ORGANIZATIONAL STRUCTURES ADOPTED BY KENYA COMMERCIAL BANK AS A STRATEGIC RESPONSE TO COMPETITION WITHIN THE BANKING INDUSTRY IN KENYA

BY:

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Declaration

This Research Project is my original work and has not been submitted for examination to any other University.

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Dedication

I wish to dedicate this Research Project to the Almighty God who has been good and faithful in all providence throughout my entire life. He has seen me through all things and with him I have seen before me all challenges melting and transforming easily to major breakthroughs. Glory to his name now and forever!
Abstract

Stiff competition has characterised the Kenyan Banking Industry Environment in the past ten years. The Industry consist of 43 banks offering various types of financial services which are largely homogeneous, only differentiated either by the product name or just a few features leading to very stiff competition for market share CBK (2012). It’s in this context that Dumais (2011) has observed that organizational design and the resulting capabilities are the last sustainable sources of competitive advantage that are available to firms. Efficient organisation structures can enable an organisation to reduce the cost of operations, increase production efficiency, improve the Turnaround Time in decision making and generally position the organisation better to manage competition in the industry of operation. Pearce and Robinson, (1997) has observed that in order for organisations to achieve their goals and objectives, it is necessary for them to adjust to their environment.

Kenya Commercial Bank, the largest commercial bank in East and Central African has evolved and adjusted continuously to the environment over the last ten years, moving from a loss making organisation, reporting a loss of Kshs. 3 Billion in 2002 to profit making organisation reporting a profit of Kshs. 15.1 Billion in 2011 Annual Financial Reports (2003 – 2012). During this time, KCB employed as a major strategic response to competition efficient Organisation Structures. A new IT platform was introduced in 2007 to facilitate the launching of new products like internet and mobile banking targeting new market segments previously served by the competition. New partnerships were established as competition begun to be felt from previously non-traditional quarters like telecommunication companies. New frontiers of competition like Agency and Micro Banking were opened to widen the market scope and reach for KCB. There was Branch Realignment to focus on key customer areas and overtake competitors offering similar products in the industry. The overall KCB’s Organisation
structure was changed in 2011 to make the organisation more efficient, effective and competitive in the Industry. The international Division was adjusted and realigned to improve the speed of decision making and as a result, raised the levels of efficiency in the Division. All these initiatives were made possible by establishing new or making adjustments in the organisation structures and thus demonstrating how KCB used Organisation Structures as a strategy to respond to competition in the ever changing and highly dynamic Kenyan Banking Industry Environment.
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<th>Full Form</th>
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<tbody>
<tr>
<td>KCB</td>
<td>Kenya Commercial Bank</td>
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<tr>
<td>ATM</td>
<td>Automated Teller Machines</td>
</tr>
<tr>
<td>CBK</td>
<td>Central Bank of Kenya</td>
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<tr>
<td>SBU</td>
<td>Strategic Business Unit</td>
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<tr>
<td>HSBC</td>
<td>Hong Kong and Shanghai Banking Corporation</td>
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<td>TSB</td>
<td>Trustee Savings Bank</td>
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<td>NSE</td>
<td>Nairobi Stock Exchange</td>
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<td>CEO</td>
<td>Chief Executive Officer</td>
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<td>CBO</td>
<td>Chief Business Officer</td>
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<td>CFO</td>
<td>Chief Finance Officer</td>
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<td>COO</td>
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CHAPTER ONE: INTRODUCTION

1.1 Background of the Study

The Kenyan Banking Industry has experienced rapid growth in terms of profits, deposits and revenues during the Kibaki era. This trend has triggered a lot of competition among the industry players today (Abishua 2010). Competition in banks to satisfy customer needs and as a result obtain a competitive advantage can be traced to the aftermath of the Second World War. Abishua, (2010) has indicated that during this time, customers started to become more affluent and, as a consequence, more financially sophisticated. In response to these socioeconomic changes, banks, which traditionally had been supply led, started to emerge as demand led organizations (Howcroft 2005). The Kenyan banking industry experienced a similar phenomenon after the political and economic liberalization of the 1990’s. Consequently, bank managers today are facing an increasingly complex, dynamic and highly competitive environment (Chandan 1997). These dynamics have created hyper – competition in different industries. According to D’Aveni, 1994 hyper – competition is “characterized by intense and rapid competitive moves, in which competitors must move quickly to build new advantages and erode the advantages of their rivals”.

The banking industry is therefore, today characterized by increasing rates of globalization and technological advancements posing significant challenges for organizations management (Wiley, 2003). The environment is increasingly turbulent and complex consisting broadly of the economy at large, population demographics, societal values and ever changing lifestyles, governmental legislation and regulation, technological factors, and the company’s immediate industry and competitive environments (Thompson and Strickland, 2003).
Abishua, (2010) has observed that competition continues to affect banks in Kenya and other countries. In Europe for instance, “From being the largest banks in the world in the inter-war period, the big four retail banks in Britain (Nat West, Midland – HSBC, Barclays and Lloyds – TSB) have seen their cosy – oligopoly gradually weaken since the 1960s. The banks have been rocked by the recession of the early 1990s and their exposure to bad debt while rounds of re-regulation and deregulation, such as the 1986 Building Societies Act, have blurred the boundaries between different financial specialism and institutions”(Alexander and Pollard, 2000).

Owing to stiff competition fuelled by the provision of similar services and similar products affecting the Kenyan Banking Industry today, major banks have been forces from time to time, to re-examine their strategies in a bid to outdo and outmanoeuvre each other. Strategies for obtaining a competitive advantage include a reorganisation of structures. Organizational design and the resulting capabilities are the last sustainable sources of competitive advantage that are available to firms (Dumais, 2011).Pearce and Robinson, (1997) has indicated that organisations can employ efficient organisational structures as a strategy to overcome competition and that in order for organisations to achieve their goals and objectives, it is necessary for them to adjust to their environment.

According to Gailbraith (2002) and his Star Model, organizational design is foremost about strategy. Organisations can use organisation design and structure to develop a competitive advantage over their competitor. Over the years KCB has been changing her organisation structure, moving from a highly bureaucratic bank in the 80s to a fairly organic and responsive organisation it is currently. The changes have been informed over the years by the desire of KCB to remain a relevant, highly competitive and highly profitable organisation.
Considering the environment of the time, the organisation structures employed by KCB will be considered and documented as a strategic response to make the bank organic, firstly responding to the turbulence in the market environment, relevant by making it possible to adapt to modern technology and increasing value to shareholder investment by maintaining high profitability presently and into the future.

1.1.1 Organisational Structure

Wilson and Rosenfeld, (1990) defines Organisation structure as the established pattern of relationships between the component parts of an organisation, outlining both communication, control and authority patterns. Organisation structure is how job tasks are formally divided, grouped and co-ordinated (Robbins, 1996). Further, Bartol and Martin, (1994) define organisation structure as the formal pattern of interactions and coordination designed by management to link the tasks of individuals and groups in achieving organisational goals.

Organisational structures must facilitate the achievement of organisations’ purpose and strategy and allow the smooth functioning of organisation technologies, hence the needs for constant organisational review, change and alignment in the business environment. If not well selected, poor organisational structure can lead to low employee morale as a result of unacceptable decision making process, unclear performance criteria, conflicting expectations or pressures, overloading and lack of support. Besides, poor organisational structure can lead to overall delays in decision making, lack of co-ordination, failure to innovate, and escalating administrative costs which will make the organisation largely inefficient, very expensive to run and ultimately uncompetitive in the contemporary highly dynamic market environment.

Reference for Business (2012).
1.1.2 Strategy and Strategic Response

Strategy is the thinking, the logic behind the actions (Robert 1997). Drucker (1954) sees it as an indication of an organisation’s positioning for the future, deciding what should be done rather than how it should be done. Strategy requires choices – deciding what particular kind of value an organisation wants to deliver and to whom (Porter, in Gibson 1997). Johnson and Scholes, (2005) define strategy as, “the direction and scope of an organisation over the long-term: which achieves advantage for the organisation through its configuration of resources within a challenging environment, to meet the needs of markets and to fulfil stakeholder expectations”.

Strategy can also be defined as “a framework within which the choices about the nature and direction of an organisation are made. Framework means boundaries or parameters defined by clear criteria which help determine what lies inside or outside the scope of the organisation strategy. The choices to be made are what products and or services will or will not be offered. What markets will or will not be served and what key capabilities are needed to take products to markets. Direction refers to where an organisation is headed. Strategic response therefore, is the application of organisation strategy as a reaction to events in the business environment in order to sustain or gain a competitive advantage in the business environment.

1.1.3 The Banking Industry Environment

The Kenyan banking environment consists of 43 commercial banks and one mortgage finance company. Thirty of these banks are locally owned while the remaining 13 are foreign owned (Reuters, 2011). In this industry, Kenya Commercial Bank is the biggest in terms of assets, 226.15 billion shillings ($2.8 billion) worth as at June 2011 with the government having a share ownership of 17.5%. Multinational institutions such as Barclays and Standard
Chartered have been in this industry for many decades. Pan – African banks such as Nigeria’s United Bank for Africa have entered the market in the past two years. Home – grown institutions such as Equity Bank have themselves made forays into neighbouring nations such as Uganda, Rwanda and South Sudan.

There are more than 8.66 million bank accounts in Kenya, out of a total population of 39 million, up from 2.6 million accounts at the end of 2005. Agent banking, which was introduced in January 2011 has made it possible for 5,892 agents to be registered. M-Kesho, a mobile phone based bank account service started in May 2011 by Equity Bank and Safaricom has generated 201,838 deposit accounts with Kshs 177.8 million by mid – September 2011. Two Islamic banks, Gulf African Bank and First Community Bank opened their doors early in 2008 and have already broken even. This presents the industry players with a very competitive environment where for an organisation to survive, it must be very organic so as to face competition effectively.

1.1.4 Kenya Commercial Bank

Kenya Commercial Bank (KCB) started its operations in 1895 on the island of Zanzibar as the National Bank of India (KCB Sustainability Report 2009). A year later, the Bank opened a branch in Kenya, on Mombasa Island, later growing to become one of Kenya’s and East Africa’s largest commercial Bank. Upon independence in 1963, the government of Kenya acquired 60% shareholding in National and Grindlays Bank in an effort to bring Banking closer to the majority of Kenyans. In 1970, the government acquired 100% of the shares to take full control of National and Grindlays Bank therefore renaming it Kenya Commercial Bank (KCB). The government has since reduced its shareholding to 23.6% during the 2004
rights issue exercise, 23.1% in the 2008 rights issue and finally to 17.75% in the recently concluded 2010 rights issue.

KCB is a fully fledged commercial Bank offering savings and lending services to individuals, entrepreneurs and companies of all sizes. It has the largest branch network in the East Africa region and enjoys dominance as the Bank with largest balance sheet and capital base respectively. It is a publicly quoted company with its shares trading at the Nairobi Stock Exchange (NSE), Uganda Securities Exchange, Dar-Es-Salaam Stock Exchange and Rwanda over the Counter Market (KCB Sustainability Report). In 1997, KCB set up business in Tanzania before expanding further to Southern Sudan in 2006 and Uganda in 2007. Rwanda began operations in 2008 and Burundi in 2012. The Bank has a network of over 210 outlets and over 400 automated teller machines across East Africa that are strategically located to provide synergies across market. KCB has over two billion authorized shares held among Kenyan, East African and foreign investors. (KCB Organisational Profile 2010)

The KCB Board and Management review its Bank structure at various levels from time to time in line with the realities of the business. The key components taken into consideration when making decisions about the roles in the different structures is the need for strengthening the strategy formulation, innovation and research as well as provision of greater support to the subsidiaries to allow them to remain competitive and overcome competition at all times. KCB’s organisational structure has been evolving over the years as the bank has always sought to streamline and strengthen its operations to overcome competition. This can be seen clearly in the steps the bank has been taking in consolidating subsidiaries, realigning the branch network, strategic alliances and partnerships, the activities in the international division and the continuous improvements and restructuring of Information Technology.
1.2 Research Problem

Wilson and Rosenfeld, (1990) defines Organisation structure as the established pattern of relationships between the component parts of an organisation, outlining both communication, control and authority patterns. Organisation structure is how job tasks are formally divided, grouped and co-ordinated (Robbins, 1996). Further, Bartol and Martin, (1994) define organisation structure as the formal pattern of interactions and coordination designed by management to link the tasks of individuals and groups in achieving organisational goals.

Organisational structures must to align to and facilitate achievement of organisations’ purpose and strategy, the needs for organisational change in the business environment and allow the smooth functioning of organisation technologies. If not well selected, poor organisational structure can lead to low employee morale as a result of unacceptable decision making process, unclear performance criteria, conflicting expectations or pressures, overloading and lack of support. Besides, poor organisational structure can lead to overall delays in decision making, lack of co-ordination, failure to innovate, and escalating administrative costs which will make the organisation largely inefficient, very expensive to run and ultimately uncompetitive in the contemporary highly dynamic market environment.

KCB organisation structures have been evolving over time. How appropriately therefore, has KCB used organisational structures in the context of competition?

Strategy is the thinking, the logic behind the actions (Robert 1997). Drucker (1954) sees it as an indication of an organisation’s positioning for the future, deciding what should be done rather than how it should be done. Strategy requires choices – deciding what particular kind of value an organisation wants to deliver and to whom (Porter, in Gibson 1997). Johnson and Scholes, (2005) define strategy as, “the direction and scope of an organisation over the long-term: which achieves advantage for the organisation through its configuration of
resources within a challenging environment, to meet the needs of markets and to fulfil stakeholder expectations”. Strategy can also be defined as “a framework within which the choices about the nature and direction of an organisation are made. How has KCB used organisation structure as a strategy in the competitive environment?

The Kenyan banking environment consists of 43 commercial banks and one mortgage finance company. Thirty of these banks are locally owned while the remaining 13 are foreign owned (Reuters, 2011). In this industry, Kenya Commercial Bank is the biggest in terms of assets, 226.15 billion shillings ($2.8 billion) worth as at June 2011 with the government having a share ownership of 17.5%. Multinational institutions such as Barclays and Standard Chartered have been in this industry for many decades. Pan – African banks such as Nigeria’s United Bank for Africa have entered the market in the past two years. Home – grown institutions such as Equity Bank have themselves made forays into neighbouring nations such as Uganda, Rwanda and South Sudan. In this environment therefore, how has KCB positioned herself strategically using organisational structure to acquire a competitive advantage?

From all the studies and projects that have been carried out, nobody has ever looked at the organisation structures adopted by KCB as a strategic response to competition within the banking industry in Kenya. This study therefore, seeks to fill this gap, look at the evolvement of the KCB organisation structures and demonstrate how KCB has used them as one of the strategic responses to competition within the banking industry in Kenya. The study will then answer the question how KCB, the largest bank in asset base in East and Central Africa, has used organisational structures as a strategic response to competition within the banking industry.

1.3 Research Objective
The main objective of this Research Project was to determine the major organisational structures adopted by Kenya Commercial Bank, as a strategic response to competition within the banking industry in Kenya over the last ten years beginning from January 2002.

1.4 Value of the Study
The benefits of this study will accrue to various groups as follows: the KCB Policy Makers; the study will be of great benefit to policy makers within KCB who have always sought to structure the organisation in the most effective and efficient way possible. Management Consultants; the study will provide management consultants with pertinent information on organisational structure responses as they constantly seek to provide assistance to commercial banks in Kenya in the formulation and implementation of appropriate and efficient organisation structures. Academic Researches; it is expected that this study will generate interest among academicians which will lead to further research on the best Organisational Structure Realignments and Responses which banks can adopt to manage competition in a
Kenyan Banking Industry Situation. The study is also expected to contribute to the existing body of knowledge on Organisational structure designs.
CHAPTER TWO: LITERATURE REVIEW

2.1 Introduction

Applegate (1994) has observed that organisational structure is a long standing problem, especially for large corporations. The need to ‘arrange’ thousands of staff, often split between numerous functions across the world, in an effective and cost efficient fashion is a non-trivial problem. There is a need to maintain a continuously shifting balance between conflicting pressures to centralise and decentralise, and between the concentrating specialist functions together as opposed to facilitating cross functional coordination.

In this constantly changing business environment, Dumais (2011) has observed that organizational design and the resulting capabilities are the last sustainable sources of competitive advantage that are available to firms. Organisation structure therefore, can be used as a strategy to counter and overcome competition. KCB has been a bank whose structure has evolved over time in positioning herself strategically to respond to competition effectively in this highly competitive industry. In the early years, and considering the market environment at that time, KCB started with a highly bureaucratic structure. Over the years, the bank has evolved herself to a more robust and organic structure that has enabled KCB to remain most profitable and competitive at the same time.

2.2 The banking Industry Environment in Kenya

The Kenyan banking environment consists of 43 commercial banks and one mortgage finance company. Thirty of these banks are locally owned while the remaining 13 are foreign owned (Reuters, 2011). In this industry, Kenya Commercial Bank is the biggest in terms of assets, 226.15 billion shillings ($2.8 billion) worth as at June 2011 with the government having a share ownership of 17.5%. Multinational institutions such as Barclays and Standard
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2.3 Organisational Strategy and Strategic Response to Competition

Strategy is the thinking, the logic behind the actions (Robert 1997). Drucker (1954) sees it as an indication of an organisation’s positioning for the future, deciding what should be done rather than how it should be done. Strategy requires choices – deciding what particular kind of value an organisation wants to deliver and to whom (Porter, in Gibson 1997). Johnson and Scholes, (2005) define strategy as, “the direction and scope of an organisation over the long – term: which achieves advantage for the organisation through its configuration of resources within a challenging environment, to meet the needs of markets and to fulfil stakeholder expectations”. Strategy can also be defined as “a framework within which the choices about the nature and direction of an organisation are made. Framework means boundaries or
parameters defined by clear criteria which help determine what lies inside or outside the scope of the organisation strategy. The choices to be made are what products and or services will or will not be offered. What markets will or will not be served and what key capabilities are needed to take products to markets. Direction refers to where an organisation is headed. Business planning and strategic management and planning is a relatively recent phenomenon, its foundation dates back to the early twentieth century. Moreover, the development of corporate strategy is principally associated with increased industrialization in Europe, North America, and Japan at that time. Taylor and Fayol are examples of industrialists that started to research and write about such issues. For instance in 1911, Taylor’s ‘Principles of Scientific Management’ Urwick (1956) examined ways to make workers more productive and efficient by separating specific management functions, whilst in 1916 Fayol attempted to formalize the way in which corporations deal with the future. Other early exponents of scientific management and the detailed analysis of organizational functions include Adamiecki, Hellmich, and Ford.

However, it was not until the late 1950s, during periods of sustained economic growth in the West, and the greater spread of wealth, that the first ‘real’ strategy writings were published. Writers such as Ansoff (1965, 1969) began to develop corporate strategy concepts that would continue into the 1970s. These concepts would later form one of the two main approaches to corporate strategy: prescriptive corporate strategy (that is, the ‘design’ school.) Likewise, another main approach to corporate strategy – emergent corporate strategy – was developed during the same period. Although the ‘evolutionary’ school is founded on the research undertaken by Cyert and March (1956), and March and Simon (1958) it was not until the mid-1980s and early 1990s that the complexity of strategic management was better understood. The empirical research of Pettigrew (1985), Johnson (1986), and
Mintzberg (1990) has shown that the people, politics, and culture of an organization influence corporate strategy.

Strategic response is the application of organizational strategy as a reaction to threats in order to sustain or develop competitive advantages over competitors in the business environment to achieve organization wide goals. Ansoff (1980) asserts that when a firm fails to respond to threats, the losses that result continue to accumulate. Pearce and Robinson (1997) defines strategic responses as the set of decisions and actions that result in formalization and implementation of plans designed to achieve a firm's objectives. Strategic response therefore in about restructuring, reorganizing and reshaping of the organization functioning to make it more effective in tackling threats from the industry environment. Ansoff and McDonnel (1990) have observed that the management system adopted by a firm is a determining component of the firm's responsiveness to environmental changes because it determines the way the management perceives the environment. Pearce and Robinson (1991), has outlined three generic strategies that firms adopt in order to obtain a competitive advantage: cost leadership, differentiation and the focus strategies.

2.4 Organisational Structure Designs

In an organization of any size or complexity, employees' responsibilities typically are defined by what they do, who they report to, and for managers, who reports to them. Over time these definitions are assigned to positions in the organization rather than to specific individuals. The best organizational structure for any organization depends on many factors including the work it does; its size in terms of employees, revenue, and the geographic dispersion of its facilities; and the range of its businesses; the degree to which it is diversified across markets. Reference for Business (2012). At the beginning of the twentieth century the United States
business sector was thriving. Industry was shifting from job shop manufacturing to mass production, and thinkers like Frederick Taylor in the United States and Henri Fayol in France studied the new systems and developed principles to determine how to structure organizations for the greatest efficiency and productivity, which in their view was very much like a machine. Even before this, German sociologist and engineer Max Weber had concluded that when societies embrace capitalism, bureaucracy is the inevitable result. Management thought during this period was influenced by Weber's ideas of bureaucracy, where power is ascribed to positions rather than to the individuals holding those positions. It also was influenced by Taylor's scientific management, or the "one best way" to accomplish a task using scientifically determined studies of time and motion Reference for Business (2012).

Equally influential were Fayol's ideas of invoking unity within the chain of command, authority, discipline, task specialization, and other aspects of organizational power and job separation. This created the context for vertically structured organizations characterized by distinct job classifications and top down authority structures, or what became known as the traditional or classical organizational structure. Job specialization, a hierarchical reporting structure through a tightly knit chain of command, and the subordination of individual interests to the super ordinate goals of the organization combined to result in organizations arranged by functional departments with order and discipline maintained by rules, regulations, and standard operating procedures. This classical view or bureaucratic structure of organizations was the dominant pattern as small organizations grew increasingly larger during the economic boom that occurred from the 1900s until the Great Depression of the 1930s. Along with increasing growth, however, came increasing complexity. Problems in U.S. business structures became apparent and new ideas began to appear. Studies of employee motivation raised questions about the traditional model. The "one best way" to do a
job gradually disappeared as the dominant logic. It was replaced by concerns that traditional organizational structures might prevent, rather than help, promote creativity and innovation both of which were necessary as the century wore on and pressures to compete globally mountedReference for Business (2012).

The structure of every organization is unique in some respects, but all organizational structures develop or are consciously designed to enable the organization to accomplish its work. Typically, the structure of an organization evolves as the organization grows and changes over time. Researchers generally identify four basic decisions that managers have to make as they develop an organizational structure, although they may not be explicitly aware of these decisions. First, the organization's work must be divided into specific jobs. This is referred to as the division of labour. Second, unless the organization is very small, the jobs must be grouped in some way, which is called departmentalization. Third, the number of people and jobs that are to be grouped together must be decided. This is related to the number of people that are to be managed by one person, or the span of control the number of employees reporting to a single manager. Fourth, the way decision making authority is to be distributed must be determined. In making each of these design decisions, a range of choices are possible. At one end of the spectrum, jobs are highly specialized with employees performing a narrow range of activities; while at the other end of the spectrum employees perform a variety of tasks.

In traditional bureaucratic structures, there is a tendency to increase task specialization as the organization grows larger. In grouping jobs into departments, the manager must decide the basis on which to group them. The most common basis, at least until the last few decades, was by function. For example, all accounting jobs in the organization can be grouped into an
accounting department. The degree to which authority is distributed throughout the organization can vary as well, but traditionally structured organizations typically vest final decision making authority by those highest in the vertically structured hierarchy. The traditional model of organizational structure is thus characterized by high job specialization, functional departments, narrow spans of control, and centralized authority. Such a structure has been referred to as traditional, classical, bureaucratic, formal, mechanistic, or command and control. A structure formed by choices at the opposite end of the spectrum for each design decision is called unstructured, informal, or organic.

The traditional model of organizational structure is easily represented in a graphical form by an organizational chart. The number of management layers depends largely on the size of the organization. The jobs usually are grouped by function into departments such as accounting, sales, human resources, marketing and finance. Many organizations group jobs in various ways in different parts of the organization, but the basis that is used at the highest level plays a fundamental role in shaping the organization. There are four commonly used bases.

2.4.1 Functional Departmentalization

Every organization of a given type must perform certain jobs in order to do its work. For example, key functions of a manufacturing company include production, purchasing, marketing, accounting, and personnel. Using such functions as the basis for structuring the organization may, in some instances, have the advantage of efficiency Reference for Business (2012). Grouping jobs that require the same knowledge, skills, and resources allows them to be done efficiently and promotes the development of greater expertise. A disadvantage of functional groupings is that people with the same skills and knowledge may develop a narrow departmental focus and have difficulty appreciating any other view of what is important to
the organization; in this case, organizational goals may be sacrificed in favour of departmental goals. In addition, coordination of work across functional boundaries can become a difficult management challenge, especially as the organization grows in size and spreads to multiple geographical locations.

2.4.2 Geographic Departmentalization

Organizations that are spread over a wide area may find advantages in organizing along geographic lines so that all the activities performed in a region are managed together. In large organizations, simple physical separation makes centralized coordination more difficult. Besides, important characteristics of a region may make it advantageous to promote a local focus. Companies that market products globally sometimes adopt a geographic structure. In addition, experience gained in a regional division is often excellent training for management at higher levels.

2.4.3 Product Departmentalization

Large, diversified companies are often organized according to product. All the activities necessary to produce and market a product or group of similar products are grouped together. In such an arrangement, the top manager of the product group typically has considerable autonomy over the operation. The advantage of this type of structure is that the personnel in the group can focus on the particular needs of their product line and become experts in its development, production, and distribution. A disadvantage, at least in terms of larger organizations, is the duplication of resources and hence the top leadership of the organization must decide how much redundancy it can afford.
2.4.4 Customer / Market Departmentalization

An organization may find it advantageous to organize according to the types of customers it serves. In the same way, an organization that provides services such as accounting or consulting may group its personnel according to these types of customers. Other Organisation structures include: Matrix Organisation Structures, Strategic Business Units (SBU’s), and Emerging Trends in Organisation Structures. Matrix Organizational Structure: This is a combination of two or more different structures. Functional departmentalization is commonly combined with product groups on a project basis. One advantage of a matrix structure is that it facilitates the use of highly specialized staff and equipment. Rather than duplicating functions as would be done in a simple product department structure, resources are shared as needed. In some cases, highly specialized staff may divide their time among more than one project. The disadvantages of a matrix organization arise from the dual reporting structure. The organization's top management must take particular care to establish proper procedures for the development of projects and to keep communication channels clear so that potential conflicts do not arise and hinder organizational functioning.

Strategic Business Unit Structures(SBU): As corporations become very large they often restructure as a means of revitalizing the organization. One approach to encourage new ways of thinking and acting is to reorganize parts of the company into largely autonomous units. Such units generally are set up like separate companies, with full profit and loss responsibility invested in the top management of the unit. This manager is responsible to the top management of the corporation. This arrangement can be seen as taking any of the aforementioned departmentalization schemes one step further. The SBUs might be based on product lines, geographic markets, or other differentiating factors.
Emerging Trends in Organizational Structure: In any organization, the different people and functions do not operate completely independently. To a greater or lesser degree, all parts of the organization need each other. Important developments in organizational design in the last few decades of the twentieth century and the early part of the twenty first century have been attempts to understand the nature of interdependence and improve the functioning of organizations in respect to this factor. One approach is to flatten the organization, to develop the horizontal connections and de-emphasize vertical reporting relationships. In a virtual sense, technology is another means of flattening the organization. The use of computer networks and software designed to facilitate group work within an organization can speed communications and decision making. Even more effective is the use of intranets to make company information readily accessible throughout the organization. The rapid rise of such technology has made virtual organizations and boundary less organizations possible, where managers, technicians, suppliers, distributors, and customers connect digitally rather than physically.

A different perspective on the issue of interdependence can be seen by comparing the organic model of organization with the mechanistic model. The traditional, mechanistic structure is characterized as highly complex because of its emphasis on job specialization, highly formalized emphasis on definite procedures and protocols, and centralized authority and accountability. Yet, despite the advantages of coordination that these structures present, they may hinder tasks that are interdependent. In contrast, the organic model of organization is relatively simple because it de-emphasizes job specialization, is relatively informal, and decentralizes authority. Decisionmaking and goalsetting processes are shared at all levels, and communication ideally flows more freely throughout the organization.
2.5 Organisation Structure and Competition

For organisations to maintain competitiveness and achieve organisational goals, they must align their organisation structures with organisations’ purpose and strategy. There is therefore a need for continuous organisational review and change according to business strategy to guarantee competitiveness and smooth functioning of the organisation in the business environment.

Reference for Business (2012). If not well selected, poor organisational structure can lead to low employee morale as a result of unacceptable decision making process, unclear performance criteria, conflicting expectations or pressures, overloading and lack of support. Besides, poor organisational structure can lead to overall delays in decision making, lack of co-ordination, failure to innovate, and escalating administrative costs which will make the organisation largely inefficient, very expensive to run and ultimately uncompetitive in the contemporary highly dynamic market environment.

An effectively constituted organisational structure will ensure a robust and efficient organisation, whose units work in harmony with each other running at optimum cost while guaranteeing a first response to competition trends within the industry. It ensures efficient operations; at the branch network, the International Division, interaction with strategic partners in services delivery and effective subsidiary operations. Organisation structure therefore can be used strategically to counter and overcome the, five competitive forces in the industry as identified by Porter (1980) and hence overcomes competition by remaining; efficient, first and organic in decision making, cost effective, competitive and profitable.
CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Introduction

The main aim of the study was to determine and document the organisational structures that KCB adopted as a strategic response to competition within the Banking Industry in the last ten years beginning from 2002. A case study approach was therefore used. The pertinent Primary and Secondary data was collected to meet the objectives of the study. Primary Data was collected by use of an interview guide while secondary data was obtained from reports and press statements on KCB during the period under study. The data was then analysed using content analysis.

3.2 Research Design

The research design for this Research Project was a case study, which is a careful and complete observation of a social unit, which is either, a person, institution, family, cultural group or an entire community and emphasises depth rather than breadth of the study (Kothari, 1990). A research design is a plan, structure and strategy of investigation so conceived as to obtain answers to research questions or problems (Kerlinger, 1986). Research design involves planning, organizing, collecting and analysing data to provide the information being sought (Peil, 1995). The objectives of the study required an in depth analysis of the internal organisational structures that were adopted by KCB as a response to competition within the banking industry from January 2002 to May 2012, and hence the adoption of a case study approach.

3.3 Data Collection

The main method of data collection used in this Research Project was the interview guide where Senior Managers in KCB Finance, Human Resources, Project Management Office and
KCB Moi Avenue Branch were asked open ended questions and their responses documented for analysis as primary qualitative data. Secondary data was collected from the existing records, including Official KCB Press Statements made during the period of study, KCB Annual Reports and official communications covering the following subjects: the realignment of the Branch Network, Consolidation of Subsidiaries, the International Business realignment, Strategic Partnerships and Alliances and the 2011 – 2012 ‘Good to Great’ Transformation Project in addition to trade and investor information journals.

3.4 Data Analysis

Data obtained was subjected to qualitative analyses where content analysis was done. Content analysis is a methodology in the social sciences for studying the content of communication. Babbie, (2005) defines it as the study of recorded human communications, such as books, websites, paintings and laws. On the other hand, Krippendorff, (2004) defines Content Analysis as a research technique for making replicable and valid inferences from texts (or other meaningful matter) to the contexts of their use. Content analysis provided a logical way of analysing qualitative data. In this case study, having collected primary data using the interview guide and secondary data from information journals, press release information, KCB annual reports and transformation initiative reports, the analysis was done using content analysis.
CHAPTER FOUR: DATA ANALYSIS RESULTS AND DISCUSSION

4.1 Introduction

From the KCB Annual Reports for 2002 to 2011, it is evident that over the last ten years, beginning 2002, Kenya Commercial Bank has experienced many changes which enabled her to turn around from a reported loss of Kshs 3 Billion in 2002 to a profit of 15.1 billion in 2011. These changes occurred as a result of a number of initiatives, key among them, internal organisation structures adjustments. During this period, KCB transformed herself from a highly bureaucratic organisation to a fairly organic and market driven one. The internal organisation structures therefore were transformed to match, or in reaction to market forces. KCB consistently and strategically developed structures over this period to enable her respond effectively to competition within the industry. The following discussion will therefore cover the internal organisation structures that were employed by KCB as a strategic response to competition in the banking industry in the last ten years as informed by the responses obtained from respondent’s engaged in an interview and officially documented information on KCB.

4.2 KCB Organisation Structure Changes in the Last Ten Years

The respondents observed that from 2002 to 2012 the overall organisation structure for KCB changed majorly once. From 2002 to 2010, the changes to the organisation structure were affecting internal departments where units were expanded, contracted, new once created, staff levels adjusted, roles reorganised, and lines of authority redefined. However, the respondents indicated that two major changes occurred within the period that transformed business at KCB: In October 2008, KCB rolled out a new banking platform – T24 that increased the banks capability to obtain new market share by introducing new products like internet and mobile banking that were previously offered only by the competition and thus taking the
competition head on. The respondents further observed that in 2011 KCB employed the services of a renowned consultant Mckinsey and Company. The result was an overall adjustment of the bank Organisation Structure, the scrapping of some functions while merging and redefining others, all aimed at improving decision making, increasing organisational efficiency and competitiveness while consolidating the gains that had so far made as at that time. Before May 2011, KCB was operating under the organisation structure shown below.

Chart 1: KCB Organizational Chart as at 2011
Information obtained from the KCB Press Release (May 2011) in agreement with the respondents observation indicated that in May 2011, KCB implemented a new banking structure and which consequently scrapped the two positions of Deputy Chief Executive Officers as appears in the previous organisational structure in a bid to enhance productivity. The bank also eliminated the post of Public Affairs and Communication Director and that of Divisional Director of Special Projects. In the new structure, the former deputies' posts were replaced by two Chief Business Officers, one in charge of Kenya and the other regional Businesses with the former looking after businesses outside Kenya; whereas the latter overseeing the: Retail, Corporate, Marketing and Communications, and Mortgages business within Kenya. Other new posts such as the Chief Operating Officer (COO) and Chief Finance Officer (CFO) were also established. The COO is in charge of Information Technology, Operations and Customer Service, Credit, and Logistics including Procurement, Facilities, Transport and Security. His CFO oversees Financial Planning and Control, Treasury, Strategy, Innovations and New Business Opportunities. The new structure was implemented on recommendation of global consultancy firm, McKinsey and Company with an aim of reducing operating cost by 20 per cent, improve decision making, increase organisational robustness, increase efficiency and as a result improve the banks competitiveness in the industry. The new organisational chart is shown below:
4.3 Reorganisation of the Information Technology Unit in the Last Ten Years

The respondents observed that in August 2008, KCB changed her IT platform from the previous Beam Version 11 to Temenos T24. Beam Version 11 was originally set to accommodate a maximum of only 100 branches which was a major constraining factor in KCB’s expansion strategy. Besides, Beam Version 11 only recognised branches as separate...
entities. In the view of the respondents, the introduction of T24 enabled the possibility of a one branch network to be realised. Services that initially were referred to the mother branch were now being carried out from any branch, the system operations had been centralised making it possible for the whole network to work like a one branch bank. One branch banking and the huge capacity of the new system enabled KCB to open more branches across the region. In addition, T24 made it possible for KCB to introduce other banking platforms like Mobile and Internet banking all of which have contributed to the adjustment of organisation structures covering the branch network.

The respondents indicated that the IT Division is now leaner with reduced staff levels, the roles have been adjusted to focus on support functions. IT operates under a Divisional director with a leaner staff team compared to before. Improvements in IT systems have enhanced the branch realignment strategy and the consolidation of subsidiaries while increasing efficiency. Creation of a centralised IT Help desk further improved the ‘Turnaround Time’ (TAT) for issues resolution and hence increased efficiency while providing a robust issues resolution platform. In the view of respondents, KCB is now more competitive compared to before given that, T24 is a functionally rich, thin client, scalable, integrated, modular banking system, built on open system principles. It offers a single client view across the enterprise and can support large numbers of users with nonstop resilience. The ultimate aim of KCB is to implement a structure where 80% of the staff works from the front office while 20% remain in the back office. IT reorganisation and the acquisition of a new IT platform, in the view of respondents was largely in response to the completion who had acquired a faster and more powerful platform and thus threatening KCB market share.
4.4 Branch Network Realignment and Support at KCB in the Last Ten Years

Information obtained from respondents indicated that over the last ten years, KCB has continuously realigned her branch network to increase banking efficiency and ability to react to competition effectively while protecting market share and developing new markets. In realigning the branch network, the bank adjusted the branch business structure, introducing new functions within the branch network and creating support units within the branch or in head office to–optimally run branch businesses. Indeed, it is Applegate (1994) who observed that organisational structure is a long standing problem, especially for large corporations and hence the need for continuous improvement. A typical organisational chart for a KCB branch structure is as shown below:

Chat 3: KCB Branch Organisational Chart

```
Regional Business Manager

Branch Manager

Business Banking Manager  Personal Banking Manager  Operations Manager (In charge of back office and branch operations)  Customer Service Manager  Credit Administrator
```
In branch network realignment, lines of authority were reviewed, other functions previously not available at the branch were introduced, branches initially working as sub branches were empowered as full branches and customer segmentation was done at the branch to provide proper service points as per unique customer expectations in order to manage competition effectively in the industry. The major units affected in the branch network realignment are discussed below:

4.4.1 Creation of KCB Exclusive Banking Services Unit

The respondents highlighted that in August 2007, KCB unveiled an exclusive personal banking service unit targeted at top businessmen and company executives. Dubbed the KCB Advantage Banking Service, the product was targeted at individuals who want to obtain special banking services with benefits of among others, an automatic overdraft level of Kshs 200,000 without having to go through the normal rigorous process. Press Release Information in August 2007 further indicated that KCB Advantage banking was incorporated into the branch structure which further enhanced branch realignment with the main target market segment being Personal Banking Customers whom class, comfort, convenience and quality is a matter of great consideration.

A typical Advantage Banking unit at the branch operates under an Advantage Manager in charge of a number of relationship managers. The Advantage Manager reports directly to the Branch Manager. By providing relationship managers to manage customers, decision making was improved and customers obtained personalised services. KCB was therefore able to provide services that matched those of the competition. The respondents observed that while on one hand, Advantage Banking facility was a strategic move to serve customers better, it was meant as a strategic response to competition, like Barclays bank, that was offering similar
services at the time. This move ensured that KCB protected her customer base and made inroads into market segments previously unattended, a further testament to the correctness of Robert,(1997) definition of strategy as the thinking or the logic behind the actions.

It was further obtained from respondents that in February 2011, KCB launched Biashara Club, designed to provide a range of value adding services to Small and Medium sized business with offers of training opportunities and workshops on entrepreneurship and capacity building, in addition to business advisory services through SME Management seminars and workshops. Biashara club was set up with a structure embedded in the branch which allowed for dedicated cashiers and relationship managers in business banking exclusively set aside to attend to biashara Club Customers.

4.4.2 Merger with Savings and Loan (S&L Mortgage)

Information obtained from respondents indicated that Savings and Loan also known previously as S&L formally merged with KCB in January 2011 and was made one of the KCB Divisions. These was targeted at realigning the management of this business sector and hence strengthen it against the competition by allowing it a cheaper source of funding given that the KCB Group balance sheet was Kshs 226 Billion as at January 2011. The merger further widened the reach of S&L by offering mortgage products in the entre KCB branch network. This strategy, made KCB the region’s largest Mortgage financier commanding a 31% market share and hence a formidable competitor in the industry. The major factor in the KCB S&L merger was that KCB Mortgages Division was empowered to handle bigger projects from the previous Kshs 250 million a borrower could access up to over Kshs 1 billion per single project. This business sector is now operated like any other KCB Division.
It is by far the largest in the industry and respondents observed that it has given KCB an edge over the competition in the recent years.

**4.4.3 Introduction of the KCB Contact Centre**

The respondents also observed that in September 2009, KCB launched a state of the art contact centre to handle customer queries. The facility was equipped with modern communication tools with the capacity to receive emails, mobile telephone texts, telephone calls, faxes and snail mail while also facilitating webchats. From Press Release Statements in 2009, the KCB Chief Executive officer indicated that the Contact Centre was launched as an integrated one stop solution for all customer enquiries which not only enabled issues to be effectively tracked and resolved but also offered customers a variety of communication options. Besides, the KCB facility was equipped with a training unit supported by a team of experienced and dynamic managers to ensure employee skills are upgraded on a continuous basis. Being the first bank to invest on this type of facility in the industry, KCB had moved strategically to improve customer satisfaction, protect her market segment and facilitate the reaching out to new customers. A contact centre structure is a unit managed by the Contact Centre Head and under him are relationship managers and clerks providing solutions to customers. The respondents observed that creation of a contact centre structure fully equipped with a training unit was a strategy to protect and increase market share ahead of and as a reaction to some competition.

**4.4.4 Introduction of KCB Diaspora Banking Centre**

Respondents observed that in May 2012, KCB launched the Diaspora Banking Unit. The Diaspora Banking was set up with the organisation structure of and all the functionalities of a branch but targeting only the Diaspora clientele. It was aimed at reaching out to the Diaspora
market and hence make it easier for customers in foreign lands to invest in their home country. It was obtained from respondents that Diaspora Banking, a unit complete with a Diaspora Banking Unit Head, relationship managers and clerks, was a strategic move responding to competition that had explored Diaspora Markets. By establishing the Diaspora Banking Unit, which complements the branch network realignment, KCB has been able to respond to competition effectively while reaching out to new markets and remaining competitive.

4.4.5 Establishment of KCB Foundation

From Press Release Statements made by KCB in 2007, KCB launched the KCB foundation in 2007 with a Foundation Manager to manage its corporate social responsibility. In launching the KCB foundation, KCB created and new unit with a new structure to cater for the society’s social need and hence bring society closer to the business which in many ways was a reassuring gesture to the community that KCB was a responsible corporate citizen and a good partner in business. The KCB foundation has enhanced public corporate relationships in the entire East African Region by supporting the KCB Green agenda, providing a scholarship program for needy students in the society supporting initiatives like the KCB Safari Rally and being sensitive to the needs of the community around, all of which have provided support to the business and provided an effective response to completion with similar initiatives. Initially, KCB foundation was constituted to work under the Division of Corporate Affairs but in the 2011 Organisation Structure Realignment, the Foundation works under the Office of the Company Secretary who reports directly to the Chief Executive Officer.
4.4.6 Establishment of Micro Banking Unit

Ansoff (1980) asserts that when a firm fails to respond to threats, the losses that result continue to accumulate. In order for the bank to avoid this scenario, it was obtained from respondents that in 2008, the bank introduced a new unit in the business dubbed KCB Micro Banking. This unit came in to address the initially untapped market for which the competition like Equity bank had successfully made great progress at the time. The unit was established with a complete business structure provided for with a business head, whose direct reports included the regional business managers which further was cascaded to the branched under branch managers and the customer facing staff or the Micro Finance Officers.

By providing this structure for this product, the bank empowered the Micro Team to aggressively sell this product. Micro was made a whole package by ensuring that it provided not only assets, but also liabilities: Micro Banking accounts were introduced. By use of Micro Banking Organisation Structure, KCB effectively responded to competition trends in the industry while protecting her market share and at the same time reaching out to new segments. Over time KCB has managed to fight for and command a significant market share in this business even though the lion share is still being commanded by the competition.

4.5 International Business Realignment and Consolidation in the Last Ten Years

From the KCB Organisational Profile 2010 that in 1997, KCB set up business in Tanzania before expanding further to Southern Sudan in 2006 and Uganda in 2007. Rwanda began operations in 2008 and Burundi in 2012. The Bank has a network of over 210 outlets and over 400 automated teller machines across East Africa that are strategically located to
provide synergies across market. KCB has over two billion authorized shares held among Kenyan, East African and foreign investors.

It was then established from the respondents that on entering the international business in 1997, KCB established an organisation structure for the subsidiaries whose apex was the Managing Director (MD) for that country. The MD was then reporting to the Deputy Chief Executive Officer Group Business. Below the Managing Director were the business heads for various sectors. In 2010, to increase efficiency in the expanding portfolio, the position for Regional Director for subsidiary support was created. All managing directors for subsidiaries were reporting made to him. In 2011, with the reorganisation of the KCB organisation structure to make the bank more competitive and improve the turnaround time for services delivery and decision making, the Deputy CEO position was scraped and in place the positions for Chief Business Officers Kenya and Chief Business officer International relations were created all of whom report to the Chief Executive directly. All international business directors now report to the Chief Business Office International Business.

The respondents observed that, on realigning and streamlining the international business, KCB has positioned herself as a market leader in the region and indeed quite a formidable competitor. The realignment further ensured that there was increased efficiency in decision making since Chief Business Officers could make key business decision and respond effectively and quickly to any competition moves. The new organisation structure streamlined the customer service unit in the subsidiaries with the effect of reducing the turnaround time on customer issues resolution and increased harmony and alignment across the network. This has demonstrated itself in the 2011 financial results where KCB was the market leader in the subsidiaries business. By using efficient organisation structures therefore, KCB positioned
herself as a market leader by deriving enormous competitive advantage from the realignment of organisation structure.

### 4.6 KCB Staffing Level Changes in the Last Ten Years

In a bid to increase efficiency and streamline services delivery, the respondents indicated that KCB has adjusted her staffing at least four times in the past ten years with the earliest being 2002 and subsequently 2007, 2009 and finally 2011. Beginning in 2002 the number of staff was reduced to 2,808 and during this time KCB only had 87 branches. The number of the branches has almost tripled over this period while the staff levels have not even doubled. The respondents stated that in 2010, the bank employed the services of a renowned consultant McKinsey and company in what was dubbed as the “Transformation from Good to Great” initiative who among other things adjusted the Organisation structure providing optimum organisation staffing. The following is a table showing the latest staff figure as obtained from the KCB Chairman’s Statement in 2012 during the half year release of results.

<table>
<thead>
<tr>
<th>Number</th>
<th>KCB Kenya</th>
<th>KCB Tanzania</th>
<th>KCB Uganda</th>
<th>KCB Sudan</th>
<th>KCB Rwanda</th>
<th>KCB Burundi</th>
<th>Group Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Branches</td>
<td>170</td>
<td>11</td>
<td>14</td>
<td>19</td>
<td>1</td>
<td>1</td>
<td>226</td>
</tr>
<tr>
<td>ATM’s</td>
<td>864</td>
<td>12</td>
<td>16</td>
<td>22</td>
<td>2</td>
<td>2</td>
<td>930</td>
</tr>
<tr>
<td>Staff</td>
<td>3,724</td>
<td>252</td>
<td>303</td>
<td>322</td>
<td>27</td>
<td>27</td>
<td>4,953</td>
</tr>
</tbody>
</table>

Table 1: KCB Organisational Staffing and Infrastructure
It is therefore evident that the stall levels went down relative to the scope of work available. Staff levels affect organisational efficiency. By employing efficient organisation structure KCB was therefore able to optimize on incomes while responding effectively to competition.

4.7 KCB Strategic Partnerships in the Last Ten Years

It was obtained from the respondents that in the last ten years there have been tremendous growth in the telecommunications sector. The mobile phone service uptake has grown exponentially. Such products as MPesa for the leading mobile services provider Safaricom are now Benchmarks in the global environment. Other products like Airtel Money and others have also emerged in the industry as competition gets into a notch higher every day. The respondents stated that these developments have introduced a new phenomenon in the market where banks are now experiencing competition from non-traditional competitors; telecommunication companies. In order to respond effectively therefore to this kind of unusual competition, KCB sought to engage these competitors in strategic partnerships that is mutually beneficial where both target the same clientele, supporting each other in the provision of services while benefiting together from the relationship. KCB therefore, has been in the forefront in establishing strategic partnerships in order to defend or acquire increased market share.

4.7.1 Partnership with all Mobile Operators to Support Mobile Banking

As a response to traditional and non-traditional competition forces, the respondents indicated that KCB in 2008 entered into a strategic partnership with mobile phone service provider Safaricom, to enable her use the infrastructure for Safaricom to allow KCB customers monitor their account and make some basic requests like account balance inquiries using their mobile phones. The services were further expanded to cover customer transactions
involving MPesa and bank account transfers. This was initially placed under Customer Service guided by the Regional Customer Service Manager whose mandate was expanded to cover spearheading and growing these partnerships. From press release information, in 2010, the KCB Contact Centre established complete with a Contact Centre Head supported by Relationship managers working together with clerks to respond to customer inquiries these duties, Mobile banking Services, were transferred to the Contact Centre working in conjunction with KCB ATM Centre. The respondents further stated that the Contact has since been on the forefront in spearheading channel migration to realise the optimum utilization of the KCB structure. The reconstituted Contact Centre under a business unit head working in conjunction with Institutional Banking Unit has made it possible to establish more partnerships with all mobile phone services provider operators to cover not only basic mobile phone and bank account interactions, but also offer other services, like loans and transactional accounts, to mobile phone services provider agents with minimum security requirements.

From the respondents, in 2012, the bank re-launched the mobile banking services. Partnerships were established with all mobile phone service providers in the country and thus Mobile Banking was made available through all service providers. Using the same organisation Structure the scope of service provision has since widened to other products like internet banking. In coming up with appropriate Organisation Structures for business, KCB managed to respond to competition and thus has remained competitive in this highly evolving and dynamic industry. Mobile banking has given customers more monitoring opportunities of their accounts which has reduced fraudulent cases and increased customer loyalty.
4.7.2 Partnering with Agents to Provide Agent Banking Services

The respondents states that in 2011, a new frontier for competition emerged; there was need to establish and work with financial service agents to take banking to the neighbourhood. Agencies were viewed as a cheaper means of expansion with minimum overhead costs. The competition environment was quickly and aggressively adopting this idea and KCB was as a result compelled to establish an Agent Banking Unit, complete with a Business Head and Relationship Managers supported by clerks; who were integrated in the branch network; supporting them to market the bank’s products by registering and working with financial services agents in a mutually beneficial relationship across the network. The business was set up and integrated with the rest of the business and KCB now has registered over 2000 agents across the network. By establishing this Agent Banking and the relevant Organisation Structure, the bank has broadened the reach and has remained competitive by keeping the competition at bay while at the same time reaching out to new markets. The respondents further informed the study that the bank is also using Agent Banking as a strategy to reduce queues in the banking hall by serving customers at their neighbourhood and hence optimally utilizing the banking hall facility for other services. Agent banking is therefore improving the customer service experience in the branch network by allowing relationship managers more time with the customers given the reduced number of customers who have to come to banking halls to obtain service.

4.7.3 Paynet Group KCB Group Partnership

From the respondents, in March 2011, the KCB Group entered into a partnership with Paynet Group allowing KCB access to all Pesa Point ATMs. Having an already established infrastructure and a membership of over 28 local banks, Paynet partnership, in addition to the over 340 KCB Quick Serve ATMs allowed KCB access to a wider ATM network to KCB
customers. From the press release information, the KCB Chief Executive, in May 2011, while officiating the signing of the formal partnership agreement indicated that this was about making the most effective use of existing infrastructure which not only benefits customers but also builds towards a more integrated and efficient market. The partnership allowed Pesa Point connected card holder’s access to their accounts from any of the KCB QuickServe ATMs. It also led to the optimization of the KCB ATM infrastructure by enabling PesaPoint cardholders to access services at any of these ATMs in the country. It was very clear from the respondents that this was achieved by creating the necessary organisational structures, while expanding the mandate of the ATM centre which put necessary infrastructure in place to ensure an integrated network allowing smooth services delivery. The partnership ensured that KCB remained ahead of competition and competitive in the industry.
CHAPTER FIVE: SUMMARY CONCLUSION AND RECOMMENDATIONS

5.1 Summary and Conclusion

During the period considered in the study, KCB managed to move from a loss making organisation, reporting a loss of Kshs 3 Billion in 2002 to a profit making organisation reporting a profit of Kshs 15.1 Billion in 2011 (Annual Financial Report 2003 – 20). This was made possible by specifically on among other strategies, Internal Organisation Structures. The bank therefore embarked on the continuous review of her organisation structures covering the; Consolidation of Subsidiaries, International Division, Branch Network Realignment, Strategic Partnerships, and Information Technology. These initiatives increased efficiency in the bank which facilitated the optimum utilization of the banks resources. Decision making was greatly improved, the turnaround time on customer service issues resolution reduced, and the bank was able to swiftly tackle challenges in the regional market at optimum operational cost. KCB is now a fairly organic organisation running under a Divisional Structure compared to ten years ago when it was largely bureaucratic with too much government influence. The bank has therefore successfully used Organisation Structure adjustments to align to market needs resulting to a competitive advantage which serves as a strategic response to competition in the industry.

5.2 Recommendations

Based on the findings of this study, the following recommendations were made: firstly, the bank should continue to review her organisation structure from time to time in order to benefit fully from the ever changing banking information technology to reach out to new markets regionally and globally and to maintain the competitive advantage thus far obtained. Secondly, with the recent gains in Information Technology, it is recommended that the bank
designs an Organisation Structure that will fully integrate IT and banking in a holistic way by embracing modern IT banking hall centres with reduced human intervention, fully utilizing branchless banking service opportunities that will give the bank a wider market reach at optimum operational costs in the expansion program. And thirdly, from the study, it is apparent that the Kenyan banking industry is governed by the Porter Industry Forces with the major one being the Power of Consumers. It is therefore recommended the bank should concentrate on fine-tuning market segmentation in order to come up with elaborately designed Organisational Structure Designs to efficiently serve the targeted market and hence increase competitiveness.

5.3 Limitations of the Study
While conducting this study, the following limitations were encountered: the management was not willing to release complete information on future organisation structure strategy adoptions since this was considered confidential KCB. With the senior managers having tight work schedules, there wasn’t enough time to obtain complete information as they were always on the run to handle other demanding official duties. This being a case study covering a local bank it was not possible to make general banking industry conclusions given that there exist a number of players including multinational like Barclays and Standard Chartered Banks.

5.4 Suggestions for Further Research
The case only a locally grown bank; Kenya Commercial Bank. The Kenyan Banking industry is characterised by many players, over 43 financial institutions including multinationals. It is therefore suggested that studies of the same nature be carried out on other industry players, banks, in order to understand the most efficient organisational structure that can be used by
players in the industry to effectively manage competition and increase efficiency in this highly dynamic Kenyan Banking Industry. It is further recommended that the same studies be carried out on other players outside the banking industry in order to understand more how Organisational Structure can be used as a strategy to manage competition.
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Encyclopaedia of Small Businesses
APPENDICES

Appendix I: The Interview Guide

TO WHOM IT MAY CONCERN

Tabelius N. Gekonge
C/O KCB Moi Avenue
P.O. Box 30081 - 00100
Nairobi.

Dear Sir/Madam,

RE: RESEARCH INTERVIEW GUIDE

I am a Masters Student at the University of Nairobi currently pursuing a Master of Business Administration in International Business Management. As part of my training, I am required to submit a research paper on, “Organizational Structures Adopted by Kenya Commercial Bank as a Strategic Response to Competition within the Banking Industry in Kenya”.

I am therefore requesting you to allow me to collect data by means of an interview guide(see sample attached below) from your organisation. Please note that all your responses will be kept strictly CONFIDENTIAL and will remain anonymous if you so desires. This will be enforced by ensuring that you are not asked for any personal information and every response you make will be gotten rid of immediately data analysis is completed.

Thank you for your support.

Yours Faithfully,

Supervisor,

TABELIUS N GEKONGE DR JOHN YABS
The Interview Guide

1. Could you kindly take me through the KCB Organisation Structure?
2. Did you participate in the ‘Good to Great’ Transformation Project?
3. (If yes), what was your role in the project?
4. Why was it necessary to change the KCB Organisation Structure?
5. Was that your first time to participate in a project of this nature or you have participated in other initiatives before?
6. How many times has KCB changed the Organisation Structure in the past ten years?
7. What informed these changes?
8. Has the need to be competitive affected the KCB Organisation Structure over time?
9. What are the effects of these changes in responding to competition effectively?
10. Have these changes had any impacts on IT operations
11. Have they affected the customer service TAT in any way
12. How is the international division working after, in comparison to before, the changes?
13. Have these changes made it more effective in working with strategic partners?
14. How have these changes affected interdepartmental integration and interaction?
15. Have you achieved complete branch realignment?
16. Has the bank participated in any strategic partnerships and if yes, which ones?
17. Are there any strategic gainsthat have been made from these partnerships?
18. What are the challenges encountered during and after Organisation Structure Change?
19. Do you feel that KCB runs optimally now compared to before?
### Appendix II: Pesa Point Partners

<table>
<thead>
<tr>
<th></th>
<th>Bank Name</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>KCB</td>
</tr>
<tr>
<td>2</td>
<td>Standard Chartered Bank</td>
</tr>
<tr>
<td>3</td>
<td>CfCStanbic Bank</td>
</tr>
<tr>
<td>4</td>
<td>NIC Bank</td>
</tr>
<tr>
<td>5</td>
<td>National Bank of Kenya</td>
</tr>
<tr>
<td>6</td>
<td>Fina Bank</td>
</tr>
<tr>
<td>7</td>
<td>Diamond Trust Bank</td>
</tr>
<tr>
<td>8</td>
<td>Imperial Bank</td>
</tr>
<tr>
<td>9</td>
<td>Paramount Bank</td>
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<tr>
<td>10</td>
<td>Equatorial Commercial Bank</td>
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<tr>
<td>11</td>
<td>Prime Bank</td>
</tr>
<tr>
<td>12</td>
<td>First Community Bank</td>
</tr>
<tr>
<td>13</td>
<td>Bank of Baroda</td>
</tr>
<tr>
<td>14</td>
<td>Bank of India</td>
</tr>
<tr>
<td>15</td>
<td>Mwalimu Sacco</td>
</tr>
<tr>
<td>16</td>
<td>Stima Sacco</td>
</tr>
<tr>
<td>17</td>
<td>Faulu Kenya</td>
</tr>
<tr>
<td>18</td>
<td>KENSWITCH BANKS</td>
</tr>
<tr>
<td>19</td>
<td>Commercial Bank of Africa</td>
</tr>
<tr>
<td>20</td>
<td>K-Rep Bank</td>
</tr>
<tr>
<td>21</td>
<td>Eco Bank</td>
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<tr>
<td>22</td>
<td>Post Bank</td>
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<tr>
<td>23</td>
<td>Housing Finance</td>
</tr>
<tr>
<td>24</td>
<td>Consolidated Bank</td>
</tr>
<tr>
<td>25</td>
<td>Dubai Bank</td>
</tr>
<tr>
<td>26</td>
<td>Oriental Commercial Bank</td>
</tr>
<tr>
<td>27</td>
<td>Credit Bank</td>
</tr>
<tr>
<td>28</td>
<td>Gulf African Bank</td>
</tr>
</tbody>
</table>
Appendix III: Kenya Banking Industry Environment

List of Banks in Kenya

(Source: Central bank of Kenya)

1. African Banking Corporation Ltd.
2. Bank of Africa Kenya Ltd.
3. Bank of Baroda (K) Ltd.
4. Bank of India
5. Barclays Bank of Kenya Ltd.
6. CFC Stanbic Bank Ltd.
7. Charterhouse Bank Ltd
8. Chase Bank (K) Ltd.
9. Citibank N.A Kenya
10. Commercial Bank of Africa Ltd.
11. Consolidated Bank of Kenya Ltd.
13. Credit Bank Ltd.
15. Diamond Trust Bank (K) Ltd.
16. Dubai Bank Kenya Ltd.
17. Ecobank Kenya Ltd
18. Equatorial Commercial Bank Ltd.
19. Equity Bank Ltd.
20. Family Bank Ltd
21. Fidelity Commercial Bank Ltd
22. Fina Bank Ltd
23. First community Bank Limited
24. Giro Commercial Bank Ltd.
25. Guardian Bank Ltd
27. Habib Bank A.G Zurich
28. Habib Bank Ltd.
29. Imperial Bank Ltd
30. I & M Bank Ltd
31. Jamii Bora Bank Ltd.
32. Kenya Commercial Bank Ltd
33. K-Rep Bank Ltd
34. Middle East Bank (K) Ltd
35. National Bank of Kenya Ltd
36. NIC Bank Ltd
37. Oriental Commercial Bank Ltd
38. Paramount Universal Bank Ltd
39. Prime Bank Ltd
40. Standard Chartered Bank (K) Ltd
41. Trans-National Bank Ltd
42. Victoria Commercial Bank Ltd
43. UBA Kenya Bank Ltd.

**Mortgage Finance Institutions in Kenya**

1. Housing Finance Ltd