THE RELATIONSHIP BETWEEN STRATEGIC PLANNING INTENSITY AND FINANCIAL PERFORMANCE OF COMMERCIAL BANKS IN NAIROBI

BY

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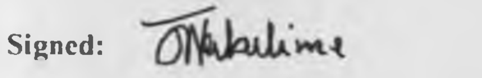
2008

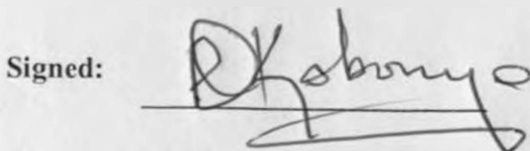
DECLARATION

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

Signed:  Date: 21/11/2008

JANE MASIGA

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

Signed:  Date: 21/11 2008

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DEDICATION

To my Parents,

Thank You for Taking Me to School the First Day

To My Husband, Bernard

Thank You for Your Love and Support

My children Vanessa and William

You are such Wonderful Gifts and an Investment to Look at!

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TABLE OF CONTENTS

Pages

DECLARATION i
COPYRIGHT ii
DEDICATION iii
ACKNOWLEDGEMENT iv

ABSTRACT 1

CHAPTER ONE: INTRODUCTION 2
1.1 Background 2
1.1.1 Concept of Strategic Planning 3
1.1.2 Concept of Financial Performance 3
1.1.3 Relationship between Strategic Planning and Financial Performance 4
1.1.4 Commercial Banks in Kenya 5
1.2 Statement of the Problem 7
1.3 Objective of the Study 8
1.3.1 Specific Objectives of the Study 8
1.4 Importance of Study 9

CHAPTER TWO: LITERATURE REVIEW 10
2.1 Introduction 10
2.2 Strategic Planning Intensity 10
2.3 Financial Performance 12
2.4 Strategic Planning and Performance 13
2.4.1 Financial Planning Intensity and Financial Performance 17
2.4.2 Strategic Planning Intensity and Financial Performance in Banks 18
2.5 Managerial Factors 19
2.5.1 Strategic Planning Expertise 20
2.5.2 Strategic Planning – Financial Performance Beliefs 20
2.6 Environmental Factors 21
2.6.1 Complexity and Change 22
2.6.2 Interactive Effects of Environment 23
2.7 Organizational Factors 24
2.8 Conceptual Model 25

CHAPTER THREE: RESEARCH METHODOLOGY 27
3.1 Introduction 27
3.2 Research Design 27
3.3 Target Population 27
3.4 Data Collection 27
3.4.1 Respondents 27
3.4.2 Data Collection Instrument 28
3.5 Data Analysis 29

CHAPTER FOUR: DATA ANALYSIS, FINDINGS AND DISCUSSIONS....................30
4.1 Introduction....................30
4.2 The Influence of Strategic Planning Expertise on the Relationship between Strategic Planning Intensity and Financial Performance of Commercial Banks in Nairobi....................31
4.3 Managerial Factors That Moderate the Relationship between Strategic Planning Intensity and Financial Performance of Commercial Banks....................34
4.4 The Organizational Factors That Moderate Strategic Planning Intensity And Financial Performance in Bank....................37
4.5 The Environmental Factors That Moderate the Relationship between Strategic Planning Intensity and Financial Performance of Bank....................39

CHAPTER FIVE: SUMMARY, CONCLUSIONS AND RECOMMENDATIONS.......44
5.1 Introduction....................44
5.2 Summary....................44
5.3 Conclusions....................48
5.4 Recommendations for Improvement....................49
5.5 Recommendations for Further Research....................50
5.6 Limitations of the Study....................50

REFERENCES....................51
APPENDICES....................67
APPENDIX I: COVER LETTER....................67
APPENDIX II: RESEARCH QUESTIONNAIRE....................68
APPENDIX III: A LIST OF COMMERCIAL BANKS....................74

LIST OF FIGURES

Pages

Figure 1.1 Model of Strategic Planning and Performance..**25**

LIST OF TABLES

Pages

Table 4.1a Strategic Planning Process 32
Table 4.1b Mean Financial Performance (%) 32
Table 4.2 Bank Business Environment 33
Table 4.3 Bank's Management "Tactics" 34
Table 4.4 Management's Actions/Goals and Financial Performance 36
Table 4.5 Bank Business Practices 37
Table 4.6 Bank Business Processes 38
Table 4.7 Bank Business Goals 40
Table 4.8 Bank Business Actions 41
Table 4.9 Future Implications of Bank Business Goals 41

ABSTRACT

This was a survey on the relationship between strategic planning intensity and financial performance in commercial banks in Kenya. The collected data was analyzed and interpreted in line with the aim of the study. The respondents were two senior managers, preferably the Chief Executive Officer/strategic planning manager and the finance/capitalization manager ("team leadership") of these banks. Out of the eighty-eight (88) respondents to whom the questionnaires were administered, only sixty - two (62) respondents in the commercial banks in Kenya responded.

Firstly, it was found that, strategic planning is critical to a bank's financial success, but it is critically complex looking at the level of expertise that exists in the bank to perform strategic planning. Secondly, the elimination of duplication of effort from the bank; making greater use of paraprofessionals; reducing overhead costs; and dealing with underperformers are the managerial factors that moderate the relationship between strategic planning intensity and financial performance of the bank. The management's goal is to be perceived by clients as the quality leader in the areas in which they practice.

Thirdly, it was found that factors that the commercial banks have given the best shot as some of the most practical ways to become more valuable to their clients than their best competitors are: staffing projects with innovative ways that render extra value; being better at accumulating, disseminating/building on accumulated expertise and experience. Fourth, it was found that the business processes of the commercial banks that the banks are dominant in to become more valuable to their clients than their best competitors are creating innovative solutions to clients' problems; turning inquiries into assignments ("sales process" effectiveness); developing and growing new partners from junior ranks; disseminating and sharing skills and knowledge among stakeholders.

Lastly, it was found that the banks' operating environment factors, which in turn have some influence on the banks' strategic planning process and in achieving their goals on excellent level are: perception as quality leader in the areas of practice; attraction and retention of a fair share of the best individuals.

CHAPTER ONE: INTRODUCTION

1.1 Background

Financial institutions such as commercial banks, mutual savings banks, savings and loan associations, and credit unions comprise intermediaries for certain industries, for example, insurance companies. It has been suggested that in service industries a group of financial services institutions are collectively called depository intermediaries (Auerbach, 1985). The product/service offerings these institutions have in common, bind them into an industry grouping that is subject to similar influences. Major regulatory influences on this group have been the Depository Institution Deregulatory and Monetary Control Acts. These Acts have eased entry, location, and activity restrictions planning. According to banking experts (Auerbach, 1985; Gup & Whitehead. 1989), these Acts are responsible for allowing increased competition from non-bank suppliers of financial services as well as from contractual commercial banks, mutual savings banks, savings and loan associations, and credit unions.

It has been suggested that in service industries of this type, where competition can move very quickly and new players can enter easily, there is a constant need to think strategically about what is going on (Schmenner, 1995). This appears to be precisely what banks, in particular, have begun to do in recent years. In response to increasing complexity and change in the financial services industry, banks have turned to strategic planning. The relatively new trend toward strategic planning in banks is viewed as a move designed not only to help them negotiate their environment more effectively, but to improve their financial performance as well (Bettinger, 1986; Bird, 1991; Prasad, 1984). The relatively new trend toward strategic planning in banks is viewed as a move within the general financial services industry (Bush, 1987).

Inconsistent results of bank-related research, however, have not fully resolved the issue of whether strategic planning leads to improvements in banks' financial performance. In one study, for instance, it was found that banks that formally engage in the strategic planning process tend to have significantly lower Return on Investments (ROIs) than banks that engage in the process informally (Gup & Whitehead, 1989).

1.1.1 Concept of Strategic Planning

Strategic planning is an organization's process of defining its strategy, or direction, and making decisions on allocating its resources to pursue this strategy, including its capital and people. The outcome is normally a strategic plan which is used as guidance to define functional and divisional plans, including Technology, Operations, Human Resources and Marketing. The strategic planning to be defined is to determine where an organization is going over the next year or more. Typically strategic plans are for 3 to 5 years, but can also be extended up to 20 years. The organization's goal that is defined by a strategic plan is known as the vision. A vision could be for example "To be the first brand in certain industry in certain geographical location!" (Pearce & Robinson, 1994).

Strategic planning can also be described as the process of using systematic criteria and rigorous investigation to formulate, implement, and control strategy, and formally document organizational expectations (Higgins & Vincze, 1993; Mintzberg, 1994; Pearce & Robinson, 1994). In order to determine where it is going, the organization needs to know exactly where it stands, and then determines the milestones that need to be taken in order to reach its goal. This discussion is called the "strategic planning". There are many approaches to strategic planning but typically a three-step process may be used: Situation - evaluate the current situation and how it came about; Target - define goals and/or objectives (sometimes called ideal state); and Path - map a possible route to the goals/objectives (Bradford & Duncan, 2000).

1.1.2 Concept of Financial Performance

Financial performance is a subjective measure of how well a firm can use assets from its primary mode of business and generate revenues. This term is also used as a general measure of a firm's overall financial health over a given period of time, and can be used to compare similar firms across the same industry or to compare industries or sectors in aggregation. There are many different ways to measure financial performance, but all measures should be taken in aggregation. Line items such as revenue from operations, operating income or cash flow from operations can be used, as well as total unit sales. Furthermore, the analyst or investor may wish to look deeper into financial statements and seek out margin growth rates or any declining debt (Whitehead & Gup, 1985).

1.1.3 Relationship between Strategic Planning and Financial Performance

Past studies have indicated that strategic planning results in superior financial performance (Burt, 1978; Eastlack & McDonald, 1970; Guynes, 1969; and Leontiades & Tezel, 1980), measured in terms of 'generally accepted' financial measures, for example, sales, net income, Return on Investment, Return on Equity and Return on Sales. Subsequent studies (Armstrong, 1986; Greenley, 1986; Mintzberg, 1990; Shrader, Taylor, and Dalton, 1984) have contradicted the notion of the strategic planning-superior performance relationship. However, more recent studies (Miller & Cardinal, 1994; Schwenk & Shrader, 1993) provided convincing evidence that strategic planning does indeed result in superior financial performance. The fact that these studies accounted for factors responsible for past research contradictions, for example, methodological flaws and non-robust statistical methods provides additional support for their conclusions.

One stream of strategic planning research has raised the issue of whether the length of time a firm has been involved in the strategic planning process has any impact on performance. In the study of Fulmer & Rue (1974), for example, the researchers compared financial performance of firms in the service industry over a period of three years. However, 50 percent of the firms studied indicated that they had implemented a strategic planning system only two years prior to the study. But a study carried out by Whitehead (1985) showed that although small differences existed between the amount of strategic planning and financial performance, the incremental emphasis (intensity) placed on various planning components contributes to the total financial performance, the reaped benefits of their strategic planning effort.

In the context of this study, the guiding notion is that the intensity with which banks engage in the strategic planning process intervene, that is, cause an indirectness and lack of one-to-one correspondence; between factors such as strategic planning expertise and beliefs about planning–performance relationships (managerial factors), environmental complexity and change (environmental factors), bank size and structural complexity (organizational factors), and banks' financial performance.

1.1.4 Commercial Banks in Kenya

The banking sector in Kenya, by offering financial services to the low-income households and micro and small enterprises, has enormous potential to support the economic activities of the poor and thus contribute to poverty alleviation. Experience and research have shown the importance of savings and credit facilities. This puts emphasis on the sound development of banking institutions as vital ingredients for investment, employment and economic growth. But now the much-vaunted Kenyan financial system is looking tarnished. Precisely the attribute of the system that previously appeared to be a virtue, the willingness of banks to go on lending to firms in distress, now turns out to have led to serious problems. Borrowers who should have been cut off were not, with the result that further billions were lost. The public has had to pay twice. They pay once in the form of slowed economic growth as the result of the prolonged overhang of bad loans (and other aspects of the burst bubble), and then again as taxpayers when the government ends up footing the bill. Every country encounters bumps in the road. One does not want to conclude too much from a single episode but several aspects of a good technique for a close relationships between banks and borrowers, and another is administrative guidance from the government has been necessitated (www.treasury.go.ke).

With the Kenyan consumer becoming more informed, consumers watchdogs being formed and awards being created for the best companies, it is reaching a point whereby either a company starts being responsible in all its core and non core activities or goes under. Brown (1998) acknowledged that business had become the most powerful institution on the planet. He also stated that the dominant institution in any society needed to take responsibility for the whole but business had not had such a tradition. To him it had depended on a consensus of overarching meanings and values that were no longer present, so business had to adopt a tradition it had never had throughout the entire history of capitalism: to share responsibility for the whole - every decision that is made and every action in the light of responsibility (www.treasury.go.ke).

There are a number of challenges which need strategic attention in the commercial banks in Kenya in order to enhance their financial performance. The four main challenges facing the banking sector are: the uncertainty over the Banking Bill: Implementation of

the "in-duplum" rule, which, if applied retroactively for several years back will wipe out many local Banks; secondly, the infrastructure: the expensive and poor conditions power, roads and communications needs to be addressed, this will reduce the cost of banking and eventually lead to banking costs for account holders; thirdly, the insecurity: the banks spends more than 15 million Kenya shillings a month on security guards, which is not prudent. If the security situation improved, Kenyan banks would not have to pay as much for security. Lastly, the judiciary: It takes years for cases to be heard, and all banks have backlogs of pending cases, while others are postponed endlessly (www.treasury.go.ke).

The Government of Kenya recognizes that greater access to, and sustainable flow of financial services, particularly credit, to the low-income households and businesses is critical to poverty alleviation. Therefore, an appropriate policy, legal and regulatory framework to promote a viable and sustainable system in the country has been developed via the proposed 'Deposit Taking Micro Finance' Bill. In drafting the Bill, the Government has consulted with stakeholders to get their views on the best way to create the required enabling environment for the microfinance sub-institutions. In addition, full-fledged banks have been established in the Ministry of Finance (the Treasury) (http://www.microfinancegateway.org/files/25464_file_kenya.pdf).

"In-duplum" does not make sense since it only encourages defaulters! Basically, if one accumulates enough (unpaid) interest to equal his/her original loan, there is no need to pay it back since after interest equals to loan, the loan is interest-free! Those in favour of the rule should lend money! But the high cost of borrowing is also a function of poor/slow court system where banks spend more to collect the loans than what they make in interest! So they tack on a higher margin for good borrowers. The costs to keep cash safe, for example guards and vaults add to fees charged by banks! The ATMs use phone lines which are difficult to obtain because of the major telephone service provider in Kenya (Telkom)'s inefficiency and expensiveness. Experience shows that provision and delivery of credit and other financial services to the institutions by formal financial institutions, such as commercial banks has been below expectation. At the moment, there are 44 commercial banks in Kenya as shown in Appendix III (www.treasury.go.ke, 2008).

1.2 Statement of the Problem

The intensity with which managers in banks engage in strategic planning directly affects financial performance. This direct effect has been suggested in strategic planning literature related to planning and performance in manufacturing firms (Schwenk & Shrader, 1993), as well as in literature related to planning and performance in banks (Hopkins & Hopkins, 1994). This intensity with which managers engage in strategic planning depends on managerial (for example, strategic planning expertise and beliefs about planning–performance relationships), environmental (for example, complexity and change), and organizational (for example, size and structural complexity) factors. The effects of these factors on strategic planning intensity have been established by several studies (Cragg & King, 1988; Watts & Ormsby, 1990b).

The commercial banks in Kenya compete amongst themselves with amazing technology to out shine each other. This has seen several banks close down, including Fina Bank and Chase Bank. Others have shut down their branch networks. Some of these failures would have been avoided if the affected banks had developed good strategic plans and implemented them diligently. Indeed, it is no on longer a secret that some of the failed banks such as Urban and Rural responded more to the political expediency of the day rather than sound economic opportunities. There was therefore need for a study to be conducted in order to establish the link between strategic planning and financial performance of commercial banks in Kenya

A number of studies has analyzed the relationship between strategic planning and financial performance in the banking industry, but they have tended to focus on differences in performance between those banks with formal strategic planning systems and those with informal systems (Bettinger, 1986; Gup & Whitehead, 1983, 1989; Prasad, 1984; Whitehead & Gup, 1985; and Wood, 1980). And while these studies have alluded to a relationship between strategic planning intensity and financial performance, none have explicitly modelled and empirically tested the relationship. Clausen (1990) in his study found that BankAmerica's return to profitability was attributed to the bank's formal commitment to the strategic planning process.

Also results of studies that had focused on strategic planning–performance relationships in banks are mixed. The inconsistencies of these results can be attributed to spurious research findings, resulting from the researchers focusing on the wrong performance measures and not considering the length of time banks have been involved in formal strategic planning (Fulmer & Rue, 1974; Hofer & Schendel, 1978), and extraordinary environmental pressures and other factors that are unique to banks (cf. Bird, 1991; Hector, 1991a; Kallman & Shapiro, 1978).

Although a number of studies had analyzed the relationship between strategic planning and financial performance in the banking industry, they had obtained mixed results apparently because researchers have neglected to study important aspects of the relationship between strategic planning and financial performance in banks, especially the factors that that affect the relationship between strategic planning intensity and financial performance. However, no study had been done to establish the link between strategic planning and financial performance of commercial banks in Kenya. This constituted gaps in knowledge. This study was therefore an attempt to close this gap in the strategic planning literature by examining the effect of moderating factors such managerial, environmental, and organizational on the relationship between strategic planning intensity and financial performance.

1.3 Objective of the Study

The broad objective of this study was to determine the factors moderating the relationship between strategic planning intensity and financial performance of commercial banks in Nairobi.

1.3.1 Specific Objectives of the Study

The specific objectives of this study were:

i. To determine the influence of strategic planning expertise on the relationship between strategic planning intensity and financial performance of commercial banks in Nairobi.

ii. To establish the influence of managements' beliefs on the link between strategic planning and performance, on the relationship between strategic planning intensity and financial performance of commercial banks in Nairobi.

iii. To establish the environmental and organizational factors that moderate the relationship between strategic planning intensity and financial performance in banks in Nairobi.

1.4 Importance of Study

1.4.1 Academics / Researchers: Findings from this research will assist academicians in broadening of the syllabus with respect to this study, hence providing a deeper understanding of the moderating effects of strategic planning intensity and banks' financial performance. The findings may as well attract other researchers to venture into areas in strategic planning and performance improvement strategies that have not been studied in the African context. The available literature is full of case studies from the west, which as pointed out by Aosa (1993), cannot be replicated without amendments for organizations operating in Africa.

1.4.2 Kenya Commercial Banks : The findings of this study will help the Kenyan commercial banks' management and other decision makers in their evaluation of strategic planning processes, with an insight into the benefits of using strategic planning approach in service delivery. The research findings will give an explanation on the nature of the planning-performance relationship in banks. By explaining the nature of this relationship in banks, the research findings will be relevant to all financial institutions in the depository intermediary grouping, as well as providers of financial services subject to similar conditions that banks must operate under.

1.4.3 Government: The government can use the findings for their research to assist in policy formulation and development of a framework for all financial institutions in the depository intermediary grouping, as well as providers of financial services. This is because they all need to understand strategic planning intensity and banks' financial performance which has an impact on tax collection.

CHAPTER TWO: LITERATURE REVIEW

2.1 Introduction

The relationship between formal strategic planning and an organization's economic performance is "a controversial, problematic and unresolved issue" (Pearce et al., 1987). Formal strategic planning has been associated with the field of strategic management from its earliest foundations. These early developments significantly include that of Andrews (1980); Ansoff (1965) and of Learned et al. (1965). Strategic planning has also been known under various labels encompassing "long range planning", "corporate planning", and "strategic management" in addition to "Strategic Planning" (e.g. Ackoff, 1970; Ansoff et al. 1976; Steiner, 1963, 1979; Steiner & Cannon, 1966). It is for this purpose of some literature review has been done on specifics relating to the research objective only.

To enhance the examination of the moderating effects of strategic planning intensity between certain factors (that is, managerial. environmental, and organizational) and Kenyan commercial banks' financial performance, literature review will provide the rationale for linkages between these factors, strategic planning intensity, and financial performance. and the research from which the rationale was derived. The literature review will be focus attention to the relationship among these managerial, environmental, and organizational factors and their potential impact on planning intensity and performance.

2.2 Strategic Planning Intensity

Strategic planning can be considered from a content or a process viewpoint (O'Regan & Ghobadian. 2002, p. 418). The content relates to the distinct elements of the strategic plan which differ from firm to firm. Process relates to the mechanisms for the development of the strategic plan and its subsequent deployment.

There are contrasting perspectives on the process of strategy formulation, for instance. Mintzberg and Lampel (1999) have classified ten. Broadly, they distinguish between

prescriptive schools: design, planning and positioning; and descriptive schools: cognitive, learning, power, cultural and environmental; and two which have elements of both: entrepreneurial and configuration. According to Mintzberg and Lampel (1999) some of the more recent approaches to strategy formation cut across these ten schools. The "dynamic capabilities" approach (Prahalad & Hamel, 1990) embodying notions of core competence, strategic intent and stretch, Mintzberg and Lampel see as prescriptive and practitioner-focused and classify it as a hybrid of the learning and design schools. The resource-based view (Barney, 1991; Grant, 1991; and Wernerfelt, 1984), to Mintzberg and Lampel (1991) appears to be descriptive and research-focused and they classify it as a hybrid of the learning and cultural school. The tendency has been to view the ten different schools as representing fundamentally different processes to strategy formation, although Mintzberg and Lampel (1999) are ambiguous on this issue.

Essentially, the question regarding the nature of strategy formulation in organizations has centred on the so-called "design versus process" debate, which emphasizes the difference between deliberate and emergent strategies (Mintzberg & McHugh, 1985; Mintzberg & Waters, 1985). Deliberate strategies are defined as "intentions rebased" from strategies that are formulated in advance, whereas an emergent approach produces evolving strategic patterns despite or in the absence of intentions' (Mintzberg & McHugh, 1985, p. 161). One side advocates a formal, systematic, rational, strategic planning process (Ansoff, 1991; Goold, 1992). Others support an emergent process (Mintzberg, 1991, 1994; Mintzberg & Waters, 1982; Mintzberg & McHugh, 1985; Pascale, 1984).

Grant (2003) argues that this debate has occurred in the context of a lack of empirical investigation of the phenomenon itself as it has concentrated on a few case examples of "dubious validity". Further, Grant maintains that much of the debate between the "strategy-as-rational-design" and "strategy-as-emergent-process" schools has been based upon a misconception of how strategic planning works in the real world. From his investigation of the strategic planning practices of the major oil companies, Grant (2003) found that the strategic planning systems of the international oil majors could be described as processes of "planned emergence."

The primary direction of planning was bottom-up – from the business units to the corporate headquarters – and with business managers exhibiting substantial autonomy and flexibility in strategy making. At the same time, the structure of the planning systems allowed corporate management established constraints and guidelines in the form of vision and mission statements, corporate initiatives, and performance expectations." Harrington et al. (2004) reached a similar conclusion. They note that the debate between Ansoff (1991) and Mintzberg (1990, 1991) typifies the view that firms' strategy formulation processes are either deliberate or emergent. Consequently, the norm has been to separate strategy formulation into deliberate and emergent categories. However, Harrington et al. (2004) argue that it should be treated as a continuum in order to better tap into the idea that both approaches can be present in organisations. From their empirical findings they conclude that "Because dynamism and its associated uncertainty are on a continuum, managers do not have an either/or approach to strategy formulation ... managers are cognizant of the environment and they respond by manipulating the strategy formulation process" (Harrington et al., 2004, p. 29).

2.3 Financial Performance

Greenley(1994) notes that the strategic management literature lists several quantitative objectives that can be set to guide performance over a period of time, as well as qualitative objectives (Hunger & Wheelen, 1993). Shrader et al. (1984) note that the dependent (performance) variables have been measured in numerous ways in the literature (sales, profit, productivity, revenue, dividends, growth, stock price, capital, cash flow, return on assets, return on capital, return on equity, return on investment, earnings per share, as well as other financial ratios), and point out that some performance variables may be more susceptible than others to strategic planning intervention. Greenley further argues that despite obvious difficulties in measuring qualitative objectives, there is a strong a prior case that they should be included in assessments of performance (Chakravarthy, 1986). Therefore, care needs to be taken in identifying the adopted measures of performance.

The issue of the measurement of organization performance is a controversial area (Cameron, 1986; Chakravarthy, 1986; Goodman & Pennings, 1980; Jacobson, 1987; Lewin & Minton, 1986; Varadarajan & Ramanujam, 1990; Venkatraman & Ramanujam, 1986). A major problem is the choice of the appropriate yardstick(s) to be used when assessing organization performance. Essentially, this debate concerns the appropriateness of traditional financial measures (for example ROI, growth) as providing a unique measure of performance versus the relevance of other indicators (such as maximizing shareholders' wealth; qualitative returns to non-financial stakeholders such as customer satisfaction). Rhyne (1986) notes that with the exception of Kudla (1980) most of the prior studies examining the planning-performance relationship utilized measures which did not reflect the return to investors. Moreover, the accounting measures of performance used captured only a portion of the firm's effectiveness.

2.4 Strategic Planning and Performance

Grant (2003) noted that empirical research in strategic planning systems has focused on two areas: the impact of strategic planning on firm performance (the focus of this paper) and the role of strategic planning in strategic decision making. The latter area of research explored the organizational processes of strategy formulation, which is briefly considered here in order to locate the main concerns of this paper in context.

Andersen (2004b, p. 270) findings demonstrate that decentralized strategic emergence, where relatively autonomous managers are empowered to take initiatives of potential strategic consequences, and strategic planning activities that integrate diverse market experiences and coordinate strategic actions are both important to achieve superior performance. From a cross-sectional study of 112 manufacturing firms, Andersen confirmed that decentralized strategic emergence in conjunction with strategic planning is associated with higher performance for organizations with a high degree of international business activities that operate in turbulent industrial environments. Hence, the study contradicts conventional views that present the two strategy-making modes as alternatives contingent upon the level of environmental turbulence. Andersen concludes that the two strategy making modes are complementary elements of the strategy

formation process and enhance organizational performance particularly for internationally engaged firms operating under the turbulence of global markets.

The first empirical test of this relationship was conducted by Thune and House (1970), who reported better economic performance by groups of formal planners compared to non-planners. In the time since this study numerous papers conducting similar analyses have been published resulting in dozens of empirical tests of the planning-performance relationship. This body of research is, however, more ambiguous than Thune and House's original findings. Some studies have reported strong benefits of planning (Karger & Malik, 1975; Rhyne, 1986), many report no quantifiable benefit (Grinyer & Norburn, 1975; Kudla, 1980), and others (Fulmer & Rue, 1974; Whitehead & Gup, 1985) have even reported that planners perform worse on some measures than their non-planning counterparts.

Several papers have reviewed this body of empirical work in an effort to integrate these findings. Greenley (1994), for instance, identified a total of 29 relevant and published empirical studies, where the overall aim of each study was to investigate whether or not an association can be identified between strategic planning and performance. Greenley classifies these studies into three groups. In the first group there are nine studies where the researchers concluded that there is no association between strategic planning and company performance (Fredrickson & Mitchell, 1984; Grinyer & Norburn, 1975; Kallman & Shapiro, 1978; Kudla, 1980, Leontiades & Tezel, 1980; Rhenman, 1973; Robinson & Pearce, 1983; Rue & Fulmer, 1973, 1974; and Whitehead & Gup, 1985). In the second group there are 12 studies, which support an association between strategic planning and company performance (Ansoff et al., 1970; Bracker and Pearson, 1986; Burt, 1978; Eastlack & McDonald, 1970; Fredrickson, 1984; Guth, 1972; Klein, 1981; Pearce et al., 1987; Robinson et al., 1984; Robinson and Pearce, 1988; Sapp & Seiler, 1981; and Welch, 1984;).

In the third group of nine studies it was concluded that companies with strategic planning outperform companies without strategic planning (Ackelsberg & Arlow, 1985; Gershefski, 1970; Herold, 1972; Karger & Malik, 1975; Rhyne, 1986, 1987; Robinson,

1982; Thune & House, 1970; and Wood & LaForge, 1979). Greenley (1994) notes that an initial examination of these results suggests that, on balance, the evidence supports an association between strategic planning and company performance. However, this conclusion does not include an appraisal of the methodological rigor of these results. He argues that there were many methodological weaknesses, which challenge this initial conclusion.

Armstrong (1982) considered 12 studies reporting positive, null or negative benefits to formal planning, and concluded that these studies supported the usefulness of formal planning, but that "serious research problems were found in these studies, so few conclusions could be drawn about how to plan and when to plan" (p. 209). Pearce et al. (1987) examined 18 studies and concluded that empirical support for the effect of formal planning "has been inconsistent and contradictory" (p. 671) and that only a "tenuous link" between formal strategic planning and financial performance had been identified. Shrader et al. (1984) examined 18 studies and concluded that "there is no clear relationship between formal-long range planning and organizational performance". For Boyd a logical extension of these narrative reviews was to aggregate statistically the previous research in a meta-analysis in order to estimate a weighted "average" correlation. Boyd (1991) results from his meta-analysis using 29 empirical studies, which sampled 2,496 organizations in all, found the overall effect of planning on performance very weak.

Mintzberg (1994) in a caustic review of the survey evidence on planning and performance claims that the "studies did not prove their own point", noting that some studies supported the relationship while others did not, with the overall results "inconclusive" (Bresser & Bishop, 1983: p. 588). "What Pearce et al. referred to in 1987 as a 'problematic and unresolved issue' remains problematic and unresolved" (Mintzberg, 1994, p. 97). In conclusion, Mintzberg (1994) maintains that "a number of biased researchers set out to prove that planning paid, and collectively they proved no such thing."

In a more balanced view Boyd (1991) makes the following conclusions: Early adopters of strategic planning took comfort in the findings of Thune and House (1970), and Ansoff et al. (1970) and other initial studies regarding the financial rewards of strategic planning. Unfortunately, later analyses were not as reassuring. Boyd argues that firms which are questioning the need for strategic planning should remember two points from this body of research: first, existing research is subject to a great deal of measurement error. thus seriously underestimating the benefits of planning. Secondly, while the average effect size is small, many firms do report significant and quantifiable benefits from participating in the strategic planning process.

One basic problem associated with the prior research is that of the direction of the association (Greenley, 1994; Mintzberg, 1994). Although studies might report correlation, clearly, this is not causation. High levels of performance may result in strategic planning, as greater performance allows for the allocation of resources to planning. Or, as Mintzberg (1994) puts it "only rich organizations can afford planning or at least planners". While Rhyne (1986) in his study found that firms with planning systems more closely resembling strategic management theory were found to exhibit superior long-term financial performance, both relative to their industry and in absolute terms, he concluded that "whether strategic planning resulted in superior performance or superior performance permitted strategic planning remains difficult to specify" (Rhyne, 1986, p. 432).

The main methodological shortcomings in the prior empirical literature have been identified by a number of reviews (Greenley, 1994; Pearce et al., 1987; Rhyne, 1986). Briefly, these may be summarized as follows: First, the definition of planning adopted in prior studies. Most studies have characterized firms as either planners or non-planners based on the extensiveness of the formal planning system. The presence of an elaborate system does not necessarily ensure, however, that a firm's planning process will be effective. Second is the consideration of industry effects. Several studies did not separate out industry effects. To the extent that industry profitability is a significant predictor of firm performance (Beard & Dess, 1979), this appears to be a major shortcoming (Rhyne,

1986). Third is the selection of performance measures. It is generally recognized that it is difficult to select a single measure of firm performance.

2.4.1 Financial Planning Intensity and Financial Performance

Most studies have proved that there is a positive relationship between strategic planning and financial performance in organizations. Gup and Whitehead (1989) in their study of the banking industry tested the notion that strategic planning only pays off after a period of time. They found no statistically significant the research from which the rationale relationship between the lengths of time banks had been engaged in the strategic planning process and their financial performance. Formal strategic planning is a label to describe an organizational managerial process, which can be broadly "defined as the process of determining the mission, major objectives, strategies, and policies that govern the acquisition and allocation of resources to achieve organizational aims" (Pearce et al., 1987, p. 658). These authors and others (e.g. Mintzberg & Lampel, 1999) point out that when the term formal strategic planning is used the intent is to convey that a firm's strategic planning process involves explicit systematic procedures used to gain involvement and commitment of those principal stakeholders affected by the plan.

Other strategy-related work (cf. Mintzberg, 1994; Selznick, 1957; Steiner, 1979; Thompson & Strickland, 1987) suggested that strategic planning has no value in and of itself, but takes on value only as committed people infuse it with energy. A strong conclusion to be drawn from this work is that strategic planning results in superior financial performance only when managers engage in the process with some intensity. In support of this position recent research (Miller & Cardinal, 1994) set forth and tested the notion, with affirmative results, that the amount of strategic of planning a firm conducts positively affects its financial performance.

Strategic planning intensity is defined as the relative emphasis placed on each component of a strategic planning process. There is general agreement among strategic planning researchers (for example, Armstrong, 1982) and theorists (for example, Hax & Majluf, 1991: Higgins & Vincze, 1993; Pearce & Robinson, 1994) that the strategic planning

process consists of three major components: first, formulation, which includes developing a mission, setting major objectives, assessing the external and internal environments, and evaluating and selecting strategy alternatives; secondly, implementation; and thirdly, control. The major focus of strategic planning activities in organizations is on these components. It has been argued that positive results from strategic planning are realized more times than not when managers place relatively equal emphasis on each component of the strategic planning process (Dimma, 1985).

Lending empirical support to this argument, results of a study conducted by Hopkins (1987) indicated that financial performance tended to be higher in firms where only small differences existed between the a mount of incremental emphasis (intensity) placed on various planning components contributing to the total strategic planning effort.

2.4.2 Strategic Planning Intensity and Financial Performance in Banks

The prescriptive strategic management literature implies that there is a positive association between strategic planning and company performance, with directional causality from strategic planning to performance (Greenley, 1994). Greenley provides two kinds of answer to the question: why do companies need strategic planning? First, it should improve the performance of companies. The standard theory of strategic management focuses around the planning of a mission and objectives, of which company performance is part, the implementation of strategies to achieve these objectives, and control to ensure that the objectives are achieved. Second, the purpose of strategic planning is to improve the effectiveness of management throughout an organization. This in turn could lead to indirect improvements in performance, although its efficacy may, of course, be lost in the complexity of variables with the potential to influence performance.

However, managers may perceive that it contributes to effectiveness, giving them a feeling of confidence and control. Some authors have claimed that it is the act of planning which is of real value (Sinha, 1990; Ramanujam & Venkatraman, 1987), while Greenley (1986) has identified a range of advantages to be gained from using strategic planning. Strategic planning may therefore be effective as a process of management, regardless of

the performance achieved. Despite this, Greenley (1994) argues the issue can be easily reverted back to performance: Even if these dimensions or features of planning are actually identified in a company's strategic planning, what purpose has been achieved by profiling their planning in a particular way if the company is unable to achieve higher levels of performance?

Indeed, the whole focus of strategic management evolves around the attainment of sets of objectives, which represent aspirations for future performance. With respect to firms in the banking industry, many have diversified into new markets in recent years. This has resulted in increased pressure for banks to offer new and better services to their customers, which has required them to become more focused on their market niche as well as their financial policies. Moreover, bank managers are focusing more intensively on their bank's external and internal environments, placing greater emphasis on setting direction (i.e., articulating a vision and a mission), and evaluating strategy alternatives more carefully (Hector, 1991b).

These activities correspond precisely with the strategic planning process components (that is, formulating, implementing and controlling strategy). The fact that bank managers are becoming more intensively engaged in these activities implies that they acknowledge (either consciously or unconsciously) a relationship between strategic planning intensity and improved financial performance. Indeed a recent study tested this relationship and found that banks that planned with greater intensity, regardless of whether their strategic planning process was formal or informal, outperformed those banks that planned with less intensity (Hopkins and Hopkins, 1994).

2.5 Managerial Factors

A proposition set forth in this paper is that the extent, to which banks engage in the strategic planning process, whether the process is formal or informal, depends on certain managerial factors. Although there may be several managerial determinants of strategic planning intensity, the studies cited in the next two sections of this paper suggest that

strategic planning expertise and beliefs about planning–performance relationships are major determinants.

2.5.1 Strategic Planning Expertise

In his study of the evolution of strategic planning in major corporations, Henry (1980) suggested that while management involvement in strategic planning was devoted to ensuring that the process was carried out comprehensively, very little or no attention was paid to whether or not management had the expertise to effectively carry out the process. Steiner (1979) noted that superior financial performance in firms is not the direct result of strategic planning, but the product of the entire range of managerial capabilities in a firm. These capabilities include knowledge and expertise to successfully engage in the strategic planning process. It has been suggested that competence in strategic planning may determine the degree to which firms become involved in the strategic planning process (Higgins & Vincze, 1993). In support of this assertion, Steiner (1979) suggested that firms do not engage heavily in the strategic planning process because their managers do not know what makes the process operate.

Generally. these studies imply that the reason strategic planning is not carried out with much intensity in some firms is because managers in these firms do not fully understand or have little experience in strategic planning methods. Such a view is supported by several studies (cf. Ringbakk, 1971; Steiner, 1969; Taylor, 1975), which are in agreement that in those firms where managers are not knowledgeable about or skilled in each step of the strategic planning process, the process is not likely to be engaged in with much intensity. Austin (1990) recognized that the expertise of managers in some banks to engage in the strategic planning process may not be as high as in others. In banks where managerial strategic planning expertise is high, the bank managers are likely to engage in the strategic planning process with enough intensity to impact the bottom line.

2.5.2 Strategic Planning – Financial Performance Beliefs

In their study of 211 firms, Eastlack and McDonald (1970) found that performance was better in those firms where managers were heavily involved in the strategic planning

process. While their findings do not prove that strategic planning results in superior financial performance, the findings do indicate that the managers believed strategic planning produced enough benefits in their firms to devote a substantial proportion of their time engaging in the process with greater intensity. The relationship between perceived importance of strategic planning and financial performance has been the focus of several studies (Burt, 1978; Guynes, 1969; Leontiades & Tezel, 1980).

In spite of the mixed results, findings of these studies generally suggest that the greater the perceived importance of the strategic planning process, the greater is management's satisfaction with the firm's financial performance. These results, despite their inconclusiveness, imply that the stronger management's beliefs that strategic planning results in better financial performance, the higher the likelihood that the strategic planning process will be engaged in with greater intensity. In his evaluation of the BankAmerica Corporation, Clausen (1990) suggested that management's quest to create value for both external and internal stakeholders renewed their commitment to the strategic planning process. The implication here is that this renewed commitment was influenced by management beliefs that positive relationship exists between greater involvement in the strategic planning process (or greater strategic planning intensity) and BankAmerica's financial performance.

2.6 Environmental Factors

Boyd (1991) noted that strategic planning is one tool to manage environmental turbulence, which has been adopted by a wide range of organizations. Further, formal strategic planning is an explicit and ongoing organizational process, with several components, including establishment of goals and generation and evaluation of strategies. An effective strategic planning system will link long-range strategic goals with both mid-range and operational plans. Planners collect data, forecast, model and construct alternative future scenarios. Ostensibly, these activities should allow organizations to outperform other firms, which did not engage in planning.

Capon et al. (1994) argued that the greater the degree of sophistication of the planning process, the better the performance. In their view, strategic planners should perform better than financial planners because of their focus on adaptation to the environment, and the formal thinking through of strategic issues and resource allocation priorities. This practice should lead to better identification of opportunities and threats, and appropriate firm action. Similarly, corporate planners should outperform division planners since an integrated corporate perspective should offer advantage over individual sub unit perspectives. They also expect division strategic planners to outperform corporate financial planners because the adaptive environmental focus, albeit at a divisional level, should outweigh the benefits of corporate-wide financial integration. Overall they hypothesize that planners should outperform non-planners.

Linkages between environmental conditions and strategy have been proposed in numerous studies (for example Andrews, 1980; Blau & Schoenherr, 1971; Burns & Stalker, 1961; Grinyer & Yasai-Ardekani, 1981; Hofer & Schendel, 1978; Lawrence & Lorsch, 1969; Lenz, 1981; and Prescott, 1986). These and other studies (Armstrong, 1982; Pearce, Freeman, and Robinson, 1987; Pearce, Robbins, and Robinson, 1987) suggested that environmental conditions have an influence on organizational actions, including the extent to which organizations engage in the strategy-making process. This line of research also suggests environmental complexity and change represent such conditions, and that these two conditions may be the strongest determinants of strategic planning intensity.

2.6.1 Complexity and Change

Environmental complexity refers to the heterogeneity and concentration of elements in a firm's external environment (Keats & Hitt, 1988). What this implies is that firms must consider the number, diversity, and distribution of elements in their environment when formulating strategy (Aldrich, 1979; Dess & Beard, 1984). Moreover, it has been suggested that managers' perceptions of environmental complexity have the strongest association with their degree of involvement in the strategic planning process, since it is perceptions that strategists act on (Bourgeois, 1980; Miller & Friesen, 1984).

Related yet distinct from environmental complexity, is environmental change which refers to variation in elements comprising a firm's external environment (Boeker, 1989; Miller, 1988). Romanelli and Tushman's (1986) external control model suggests that shifts in these elements over time strongly influence organizational changes, including the posture taken toward strategic planning. The works of Ansoff (1991) and Miller and Friesen (1983) suggest that the link between environmental change and strategic planning intensity is strong. Their rationale is that firms facing rapidly changing environments must rely on large amounts of strategic planning to cope with changing, unpredictable conditions.

Bird (1991) suggested that complexity and change in a bank's environment may influence the intensity with which the strategic planning process is carried out. Bird's contention is that the increasing number of banks that have adopted strategic planning systems demonstrates how a rapidly changing and complex environment encourages more intensive strategic planning. Such an argument is supported by several other studies of non-banking firms. For example, research conducted by scholars such as Keats and Hitt (1988), Romanelli and Tushman (1986), and Dess and Beard (1984) suggest that the degree of firms' involvement in the strategic planning process may directly and indirectly be a function of the degree of complexity and change in their competitive environment. It has also been suggested that if an environment is characterized by complexity and slow change, thereby exerting strainer only weak competitive pressures on a firm, there will be no incentive to become very much involved in the strategic planning process (Steiner, 1979).

2.6.2 Interactive Effects of Environment

Logically, one might expect high levels of strategic planning expertise to exist in banks where the environment in which such banks operate is perceived to be highly complex and variable, and where beliefs are strong that strategic planning results in superior financial performance. Despite the logic, strategy-related literature suggests that the relationship among these factors may not be positive one. Mintzberg (1973) suggested that executives in firms facing complex and rapidly changing environments do not

engage in the strategic planning process with much intensity, because future states of such environments are impossible to predict. Subsequently, executives of banks facing complex and rapidly changing environments may think it futile to invest in developing strategic planning expertise.

The overriding implication is that perceptions of a highly complex and rapidly changing environment may lead to a reduction in the levels of expertise in banks to properly conduct strategic planning. Such a view may also affect bank managements' beliefs about planning performance relationships. Researchers (Clapham & Schwenk, 1991; Huff & Schwenk, 1990; Salancik & Meindl, 1984) suggested that executives tend to attribute poor financial performance to factors such as environmental complexity and change, which tend to negatively influence their beliefs about whether strategic planning actually affects financial performance under conditions of environmental complexity and rapid change.

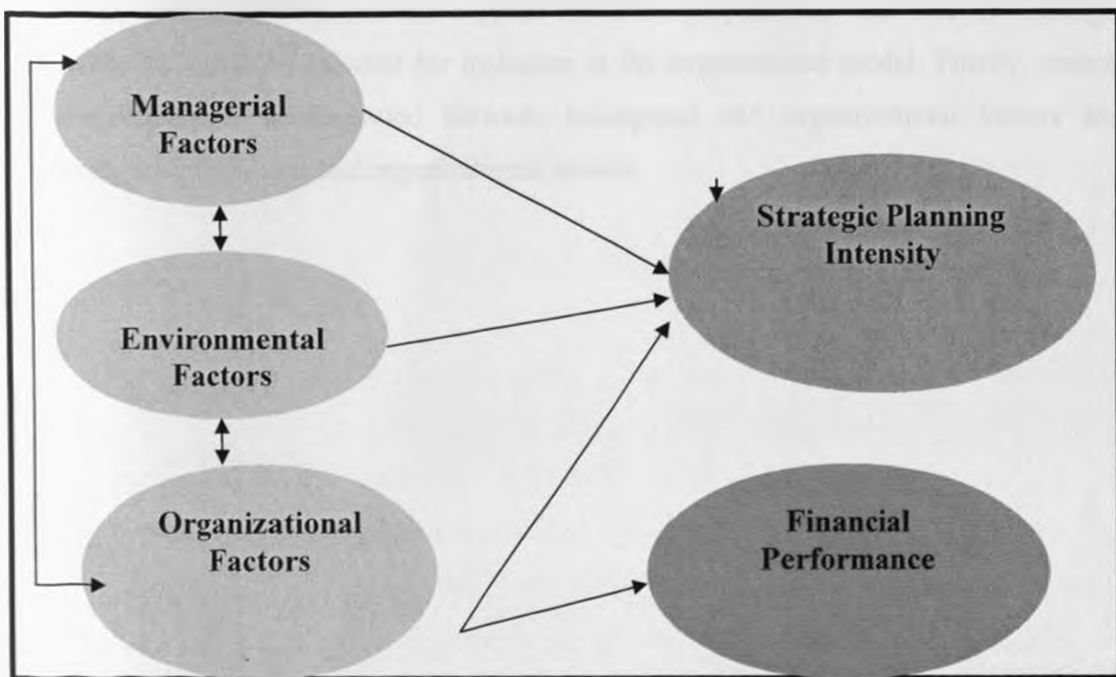
2.7 Organizational Factors

In her study of non-financial firms, Colon (1982) found that structural complexity (caused by increased diversification) and size were primary determinants of why organizations engage in strategic planning. Lenz (1981) also suggested that structural complexity can influence strategic adaptation which, in turn, affects performance. These organizational factors are also proposed to be determinants of the extent to which banks engage in the strategic planning process. In studies of the banking industry, for instance, it has been found that as banks expand into regional markets and in different lines of business they grow both in size and structural complexity (Gup & Whitehead, 1989; Wood, 1980). These studies concluded that the difficulty involved in managing increased size and complexity required bank managers to become more involved in planning for successful operations. In addition to being a proposed determinant of strategic planning intensity, firm size is also proposed to have a direct effect on financial performance in organizations, through economics of scale and market power (Shepherd, 1975; Winn, 1977).

2.8 Conceptual Model

The guiding notion of this study is that the intensity with which banks engage in the strategic planning process intervene, that is, cause an indirectness and lack of one-to-one correspondence: between factors such as strategic planning expertise and beliefs about planning–performance relationships (managerial factors), environmental complexity and change (environmental factors), bank size and structural complexity (organizational factors), and banks' financial performance. As suggested by the inconsistent research findings, past studies have mis-specified the relationship between strategic planning and financial performance in banks. Mis-specification of this relationship might be attributed to past studies' lack of attention to the relationship among these managerial, environmental, and organizational factors and their potential impact on planning intensity and performance. Subsequently, the consideration of such factors in the present study is viewed as a significant issue that holds implications for planning practices in banks and related financial institutions. The literature review will provide the rationale for linkages between these factors, strategic planning intensity, and financial performance, and the research from which the rationale was derived.

Figure 1.1 Model of Strategic Planning and Performance



As stated earlier, the guiding notion of this study is that strategic planning intensity intervenes between managerial, environmental, and organizational factors and banks' financial performance. Figure 1.1 summarizes this notion in the form of causal diagram. Links in the diagram demonstrate: 1) managerial, environmental, and organizational factors are all expected to have a positive, direct effect on the intensity with which banks engage in the strategic planning process; and 2) organizational factors and strategic planning intensity are expected have a positive, direct effect on banks' financial performance.

Banking-related literature (Auerbach, 1985; Austin, 1990; Bettinger, 1986; Bird, 1991; Bush, 1987; Clausen, 1990; Earle & Mendelson, 1991; Gup & Whitehead, 1983, 1989; Hector, 1991b; Prasad, 1984; Whitehead & Gup, 1985; Wood, 1980), as well as nonbank-related research (Cragg & King, 1988; Dess & Beard, 1984; Fulmer & Rue, 1974; Gable & Topol, 1987; Herold, 1972; Kallman & Shapiro, 1978; Karger & Malik, 1975; Keats & Hitt, 1988; Robinson et al., 1984; Robinson et al., 1986; Robinson & Pearce, 1983; Sheehan, 1975; Shrader et al., 1989; Thune & House, 1970; Unni, 1981; Watts & Ormsby, 1990a, 1990b), provide support for these propositions and thus the linkages between the variables selected for inclusion in the hypothesized model. Finally, mutual relationships will be expected between managerial and organizational factors and between environmental and organizational factors.

CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Introduction

This chapter describes the procedures that the researcher used to collect and analyze the data. It covers the following major areas: Research design, target population, sample and sampling procedure, data collection instruments, test of validity and reliability of instruments, data collection procedures, data analysis procedures, operationalization of the variables and ethics.

3.2 Research Design

This study used survey design. This design was considered appropriate because of the number of organizations/banks involved and the need for comparative analysis.

3.3 Target Population

The population of the study comprised of forty-four commercial banks incorporated and, or licensed to operate in Kenya in 2007 (See Appendix III).

3.4 Data Collection

3.4.1 Respondents

A convenient sampling technique was used to ensure that the respondents have sufficient knowledge of the intensity of the strategic planning in the bank. Two senior managers in each bank took part in this study – preferably, the Chief Executive Officer/strategic planning manager and the finance/capitalization manager. The primary consideration of the sample selection strategy for the study was to ensure sufficient variability of the main explanatory variables, that is, planning intensity and financial performance. Eighty-eight (88) respondents were selected for the study, that is, two from each bank.

3.4.2 Data Collection Instrument

A structured questionnaire (See appendix II) was used to collect primary data. Secondary data was gathered from periodic reports produced by the banks and the Nairobi stock exchange concerning the banks financial performance.

The questionnaire consisted of the following sections:

Section A: Banks and Respondents' Profile

Section B: Strategic Planning in Banks

Section C: Managerial Factors that Moderate Strategic Planning Intensity and Financial Performance in Banks

Section D: Organizational Factors that Moderate Strategic Planning Intensity and Financial Performance in Banks

Section E: Environmental Factors that Moderate Strategic Planning Intensity and Financial Performance in Banks

Questions from Section B were used to answer the first objective of the study, that is, to determine the influence of strategic planning expertise on the strength of the relationship between strategic planning intensity and financial performance in of commercial banks in Nairobi. Questions from Section C were used to answer the second objectives, that is, to establish the influence of the managers' beliefs on the link between strategic planning and performance on the relationship between strategic planning intensity and financial performance. Lastly, questions from Section D and E answered the last objective, that is, to establish the key managerial, environmental, and organizational factors that moderate the relationship between strategic planning intensity and financial performance.

The questionnaire contained a mix of questions, allowing for both open-ended and specific responses to a broad range of questions.

A mail questionnaire method was used during pilot and main study. The completed questionnaires were then picked from the respondents. Confidentiality was assured to the respondents through the letters of transmittal that will accompany the questionnaires.

3.5 Data Analysis

The process of data analysis involved several stages. Completed questionnaires were edited for completeness and consistency. The data was then coded and checked for any errors and omissions. Frequency tables, percentages and means were used to present the findings. Responses from the questionnaires were tabulated and coded.

The responses from the open-ended questions were listed to obtain proportions appropriately; the responses were then reported by descriptive narrative. Descriptive analysis, that is, the descriptive mean and standard deviation were used for Likert-Scale responses; and descriptive statistics (mean, mode and standard deviation).

To satisfy the research objectives, LISREL analytical tool was used. LISREL Causal Modelling addresses structural and measurement issues such as these in survey designed research, and thus was used to analyze and test the hypothesized model set forth in Figure 1.1. LISREL is appropriate for such an analysis because of its ability to first, estimate unknown coefficients of a set of linear structural equations. The measurement component identifies latent variables, and the structural component evaluates the causal relationships among latent variables and provides an overall hypothesis test of the model as a whole. The details of this technique and how it was used are provided in Appendix IV.

CHAPTER FOUR: DATA ANALYSIS, FINDINGS AND DISCUSSIONS

4.1 Introduction

This chapter covers data analysis and findings of the research. The data is summarized and presented in the form of proportions, means, tables and graphs. Data was collected from a population that comprised of forty-four commercial banks incorporated and, or licensed to operate in Kenya by 2007.

The collected data has been analyzed interpreted in line with the aim of the study namely: to determine the influence of strategic planning expertise on the relationship between strategic planning intensity and financial performance of commercial banks in Nairobi. Secondly, to establish the influence of managements' beliefs on the link between strategic planning and performance on the relationship between strategic planning intensity and financial performance of commercial banks in Nairobi. Lastly, to establish the environmental and organizational factors that moderate the relationship between strategic planning intensity and financial performance in banks in Nairobi.

The respondents were two senior managers, preferably the Chief Executive Officer/strategic planning manager and the finance/capitalization manager ("team leadership") of these banks. Out of the eighty-eight (88) respondents to whom the questionnaires were administered, only sixty - two (62) respondents in the commercial banks in Kenya responded. This gave a response rate of over seventy (70.45%) percent.

Before assessing the factors that moderate the relationship between strategic planning intensity and financial performance of commercial banks in Nairobi, there was need to check the organizational profile as follows:

The number of years an organization has been in operation and the duration one has worked in a given organization influences his/her better understanding on what happens in that organization's decision making process. The respondents were asked to indicate

the number of years that have worked with their current commercial banks in Kenya. From the research data, 70% of the respondents have worked at the bank for less than 10 years, as 30% has worked for between 20 - 29 years. This takes care of the spread of the "team leadership" ranks and promotions to as Chief Executive Officer/strategic planning manager and the finance/capitalization manager.

The respondents were also asked to indicate the number of branches which the bank has in Kenya, and from the research data, the commercial banks on average have between 5 and 30 branches in Kenya. This is an indication that the strategic decision making process for the bank is a complex one. It was also established form the research data that the banks are specializing on both corporate and retail banking.

4.2 The Influence of Strategic Planning Expertise on the Relationship between Strategic Planning Intensity and Financial Performance of Commercial Banks in Nairobi.

Before determining, the influence of strategic planning expertise on the relationship between strategic planning intensity and financial performance of commercial banks in Kenya, there was a need to check whether the commercial banks actively engage in strategic planning. The respondents were asked to indicate whether the banks are actively involved in strategic planning and for how long. From the research data, 100% of the respondents indicated the banks are actively in strategic planning and it has been over the last twenty years. This motivates the study to go further and establish its effects on financial performance.

Different organizations place varying emphasis on the various components of the strategic planning process. On a scale ranging from 1 (a weak emphasis) to 5 (a strong emphasis), the respondents were asked to indicate the emphasis their bank has placed on each component of the strategic planning process, and the responses are as in table 4.1a below. The secondary data on financial performance can also be displayed as in table 4.1b and figure 4.1 below.

Table 4.1a Strategic Planning Process

Strategic Planning Process	Count			Descriptive Statistics		Rank
	N	Min	Max	Mean	Std. Deviation	
Developing major long-term objectives	62	4.00	5.00	4.1935	.39830	1
Controlling the implemented strategic options	62	4.00	5.00	4.1290	.33797	2
Assessing the external environment	62	4.00	5.00	4.0645	.24768	3
Assessing the internal environment	62	4.00	5.00	4.0645	.24768	4
Implementing strategic options	62	4.00	5.00	4.0645	.24768	5
Determining the bank's mission	62	3.00	5.00	3.3871	.79661	6
Evaluating strategic options	62	3.00	5.00	3.3226	.69599	7
Valid N (listwise)	62					

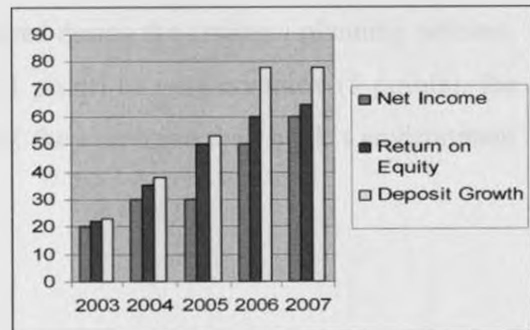
Source: Research Data

Table 4.1b Mean Financial Performance (%)

Year	Mean Financial Performance (%)		
	Net Income	Return on Equity	Deposit Growth
2003	20	22	23
2004	30	35	38
2005	30	50	53
2006	50	60	78
2007	60	64	78

Source: Research Data

Figure 4.1 Mean Financial Performances (%)



Source: Research Data

From the results in table 4.1a, it was found that the most critical issues (Mean = 4) which the banks pay a lot of emphasis to in their strategic planning are: developing major long-term objectives; controlling the implemented strategic options, assessing the external and internal environment and the actual implementation strategic options. From the results in table 4.1b and figure 4.1, the percentage increase in net income, return on equity and deposit growth has been on average of five years increasingly on the rise.

Based on the components of the strategic planning process as advanced by Goldberger and Duncan (1973), out of the seven measures of the strategic planning intensity {MISSN (mission), OBJCT (objectives), INNAL (internal analysis), EXNAL (external analysis), ALTRN (alternatives), IMPMT (implementation), and CONTL (control)}, the latent variables that have influenced financial performance {(INCOM (net income), EQUIP (return on equity), and DGWTH (deposit growth)} of the commercial banks are only five, that is the developing major long-term objectives; controlling the implemented strategic options, assessing the external and internal environment and the actual implementation strategic options. Thus financial performance (INCOM, EQUIP, and DGWTH} as a function of Strategic Planning Intensity is moderated by OBJCT, INNAL, EXNAL, IMPMT, and CONTL.

Further as the commercial banks' complex environment is characterized by rapid changes and a large number of factors need to be considered during the strategic planning process. On a 5-point scale ranging from very simple (1 point) to very complex (5 points), the respondents were asked to indicate how complex they perceive their bank's environment to be. The results are as in table 4.2 below.

Table 4.2 Bank Business Environment

Bank Business Environment	**Count**			**Descriptive Statistics**		**Rank**
	N	Min	Max	Mean	Std. Deviation	
Strategic planning is (or can be) critical to a bank's financial success	62	5.00	5.00	5.0000	.00000	1
Level of expertise that exists in your bank to perform strategic planning	62	4.00	5.00	4.9355	.24768	2
Valid N (listwise)	62					

Source: Research Data

From the results in table 4.2 above, strategic planning is critical to a bank's financial success, but it is critically complex looking at the level of expertise that exists in the bank to perform strategic planning.

4.3 Managerial Factors That Moderate the Relationship between Strategic Planning Intensity and Financial Performance of Commercial Banks

As indicated in the LISREL model, the managerial factors latent variable is measured by strategic planning expertise (EXPRT) and beliefs about planning-performance relationships (BELIF). The respondents were asked to indicate some ways in which the bank's management can deploy to improve the bank's profitability by ranking a number of management "tactics" in order of what they see as the bank's priorities ("5" being top priority and "1" the least), and the results are as in table 4.3 below.

Table 4.3 Bank's Management "Tactics"

Bank's Management "Tactics"	Count			Descriptive Statistics		Rank
	N	Min	Max	Mean	Std. Deviation	
Eliminate duplication of effort from the firm	62	5.00	5.00	5.0000	.00000	1
Make greater use of paraprofessionals	62	5.00	5.00	5.0000	.00000	2
Reduce overhead costs	62	5.00	5.00	5.0000	.00000	3
Deal with underperformers	62	5.00	5.00	5.0000	.00000	4
Increase utilization (billable hours per person)	62	4.00	5.00	4.9355	.24768	5
Increase leverage in the delivery of services	62	4.00	5.00	4.9355	.24768	6
Drop unprofitable services	62	4.00	5.00	4.9355	.24768	7
Improve speed of collections	62	4.00	5.00	4.9355	.24768	8
Use marketing to get "better" work	62	4.00	5.00	4.9355	.24768	9
Invest in new (higher value) services	62	4.00	5.00	4.9355	.24768	10
Train project leaders in project management skills	62	4.00	5.00	4.9355	.24768	11
Improve speed of billing	62	4.00	5.00	4.1290	.33797	12
Reduce turnover of non-partners	62	4.00	5.00	4.1290	.33797	13
Speed up skill-building process in non-partners	62	4.00	5.00	4.1290	.33797	14
Charge higher fees	62	1.00	5.00	1.7742	1.59322	15
Drop unprofitable clients	62	1.00	5.00	1.7742	1.59322	16
Valid N (listwise)	62					

Source: Research Data

The top priority (Mean = 5) management "tactics" deployed by the bank's management to improve the bank's profitability are: the elimination of duplication of effort from the bank; making greater use of paraprofessionals; reducing overhead costs; dealing with underperformers; increasing utilization (billable hours per person) and leverage in the delivery of services; dropping unprofitable services; improving the speed of collections; using marketing to get "better" work; investing in new (higher value) services; training project leaders in project management skills; improving speed of billing; reducing the turnover of non-partners; and lastly, speeding up skill-building process in non-partners.

Other than the tactics, there are a number of managerial factors that moderate the relationship between strategic planning intensity and financial performance of bank. The respondents were asked to indicate some of the key management actions towards the improvement of financial performance through sound strategic planning process, and the results are as in table 4.4 below.

From the results in table 4.4 below, the managerial factors and goals that moderate the relationship between strategic planning intensity and financial performance of the commercial banks in Kenya, to a very great extent (Mean = 5) are: the management goals to be perceived by clients perceive as the quality leader in the areas in which they practice; the goal to make the bank well-known among the market segments interested in; the goal to enable the bank respond quickly to changing client needs; the goal to depict the bank functions well as a team; the goal of fostering commitment and loyalty; the goal to provide challenging work to its partners; the goal to provide good training opportunities to improve skills; and lastly to goal to keep people informed about what is happening in the bank.

The managerial factors and goals that moderate the relationship between strategic planning intensity and financial performance of the commercial banks in Kenya, to a great extent (Mean = 4) are: the bank is good at developing future leaders for its practices; the bank has establish and maintain strong long term client relationships; the bank has communicated openly and honestly with its people; the bank has maintained a balance between short-term and long-term; the bank has motivated its people to do the best possible job for clients; the bank is sensitive to local and cultural differences between practice areas; the bank has taken advantage of our bank-wide network; and lastly the bank has encouraged risk-taking.

Table 4.4 Management's Actions/Goals and Financial Performance

Management's Actions/Goals and Financial Performance	Count			Descriptive Statistics		Rank
	N	Min	Max	Mean	Std.Dev	
Clients perceive us as the quality leader in the areas in which we practice	62	5.00	5.00	5.0000	.00000	1
The bank is well-known among the market segments we are interested in	62	5.00	5.00	5.0000	.00000	2
The bank responds quickly to changing client needs	62	5.00	5.00	5.0000	.00000	3
The bank has functioned well as team players	62	5.00	5.00	5.0000	.00000	4
The bank is successful in fostering commitment and loyalty	62	5.00	5.00	5.0000	.00000	5
The bank has provided challenging work to its partners	62	5.00	5.00	5.0000	.00000	6
The bank has provided good training opportunities to improve skills	62	5.00	5.00	5.0000	.00000	7
The bank has kept people informed about what is happening in the bank	62	5.00	5.00	5.0000	.00000	8
The bank is good at developing future leaders for its practices	62	4.00	5.00	4.9355	.24768	9
The bank has establish and maintain strong long term client relationships	62	4.00	5.00	4.9355	.24768	10
The bank has communicated openly and honestly with its people	62	4.00	5.00	4.9355	.24768	11
The bank has maintained a balance between short-term and long-term	62	4.00	5.00	4.9355	.24768	12
The bank has motivated its people to do the best possible job for clients	62	4.00	5.00	4.9355	.24768	13
The bank is sensitive to local and cultural differences between practice areas	62	4.00	5.00	4.9355	.24768	14
The bank has taken advantage of our bank-wide network	62	4.00	5.00	4.8710	.33797	15
The bank has encouraged risk-taking	62	4.00	5.00	4.8710	.33797	16
The bank has provided rapid opportunities to take on more responsibilities	62	4.00	5.00	4.1935	.39830	17
The bank has rewarded people at levels at least as high as they could obtain elsewhere	62	4.00	5.00	4.1935	.39830	18
The bank has attracted and retained a fair share of the best individuals	62	4.00	5.00	4.1290	.33797	19
The bank is innovative in the services we bring to market	62	4.00	5.00	4.0645	.24768	20
The bank has invested sufficient time and money in the development of new services	62	4.00	5.00	4.0645	.24768	21
The bank has rewarded its people for their performance	62	4.00	5.00	4.0645	.24768	22
The bank has developed and implement effective business plans	62	4.00	5.00	4.0645	.24768	23
Valid N (listwise)	62					

Source: Research Data

4.4 The Organizational Factors That Moderate Strategic Planning Intensity And Financial Performance in Bank

Bank size and bank structural complexity will moderate strategic planning intensity and financial performance in bank. This measure is an established way of accounting for differences in firm size when examining organizational outcomes (Montgomery, 1979), and has been used in other bank-related studies (Williams and Dreher, 1992).

The bank structural complexity will determine the extent to which banks involve themselves in lines of business other than strictly banking (for example leasing, insurance, credit cards). The respondents were asked to rank from 5 (best shot) to 1 (not likely to work) on what they consider as the most practical ways for their bank to become more valuable to its clients than to their best competitors. The results are as in table 4.5 below.

Table 4.5 Bank Business Practices

Bank Business Practices	Count			Descriptive Statistics		Rank
	N	Min	Max	Mean	Std. Dev	
Staff projects innovative ways that render extra value	62	5.00	5.00	5.0000	.00000	1
Be better at accumulating, disseminating/building on our accumulated expertise and experience	62	5.00	5.00	5.0000	.00000	2
Hire better people	62	4.00	5.00	4.9355	.24768	3
Train people faster /better in additional types of skills	62	4.00	5.00	4.9355	.24768	4
Do more productive research and development	62	4.00	5.00	4.9355	.24768	5
Develop methodologies for doing our work that are more efficient than the competitors'	62	4.00	5.00	4.9355	.24768	6
Reorganize and redeploy our resources in ways (e.g. cross-disciplinary industry teams) that create extra value for clients	62	4.00	5.00	4.9355	.24768	7
Develop superior quality assurance mechanisms that provide greater confidence and reassurance to clients	62	4.00	5.00	4.8710	.33797	8
Be better at being "close to the client" through more systematic listening and tracking of emerging needs	62	4.00	5.00	4.1935	.39830	9
Develop ways of being better client counselors in addition to top technicians	62	4.00	5.00	4.1290	.33797	10
Hire different types of people	62	4.00	5.00	4.0645	.24768	11
Valid N (listwise)	62					

Source: Research Data

From the research data, the factors that the commercial banks have given the best shot (Mean = 5) as some of the most practical ways for their bank to become more valuable to its clients than to their best competitors are: staffing projects with innovative ways that render extra value; being be better at accumulating, disseminating/building on accumulated expertise and experience; hiring better people; training people faster /better in additional types of skills; doing more productive research and development; developing methodologies for doing work that are more efficient than the competitors; reorganizing and redeploying resources in ways (e.g. cross-disciplinary industry teams) that create extra value for clients; and lastly developing superior quality assurance mechanisms that provide greater confidence and reassurance to clients.

Based on the Business Processes of the commercial bank, strategic planning can influence a number of other processes in the bank. The respondents were asked to indicate how well they are doing in a number of processes that range from 5 = we are the dominant bank at this; 4 = we are ahead of our competitors at this; 3 = we are typical compared to our competition; 2 = we are a little behind our competitors at this; 1 = we are weak at this. The results are as in table 4.5 below.

Table 4.6 Bank Business Processes

Bank Business Practices	**Count**			**Descriptive Statistics**		**Rank**
	N	Min	Max	Mean	Std. Dev	
Creating innovative solutions to clients' problems	62	5.00	5.00	5.0000	.00000	1
Turning inquiries into assignments("sales process" effectiveness)	62	5.00	5.00	5.0000	.00000	2
Developing and Growing New Partners from Junior Ranks	62	5.00	5.00	5.0000	.00000	3
Disseminating and Sharing Skills and Knowledge among Stakeholders	62	5.00	5.00	5.0000	.00000	4
Turning individual client assignments into long-term relationships	62	4.00	5.00	4.9355	.24768	5
Continuously gathering market intelligence & tracking emerging client needs	62	4.00	5.00	4.9355	.24768	6
Attracting high quality new recruits	62	4.00	5.00	4.9355	.24768	7
Transferring skills to professionals & developing new services	62	4.00	5.00	4.9355	.24768	8
Generating awareness of capabilities in important markets	62	4.00	5.00	4.1290	.33797	9
Finding new, efficient ways to lower cost of performing professional tasks	62	4.00	5.00	4.0645	.24768	10
Earning unprompted referrals from client work	62	4.00	5.00	4.0645	.24768	11
Valid N (listwise)	62					

Source: Research Data

From the research data, the Business Processes of the commercial banks that the banks are the dominant in (Mean = 5) to become more valuable to its clients than to their best competitors are: creating innovative solutions to clients' problems; turning inquiries into assignments("sales process" effectiveness); developing and Growing New Partners from Junior Ranks; disseminating and Sharing Skills and Knowledge among Stakeholders; turning individual client assignments into long-term relationships; continuously gathering market intelligence & tracking emerging client needs; attracting high quality new recruits; transferring skills to professionals & developing new services; generating awareness of capabilities in important markets; finding new, efficient ways to lower cost of performing professional tasks; and earning unprompted referrals from client work.

4.5 The Environmental Factors That Moderate the Relationship between Strategic Planning Intensity and Financial Performance of Bank

Formal strategic planning is an explicit and ongoing organizational process, with several components, including establishment of goals and generation and evaluation of strategies. The environmental latent variable is measured by perceived environmental complexity (COMPX) and environmental change (CHNGE). Strategic planning is one tool to manage environmental turbulence, which has been adopted by a wide range of organizations.

Environmental change will be measured as the number of years since a bank was incorporated. The use of this measure is supported by Carroll, who suggested that changes in a firm's approach to strategic planning are to a large extent a result of a firm's experience with environmental change. An effective strategic planning system will link long-range strategic goals with both mid-range and operational plans. Planners collect data, forecast, model and construct alternative future scenarios. The respondents were asked to indicate the bank's operating environment factors, which in turn have some influence on the bank's strategic planning process and in achieving its goals on the scale: 1 = not at all; 2 = a little; 3 = we are OK; 4 = we are doing well; and 5 = we excel at this. The results are as in table 4.7 below.

Table 4.7 Bank Business Goals

Bank Business Goals	Count			Descriptive Statistics		Rank
	N	Min	Max	Mean	Std. Dev	
Clients perceive us as the quality leader in the areas in which we practice	62	5.00	5.00	5.0000	.00000	1
The bank has attracted and retained a fair share of the best individuals	62	5.00	5.00	5.0000	.00000	2
The bank is good at developing future leaders for its practices	62	4.00	5.00	4.9355	.24768	3
The bank has functioned well as team players	62	4.00	5.00	4.9355	.24768	4
The bank has taken advantage of our bank-wide network	62	4.00	5.00	4.9355	.24768	5
The bank has developed and implement effective business plans	62	4.00	5.00	4.9355	.24768	6
The bank has maintained a balance between short term and long term	62	4.00	5.00	4.9355	.24768	7
The bank has motivated its people to do the best possible job for clients	62	4.00	5.00	4.9355	.24768	8
The bank is sensitive to local and cultural differences between practice areas	62	4.00	5.00	4.9355	.24768	9
The bank has provided good training opportunities to improve skills	62	4.00	5.00	4.9355	.24768	10
The bank has provided rapid opportunities to take on more responsibilities	62	4.00	5.00	4.9355	.24768	11
The bank has communicated openly and honestly with its people	62	4.00	5.00	4.8710	.33797	12
The bank has rewarded its people for their performance	62	4.00	5.00	4.8710	.33797	13
The bank has rewarded people at levels at least as high as they could obtain elsewhere	62	4.00	5.00	4.8710	.33797	14
The bank has kept people informed about what is happening in the bank	62	4.00	5.00	4.8710	.33797	15
The bank is innovative in the services we bring to market	62	4.00	5.00	4.8065	.39830	16
The bank is successful in fostering commitment and loyalty	62	4.00	5.00	4.1935	.39830	17
The bank has provided challenging work to its partners	62	4.00	5.00	4.1935	.39830	18
The bank is well-known among the market segments we are interested in	62	4.00	5.00	4.1290	.33797	19
The bank has establish and maintain strong long term client relationships	62	4.00	5.00	4.1290	.33797	20
The bank has invested sufficient time and money in the development of new services	62	4.00	5.00	4.0645	.24768	21
The bank has responded quickly to changing client needs	62	4.00	5.00	4.0645	.24768	22
The bank has encouraged risk-taking	62	4.00	5.00	4.0645	.24768	23
Valid N (listwise)	62					

Source: Research Data

From the results in table 4.7 above, the bank's operating environment factors, which in turn have some influence on the bank's strategic planning process and in achieving its goals on excellent level (Mean = 5) are: perception as quality leader in the areas of practice; attraction and retention of a fair share of the best individuals; being good at

developing future leaders; functioning well as team players; taking advantage of bank-wide network; developing and implementing effective business plans; maintaining a balance between short term and long term; motivation of employees to do the best possible job for clients; being sensitive to local and cultural differences between practice areas; providing good training opportunities to improve skills; providing rapid opportunities to take on more responsibilities; communicating openly and honestly with employees; rewarding people for their performance; rewarding people at levels at least as high as they could obtain elsewhere; keeping people informed about what is happening in the bank; and innovating in the services brought to market.

Organizational age will coincide roughly with the amount of environmental change experienced by an organization and aging may be a surrogate measure of a bank's exposure to environmental change. The respondents were further asked to rank the actions they have taken in response to the changing business environment, according to the priority/attention given a "5" to imply the action that is give most attention to, and a "1" by the action is given least attention to. The results are as in 4.8 below.

Table 4.8 Bank Business Actions

Bank Business Actions	Count			Descriptive Statistics		Rank
	N	Min	Max	Mean	Std. Dev	
Invest more in new services development	62	5.00	5.00	5.0000	.00000	1
Enhance the bank's ability to be "advisors" to our clients	62	4.00	5.00	4.9355	.24768	2
Change the degree of specialization of the bank's people	62	4.00	5.00	4.9355	.24768	3
Change the incentive system to influence partners to act differently	62	4.00	5.00	4.8710	.33797	4
Change the means the bank generates its capabilities awareness	62	4.00	5.00	4.8710	.33797	5
Reorganize the bank's practice to serve its clients better	62	4.00	5.00	4.8065	.39830	6
Change the bank's approach to building knowledge and skills: in technical matters, knowledge of clients' business, consultation skills	62	4.00	5.00	4.1935	.39830	7
Change the approach to targeting market segments	62	4.00	5.00	4.1290	.33797	8
Change the bank's approach to targeting specific clients	62	4.00	5.00	4.1290	.33797	9
Implement new approaches in tracking and capitalizing on emerging client needs	62	4.00	5.00	4.0645	.24768	10
Change on disseminating intelligence on market needs	62	4.00	5.00	4.0645	.24768	11
Change the bank's recruiting patterns to obtain the right non-partners for its current and future practice	62	4.00	5.00	4.0645	.24768	12
Valid N (listwise)	62					

Source: Research Data

From the results in table 4.8 above, the actions they have taken by the commercial banks in response to the changing business environment, with most attention (Mean = 5) are: investing more in new services development; enhancing the bank's ability to be "advisors" to their clients; changing the degree of specialization of the bank's people ; changing the incentive system to influence partners to act differently; changing the means the bank generates its capabilities awareness; and reorganizing the bank's practice to serve its clients better.

Perceived environmental complexity and environmental change are the composite measure of perceived environmental pressures serves as the model for deriving the measure for perceived environmental complexity. The responses were asked to indicate the extent to which some goals are important with respect to the environmental factors that moderate the relationship between strategic planning intensity and financial performance, which the firm should focus on in the next few years. Using a scale where a "1" means this goal is least important, and a "5" means most important, and the results are as in table 4.9 below.

Table 4.9 Future Implications of Bank Business Goals

Future Implications of Bank Business Goals	Count			Descriptive Statistics		Rank
	N	Min	Max	Mean	Std. Dev	
Increase market share/growth rate above historical levels	62	5.00	5.00	5.0000	.00000	1
Increase rate of innovations brought to market	62	5.00	5.00	5.0000	.00000	2
Increase level of client service	62	5.00	5.00	5.0000	.00000	3
Increase degree of specialization by partners	62	5.00	5.00	5.0000	.00000	4
Change qualitative mix of different mix of clients	62	4.00	5.00	4.9355	.24768	5
Change qualitative mix of practice,(different mix of services)	62	4.00	5.00	4.9355	.24768	6
Find new ways to improve partner satisfaction and motivation	62	4.00	5.00	4.9355	.24768	7
Speed up the integration of new technology in our firm	62	4.00	5.00	4.8710	.33797	8
Increase growth in profitability above historical levels	62	4.00	5.00	4.1935	.39830	9
Reduce cost of delivery on existing services	62	4.00	5.00	4.1935	.39830	10
Find ways to improve non-partner satisfaction and motivation	62	4.00	5.00	4.1290	.33797	11
Increase rate of skill building in non-partners and partners	62	4.00	5.00	4.0645	.24768	12
Valid N (listwise)	62					

Source: Research Data

From the results in table 4.9 above, the most important (Mean = 5) actions they have taken by the commercial banks in response to the changing business environment, with respect to the environmental factors that moderate the relationship between strategic planning intensity and financial performance, which the firm should focus on in the next few years are: increase market share/growth rate above historical levels; increase rate of innovations brought to market; increase level of client service; increase degree of specialization by partners; change qualitative mix of practice,(different mix of clients); change qualitative mix of practice,(different mix of services); finding new ways to improve partner satisfaction and motivation; and lastly, speeding up the integration of new technology in our firm.

The important (Mean = 4) actions they have taken by the commercial banks in response to the changing business environment, with respect to the environmental factors that moderate the relationship between strategic planning intensity and financial performance, which the firm should focus on in the next few years are: increase growth in profitability above historical levels; reducing the cost of delivery on existing services; finding ways to improve non-partner satisfaction and motivation; and lastly increasing the rate of skill building among non-partners and partners.

CHAPTER FIVE: SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

This chapter summarizes the findings and makes conclusions of this study. The collected data has been analyzed and interpreted in line with the aim of the study namely: the factors that moderate the relationship between strategic planning intensity and financial performance of commercial banks in Nairobi. Data was collected from a population that comprised of forty-four commercial banks incorporated and, or licensed to operate in Kenya by 2007. The response rate was seventy (70.45%) percent. It also includes the study recommendations for improvement and for further research.

5.2 Summary

The number of years an organization has been in operation and the duration one has worked in a given organization influences his/her better understanding on what happens in that organization's decision making process. 70% of the respondents have worked at the bank for less than 10 years, as 30% has worked for between 20 - 29 years.

On the influence of strategic planning expertise on the relationship between strategic planning intensity and financial performance of commercial banks in Nairobi; from the research data, 100% of the respondents indicated the banks are actively involved in strategic planning and it has been over the last twenty years. This motivates the study to go further and establish its effects on financial performance. Different organizations place varying emphasis on the various components of the strategic planning process. It was found that the most critical issues which the banks pay a lot of emphasis to in their strategic planning are: developing major long-term objectives; controlling the implemented strategic options, assessing the external and internal environment and the actual implementation strategic options. Thus financial performance (INCOM, EQUIP,

and DGWTH) as a function of Strategic Planning Intensity is moderated by OBJCT, INNAL, EXNAL, IMPMT, and CONTL. Further as the commercial banks' complex environment is characterized by rapid changes and a large number of factors need to be considered during the strategic planning process. It was found that, strategic p'anning is critical to a bank's financial success, but it is critically complex looking at the level of expertise that exists in the bank to perform strategic planning.

On the managerial factors that moderate the relationship between strategic planning intensity and financial performance of commercial banks: the top priority management "tactics" deployed by the bank's management to improve the bank's profitability are: the elimination of duplication of effort from the bank; making greater use of paraprofessionals; reducing overhead costs; dealing with underperformers; increasing utilization (billable hours per person) and leverage in the delivery of services; dropping unprofitable services; improving the speed of collections; using marketing to get "better" work; investing in new (higher value) services; training project leaders in project management skills; improving speed of billing; reducing the turnover of non-partners; and lastly, speeding up skill-building process in non-partners.

Other than the tactics, there are a number of managerial factors that moderate the relationship between strategic planning intensity and financial performance of bank. It was that the managerial factors and goals that moderate the relationship between strategic planning intensity and financial performance of the commercial banks in Kenya, to a very great extent are: the management's goal to be perceived by clients as the quality leader in the areas in which they practice; the goal to make the bank well-known among the market segments its interested in; the goal to enable the bank respond quickly to changing client needs; the goal to depict the bank functions well as a team; the goal of fostering commitment and loyalty; the goal to provide challenging work to its partners; the goal to provide good training opportunities to improve skills; and lastly to goal to keep people informed about what is happening in the bank.

On the organizational factors that moderate strategic planning intensity and financial performance in bank, it was found that factors that the commercial banks have given the best shot as some of the most practical ways for their bank to become more valuable to its clients than their best competitors are: staffing projects with innovative ways that render extra value; being be better at accumulating, disseminating/building on accumulated expertise and experience; hiring better people; training people faster /better in additional types of skills; doing more productive research and development; developing methodologies for doing work that are more efficient than the competitors; reorganizing and redeploying resources in ways (e.g. cross-disciplinary industry teams) that create extra value for clients; and lastly developing superior quality assurance mechanisms that provide greater confidence and reassurance to clients.

Based on the Business Processes of the commercial bank, strategic planning can influence a number of other processes in the bank. It was also found that the Business Processes of the commercial banks that the banks are the dominant in to become more valuable to its clients than to their best competitors are: creating innovative solutions to clients' problems; turning inquiries into assignments("sales process" effectiveness); developing and Growing New Partners from Junior Ranks; disseminating and Sharing Skills and Knowledge among Stakeholders; turning individual client assignments into long-term relationships; continuously gathering market intelligence & tracking emerging client needs; attracting high quality new recruits; transferring skills to professionals & developing new services; generating awareness of capabilities in important markets; finding new, efficient ways to lower cost of performing professional tasks; and earning unprompted referrals from client work.

On the environmental factors that moderate the relationship between strategic planning intensity and financial performance of bank, it was found that the bank's operating environment factors, which in turn have some influence on the bank's strategic planning process and in achieving its goals on excellent level are: perception as quality leader in the areas of practice; attraction and retention of a fair share of the best individuals; being good at developing future leaders; functioning well as team players; taking advantage of

bank-wide network; developing and implementing effective business plans; maintaining a balance between short term and long term; motivation of employees to do the best possible job for clients; being sensitive to local and cultural differences between practice areas; providing good training opportunities to improve skills; providing rapid opportunities to take on more responsibilities; communicating openly and honestly with employees; rewarding people for their performance; rewarding people at levels at least as high as they could obtain elsewhere; keeping people informed about what is happening in the bank: and innovating in the services brought to market.

Organizational age will coincide roughly with the amount of environmental change experienced by an organization and aging may be a surrogate measure of a bank's exposure to environmental change. It was found that the actions they have taken by the commercial banks in response to the changing business environment, with most attention are: investing more in new services development; enhancing the bank's ability to be "advisors" to their clients; changing the degree of specialization of the bank's people ; changing the incentive system to influence partners to act differently; changing the means the bank generates its capabilities awareness; and reorganizing the bank's practice to serve its clients better.

Perceived environmental complexity and environmental change are the composite measure of perceived environmental pressures serves as the model for deriving the measure for perceived environmental complexity. It was found that the most important actions they have taken by the commercial banks in response to the changing business environment, with respect to the environmental factors that moderate the relationship between strategic planning intensity and financial performance, which the firm should focus on in the next few years are: increase market share/growth rate above historical levels; increase rate of innovations brought to market; increase level of client service; increase degree of specialization by partners; change qualitative mix of practice,(different mix of clients); change qualitative mix of practice,(different mix of services); finding new ways to improve partner satisfaction and motivation; and lastly, speeding up the integration of new technology in our firm.

5.3 Conclusions

Based on the results from data analysis and findings of the research, one can safely conclude the following, based on the objective of the study:

Firstly, on the influence of strategic planning expertise on the relationship between strategic planning intensity and financial performance of commercial banks in Nairobi; it was found that, strategic planning is critical to a bank's financial success, but it is critically complex looking at the level of expertise that exists in the bank to perform strategic planning.

Secondly, on the managerial factors that moderate the relationship between strategic planning intensity and financial performance of commercial banks: the top priority management "tactics" deployed by the bank's management to improve the bank's profitability are: the elimination of duplication of effort from the bank; making greater use of paraprofessionals; reducing overhead costs; and dealing with underperformers. It was that the managerial factors and goals that moderate the relationship between strategic planning intensity and financial performance of the commercial banks in Kenya, to a very great extent are: the management's goal to be perceived by clients as the quality leader in the areas in which they practice; the goal to make the bank well-known among the market segments its interested in.

Thirdly, on the organizational factors that moderate strategic planning intensity and financial performance in bank, it was found that factors that the commercial banks have given the best shot as some of the most practical ways for their bank to become more valuable to its clients than their best competitors are: staffing projects with innovative ways that render extra value; being better at accumulating, disseminating/building on accumulated expertise and experience; hiring better people; training people faster /better in additional types of skills; doing more productive research and development; developing methodologies for doing work that are more efficient than the competitors; reorganizing and redeploying resources in ways (e.g. cross-disciplinary industry teams)

that create extra value for clients; and lastly developing superior quality assurance mechanisms that provide greater confidence and reassurance to clients.

Fourth, it was found that the Business Processes of the commercial banks that the banks are the dominant in to become more valuable to its clients than their best competitors are: creating innovative solutions to clients' problems; turning inquiries into assignments ("sales process" effectiveness); developing and growing new partners from Junior Ranks; disseminating and sharing skills and knowledge among stakeholders.

Lastly, on the environmental factors that moderate the relationship between strategic planning intensity and financial performance of bank, it was found that the bank's operating environment factors, which in turn have some influence on the bank's strategic planning process and in achieving its goals on excellent level are: perception as quality leader in the areas of practice; attraction and retention of a fair share of the best individuals; being good at developing future leaders; functioning well as team players. It was found that the most important actions they have taken by the commercial banks in response to the changing business environment, with respect to the environmental factors that moderate the relationship between strategic planning intensity and financial performance, which the firm should focus on in the next few years are: increase market share/growth rate above historical levels; increase rate of innovations brought to market; increase level of client service; increase degree of specialization by partners.

5.4 Recommendations for Improvement

The following challenges need to be addressed within the commercial banks in Kenya: taking advantage of bank-wide network; developing and implementing effective business plans; maintaining a balance between short term and long term; motivation of employees to do the best possible job for clients; being sensitive to local and cultural differences between practice areas; and providing good training opportunities to improve skills. The perceived environmental complexity and environmental change should be the composite

measure of perceived environmental pressures serves as the model for deriving the measure for perceived environmental complexity in the banks' strategic planning process.

5.5 Recommendations for Further Research

Areas of further research that were identified include a similar study to be carried out on other sectors of commercial and financial sector; a study on the relationship between strategic planning intensity and financial performance in other sectors of commercial and financial sector in Kenya. Crucially further research is should be done to determine how the relationship between strategic planning intensity and financial performance can be managed for optimization in the turbulent environment and to what extent can the non-financial benefits if any be quantified by the organizations.

5.6 Limitations of the Study

The following factors were the greatest hurdles while conducting the study: Irrelevancy: Some of the respondents had no information hence giving out data which was not satisfactory. Time: It took long when collecting the questionnaires because some of the respondents kept them and never bothered to answer. Literature availability: Due to poor equipped libraries it took long to get the required data and literature.

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APPENDICES

APPENDIX I: COVER LETTER

Jane Masiga
P.O Box 300197,
Nairobi

Dear Respondent,

Re: A Survey of Factors that Moderate the Relationship between Strategic Planning Intensity and Financial Performance of Commercial Banks in Nairobi

I am carrying out a research on "**A Survey of Factors that Moderate the Relationship between Strategic Planning Intensity and Financial Performance of Commercial Banks in Nairobi**". This is in partial fulfillment of the requirement for the award of Degree of Masters in Business Administration – Strategic Management at University of Nairobi, School of Business. The main purpose of the study is to examine the moderating effects of strategic planning intensity between certain factors (that is managerial, environmental, and organizational) and Kenyan commercial banks' financial performance.

The results of this study will be used to derive the moderating effects of strategic planning intensity between the managerial, environmental, and organizational; and Kenyan commercial banks' financial performance. I would be grateful if you could spare some time and provide the information in the attached questionnaire. The information requested is needed for purely academic purposes and will be treated in strict confidence, and will not be used for any other purpose other than for my research. Please take a few minutes to complete this Questionnaire. Thank you for your assistance.

Yours truly,

Jane Masiga
Researcher/Contact: jmasiga@meds.or.ke; Telephone (+254) 0733 825 055

APPENDIX II: RESEARCH QUESTIONNAIRE

Note: Strategic planning is a process of using systematic criteria to formulate, implement, and control strategic alternatives and formally documenting expectations concerning the process.

SECTION A: BANK & RESPONDENT'S PROFILE

1. Name of the Bank .... Number of Years in Operation ....
2. Number of Employees? Management .... Line Workers ....
3. Location ....
4. Highest Level of Education ....
5. Number of years of service at the Bank ....

PART B: STRATEGIC PLANNING IN BANK

2.1. Is your bank actively involved in strategic planning? Tick as appropriate:

a) Yes [ ] b) No [ ]

If yes to 2.1 above, for how long has the bank had a strategic planning system in place?..

2.2. On a scale ranging from 1 (a weak emphasis) to 5 (a strong emphasis), please indicate how much emphasis your bank placed on each component of the following strategic planning process.

Strategic Planning Processes	Rating
Determining the bank's mission	[1] [2] [3] [4] [5]
Developing major long-term objectives	[1] [2] [3] [4] [5]
Assessing the external environment	[1] [2] [3] [4] [5]
Assessing the internal environment	[1] [2] [3] [4] [5]
Evaluating strategic options	[1] [2] [3] [4] [5]
Implementing strategic options	[1] [2] [3] [4] [5]
Controlling the implemented strategic options	[1] [2] [3] [4] [5]

2.3. A complex environment is characterized by rapid changes and a large number of factors to be considered during the strategic planning process. On a 5-point scale ranging from very simple (1 point) to very complex (5 points), please indicate how complex you perceive your bank's environment to be, with respect to the following statements.

Bank Business Environment	**Rating**
Strategic planning is (or can be) critical to a bank's financial success	[1] [2] [3] [4] [5]
Level of expertise that exists in your bank to perform strategic planning	[1] [2] [3] [4] [5]

PART C: MANAGERIAL FACTORS THAT MODERATE THE RELATIONSHIP BETWEEN STRATEGIC PLANNING INTENSITY AND FINANCIAL PERFORMANCE OF BANK

3.1 Below are listed some ways in which the bank's management can deploy to improve the bank's profitability. Please rank these management "tactics" in order of what you see as the bank's priorities ("1" should be top priority and "5" the least). Please note: 1 is our TOP priority, and 5 is the LOWEST priority.

BANK'S MANAGEMENT "TACTICS"	**Rating**
Charge higher fees	[1] [2] [3] [4] [5]
Increase utilization (billable hours per person)	[1] [2] [3] [4] [5]
Increase leverage in the delivery of services	[1] [2] [3] [4] [5]
Drop unprofitable services	[1] [2] [3] [4] [5]
Drop unprofitable clients	[1] [2] [3] [4] [5]
Improve speed of billing	[1] [2] [3] [4] [5]
Improve speed of collections	[1] [2] [3] [4] [5]
Use marketing to get "better" work	[1] [2] [3] [4] [5]
Invest in new (higher value) services	[1] [2] [3] [4] [5]
Eliminate duplication of effort from the firm	[1] [2] [3] [4] [5]
Train project leaders in project management skills	[1] [2] [3] [4] [5]
Reduce turnover of non-partners	[1] [2] [3] [4] [5]
Speed up skill-building process in non-partners	[1] [2] [3] [4] [5]
Make greater use of paraprofessionals	[1] [2] [3] [4] [5]
Reduce overhead costs	[1] [2] [3] [4] [5]
Deal with underperformers	[1] [2] [3] [4] [5]

3.2 The following list relates to management's actions towards the improvement of financial performance through sound strategic planning process. Please give each goal one of the five scores based on its effect on the bank's financial performance: 1 should be Important and 5 = Critically Important.

Management's Actions/Goals and Financial Performance	**Rating**
Clients perceive us as the quality leader in the areas in which we practice	[1] [2] [3] [4] [5]
The bank is well-known among the market segments we are interested in	[1] [2] [3] [4] [5]
The bank is good at developing future leaders for its practices	[1] [2] [3] [4] [5]
The bank has establish and maintain strong long term client relationships	[1] [2] [3] [4] [5]
The bank is innovative in the services we bring to market	[1] [2] [3] [4] [5]
The bank has invested sufficient time and money in the development of new services	[1] [2] [3] [4] [5]
The bank has communicated openly and honestly with its people	[1] [2] [3] [4] [5]
The bank has responded quickly to changing client needs	[1] [2] [3] [4] [5]
The bank has functioned well as team players	[1] [2] [3] [4] [5]
The bank has taken advantage of our bank-wide network	[1] [2] [3] [4] [5]
The bank has encouraged risk-taking	[1] [2] [3] [4] [5]
The bank has rewarded its people for their performance	[1] [2] [3] [4] [5]
The bank has developed and implement effective business plans	[1] [2] [3] [4] [5]
The bank has maintained a balance between short-term and long-term	[1] [2] [3] [4] [5]
The bank has motivated its people to do the best possible job for clients	[1] [2] [3] [4] [5]
The bank is sensitive to local and cultural differences between practice areas	[1] [2] [3] [4] [5]
The bank has attracted and retained a fair share of the best individuals	[1] [2] [3] [4] [5]
The bank is successful in fostering commitment and loyalty	[1] [2] [3] [4] [5]
The bank has provided challenging work to its partners	[1] [2] [3] [4] [5]
The bank has provided good training opportunities to improve skills	[1] [2] [3] [4] [5]
The bank has provided rapid opportunities to take on more responsibilities	[1] [2] [3] [4] [5]
The bank has rewarded people at levels at least as high as they could obtain elsewhere	[1] [2] [3] [4] [5]
The bank has kept people informed about what is happening in the bank	[1] [2] [3] [4] [5]
Others	
1.	[1] [2] [3] [4] [5]
2.	[1] [2] [3] [4] [5]
3.	[1] [2] [3] [4] [5]
4.	[1] [2] [3] [4] [5]
5.	[1] [2] [3] [4] [5]
6.	[1] [2] [3] [4] [5]
7.	[1] [2] [3] [4] [5]

PART D: ORGANIZATIONAL FACTORS THAT MODERATE STRATEGIC PLANNING INTENSITY AND FINANCIAL PERFORMANCE IN BANK

4.1 Please rank from 5 (our best shot) to 1 (not likely to work) what you consider as the most practical ways for your bank to become more valuable to its clients than your best competitors. Please take into account cost, likelihood of coming up with something effective, ability to implement, etc. Please Rank All

Bank Business Practices	Rating
Hire better people	[1] [2] [3] [4] [5]
Hire different types of people	[1] [2] [3] [4] [5]
Train people faster / better / in additional types of skills	[1] [2] [3] [4] [5]
Do more productive research and development	[1] [2] [3] [4] [5]
Develop methodologies for doing our work that are more efficient than the competitors'	[1] [2] [3] [4] [5]
Develop ways of being better client counselors in addition to top technicians	[1] [2] [3] [4] [5]
Staff projects innovative ways that render extra value	[1] [2] [3] [4] [5]
Be better at accumulating, disseminating and building on our accumulated expertise and experience	[1] [2] [3] [4] [5]
Be better at being "close to the client" through more systematic listening and tracking of emerging needs	[1] [2] [3] [4] [5]
Develop superior quality assurance mechanisms that provide greater confidence and reassurance to clients	[1] [2] [3] [4] [5]
Reorganize and redeploy our resources in ways (e.g. cross-disciplinary industry teams) that create extra value for clients	[1] [2] [3] [4] [5]

4.2 Based on the Business Processes of your bank, rate how well your bank is doing on the following processes. Use the following scale: 5 = we are the dominant bank at this; 4 = we are ahead of our competitors at this; 3 = we are typical compared to our competition; 2 = we are a little behind our competitors at this; 1 = we are weak at this.

Bank Business Processes	Rating
Creating innovative solutions to clients' problems	[1] [2] [3] [4] [5]
Finding new, efficient ways to lower cost of performing professional tasks	[1] [2] [3] [4] [5]
Earning unprompted referrals from client work	[1] [2] [3] [4] [5]
Turning individual client assignments into long-term relationships	[1] [2] [3] [4] [5]
Continuously gathering intelligence & tracking emerging client needs	[1] [2] [3] [4] [5]
Generating awareness of capabilities in important markets	[1] [2] [3] [4] [5]
Turning inquiries into assignments ("sales process" effectiveness)	[1] [2] [3] [4] [5]
Attracting high quality new recruits	[1] [2] [3] [4] [5]
Transferring skills to professionals and developing new services	[1] [2] [3] [4] [5]
Developing and Growing New Partners from Junior Ranks	[1] [2] [3] [4] [5]
Disseminating and Sharing Skills and Knowledge among Stakeholders	[1] [2] [3] [4] [5]

PART E: ENVIRONMENTAL FACTORS THAT MODERATE THE RELATIONSHIP BETWEEN STRATEGIC PLANNING INTENSITY AND FINANCIAL PERFORMANCE OF BANK

5.1 Following are some statements about some of the Bank's operating environment, which in turn have some influence on the bank's strategic planning process. Please rate how well the bank is achieving each goal on the following scale: 1 = not at all; 2 = a little; 3 = we are OK; 4 = we are doing well; and 5 = we excel at this.

Bank Business Goals	**Rating**
Clients perceive us as the quality leader in the areas in which we practice	[1] [2] [3] [4] [5]
The bank is well-known among the market segments we are interested in	[1] [2] [3] [4] [5]
The bank is good at developing future leaders for its practices	[1] [2] [3] [4] [5]
The bank has establish and maintain strong long term client relationships	[1] [2] [3] [4] [5]
The bank is innovative in the services we bring to market	[1] [2] [3] [4] [5]
The bank has invested sufficient time and money in the development of new services	[1] [2] [3] [4] [5]
The bank has communicated openly and honestly with its people	[1] [2] [3] [4] [5]
The bank has responded quickly to changing client needs	[1] [2] [3] [4] [5]
The bank has functioned well as team players	[1] [2] [3] [4] [5]
The bank has taken advantage of our bank-wide network	[1] [2] [3] [4] [5]
The bank has encouraged risk-taking	[1] [2] [3] [4] [5]
The bank has rewarded its people for their performance	[1] [2] [3] [4] [5]
The bank has developed and implement effective business plans	[1] [2] [3] [4] [5]
The bank has maintained a balance between short term and long term	[1] [2] [3] [4] [5]
The bank has motivated its people to do the best possible job for clients	[1] [2] [3] [4] [5]
The bank is sensitive to local and cultural differences between practice areas	[1] [2] [3] [4] [5]
The bank has attracted and retained a fair share of the best individuals	[1] [2] [3] [4] [5]
The bank is successful in fostering commitment and loyalty	[1] [2] [3] [4] [5]
The bank has provided challenging work to its partners	[1] [2] [3] [4] [5]
The bank has provided good training opportunities to improve skills	[1] [2] [3] [4] [5]
The bank has provided rapid opportunities to take on more responsibilities	[1] [2] [3] [4] [5]
The bank has rewarded people at levels at least as high as they could obtain elsewhere	[1] [2] [3] [4] [5]
The bank has kept people informed about what is happening in the bank	[1] [2] [3] [4] [5]
Others	
1.	[1] [2] [3] [4] [5]
2.	[1] [2] [3] [4] [5]
3.	[1] [2] [3] [4] [5]

5.2 Please rank the following actions in response to the changing business environment, according to the degree to which you think they are given priority/attention in your Bank. Put a "5" by the action that you think is give most attention to, and a "1" by the action is given least attention to. Please rank All Actions

Bank Business Actions	**Rating**
Change the incentive system to influence partners to act differently	[1] [2] [3] [4] [5]
Invest more in new services development	[1] [2] [3] [4] [5]
Change the bank's approach to building knowledge and skills: in technical matters, knowledge of clients' business, consultation skills	[1] [2] [3] [4] [5]
Implement new approaches in tracking on emerging client needs	[1] [2] [3] [4] [5]
Change the approach to disseminating intelligence on market needs.	[1] [2] [3] [4] [5]
Change the bank's recruiting patterns to obtain the right non-partners	[1] [2] [3] [4] [5]
Change the means the bank generates its capabilities awareness	[1] [2] [3] [4] [5]
Reorganize the bank's practice to serve its clients better	[1] [2] [3] [4] [5]
Enhance the bank's ability to be "advisors" to our clients	[1] [2] [3] [4] [5]
Change the bank's current approach to targeting market segments	[1] [2] [3] [4] [5]
Change the bank's approach to targeting specific clients	[1] [2] [3] [4] [5]
Change the degree of specialization of the bank's people (at any level)	[1] [2] [3] [4] [5]

2.6. All of the following goals are important. However, to the extent possible, please rank order their importance in your mind, as a guide to what you think the firm should focus on in the next few years. Which measures of success would you put as high priority, and which is the one that should get the least (direct) attention? A "1" means this goal is most important, and a "5" means least important. Please note, A "1" = the goal is most important, and a "5" = least important.

Future Implications of Bank Business Goals	**Rating**
Increase growth in profitability above historical levels	[1] [2] [3] [4] [5]
Increase market share/growth rate above historical levels	[1] [2] [3] [4] [5]
Increase rate of innovations brought to market	[1] [2] [3] [4] [5]
Reduce cost of delivery on existing services	[1] [2] [3] [4] [5]
Increase level of client service	[1] [2] [3] [4] [5]
Increase degree of specialization by partners	[1] [2] [3] [4] [5]
Speed up the integration of new technology in our firm	[1] [2] [3] [4] [5]
Increase rate of skill building among non-partners and partners	[1] [2] [3] [4] [5]
Change qualitative mix of practice,(different mix of clients)	[1] [2] [3] [4] [5]
Change qualitative mix of practice,(different mix of services)	[1] [2] [3] [4] [5]
Find new ways to improve partner satisfaction and motivation	[1] [2] [3] [4] [5]
Find ways to improve non-partner satisfaction and motivation	[1] [2] [3] [4] [5]

THANK YOU FOR TAKING YOUR TIME TO FILL THIS QUESTIONNAIRE

APPENDIX III: A LIST OF COMMERCIAL BANKS

SN	Commercial Bank	Telephone	Physical Address	Peer Group	Branches
1	African Banking Corporation Ltd	020-223922	ABC Bank, Mezzanine Floor, Koinange Street	Medium	7
2	Bank of Africa Kenya Ltd	020-211175	Re-Insurance Plaza, Taifa Road	Medium	3
3	Bank of Baroda (K) Ltd	020-248402	Baroda House, Koinange Street	Medium	6
4	Bank of India	020-221414	Kenyatta Avenue	Medium	4
5	Barclays Bank Of Kenya Ltd	020-210577/ 313405	Barclays Plaza, Loita Street	Large	43
6	CFC Bank Ltd	020-36380000	CFC Centre Chiromo Road Westlands Nairobi	Large	5
7	Charterhouse Bank Ltd	020-242246	Longonot Place, 6th Floor Kijabe Street, (Statutory Management)	Medium	10
8	Chase Bank (K) Ltd	020-244035/ 245611	Prudential Association Building, 6th Floor, Wabera St	Small	2
9	Citibank N.A Kenya	020-2711211	Citibank House, Upper Hill Road	Large	2
10	City Finance Bank Ltd	020-224238	Unity House, Koinange Street	Small	1
11	Co-operative Bank of Kenya Ltd	020-3276100	Co-operative House	Large	37
12	Commercial Bank of Africa Ltd	020-2884000	CBA Building, Upper Hill	Large	12
13	Consolidated Bank of Kenya Ltd	020-340208/ 340836	Consolidated Bank House, Koinange Street	Small	11
14	Credit Bank Ltd	020-222300	Mercantile House, Ground Floor Koinange Street	Small	4
15	Development Bank of Kenya Ltd	020-340401	Finance House, Loita Street	Small	1
16	Diamond Trust Bank (K) Ltd	020-210988	Nation Centre, 8th Floor Kimathi Street	Large	5
17	Dubai Bank Kenya Ltd	020-311109	ICEA Building, Kenyatta Avenue	Small	3
18	East African Building Society	020-2883000	Fedha Towers, Muindi Mbingu Street	Medium	9
19	Equatorial Commercial Bank Ltd	020-311205	Sasini House, Loita Street	Small	2
20	Equity Bank Ltd	020-2736617	NHIF Building, 14th floor, Community	Medium	36
21	Family Finance Building Society	020-318173	Fourways Towers, Muindi Mbingu street	Small	28
22	Fidelity Commercial Bank Ltd	020-242348	IPS Building, 7th Floor, Kimathi Street	Small	3
23	Fina Bank Ltd	020-246943	Fina House, Kimathi Street	Medium	5
24	Giro Commercial Bank Ltd	020-340537	Giro House, Kimathi Street	Medium	6

25	Guardian Bank Ltd	020-226771	Main Branch, Moi Avenue Nairobi	Medium	5
26	Habib Bank A.G Zurich	020-341172/77	Nagina House, Koinange Street	Medium	4
27	Habib Bank Ltd	020-246613	Exchange Building, Koinange Street	Small	4
28	Housing Finance Ltd	020-221101	Rehani House, Kenyatta Avenue	Medium	10
29	Imperial Bank Ltd	020-2719617	Bunyala Road, Upper Hill	Medium	5
30	Investment & Mortgages Bank Ltd	020-310105/7	I@M Bank House, 2nd Ngong Avenue	Medium	9
31	K-Rep Bank Ltd	020-3871511	Naivasha Road, Riruta	Small	28
32	Kenya Commercial Bank Ltd	020-3270000	Kencom House, Moi Avenue	Large	119
33	Middle East Bank (K) Ltd	020-2723120	Mebank Tower, Milimani Road, Nairobi	Small	2
34	National Bank of Kenya Ltd	020-226471	National Bank Building, Harambee Avenue	Large	23
35	National Industrial Credit Bank Ltd	020-2888000	NIC House, Masaba Road	Large	5
36	Oriental Commercial Bank Ltd	020-228461/2	Finance House, Koinange Street	Small	4
37	Paramount Universal Bank Ltd	020-4449266	Sound Plaza Building, Westlands	Small	3
38	Prime Bank Ltd	020-4203000	Riverside Drive	Medium	9
39	Prime Capital and Credit Ltd	020-223644	Kenindia House, 4th Floor, Loita Street	Small	1
40	Southern Credit Banking Corp Ltd	020-220948	Off Muranga Road	Small	10
41	Stanbic Bank Kenya Ltd	020-342771	Stanbic Bank Building, Kenyatta Avenue	Large	8
42	Standard Chartered Bank (K) Ltd	020-32093000	Stanbank House, Moi Avenue	Large	28
43	Trans-National Bank Ltd	020-224234	Transnational Plaza, Mama Ngina Street	Small	7
44	Victoria Commercial Bank Ltd	020-2719815	Victoria Towers, Kilimanjaro Avenue, Upper Hill	Small	1

Source: Central Bank of Kenya, Commercial Banks Directory (2007)

APPENDIX IV: OPERATIONALIZATION OF RESEARCH VARIABLES

The research will utilize an LISREL analysis. This is because originally, LISREL was designed as a linear structural equation model for latent variables (Goldberger and Duncan, 1973). As a structural equation model, LISREL has been used extensively in the social and behavioural sciences. LISREL has been used to develop and analyze measurement models of constructs such as individuals' attitudes, motivation, and behaviour (Anderson, 1987), and to analyze response errors in survey research (Alwin and Jackson, 1980). LISREL Causal Modelling addresses structural and measurement issues such as these in survey designed research, and thus will be used to analyze and test the hypothesized model set forth in Figure 1.1. LISREL is appropriate for such an analysis because of its ability to first, estimate unknown coefficients of a set of linear structural equations. The measurement component identifies latent variables, and the structural component evaluates the causal relationships among latent variables and provides an overall hypothesis test of the model as a whole.

The managerial, environmental, and organizational factors are not expected to be significantly interrelated. Because latent variables are 'theoretical constructs that cannot be observed directly' (Byrne, 1989: 3), they are operationalized by variables that are observable and measurable. As indicated in the LISREL model, the managerial factors latent variable is measured by strategic planning expertise (EXPRT) and beliefs about planning-performance relationships (BELIF); the environmental factors latent variable is measured by perceived environmental complexity (COMPX) and environmental change (CHNGE), and the organizational factors latent variable is measured by bank size (BSIZE) and bank structural complexity (STRUC). Based on the components of the strategic planning process, the seven measures of the strategic planning intensity latent variable will be: MISSN (mission), OBJCT (objectives), INNAL (internal analysis), EXNAL (external analysis), ALTRN (alternatives), IMPMT (implementation), and CONTL (control). Finally, the three measures used for the financial performance latent variable were: INCOM (net income), EQUIP (return on equity), and DGWTH (deposit growth). This can be summarized as in table 3.1 below.

Main Research Variables	Description/Justification/Measure	Test	Latent Variables
Managerial Factors	Scales developed by Miller (1987) served as the model from which I derived the two observed variables; beliefs about planning–performance relationships and strategic planning expertise, used to measure the managerial factors latent variable. These scales, which focus on a measure of CEO personality, tap into a construct proposing that CEOs may provide overly optimistic performance estimates (based on their beliefs) while attributing that performance to their ability to successfully engage in the strategic planning process (expertise). Items on my strategic planning survey (refer to Appendix II) were designed to tap into this construct.	To test item reliability, the bank managers will be contacted two days later and asked to gives views about the survey. Test-retest reliability coefficients of 0.86 (expertise) and 0.88 (beliefs) will be derived after an item-by-item analysis of the pilot survey and final surveys are done.	The managerial factors latent variable is measured by strategic planning expertise (EXPRT) and beliefs about planning-performance relationships (BELIF).

Environmental factors	This latent variable will be also measured by two observed variables: perceived environmental complexity and environmental change. Although there is some variation in the actual wording, Yasai-Ardekani's (1989) composite measure of perceived environmental pressures will serve as the model from which will be derive the measure for perceived environmental complexity. Environmental change will be measured as the number of years since a bank was incorporated. The use of this measure is supported by Carroll, who suggested that changes in a firm's approach to strategic planning are to a large extent a result of a firm's experience with environmental change. He stated that 'organizational age will coincide roughly with the amount of environmental change experienced by an organization' (1983: 313), suggesting that aging may be a surrogate measure of a bank's exposure to environmental change.	A test-retest reliability coefficient of 0.79 will be derived for this measure after an item-by-item analysis of the strategic planning survey (Appendix II).	The environmental factors latent variable is measured by perceived environmental complexity (COMPX) and environmental change (CHNGE).

Organizational factors	Bank size and bank structural complexity will be the two observed variables used to measure the organizational factors latent variable. Bank size will be measured as the natural logarithm of bank assets. This measure is an established way of accounting for differences in firm size when examining organizational outcomes (Montgomery, 1979), and has been used in other bank-related studies (Williams and Dreher, 1992). Bank structural complexity will be determined by the extent to which banks in the sample involved themselves in lines of business other than strictly banking (for example leasing, insurance, credit cards).	Borrowing from the methodology employed by Gup and Whitehead (1989) in their study of banks, the research will categorize banks into three classes of structural complexity. For example, if a bank will be a small unit bank (i.e., offers loans and deposits in one location) or will be involved in no more than three other lines of business, it was assigned a 1 (low structural complexity). Banks involved in four to seven other lines of business will be assigned a 2 (moderate structural complexity), and banks involved in eight or more other lines of business will be assigned a 3 (high structural complexity).	The organizational factors latent variable is measured by bank size (BSIZE) and bank structural complexity (STRUC).

Strategic planning intensity	The components will include mission, objectives, internal and external environmental analyses, strategic alternatives, strategy implementation, and strategic control. Armstrong used the ratings of experts to assess the performance results of firms that considered these components during the strategic planning process. His conclusions suggested that firms benefited by placing emphasis on these components.	The intensity placed on these components will be a major determinant of bank performance. To measure strategic planning intensity, the respondents will be asked to indicate on the strategic planning survey - using a scale ranging from 1 (a weak emphasis) to 5 (a strong emphasis) - how much emphasis their banks place on each of the strategic planning components.	Based on the components of the strategic planning process, the seven measures of the strategic planning intensity latent variable were: MISSN (mission), OBJCT (objectives), INNAL (internal analysis), EXNAL (external analysis), ALTRN (alternatives), IMPMT (implementation), and CONTL (control).

Financial performance	In an attempt to derive a more comprehensive and unique picture of banks' financial situations, three measures will be used for the financial performance latent variable. First, profits (or net income) will be used because of its extensive use in past studies (cf. Ansoff *et al.*, 1971; Eastlack and McDonald, 1970; Herold, 1972; Karger and Malik, 1975; Thune and House, 1970) that have examined the strategic planning-financial performance relationship. Thus, net income will be considered in this study as a general measure of banks' financial performance. The second measure will be return on equity (ROE), calculated as net income divided by shareholders' equity. The selection of this measure will be based, partly, on Earle and Mendelson's 1991: 50) statement that 'The ultimate measure of the strength of any financial institution is not its asset size, the number of branches, or the pervasiveness of its electronics. The true measure is its return on shareholder equity (ROE).' Other banking-related articles (e.g., Bird, 1991; Hector, 1991a, 1991b) concur that ROE is the preferred measure of banks' financial performance. Channon (1978) also supported the use of ROE as an appropriate performance measure for service organizations, of which banks are typical (Heskett, 1986). Deposit growth (Lenzner and Mao, 1995) will be the third measure of financial performance that will be used. This has been selected because it is unique to banking and related financial services industries (for example credit unions, savings and loans).	Data used to calculate all financial measures used will be obtained from Nairobi Stock Exchange and the annual reports of the sampled banks. Deposit growth will be measured as the percent change in consumer demand deposits. This measure will be used primarily because it represents the largest and most important funds-providing function for banks. Deposits account for approximately 70 to just under 90 percent of a bank's sources of funds, and thus a considerable amount of strategic activities are dedicated to supporting this function (Johnson and Johnson, 1989).	The financial performance latent variable were: INCOME (net income), EQUIP (return on equity), and DGWTH (deposit growth).