyle, 2007).

### 2.3.4 Systems and Strategy Implementation

Systems refer to the formal and informal procedures used to manage the organization, including management control systems, performance measurement and reward systems, planning, budgeting and resource allocation systems, and management information systems (Kaplan, 2005). Every organization has some systems or internal processes to support and implement the strategy and run day-to-day affairs. These processes are normally strictly followed and are designed to achieve maximum effectiveness.

Traditionally organizations have been following a bureaucratic-style process model where most decisions are taken at the higher management level and there are various and sometimes unnecessary requirements for a specific decision (e.g. procurement of daily use goods) to be taken. Increasingly, organizations are simplifying and modernizing their process by innovation and use of new technology to make the decision-making process quicker. Special emphasis is on the customers with the intention to make the processes that involve customers as user friendly as possible (Lynch, 2005).

### 2.3.5 Human Resources and Strategy Implementation

Staff refers to the people, their backgrounds and competencies; how the organization recruits, selects, trains, socializes, manages the careers, and promotes employees. (Kaplan, 2005). Organizations are made up of humans and it's the people who make the real difference to the success of the organization in the increasingly knowledge-based society. The importance of human resources has thus got the central position in the strategy of the organization, away from the traditional model of capital and land.

All leading organizations such as IBM, Microsoft, Cisco, etc put extraordinary emphasis on hiring the best staff, providing them with rigorous training and mentoring support, and pushing their staff to limits in achieving professional excellence, and this forms the basis of these organizations strategy and competitive advantage over their competitors. It is also important for the organization to instill confidence among the employees about their future in the organization and future career growth as an incentive for hard work (Purcell and Boxal, 2003).

### 2.3.6 Strategy Implementation and Shared Values

Lastly, shared values refer to the core or fundamental set of values that are widely shared in the organization and serve as guiding principles of what is important. Vision, mission and values statements that provide a broad sense of purpose for all employees (Kaplan, 2005). All members of the organization share some common fundamental ideas or guiding concepts around which the business is built. This may be to make money or to achieve excellence in a particular field. These values and common goals keep the employees working towards a common destination as a coherent team and are important to keep the team spirit alive. The organizations with weak values and common goals often find their employees following their own personal goals that may be different or even in conflict with those of the organization or their fellow colleagues (Martins and Terblanche, 2003).

The 7-S model posits that organizations are successful when they achieve an integrated harmony among three “hard” “S's” of strategy, structure, and systems, and four “soft” “S's” of skills, staff, style, and super-ordinate goals (now referred to as shared values) (Kaplan, 2005). The hard components are the normally feasible and easy to identify in an organization as they are normally well documented and seen in the form of tangible objects or reports such as strategy statements, corporate plans, organizational charts and other documents.

## 2.4 Factors Affecting Strategy Implementation

The fatal problem with strategy implementation is the de facto success rate of intended strategies. In research studies it is as low at 10 percent (Judson, 1991). Despite this abysmal record, strategy implementation does not seem to be a popular topic at all. In fact, some managers mistake implementation as a strategic afterthought and a pure top-down-approach. Instead, management spends most of its attention on strategy formulation. This can be documented by the focus on strategy formulation in strategic management literature. To resolve this, strategic management should accomplish its very own shift of emphasis by moving from a 90:10 concern with strategy formulation relative to implementation to a minimum 50:50 proportion (Grundy, 1998).

To overcome and improve the difficulties in the implementation context, Rapa and Kauffman (2005) compiled the following checklist of ten critical points.

### 2.4.1 Commitment of Top Management

The most important thing when implementing a strategy is the top management's commitment to the strategic direction itself. This is undoubtedly a prerequisite for strategy implementation. Therefore, top managers must demonstrate their willingness to give energy and loyalty to the implementation process. This demonstrable commitment becomes, at the same time, a positive signal for all the affected organizational members (Rapa and Kauffman, 2005).

To successfully improve the overall probability that the strategy is implemented as intended, senior executives must abandon the notion that lower-level managers have the same perceptions of the strategy and its implementation, of its underlying rationale, and its urgency. Instead, they must believe the exact opposite. They must not spare any effort to persuade the employees of their ideas (Rapa and Kauffman, 2005).

### 2.4.2 Involvement of Middle Managers

Strategy implementation is not a top-down-approach. Consequently, the success of any implementation effort depends on the level of involvement of middle managers. To generate the required acceptance for the implementation as a whole, the affected middle managers' knowledge (which is often underestimated) must already be accounted for in the formulation of the strategy. Then, by making sure that these managers are a part of the strategy process, their motivation towards the project will increase and they will see themselves as an important part in the process (Rapa and Kauffman, 2005).

Unfortunately, in practice, managers and supervisors at lower hierarchy levels who do have important and fertile knowledge are seldom involved in strategy formulation. When they are, however, the probability for realizing a smooth targeted and accepted strategy implementation process increases substantially. Research studies indicate that less than 5 percent of a typical workforce understands their organization's strategy (Kaplan and Norton, 2001). This is a disturbing statistic as it is generally believed that, without understanding the general course of strategy, employees cannot effectively contribute to a strategy implementation.

To involve employees is an important milestone to make strategy everyone's everyday job. That is why the involvement of middle managers is essential to increase the general awareness of the strategy and help build consensus for the strategy. A lack in strategic consensus can limit a company's ability to concentrate its efforts on achieving a unified set of goals.

### 2.4.3 Role of Communication

At first look, the suggestion that communication aspects should be emphasized in the implementation process seems to be simple. Even though studies point out that communication is a key success factor within strategy implementation (Miniace and Falter, 1996), communicating with employees concerning issues related to the strategy implementation is frequently delayed until the changes have already crystallized.

In this context, it is recommended that an organization institute a two-way-communication program that permits and solicits questions from employees about issues regarding the formulated strategy. In addition to soliciting questions and feedback, the communications should tell employees about the new requirements, tasks and activities to be performed by the affected employees, and, furthermore, cover the reason ("the why") behind changed circumstances (Alexander, 1985).

It is essential both during and after an organizational change to communicate information about organizational developments to all levels in a timely fashion. However, one may not misunderstand communication, or the sharing of information, as engagement of direct dialogue that produces active participants in the change process. The way in which a change is presented to employees is of great influence to their acceptance of it. To deal with this critical situation, an integrated communications plan must be developed. Such a plan is an effective vehicle for focusing the employees' attention on the value of the selected strategy to be implemented (Rapa and Kauffman, 2005).

### 2.4.4 Integrative Point of View

Traditional strategy implementation concepts generally over-emphasize the structural aspects and reduce the whole effort down to an organizational exercise. It is dangerous, however, when implementing a new strategy, to ignore the other existing components (Rapa and Kauffman, 2005).

Strategy implementation requires an integrative point of view. Not only the organizational structure, also cultural aspects and human resources perspective should be considered as well. An implementation effort is ideally a boundaryless set of activities and does not concentrate on implications of only one component, e.g. the organizational structure (Rapa and Kauffman, 2005).

It is of great importance to integrate soft facts as well in the reflection of the implementation process. It is the consideration of soft and hard facts together that ascertains that cultural aspects and human resources receive at least the same status as organizational aspects. Altogether, such an integrative interpretation allows an important scope of development for implementation activities (Rapa and Kauffman, 2005).

### 2.4.5 Clear Assignment of Responsibilities

One of the reasons why strategy implementation processes frequently result in difficult and complex problems or even fail at all is the vagueness of the assignment of responsibilities. In addition, these responsibilities are diffused through numerous organizational units (Rapa and Kauffman, 2005).

Cross-functional relations are representative of an implementation effort. This is indeed a challenge, because as already mentioned before organizational members tend to think only in their "own" department structures. This may be worsened by over-bureaucracy and can thus end up in a disaster for the whole implementation (Rapa and Kauffman, 2005).

To avoid power struggles between departments and within hierarchies, one should create a plan with clear assignments of responsibilities regarding detailed implementation activities. This is a preventive way of proceeding to ensure that responsibilities are clear and potential problems are therefore avoided (Rapa and Kauffman, 2005).

### 2.4.6 Preventive Measures against Change Barriers

Change is part of the daily life within an organization. The ability to manage change has shown to be a core competency for corporations. A great challenge within strategy implementation is to deal with potential barriers of the affected managers (Rapa and Kauffman, 2005).

Implementation efforts often fail when these barriers are underestimated and prevention methods are not adopted at the beginning. One has to be aware that barriers against the implementation of the strategy can lead to a complete breakdown of the formulated strategy. In psychology, much research is done about human barriers. The cause for these barriers is seen in affective and non-logical resistances, which are, in a way, incomprehensible because they come out of the subconscious of human beings (Rapa and Kauffman, 2005).

Barriers to implementing a strategy range from delay to outright rejection. However, this psychological point of view is often downplayed during discussions of implementation issues, even though it is becoming more and more obvious that strategy implementation consists, for the most part, psychological aspects (Rapa and Kauffman, 2005). By changing the way they view and practice strategy implementation, senior executives can effectively transform change barriers into gateways for a successful execution.

### 2.4.7 Teamwork

Teamwork plays an important role within the process of strategy implementation. When it comes down to implementation activities, however, it is often forgotten. It is indisputable, that teams can play an important part to promote the implementation (Rapa and Kauffman, 2005).

To build up effective teams within strategy implementation, the Myers-Briggs typology can be useful to ascertain person-to-person differences. Differences in personality can result in serious inconsistencies in how strategies are understood and acted on. Recognizing different personality types and learning how to handle them effectively is a skill that can be taught.

Over one million surveys are performed each year in corporate settings for team building and management development. More than any other field of activity, implementation is the area that benefits most from a trained and personality-sensitive management team (Noble, 1999).

### 2.4.8 Individual Differences

Human resources represent a valuable intangible asset. Latest study research indicates that human resources are progressively becoming the key success factor within strategy implementation. In the past, one of the major reasons why strategy implementation efforts failed was that the human factor was conspicuously absent from strategic planning (Lorange, 1998). This leads to a dual demand (Rapa and Kauffman, 2005).

First, considerations regarding people have to be integrated into considerations about strategy implementation in general. Second, the individual behavior of these persons is to be taken into account. Individual personality differences often determine and influence implementation. The difference of individuals requires, as a consequence, different management styles. For the purpose of strategy implementation it is desirable to create a fit between the intended strategy and the specific personality profile of the implementation's key players in the different organizational departments (Rapa and Kauffman, 2005).

### 2.4.9 Supportive Implementation Instruments

To facilitate the implementation in general, implementation instruments should be applied to support the processes adequately. The two implementation instruments are the balanced scorecard and supportive software solutions (Rapa and Kauffman, 2005).

The balanced scorecard is a popular and prevalent management system that considers financial as well as non-financial measures. It provides a functionality to translate a company's strategic objectives into a coherent set of performance measures (Kaplan and Norton, 1993). When it comes to meeting the criteria of a strategy implementation instrument, there is an excellent fit. The individual character of each balanced scorecard assures that the company's strategic objectives are linked to adequate operative measures. As a consequence, it provides even more than a controlling instrument for the implementation process. It is a comprehensive management system, which can support the steering of the implementation process.

A strategic planning system cannot achieve its full potential until it is integrated with other control systems like budgets, information and reward systems. The balanced scorecard provides a framework to integrate the strategic planning and meet the requirements that the strategic planning system itself can display (Rapa and Kauffman, 2005).

In the context of implementing strategies, the application of software solutions seems to be neglected. Recent experience has shown that IT-support is gaining more and more important. Information tools must be available and adequate to allow strategic decision makers to monitor progress toward strategic goals and objectives, track actual performance, pinpoint accountability, and most important provide an early warning of any need to adjust or reformulate the strategy (Rapa and Kauffman, 2005).

Unfortunately, this seems to be limited to enterprise resource planning (ERP) systems, which are prevalent in the operative environment of a company's day-to-day business. The strategy implementation perspective demands systems with different criteria than those of conventional systems. The supportive character in monitoring and tracking the implementation process should be the center of interest (Rapa and Kauffman, 2005).

In the past, these activities were tracked manually or launched on an ad hoc basis so that there was a lack in mandatory installed business processes. The supportive application of adequate software solutions can be more than helpful to improve the quality of strategy implementation. In addition to that, a software solution is a starting point to define as mentioned above clear assignments of responsibilities throughout the organization's implementation processes (Rapa and Kauffman, 2005).

### 2.4.10 Buffer Time for Unexpected Incidents

One of the most critical points within strategy implementation processes is exceeding of time restrictions. This can be attributed to an underestimation on the part of many executives who do not have a clearly focused view on the complexities involved in implementing strategies and on the general process to deal with these multifaceted complexities (Rapa and Kauffman, 2005).

Basically, it is difficult to identify the necessary steps of the implementation. It is even more difficult to estimate an appropriate time frame. One has to find out the time-intense activities and harmonize them with the time capacity. One method for accomplishing this is to work with the affected divisions and the responsible managers. In addition to calculating the probable time frame an extra buffer should be calculated to account for unexpected incidents that might occur at any time (Rapa and Kauffman, 2005).

## 2.5 Problems of Strategy Implementation

According to Alexander (1985), the ten most frequently occurring strategy implementation problems include underestimating the time needed for implementation and major problems surfacing that had not been anticipated, in addition uncontrollable factors in the external environment has an adverse impact. Based on empirical work with 93 firms he observed that senior executives were over optimistic in the planning phase and it is noteworthy that the first two issues which occurred most frequently in Alexander's study are planning issues. He also found the effectiveness of coordination of activities and distractions from competing activities inhibited implementation, in addition key tasks were not defined in enough detail.

With regard to people, the capabilities of employees involved were often not sufficient, leadership and direction and "training and instruction given to lower level employees were not adequate" (Alexander, 1985, p. 92). Although the least frequent in this study in many cases the information systems used to monitor implementation were not adequate.

Reed and Buckley (1988) discuss problems associated with strategy implementation identifying four key areas for discussion. They acknowledge the challenge and the need for a clear fit between strategy and structure and claim the debate about which comes first is irrelevant provided there is congruence in the context of the operating environment. They warn that, although budgeting systems are a powerful tool for communication, they have limited use in the implementation of strategies as they are dominated by monetary based measures. Due to the size and game playing associated with budget setting, it is possible for the planning intent of any resource redistribution to be ignored (Reed and Buckley, 1988, p. 68). Another problem is when management style is not appropriate for the strategy being implemented, they cite the example of the "entrepreneurial risk taker may be an ideal candidate for a strategy involving growth, but may be wholly inappropriate for retrenchment" (Reed and Buckley, 1988, p. 68).

Al Ghamdi (1998) replicated the work of Alexander (1985) in the UK and found for 92 percent of firms strategies implementation took more time than originally expected, that major problems surfaced in 88 percent of companies, again showing planning weaknesses. He found the effectiveness of coordination of activities as a problem in 75 percent and distractions from competing activities in 83 percent cases. In addition key tasks were not defined in enough detail and information systems were inadequate in 71 percent of respondents. What is interesting is that there is congruence between these findings, which implies that lessons have still not been learned, as Al Ghamdi states, "the drama still continues" (Al Ghamdi, 1998, p. 322).

More recent articles confirm notable barriers to successful strategy implementation about which there appears to be a degree of accord including Beer and Eisenstat's (2000, p. 37) who assert that six silent killers of strategy implementation comprise, a top-down/laissez-faire senior management style, unclear strategic intentions and conflicting priorities, an ineffective senior management team, poor vertical communication, weak co-ordination across functions, businesses or borders and inadequate down-the-line leadership skills development (Beer and Eisenstat, 2000). It is recognized that such change requires a shared vision and consensus (Beer et al., 1990) and "failures of strategy implementation are inevitable" if competence, coordination and commitment are lacking (Eisenstat, 1993).

Corboy and O'Corrbui (1999), meanwhile, identify the deadly sins of strategy implementation which involve lack of understanding of how the strategy should be implemented, customers and staff not fully appreciating the strategy, unclear individual responsibilities in the change process, difficulties and obstacles not acknowledged, recognized or acted upon and ignoring the day-to-day business imperatives. Overall though, it is increasingly acknowledged that the traditionally recognized problems of inappropriate organizational structure and lack of top management backing are not the main inhibiting factors to effective strategy implementation (Aaltonen and Ikåvalko, 2002).

Rather, the major challenges to be overcome appear to be more cultural and behavioral in nature, including the impact of poor communication and diminished feelings of ownership and commitment (Aaltonen and Ikåvalko, 2002). Aaltonen and Ikåvalko recognize the role of middle managers, arguing they are the "key actors" "who have a pivotal role in strategic communication" (Aaltonen and Ikåvalko, 2002). Meanwhile Bartlett and Goshal (1996) talk about middle managers as threatened silent resistors whose role needs to change more towards that of a "coach", building capabilities, providing support and guidance through the encouragement of entrepreneurial attributes.

Another inhibitor to successful strategy implementation that has received a considerable amount of attention is the impact of organizations' existing management controls (Langfield-Smith, 1997) particularly its budgeting systems (Marginson, 2002). Although it is increasingly suggested that budgets suffer from being bureaucratic and protracted, and that they focus on cost minimization rather than value maximization (Brander Brown and Atkinson, 2001), they still represent the main integrative control mechanism in many, if not in most business organizations (Otley, 2001).

From this review of literature on strategy implementation, there is evidence of some recurring themes, including communication and coordination which are essential to ensure that people across the organization know what to do and to ensure that they stay focused on the key targets under the everyday pressures.

# CHAPTER THREE: RESEARCH METHODOLOGY

## 3.1 Research Design

The appropriate research design for the study was a case study. A case study is an in-depth investigation of an individual, institution or phenomenon (Mugenda and Mugenda, 2003). The primary purpose of a case study is to determine factors and relationships that have resulted in the behavior under study.

Since the study sought to identify the challenges of strategy implementation at FBL, a case study was deemed the best design to fulfill the objectives of the study. Case studies primarily determine factors and relationships in understanding of strategy implementation challenges.

## 3.2 Data Collection

The type of data the study emphasized on was primary data. Primary data is data that is originated by the researcher with a specific purpose of addressing a problem at hand (Michael and David, 2001).

The data collection instruments used was interview guides (see attached as appendix 1 and 2). An interview guide is a set of questions that the interviewer asks when interviewing (Mugenda and Mugenda, 2003). It makes it possible to obtain data required to meet specific objectives of the study. Interviews are regarded as the best method of data collection as the interview guide gives a clear guidance on what questions to ask. The method of data collection was through a one to one interview. The interviewees i.e. the respondents were the Chief Executive Officer and heads of functional units. Interviews targeted departments such as finance, credit, Risk & compliance, Information technology, business development, Operations, Human resources, Marketing & research and public affairs & communication. As the number of interviewees was not many, the researcher strived to get in depth information on issues surrounding strategy implementation practices and challenges at FBL.

### 3.3 Data Analysis

The nature of data collected was purely qualitative. Qualitative data analysis seeks to make general statements on how categories or themes of data are related (Mugenda and Mugenda, 2003).

The method of analyzing the data was contents analysis. Content analysis is the systematic qualitative description of the composition of the objects or materials of the study (Mugenda and Mugenda, 2003). It involves observation and detailed description of objects, items or things that comprise the object of study. The themes or variables that were used in the analysis can be classified into two broad factors; those that influence strategy implementation and those that pose as challenge to strategy implementation.

# CHAPTER FOUR: RESEARCH FINDINGS AND DISCUSSION

## 4.1 Research Findings

### 4.1.1 Corporate Level Strategy Implementation

**Presence of a policy manual on strategy implementation**

There exists a policy manual derived from the FBL strategic plan. The current manual derives from the Bank's 2006 – 2010 strategic plan and it gives greater detail of our strategic plan and implementation guidelines, from which operational strategies flow. It is however, a confidential document meant for internal use only.

**Frequency of updating of the policies on strategy implementation**

Policy document on strategy implementation is updated annually during the annual strategic review. At this time, management evaluates the current state of the internal and external environment, performance compared to target and the relevance of current strategy to the current situation. The strategic review enables the bank management to know how far they have gone vis-à-vis the milestones and desired position. They then review and update strategy and policy guidelines.

**Relevance of the policies to current Bank activities**

The current policies are very relevant to the bank's activities, bearing in mind that all activities are guided by the bank's vision, mission and strategy, from which the policies are derived. In terms of relevance, the policies are in tandem with the current market and consumer trends and this enables the bank to be the leader in innovation and customer service. For example, FBL is currently the only bank offering paperless banking, a feat that none of our competitors has achieved so far. This is because the bank's strategy and policies take into consideration customer needs and the dynamism of the market.

**Financial capacity for implementation of strategies formulated**

FBL allocates adequate and prioritized financial and material resources for strategy implementation. The current bank's strategy (2006 – 2010 strategic plans) lays out financial and material commitments for strategy implementation, with each department getting an appropriate share.

**Support received**

Employees' readiness and willingness to participate in strategy formulation by suggesting areas where there are perceived strategy gaps. FBL taps the creative reserves of its employees to bring in new ideas, which are incorporated into strategic planning and implementation.

Management puts in long hours, energy and effort to craft a strategy that will propel the bank to be the market leader in Kenya and the region.

The board of directors reviews and approves the strategy and gives it the necessary top level support for success.

**Commitment of board members and management in providing financial resources to support strategy implementation**

This is demonstrated in the manner in which various aspects of strategy implementation are prioritized in terms of value added to customers, core activities and the bank's profitability. Adequate financial resources have been allocated to facilitate successful strategy implementation.

**Motivation of board of directors and employees in supporting strategic initiatives**

Successful strategy implementation requires time, dedication, perseverance, motivated people and creative thinking. This has evidently been provided by FBL staff at all levels. This is because of their dedication to the core values of the bank and the fact that they were provided with the necessary facilitation for strategy implementation.

**Appropriateness of the current organizational structure for strategy implementation**

FBL utilizes a relatively flat organizational structure which maximizes on communication, information sharing and speed of decision making and action. This is able to fully support strategy implementation, with decision and action time being minimal and speed of implementing being fast.

**Preparedness of the Bank for organizational change**

| Level | Preparedness Rating | Reason |
|---|---|---|
| Line Staff | 65% | Quite prepared due to continuous change management training provided by human resource specialists. |
| Management | 90% | Well prepared due to the fact that they are able to interface with the external environment. |
| Board of directors | 85% | Board members anticipate change and are prepared |

**Capability of human resource in managing and implementing new strategic decisions**

Strategy implementation at FBL is an all involving activity. Every staff member is involved in one way or the other, and this has over time added to the capability of the Bank's human resource to actively participate in strategy implementation.

### 4.1.2 Functional Level Strategy Implementation

**Strategy implementation at department level**

All departments have functional strategies that draw from the overall corporate strategy. The current functional strategies draw from the 2006 – 2010 corporate strategy.

**Presence of policy manual on divisional strategy implementation**

Each functional strategy has its policy document that spells out the strategy implementation, strategic delivery plan, work plans, target dates and success measures. It also has the detailed budget, monitoring and evaluation measures, areas of and allocation of responsibility.

**Frequency of updating of functional strategy implementation policies**

Quarterly reviews are done where every department reviews its current position against that planned in its strategy. Reports are submitted to the top management for further review and recommendations. It is here that further changes are made and updates incorporated.

**Relevance of department's policies to current bank activities**

Current policies in all departments reflect the demands of the internal and external environment, market changes and customer needs. They are therefore very relevant to the Bank's core activities.

**Support received for strategy implementation**

| **Level** | **Support Rating** | **Reason** |
|---|---|---|
| Staff | 60% | **Adequate**, but can improve. More understanding and involvement is required to garner support |
| Management | 85% | **Strong**, though the main hindrance is the heavy workload and busy schedules that managers have |
| Board of directors | 80% | **Strong**, but the main hindrance is too much preoccupation with end results and shareholder interests at the expense of strategy implementation |

**Financial capacity to implement strategy**

Adequate financial resources have been made available to facilitate strategy implementation. Each functional strategy delivery plan activity has a budget line that is provided to fund its implementation.

**Commitment of board members and management in providing financial resources to support strategy implementation**

Board members are not directly involved in functional strategy implementation. However, they do get progress reports on the state of specific strategic actions that have an impact on the bank's performance.

**Motivation of board of directors and employees in supporting strategy implementation**

Board members only give support to functional strategy implementation. At this level, it is line managers and employees who are deeply involved and whose motivation counts.

**Appropriateness of current organizational structure to strategy implementation**

Structure is flat and allows effective communication and speedy implementation of decisions. For functional strategy implementation, the effect is that line managers can get implementation decisions acted on fast and get immediate feedback.

**Preparedness of departments for organizational change**

Each department draws its functional level strategy, with clear objectives, timelines, responsibilities, budgets milestones and targets. Any changes that are anticipated are made known and understood by every employee, such that those who are likely to be affected are prepared in advance. There is a clear strategy implementation policy and guideline that guides any planned change, including change management solutions, staff involvement, expected outcomes and measures to guard against adverse effects.

**Capability of available human resource in your department in strategy implementation**

Human resources are the Bank's core assets. The bank ensures that people are trained and continuously updated on emerging industry and market issues. They are therefore best placed to undertake strategy implementation.

# CHAPTER 5: SUMMARY, CONCLUSION AND RECOMMENDATIONS

## 5.1 Summary

The objectives of the study were to establish the practices and challenges of strategy implementation at FBL. The Chief Executive Officer and 9 out of 11 functional level managers were interviewed translating to the respective response rate of 100% and 81%.

According to the respondents, there exists a formal and coordinated strategic planning and implementation process at FBL with the following steps.

1. Developing a concept of the business and forming a vision of where the bank needs to be headed, influencing the bank with a sense of purpose, providing long term direction and establishing a mission.
2. Converting the mission into specific performance objectives
3. Crafting a strategy to achieve the targeted performance
4. Implementing and executing the chosen strategy efficiently and effectively.
5. Evaluating the performance, reviewing the situation and initiating corrective adjustments into mission, objectives and strategy implementation in light of actual experience, changing conditions, new ideas and new opportunities.

Strategy implementation was found to involve the following process,

1. Allocation of resources
2. Establishing an organizational structure
3. Assigning responsibility of specific tasks or processes to specific individuals or groups
4. Managing the process, monitoring results, comparing to benchmarks and best practices, evaluating the efficiency and effectiveness of the process, controlling for variances, and making adjustments to the process in line with emerging customer, market and industry demands.

### 5.2 Conclusion

Corporate strategy is the highest in the sense that it is the broadest, applying to all functional departments of the bank. It gives direction to corporate values, corporate culture, corporate goals, and corporate mission. Under this broad corporate strategy there are functional strategies. Functional strategies include marketing strategy, new product development strategy, human resource strategy, legal strategy, lending strategy, finance strategy, and information technology management strategy. The emphasis is on short and medium term plans and is limited to the domain of each department's functional responsibility. Each functional department attempts to do its part in meeting overall corporate objectives, and hence their strategies are derived from the overall corporate strategy.

FBL derives the benefits of strategic management such as;

1. Defining the purpose of the company and establishing goals and objectives that are consistent with the vision and mission in a defined time frame within the organization's capability

2. Providing a clear focus of the organization, producing more efficiency and effectiveness and building strong teams in the staff, management and board

3. Communicates the defined strategic goals and objectives to the stakeholders

4. Ensures that the most effective use is made of the organization's resources by focusing the resources on the key priorities

5. Provides a base from which progress can be measured and establishes a mechanism for informed change when needed

6. Brings together everyone's best and most reasoned efforts, adding value in building consensus about where an organization is going

The main risks of strategy implementation that respondents pointed out were;

1. The task of strategy implementation risks being viewed as a rather theoretical activity that is not in touch with day to day management issues

2. It is time consuming and can lead to neglect of other tasks

## 5.3 Recommendations

Strategy formation and implementation at FBL should be considered as an on going, never ending, integrated process requiring continuous reassessment and reformation. It is also dynamic, involving a complex pattern of actions and reactions.

Strategy at FBL should centre more on specifying the bank's objectives, developing policies and plans to achieve those objectives, and allocating resources for effective strategy implementation. It should shift focus to be seen as providing overall direction to the whole enterprise, and involving everyone from the board, top and line management and staff.

This study can be replicated in other banks, industries and sectors in East Africa with a view of documenting the strategy implementation practices and challenges. It could also serve to investigate the extent of strategic planning and implementation in companies, and how it integrates other activities of the firms.

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## APPENDICES

### Appendix 1: Interview Guide for Chief Executive

1. How does the Bank go about implementing the chosen strategies?
2. Does the organization maintain a policy manual on how to implement strategy? Please elaborate.
3. How often are the policies on implementation updated?
4. How relevant are the organization's policies to current Bank activities?
5. Does the Bank have the financial capacity to implement strategies formulated? Please elaborate.
6. How are the following supportive of policy development and implementation?

   (a) Employees (b) Board of directors (c) The management
7. How committed are the board members and management in providing financial resources to support implementation of strategic initiatives?
8. How motivated are the board of directors and employees in supporting the strategic initiatives?
9. How appropriate is the current organization structure to support the implementation of strategic initiatives?
10. How prepared is the Bank for organizational change?

    (a) The staff (b) The management (c) The board of directors

    Please elaborate.
11. How capable is the available human resource in managing and implementing new strategic decisions?

**Appendix 2: Interview Guide for Departmental Managers**

1. How does your department go about the implementation of chosen strategies?

2. Does your department maintain a policy manual on how to implement divisional strategies? Please elaborate.

3. How often are the departmental policies on implementation updated?

4. How relevant are the department's policies to current bank activities?

5. How are the following supportive of your departmental policy development and implementation? (a) Your staff (b) Your superiors (c) The board of directors Please elaborate.

6. Does the department have the financial capacity to implement the strategies formulated? Please elaborate.

7. How committed are the board members and management in providing financial resources to support implementation of your departmental strategic initiatives?

8. How motivated are the board of director and employees in supporting your departmental strategic initiatives?

9. How appropriate is the current organization structure to support the implementation of your department's strategic initiatives?

10. How prepared is the department for organizational change? Please elaborate.

11. How capable is the available human resource in your department in managing and implementing new strategic direction?