

**STRATEGIC RESPONSES BY COMMERCIAL BANK OF
AFRICA LTD TO CHANGES IN ITS ENVIRONMENT**

BY

SAMUEL M. KAMUTHU MUHORO

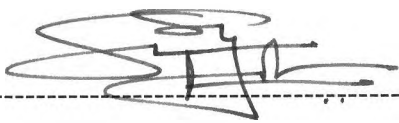
**A MANAGEMENT RESEARCH PROJECT SUBMITTED IN
PARTIAL FULFILMENT OF THE REQUIREMENTS FOR THE
DEGREE OF MASTER OF BUSINESS ADMINISTRATION,
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DECLARATION

STUDENT’S DECLARATION

I hereby declare that the work contained in this proposal is my original work and has not been previously, in its entirety or in part, been presented at any other university for a degree requisite. All the references cited in the text have been duly acknowledged.

Student-----

Samuel M. Kamuthu Muhoro

Reg No D61/8746/2006

Date-----06/11/2009

SUPERVISOR’S DECLARATION

This project has been presented with my approval as the supervisor of the student and the University Of Nairobi, School of Business

Supervisor-----

Jeremiah Kagwe

Lecturer
University of Nairobi

Date-----7/11/2007

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DEDICATION

I dedicate this work to my parents, family and my beautiful daughters Wambui, Wanjiku and Nyokabi for their understanding and support during the study period.

This is also dedicated to all those who have the faith, perseverance and courage to follow through on their dreams and who do not allow their circumstances to define their destiny; and those who like the eagles are not afraid to re-invent themselves, fly and scale the heights against all odds.

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ABSTRACT

The environment in which organizations operate is constantly changing with different factors influencing the organizations. Since the turn of the millennium, the general business environment has become more volatile, unpredictable and very competitive. Coping with the increasingly changing environment has called on firms to rethink their response strategies (Pearce and Robinson, 2005). Changes in the business environment are leading to new and greater demands on strategic responses (Scholes, 2002). Pearce and Robinson (2005) say that there is need to adopt new strategies that match the challenges from the environment. Reengineering, downsizing, self-management and outsourcing are some of the dominant strategies that have been used for restructuring in the 1990's.

This study is aimed at investigating the response strategies adapted by Commercial Bank of Africa LTD to changes in its environment. This was a case study since the unit of analysis is one organisation. Primary data was collected from the company staff by use of interview guides and content analysis was used to analyse the data.

Commercial Bank of Africa LTD has been able to keep pace with the continuously changing business environment scenario by having strategic business alliances/associations; adoption of new products and services; personalized customer service, a strong customer feedback system hinged on technology with set standards of providing feedback, motivation of staff, conducting surveys to make research based decisions and also by deploying new technology to increase efficiency.

The researcher recommends that in order to remain competitive in the market and remain profitable despite the changing business environment, CBA should engage in vigorous marketing strategies especially through use of various advertising media to not only re-enforce its brand as offering stress-free banking to its customers, but to also increase awareness and communicate its accessibility and unique products to the target niche market where some of the members may still perceive it as an exclusive bank. The study

further recommends that CBA should conduct countywide surveys to make research based decisions and also employ dynamism of the products portfolio.

List of abbreviations

ATM	Automated Teller Machine
CBA	Commercial Bank of Africa Limited
CBK	Central Bank of Kenya
CEO	Chief Executive Officer
DRC	Democratic Republic of Congo
EABS	East African Building Society
FDI	Foreign Direct Investment
ICT	Information and Communication Technology
IT	Information Technology
KCB	Kenya Commercial Bank
MBA	Master of Business Administration
MIBA&S	Master of International Business Administration & Strategy
MFI	Micro-finance Institutions
NBFIs	Non-bank Financial Institutions
NGOs	Non Governmental Organizations
POS	Point of Sale
SME	Small and Medium Enterprises
SACCO	Savings and Credit Cooperatives
UBA	United Bank of Africa

CHAPTER ONE: INTRODUCTION

1.1 Background of the Study

Strategy is a word that continues to gain popularity in our everyday usage. It is not surprising to hear even at the streets of Nairobi someone asking another what their strategy is. Other words which have now become a common part of our conversations are road-map, master plan and game plan. Strategy in its simplest form revolve around planning and its continued usage whether in business or social circles is usually in the context of enquiring what plans have been developed or are in the pipeline aimed at addressing a specific issue or issues. It denotes need for defining the direction to be taken to achieve certain objectives or goals ranging from the interim period to the long term. Strategy from a business context points at the need for a firm to have a say in mapping its destiny instead of leaving everything to fate. It is a deliberate and conscious effort of looking at the past and the present circumstances to project and plan for the future. As a nation, Kenya has Vision 2030 giving us a projection of where we are going as a country.

According to Scholes, (2002) strategy is 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 fulfill stakeholder expectations". Strategy is about where the business is trying to get to in the long-term (direction), which markets a business should compete in and what kind of activities are involved in such markets (markets; scope), how the business can perform better than the competition in those markets (advantage), what resources (skills, assets, finance, relationships, technical competence, facilities) are required in order to be able to compete (resources), what external, environmental factors affect the businesses' ability to compete (environment) and the values and expectations of those who have power in and around the business (stakeholders).

Over the past two decades, academics, consultants and business practitioners have stressed the challenges facing business. Porter (1991) commented that "the starting point for the [dynamic] theory is that environmental change is relentless." This statement

encompasses the challenges facing most companies as they seek to grapple with change. Another strategy guru, Drucker (1999) agrees and states that “we live in a period of profound transition.” Changing environmental conditions impact on most if not all companies leading to a greater emphasis on the external environment, strategic direction and overall corporate performance. Firms have already sought to address their internal environment through a series of continuous improvements aimed at minimizing operating costs and maximizing the efficiencies of resources deployed.

Gavetti et al. (2005) suggest that strategy making is most critical in times of change and in unfamiliar environments. In a critical review of the strategic response literature, Mintzberg (1994) argues that the “missing detail” in strategy formulation is a more thorough understanding of how strategies are made. This echoes the findings of Capon et al. (1990, p. 1158), who conclude that understanding of strategic response is “badly in need of more work.”

Accordingly, one would expect strategic response to be growing in importance in firms of all sizes. Yet empirical research on strategic response yields a mixed picture (O'Regan and Ghobadian 2004). Some findings stress the benefits of strategic response in an increasingly turbulent and competitive business environment (Robinson and Pearce, 1988). However, the literature also suggests that the level of strategic response and planning in smaller firms is low (Perry, 2001; Robinson and Pearce, 1984).

The awareness and understanding of the external operating environment is of the utmost importance to firms, to enable business leaders to align their firm's strategies with external environment conditions (Bettis and Hitt, 1995; Wholey and Brittain, 1989). The importance of the external operating environment cannot be understated, as it directly impacts on decision-making processes, as well as on the decisions taken (Eisenhardt, 1989; Bogner and Barr, 2000).

1.1.1 Changes in the business environment

As most governments policy have become more strongly oriented towards trade liberalization, the industries have become progressively exposed, to the full force of

international competition from a growing array of international suppliers and to changes in their environment (Toyne et al., 1983; Yasuda, 1994). At the same time, the emergence of large, sophisticated retail groups has found retailers exercising their bargaining leverage by squeezing suppliers for lower prices, and higher levels of service and product innovation (Abernathy et al., 1999; Finnie, 1992; Gereffi, 1994; Standard & Poor's, 1980-2002a; Standard & Poor's, 1980-2002b). There has also been an increasing trend among large retailers to source direct or use foreign intermediaries (Finnie, 1992; Flanagan, 2004).

Volatility in the world economies has compounded these problems through exchange rate fluctuations and sharp economic downturns that have served to magnify competitive pressures and accelerate the erosion of organisations competitiveness (Kilduff and Priestland, 2001; Lowson et al. (1999); Standard & Poor's, 1980-2002b; Yasuda, 1994).

Sharp downturns in the world economy during the early years of the 1980s, 1990s and 2000s, respectively, together with strong surges in the value of the Dollar between 1979 and 1985, and again between 1995 and 2002 have been associated with rapid deteriorations in the trade position of most companies. At the same time, the companies have been confronted with the need to sustain high levels of investment in order to respond both to shifting and more demanding market requirements, and to rapid technological change.

The composition of many countries demand for various goods has been transformed by demographic, economic and social changes (Kilduff, 2001a; Standard & Poor's, 1980-2002a; Standard & Poor's, 1980-2002b). Market needs have become more changeable and fragmented, and consumers have become more discriminating with regard to product novelty, quality and value (Dickerson, 1999)

Technological change has resulted in a broadening and a deepening of the financial and intellectual resources the companies need to compete. Companies have been faced with making heavy investments in new technologies against the background of poor

profitability, uncertain competitive outcomes and difficulties in gaining access to capital at non-discriminatory rates (Kilduff and Priestland, 2001; Yasuda, 1994).

This cocktail of extreme pressures has stimulated extensive strategic change and restructuring across companies. Successful adaptation has required high levels of investment in new technologies, design, marketing, production and logistics. At the same time, competitive pressures have subjected profit margins to an ever-tightening squeeze.

During periods of weaker demand or when particular companies have failed to keep up with the pace of change, market positions and financial situations have rapidly deteriorated, resulting in severe downsizing and even bankruptcy. Such has been the severity of conditions that, since the mid-1980s, a number of leading companies have been through bankruptcy and quite a few have not emerged (Finnie, 1992; Kilduff and Priestland, 2001; Yasuda, 1994).

1.1.2 Strategic responses to environmental changes

In responding to changes in the operating environment, most companies have adapted their marketing strategies, diversified their product market scope, re-configured their supply chain arrangements and moved closer to the consumer.

Under pressure from retailers for lower prices, increased product variety and innovation, and higher levels of service, most companies have sought lower cost manufacturing arrangements while establishing more accurate and responsive supply chains (Dickerson, 1999). Much of this has been in Latin America and the Caribbean, but increasingly they have shifted to Asia (Abernathy et al., 1999; Kilduff and Priestland, 2001; Yasuda, 1994).

In parallel, sustained investments in new technologies have been necessary to raise operational efficiency and to improve product planning and supply chain integration (Abernathy et al., 1999; Company annual reports, 1979-2004a; Finnie, 1992; Kilduff and Priestland, 2001; Yasuda, 1994).

To achieve product differentiation most companies have strengthened their brand portfolios, and invested heavily in design and marketing to target fashionable merchandise at specific consumer market segments (Company annual reports, 1979-2004a; Dickerson, 1999; Finnie, 1992; Kilduff and Priestland, 2001; Yasuda, 1994). In addition, there has been much investment in product improvement through adoption of new methods, and by achievement of a better fit for consumers through provision of a greater assortment of sizes or by use of customization techniques (Abernathy et al., 1999; Company annual reports, 1979-2004a).

To spread their fashion risks and to take advantage of emerging growth opportunities, many of the leading companies have pursued diversification strategies, to embrace a broad product mix (including fashion accessories); a wider combination of distribution channels; and, for some, to enter international markets. Acquisitions, mergers, and trademark licensing arrangements have proven popular vehicles towards these objectives (Company annual reports, 1979-2004a; Dickerson, 1999; Finnie, 1992; Kilduff and Priestland, 2001; Yasuda, 1994).

In addition, during the 1980s, many larger companies in the textile and apparel industries integrated forward into retailing via a combination of channels, including outlet stores, concessions, free standing specialty stores, mail order and the Internet (Yasuda, 1994). However, since the early 1990s, retail operations have been extensively pruned due to problems of low profitability (Company annual reports, 1979-2004a; Kilduff and Priestland, 2001).

1.1.3 Banking Industry in Kenya

The number of commercial banks in the sector declined to 46 in December 2007 from 48 in June 2005 following a merger between one bank and one building society and one bank going under. Other non-bank financial institutions (NBFIs) include mortgage finance companies, building societies and SACCOs, which also provide basic banking services. Out of the 45 institutions, 35 are locally owned and 10 are foreign owned. The locally owned financial institutions comprise three banks with significant shareholding by the government and state corporations namely, 30 commercial banks and two mortgage

finance institutions. (Central Bank of Kenya annual report 2007).

The banking sector has embraced changes occurring in Information Technology with most banks having already achieved branchless banking as a result of the adoption of communications options. According to The Central Bank Annual Supervision report (2003), the increased utilization of modern information and communications technology has for example led to several banks acquiring ATMs as part of their branchless development strategy measures.

The Central Bank notes that advancement in Information and Communications Technology (ICT) in the banking industry has enhanced efficiency and improved customer service. This is reflected particularly in the increased use of ATM cards resulting from broadening of ATM network, including additional ATM machines and a wider network of merchants that accept payment through credit/debit cards. Several banks have also entered into the Internet Banking and established websites. Internet banking however is still at its infancy and more in terms of utilization is expected in this sector.

The level of competition between banks is therefore very high to attract the retail customers as just their numbers there comes in a big chunk of business either in form of deposit or loans. There has been a shift from waiting for the customers to come to the banks, to now the bank going out of its way to look for the customers. Commercial banks have now adopted strategic issue management to succeed in a world of competition. (Kenya Bankers Association annual Report,2008)

Commercial banks and mortgage finance institutions are licensed and regulated pursuant to the provisions of the Banking Act and the Regulations and Prudential Guidelines issued by the Central Bank of Kenya from time to time. They are the dominant players in the Kenyan banking system and closer attention is paid to them while conducting off-site and on-site surveillance to ensure that they are in compliance with the laws and regulations. Currently there are there are 43 licensed commercial banks and two mortgage finance companies.

Out of the 45 institutions, 35 are locally owned and 10 are foreign owned. The locally owned financial institutions comprise three banks with significant shareholding by the government and state corporations namely Kenya Commercial Bank, National Bank and Consolidated Bank, 30 commercial banks and two mortgage finance institutions.

Two Nigerian banks – *United Bank of Africa (UBA) the largest in West Africa and Bank PHB* – are at advanced stages of opening branches in Nairobi with UBA planning to start with two in October in Industrial Area and Westland's. UBA's focus will be the un-banked population which saw Equity transform the banking landscape. Its roll out plan will be hinged on the technology platform with focus on the internet and mobile phone banking. With an investment chest of Sh. 15 billion UBA's entry will be cause of worry for those banks such as Equity, Sacco's and micro-finance institutions since their target is the same niche market of the middle and low income segment of the economy.

Currently only 19 per cent of approximately 6.3 million Kenyans are banked. Entry of the two Nigerian banks which are highly capitalised is expected to trigger a financial services pricing war as the local banks react to the encroachment of their market share. There are indications of a possible market share structure changes with increased competition leading to product pricing wars as local banks try to protect their turf (Aron, 2009).

The banking industry in Kenya has not been spared from the challenges that came as a result of the ongoing global recession. Company CEO's have had to contend also with effects of the political turmoil following the controversial 2007 election as well as new costs brought about by power rationing due to adverse weather.

As Okoth (2009) points out in his article under the Financial Journal section of The Standard, the economic slowdown has seen GDP growth drop from 7.1 per cent last year to a forecast of 2.2 per cent. Inflation has also hit a high of 26.2 per cent eroding the value of money held by bank depositors. Due to the high interest rate, and in an effort to increase liquidity and lower cost of credit, the Central Bank of Kenya (CBK) has lowered

the cash ratio as well as the Central Bank Rate. From January 2009, CBK also lowered the Treasury Bills (T-Bills) window allowing investors a minimum of Sh100, 000 investment in T-Bills from Sh1million. This change means that commercial banks have to offer attractive rates to clients to compete with those offered in the government securities market.

CBK recent finalisation of the regulatory framework and licensing of micro-finance institutions (MFIs) will further increase competition at the lower end of the market. Though Central Bank of Kenya has adjusted various monetary instruments to bring down the cost of borrowing, it is still concerned that the banks interest rate structure is not responding adequately and has pointed out that the high gap between money market rates is an indication of inefficiencies. With new regulations such as need for banks to attain a minimum capital base of Sh1 billion by the end of 2010, it is anticipated that this will lead to consolidation in the banking industry through mergers and acquisitions leading to banks achieving economies of scale needed to effectively compete and expand in the mass market which as Equity Bank has shown is quite lucrative.

All these changes are bound to lead to mergers and acquisitions as seen in the period 1995 to 2005 in the following table:

Table 1: Mergers and Acquisitions

No.	Institution	Merged with	Current Name	Date approved
1	Transnational Finance Ltd.	Transnational Bank Ltd.	Transnational Bank Ltd.	28.11.1994
2	Ken Baroda Finance Ltd.	Bank of Baroda (K) Ltd.	Bank of Baroda (K) Ltd.	02.12.1994
3	Stanbic Bank (K) Ltd.	Stanbic Finance (K) Ltd.	Stanbic Bank Kenya Ltd.	05.01.1996
4	CBA Financial Services	Commercial Bank of Africa ltd	Commercial Bank of Africa ltd	26.01.1996

5	National Industrial Credit Bank Ltd.	African Mercantile Banking Corp.	NIC Bank Ltd.	14.06.1997
6	Giro Bank Ltd.	Commerce Bank Ltd.	Giro Commercial Bank Ltd.	24.11.1998
7	Guardian Bank Ltd.	First National Finance Bank Ltd.	Guardian Bank Ltd.	24.11.1998
8	Diamond Trust Bank (K) Ltd.	Premier Savings & Finance Ltd.	Diamond Trust Bank (K) Ltd.	12.02.1999
9	National Bank of Kenya Ltd.	Kenya National Capital Corp.	National Bank of Kenya Ltd.	24.05.1999
10	Standard Chartered Bank (K) Ltd.	Standard Chartered Financial Services	Standard Chartered Bank (K) Ltd.	17.11.1999
11	Barclays Bank of Kenya Ltd.	Barclays Merchant Finance Ltd.	Barclays Bank of Kenya Ltd.	22.11.1999
12	Habib A.G. Zurich	Habib Africa Bank Ltd.	Habib Bank A.G. Zurich	30.11.1999
13	Guilders Inter. Bank Ltd.	Guardian Bank Ltd.	Guardian Bank Ltd.	03.12.1999
14	Universal Bank Ltd.	Paramount Bank Ltd.	Paramount Universal Bank	11.01.2000
15	Kenya Commercial Bank	Kenya Commercial Finance Co.	Kenya Commercial Bank Ltd.	21.03.2001
16	Bullion Bank Ltd.	Southern Credit Banking Corp. Ltd.	Southern Credit Banking Corp. Ltd.	07.12.2001
17	East African Building Society	Akiba Bank ltd	EABS Bank ltd	31.10.2005
18	First American Bank ltd	Commercial Bank of Africa ltd	Commercial Bank of Africa ltd	01.07.2005
19	Co-operative Merchant Bank ltd	Co-operative Bank ltd	Co-operative Bank of Kenya ltd	28.05.2002
20	ABN AMRO Bank	Citibank N.A	Citibank N.A	30.11.2005

(Central Bank of Kenya)

Some of the reasons put forward for mergers and acquisitions are: to meet the increased levels of share capital; expand distribution network and market share; and to benefit from best global practices among others.

In an article in the Financial Journal section of The Standard, Oyuke (2009) focuses on Equity Bank and how model of high volumes and low margins and on-going expansion has greatly and radically altered the banking scene in the country. Its strategy of focusing on Kenyans who previously held no formal bank accounts and who come mainly from the informal sector, and which a few years ago was viewed by some mainstream banks such as Barclays and Standard as “un-bankable” has seen Equity currently being Kenya’s fastest growing bank, not only increasing its branch network in the country but also expanding into Uganda and Southern Sudan. Equity’s model and its massive pre-tax profit of Sh5 billion for the year ending December 2008 and which was a 111 per cent rise compared to Sh2.378 billion posted in 2007 has not gone unnoticed by the other key players in the banking industry and this has witnessed a massive branch expansion by such players like Barclay’s, Standard and KCB who now appreciate that the lower end of the mass market is lucrative and are opening branches in hitherto “no-go areas” such as Gikomba second-hand clothing Market, Eastleigh and small shopping centres like Githurai in Nairobi. Some of the banks are re-opening branches that they had closed some years back.

Thus though the economy is not blind to the ongoing world recession, there is increased cut-throat competition which calls for continued innovation. The highly competitive environment has also been taken a notch higher by the encroachment of the financial money market that was traditionally the forte of banks by the mobile phone service providers Safaricom and Zain through their money transfer service of M-PESA and Zap respectively.

From humble beginnings with only 52453 customers and 355 Agent outlets at the time of its launch in 6th March 2007, M-PESA has had a massive growth with statistics from Safaricom showing it had 7,679,043 customers, 12465 Agent outlets, a whopping daily

money transfer of Kshs.800 million and a cumulative value of person to person transfer of Kshs. 230.45 billion as at August 2009 (www.safaricom.co.ke). The effect of this massive growth on the financial services sector cannot be gainsaid and it has radically changed the financial landscape.

It may be due to the realization that adoption is a key to survival that some banks have partnered with these providers such as KCB with M-PESA and Standard Chartered with Zain to enhance their product range and as a way of reaching the still highly lucrative and untapped mass market.

Safaricom is also offering international money transfer services through M-PESA. Through their partner Vodafone, Safaricom's International Money Transfer service will enable Kenyan's in the United Kingdom to send money directly to mobile phones of intended recipients through M-PESA. It has also partnered with selected agents in the UK namely Western Union, Provident Capital and KenTV, who provide cash-in location for senders to transact (www.safaricom.co.ke). Western Union is one of the agents being used by some of the established local banks for International Money Transfers.

Zain started offering international money transfer on 23rd September 2009 through Zap. It has partnered with CitiBank and Standard Chartered Bank to offer this mobile banking service which targets 100 million people in East Africa. Zap customers can now swiftly and securely receive money from any bank account around the world and easily send money to any bank in Kenya, Tanzania and Uganda. In addition Zap allows customers to use their mobile phone 24 hours a day to manage their bank accounts, pay for goods and services and settle their utility bills such as electricity bills check their balance and keep on top of their payments.

Zain has also partnered with Higher Education Loans Board (Helb). Former university students who have been repaying loans through banks are now able to do so through the Zap transfer service.

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Safaricom continues to ride on the success of M-PESA and is constantly packaging it to provide diverse solutions to corporate sector. On 4th September 2009 it entered into a partnership with Grundfos LIFELINK, part of the worldwide pump manufacturer Grundfos, that allows rural communities to access safe water and pay for it through the MPESA money transfer service. On 30th April 2009 it signed an agreement with The Kenya Power and Lighting Company Ltd (KPLC) enabling electricity customers to settle their power bills through the popular M-PESA service. From 4th May 2009 customers of SMEP (Small and Micro Enterprise Programme), a Kenyan micro-financier working with small businesses, can now make their monthly loan repayments and savings contributions through M-PESA service. This customer to business pay-bill service has already been taken up by a number of companies including; Insurance companies to collect premiums, Microfinance Institutions, National Hospital Insurance Fund, Safaricom postpaid bill payments, pay television subscription services, radio and television stations among others.

Another corporate solution from Safaricom is the Business to Consumer Bulk Payments Services which enables organizations to send money by M-PESA to many people who may be widely dispersed. The service targets organizations that would like to do promotional payments, field staff disbursements, salary disbursements, dividend payments among others. The service has been taken up by organizations with field based staff such as East African Breweries and social payment organizations like Concern Worldwide among others.

All these are examples of disintermediation where non-financial organizations are now offering services that traditionally belonged to the banks such as those of international money transfer services. Safaricom and Zain are riding on a price advantage and their vast customer networks which will further rattle the banking industry.

The banking industry in Kenya continues to see several of the banks adopting an expansion strategy both locally and in the region. Among those that are continuing with a significant local expansion are KCB, Equity and Co-operative. Others expanding locally include Commercial Bank of Africa. The Eastern Africa region covering Kenya, Uganda,

Tanzania, Rwanda, Burundi and Eastern DRC as well as Southern Sudan is another expansion frontier that some of our banks like KCB, Equity and Commercial Bank of Africa already have a significant branch presence and or are at advanced stage of establishing them.

It is worth noting also the keen interest of some of the banks in the stock brokerage market as well as in the insurance industry. Some of the banks such as Co-operative and NIC in the recent past have bought ailing brokerage firms positioning themselves to be key players in the Nairobi Stock Exchange. Some of the banks like Commercial Bank of Africa have also created banc assurance divisions to deal with insurance products.

Other concerns from the banking sector is the current enthusiasm of investors to put their money in the bond market which they perceive to be more secure. Commercial banks which have traditionally been lenders to big business are losing out as blue chip companies such as Safaricom and KenGen rush to the corporates bond market for money they need to drive their business. This is a lost opportunity to the banks to lend in the long term

Such adaptation mirror what Charles Darwin said that *"In the struggle for survival, the fittest win out at the expense of their rivals because they succeed in adapting themselves best to their environment."*

This also agrees with Gary Hamel (2006) that management innovation is the secret to success.

1.1.4 Commercial Bank of Africa Ltd

CBA is the largest privately owned Kenyan bank, whose primary focus is Corporate and Institutional banking. Its efforts and resources are channeled towards providing an efficient, personal and stress free banking experience to corporate, foreign missions, NGOs and the quality end of the personal banking market.

Commercial Bank of Africa Limited (CBA) was founded in 1962 in Dar-es-Salaam, Tanzania and quickly established branches in Nairobi and Mombasa in Kenya, and also in Kampala, Uganda. With the nationalization of banks in Tanzania, CBA reincorporated itself in Kenya in 1967. In light of developments in Uganda in 1971, it subsequently sold the Kampala branch.

CBA originally commenced business as a subsidiary of Societe Financiere pour les pays D'Outre Mer (SFOM), a Swiss-based consortium bank with interests in financial institutions throughout Africa. Original consortium members included Bank of America, Commerz Bank (later on sold to Dresdner Bank), Bank Bruxelles Lambert, and Banque National de Paris. In 1980, Bank of America acquired all the shares of the other SFOM partners, and CBA became a subsidiary of Bank of America, with 16% of shares held by Kenyan investors.

During the period 1980 to 1984, Bank of America re-organised CBA, developing and installing Bank of America's global systems and disciplines. In late 1984 Bank of America agreed to sell the majority of its shares to local investors while retaining a minority interest and continuing to provide management to the bank via a management agreement. Bank of America eventually sold the remainder of its shares - and CBA is now wholly Kenyan owned.

CBA follows a conservative, risk averse strategy, adhering to principles of good banking namely strong capitalization, liquidity, risk diversification, conservative lending policies, investment in service delivery channels and customer service orientation.

CBA's vision is to be a respected and significant financial services business in Eastern Africa. With a focus on continuing to be the leading provider of financial services in its chosen markets, its mission is to enhance the wealth and fulfilment of life.

CBA strategic themes are to acquire maintain and grow a significant market share, improve employee productivity and enhance innovation, thirdly enhance efficiency and resource optimisation and fourthly ensure profitability and shareholder value.

The bank has invested heavily in Information Technology (IT) systems such as that of T24 to maintain customer relationships that were critical for the high-end market segment that CBA targeted. IT systems needed to be continuously upgraded in response to customer demands. The bank currently has 17 branches operating in Kenya and two in Tanzania. Those in Kenya are mainly in Nairobi and Mombasa with a new one opened recently in Meru town. In an effort to continue being a leader in the banking sector and live to its slogan of offering “*stress-free banking*”, CBA is also planning to open more branches in both Kenya and Tanzania, and in the wider Eastern Africa region.

1.2 Statement of the Problem

The environment in which organizations operate is constantly changing with different factors influencing the organizations. Since the turn of the millennium, the general business environment has become more volatile, unpredictable and very competitive. Coping with the increasingly changing environment has called on firms to rethink their response strategies (Pearce and Robinson, 2005).

Changes in the business environment are leading to new and greater demands on strategic responses (Scholes, 2002). Pearce and Robinson (2005) say that there is need to adopt new strategies that match the challenges from the environment. Reengineering, downsizing, self-management and outsourcing are some of the dominant strategies that have been used for restructuring in the 1990's. Ansoff and McDonnell (1990) asserts that the management system used by a firm is a determining component of the firm's responsiveness to environmental changes because it determines the way that management perceives the environment, diagnosis their impact on the firm, decides what to do and implements the decisions.

Strategic response can be seen as the matching of activities of an organisation to the environment in which it operates. When firms are faced with unfamiliar changes they should revise their strategies to match the turbulence (Ansoff and MC Donnel, 1990). Strategic responses affect the long-term direction of an organisation and require commitments and resources both human and financial. According to Pearce and

Robinson (1997) strategic response is the set of decisions and actions that result in the formulation and implementation of plans designed to achieve a firm's objective. It is thus a reaction to what is happening in the environment of the organisation.

To cope with these changes in the environment, most banks are beginning to adopt a series of counter measures. Most have turned to offering new types of services through their strong nationwide branch networks (Xie, 2001; Zong, 2000). To better meet customer needs and keeping up with competitors, banks all over the world have started to employ advanced IT technologies and jumped on the bandwagon of launching internet banking (Sheshunoff, 2000; Zhu et al., 2004). Internet banking together with telephone banking and call centres are being offered by many banks (Liu, 2002). None of these researchers have focused on banks in the Kenyan context. Against this background, the aim of this paper is to examine the strategic response in the context of Commercial Bank of Africa.

Researchers have studied the state of companies in Kenya in relation to Strategic responses. For example: Kombo (1997) studied Strategic responses by firms facing changed environmental conditions at motor vehicle franchise holders in Kenya and found that they responded through quality merchandise and product differentiation strategies in terms of innovation. Isaboke (1998) did an investigation of the strategic responses by major oil companies in Kenya to the threat of new entrants and found that they employed high quality products strategies.

Abdullahi (2000) conducted a study of the strategic responses by Kenyan insurance companies following liberalization and found that they increased their IT investment and also introduced many diversified policies as a Product Differentiation Strategy. Njau (2000) researched on strategic responses by firms facing changed competitive conditions the case of East African Breweries Ltd and found that the company diversified to embrace a wide spectrum of products and manufacturing sectors while Chepkwony (2001) studied strategic responses of petroleum firms in Kenya to challenges of increased competition in the industry and found that they diversified into less exposed markets and also retreat in higher quality of the refined products.

Many studies have also been done in the banking industry context e.g. Muriithi (1996) Analysis of customer service offered by Kenya commercial banks which were mainly on loan and improved efficiency of services, Ochieng (1998) Analysis of factors considered important in the successful implementation of information systems: a case study of commercial banks in Kenya where the main one was internet connectivity, Kagondou (2002) Factors influencing credit rationing by commercial banks in Kenya, Angatia (2003) The perception of job previews among management staff of commercial banks in Kenya and found that most of them advocated them, Mbote (2003) Influence of IT on marketing, the case of commercial banks in Kenya where it was found to greatly enhance marketing, Sakina (2006) An investigation on the X-efficiency of commercial banks in Kenya, Cheserek (2007) The determinants of bank failures, a survey of commercial banks in Kenya where poor loan management was leading and Masiga (2008) The relationship between strategic planning intensity and financial performance of commercial banks in Nairobi where strategic planning intensity was found to greatly influence profitability.

None of these local studies focused specifically on strategic response to changes in the environment by the banking industry in Kenya. Indeed, the banking industry in Kenya has been affected by various developments and challenges noted above, and this study will try to understand how CBA, which is one of the key banks in the country is responding to these changes.

Further, very few studies have been done on CBA e.g. Ghebrecristos (1983) who studied training methods and techniques in an organization the case of the Commercial Bank of Africa LTD Nairobi, Kenya and found that audiotapes and computer-based training were the most frequently used. Given the increasing level of environmental change in the banking sector, the significance of this sector to the financial operations of a country especially one like Kenya that is market-driven economies and the growing importance of adopting competitive response strategies, this study intends to gain an understanding on the response strategies adopted by Commercial Bank of Africa to changes in the environment.

1.3 Research Objective

The main objective of this study was to investigate the response strategies adapted by Commercial Bank of Africa LTD to changes in its environment.

1.4 Importance of the Study

This study is important to the management of Commercial Bank of Africa and other similar organizations in Kenya by acting as a management reference point for strategic response need to be put in place, both in the present and future, that will ensure the company preference over the others and will clearly show justification why different competitive strategies have been put in place.

The government of Kenya also finds this study an invaluable source of information by identifying the factors that play a major role in the practice of strategic response in banking industry in Kenya.

Finally, the researcher benefits from the study as it will add on to the growing body knowledge in strategic response in Kenya. This will act as a source of reference for studies to be done on banking or on strategic response in the banking industry.

CHAPTER TWO: LITERATURE REVIEW

2.1 Introduction

This chapter summarizes the information from other researchers who have carried out their research in the same field of study. The specific areas covered here are strategy environment, the organizational environment and uncertainty and strategic responses to changes in environment.

2.2 Strategy

Strategy is depicted as a set of beliefs on how a firm can achieve success (Woods and Joyce, 2003). Arguably strategy is the main route to attain corporate goals and objectives, leading to enhanced long-term performance. That is to say, strategy is much more than beliefs and encompasses “a deliberate search for a plan of action that will develop a business's competitive advantage and compound it.

For any company, the search is an iterative process” Henderson (1989, p. 139). The iterative process includes predictions and forecasts on challenges and opportunities that the company is likely to encounter in the external environment. However, an iterative process assumes a rational process and approaching strategy in the “right way” (Sauer and Willcocks, 2003). But what is the right way? And is it possible to achieve consensus on a possible “right way” given that there is no one right answer in business? Even if there were strong pointers to a possible right way, it is arguably difficult for CEOs and strategists to make decisions without reference to their own views on how strategy should be determined (Kotey and Meredith, 1997; Frishammar, 2003).

Strategy formulation also involves significant intuition and philosophical thinking (Brockman and Anthony, 2002). In short, there are many competing ideals and multiple perspectives in business (Barney, 2001).

A review of the findings of previous studies suggests that the impact of strategy on overall performance is not as clear-cut as one might expect. Several studies show a link between strategy and performance (Rue and Ibrahim, 1998; Bracker et al., 1988; Lyles et

al., 1993). Indeed, several meta-analyses have also concluded that planning leads to greater financial returns (Robinson and Pearce, 1984; Boyd, 1991; Schwenk and Shrader, 1993; Miller and Cardinal, 1994).

Other studies have stressed benefits resulting from strategic-planning other than financial results, for example reducing uncertainty (Matthews and Scott, 1995), longer term focus with structured processes (Schwenk and Shrader, 1993), and an enhanced awareness of strategic options and direction (Lyles et al., 1993). Findings where strategy does not lead to any noticeable impact on smaller firms include O'Gorman and Doran (1999), McKiernan and Morris (1994), Orpen (1985), Gabel and Topol (1987), Shrader et al. (1989) and Watts and Ormsby (1990).

Nevertheless, based on the empirical literature it is reasonable to argue that the weight of evidence indicates that strategic-planning does have a largely positive impact on performance. This is consistent with the contention of Shrader et al. (1989) that strategy must "rank as one of the most prominent, influential and costly stories told in organizations." It is therefore vital to the organization but is not without its attendant risks. In addition, the literature suggests that attempts to strengthen the performance of SMEs often suffer due to "a lack of reference to strategy" (Hudson et al., 2001).

2.3 Influence of an Organisations Environment on Strategy

The external operating environment is seen as a significant influence on the performance of small and medium sized firms, and especially in the case of the smaller firms (Hambrick, 1981). Factors facing all firms include: market changes, technology, customer demands and competition (Jaworski and Kohli, 1993). Each aspect of change is subject to varying degrees of intensity.

The literature contends that environmental dynamism drives the degree of emphasis on strategic- response McLarney (2001). For example, Lang et al. (1997) state that when small to medium sized firms are confronted with a threat or opportunity, they tend to increase their search for information by scanning the external environment. However, it should be noted that this is a relatively recent trend in smaller firms (Lang et al., 1997),

and runs parallel to their increasing attention to aspects of the strategic-planning process. Arguably, many small to medium sized firms have little choice but to engage in strategic-planning, if they are to survive.

The greater use of information on the environment is consistent with the argument put forward by Murray and Kotabe (2005) that a firm's strategy and environment need to interact in a dynamic co-alignment process. If effective alignment operates, then enhanced performance is more likely (Venkatraman and Prescott, 1990). The literature indicates that a greater awareness of the operating environment impacts positively on degrees of profitability (Thomas et al., 1993). Surprisingly, however, the literature presents a mixed picture on the impact of the environment on strategic-planning. Grant (2003, p. 494) encapsulates this position on the extant literature by stating that “evidence of the impact of environmental turbulence upon strategic-planning is limited. Cross-sectional studies have produced inconsistent findings. Longitudinal evidence is fragmented.”

2.3.1 Changes to an Organization's Environment

One of the primary functions of effective management is to organize and use the available resources in ways which minimize the impact of environmental threats and pressures on the organization (Steers, 1977). Organizations must adapt to their environments if they are to remain viable. Smart and Vertinsky (1984), for example, maintain that to maximize long-term effectiveness, organizations need to develop the capability not only to cope with daily events in the environment, but also to cope with external events that are both unexpected and of critical importance (crises). For many organizations crises are unique and rare events. However, in many industries crises may be a regular feature of corporate life. Consequently, a central issue in the process of organizational adaptation is not only coping with uncertainty, but understanding situations where uncertainty can degenerate into a crisis.

In order to define the concepts of environmental uncertainty and the dimensions of the environment, Duncan (1972) emphasizes the perception of organizational members.

Differences in individual perceptions and tolerance of ambiguity or uncertainty must be taken into account in developing these concepts.

An organization's environment consists of the totality of physical and social factors which are taken directly into consideration in the decision making behavior of individuals in the organization. The external environment consists of those relevant physical and social factors from outside the boundaries of the organization or specific decision-making unit that are taken into consideration (Duncan, 1972)

Leavitt et al. (1974) concur by stating that organizations both respond to and operate on the contexts in which they are embedded. The environmental context, in turn, renders experiences for learning. Additionally, through the processes of selection, the context limits the strategy space of an organization as it responds to crisis situations (Smart and Vertinsky, 1984).

Although the external environments of organizations have been conceptualized in various ways (see, for example, Pfeffer and Salancik, 1978), several important dimensions have been underscored. Two major dimensions are of concern for this study: stability and complexity.

Environmental stability: Emery and Trist (1965) were early researchers of one crucial dimension: the degree of environmental stability. They suggested that the concept of turbulence and its opposite, placidity, are key factors. Turbulence is a measure of change as it occurs in the factors or components of an organization's environment. At one end of a continuum of change there is a static environmental state (placidity or no change); at the other end there is a turbulent or dynamic state where all factors are in constant flux (Bourgeois and Eisenhardt, 1988). The amount of environmental turbulence is closely related to the degree of uncertainty facing an organization.

The rate of change, in addition to the absolute amount of turbulence, is a critical factor. Jurkovich (1974) suggests that the rate of change can be defined by measuring the

amount of alteration to major goals in a given period. Jurkovich proposes that the higher the change rate in the environment, the higher the number of major organizational goals that must be altered and vice versa. Please note that in several studies (e.g., Bourgeois and Eisenhardt, 1988) the terms discontinuity, turbulence and placidity, coping with environmental uncertainty dynamism and volatility have been used interchangeably to refer to the rate (or degree) of environmental change. The ability to time organizational changes to keep pace with environmental change rates is an important indicator of an organization's coping abilities. Moreover, the rate of change has been shown to account for more variance in perceived uncertainty than any other attribute at the business level of strategy making (Duncan, 1972).

Environmental complexity: Complexity is the second critical dimension of the external environment. It refers to the number of factors in the environment that must be taken into consideration by the organization in a decision-making situation (Duncan, 1972; Smart and Vertinsky, 1984). Also, Child (1972) defined complexity as the heterogeneity and range of activities relevant to organizational operations. Steers (1977) argues that a simple environment is one in which the external factors with which an organization must deal are few in number and relatively homogeneous.

Smart and Vertinsky (1984) assert that a simple environment frees an organization from the necessities of sophisticated information systems, since there would only be a limited number of information categories to be monitored that would be critical for organizational decision making. "Complex environments not only place greater demands on an information system, but also call for a higher-quality to account for diverse constituencies in the environment" (Smart and Vertinsky, 1984, p. 200).

Duncan (1972) integrated the two dimensions of stability and complexity into a four-cell matrix of environmental states. He suggests that the dimensions of stability and complexity influence the degree of uncertainty in organizational decision making. The more complex and dynamic the environment, the greater is the perceived uncertainty for a firm.

Utterback (1979) lists some problems created for the firm by changes in its environment. These problems are exacerbated by the organization's (that is, its constituents') ability to cope. First, change may be more difficult for any one organization. But if there are many more potential sources of change than in the past, then the pace of change and its attendant uncertainty could indeed be increasing. The environment would then be essentially a turbulent field with changing sets of variables to contend with and changing relationships among them. Utterback suggests that in dealing with turbulent environments, peripheral information on changes may be crucial to creative solutions.

Changes that can revolutionize a firm's business and strategy have a tendency to come from unexpected directions and be viewed as disruptive (Utterback, 1979). These include functional competition from new technologies often introduced by new firms or existing businesses entering a new market. To make things worse, greater competition across national boundaries also increases the number of potential sources of disruptive changes. Utterback (1979) strongly asserts that the organization must adapt to changes in its environment which are often beyond its control or influence, and which in turn may involve changes in products, policies, organizational structure and procedures. This requires a degree of flexibility and time for effective responses and, consequently, a need to anticipate important environmental changes.

Hamel and Prahalad (1994) have pointed out that complacent managers who get too comfortable in doing things the way they have always done will see their companies fall behind. They have given the example of IBM and Apple in the 1970s to illustrate this. IBM which was the leading main-frame computer maker then failed to see the potential market for personal computers. On the other hand, Apple had a vision of a computer for everyone. Hamel and Prahalad whose focus in their book *Competing For the Future* is about tomorrow's competition and opportunities of outrunning competitors to "get to the future first" argue that business leaders need to be more than "maintenance engineers" worrying only about budget cutting, streamlining, re-engineering and other such tactics to being "architects" designing the future.

2.4 Strategic Responses to Changes in the Environment

To survive in a dynamic business environment, different organizations have had to engage various strategies to survive. One such strategy is the corporate turnaround strategy. A turnaround situation is one of pointing out to a new direction. It is a complete change in strategic direction of a firm after it has faced a corporate distress. Such a situation can easily lead to collapse of a company unless a plan of corporate survival and renewal is devised and successfully executed. The starting point is identification of the root cause or causes of the crisis. Turnaround strategies are used when a business worth resuming goes into corporate crisis (Pearce & Robinson, 1997).

Porter (1985) observes that for firms to be able to retain competitive advantage, they need to examine their environment both internal and external and respond accordingly. Ansoff and McDonnell (1990) also point out that the success of every organization is determined by the match between its strategic responsiveness and strategic aggressiveness and how these are matched to level environmental turbulence. This is because each level of environmental turbulence has different characteristics, requires different strategies and requires different firm capabilities. Therefore, each level of environmental turbulence requires a matching strategy and the strategy has to be matched by appropriate organizational capability for survival, growth and development.

Being ahead of the game requires that firms employ competitive strategies that are sustainable and assures them of their market position. A firm without superior strategy is like a blind man leading the way, and actually existence of strategy is not a guarantee for success. Institutionalizing those strategies, allocation of adequate resources, visionary leadership and good corporate culture, amongst others are necessary ingredients for successful business success strategies.

To be successful overtime, an organization must be in tune with its external environment. There must be a strategic fit between the environment wants and what the firm has to offer, as well as between what the firm need and what the environment can provide. The speed or response time to the environment challenges has been identified (Pearce and

Robinson, 1997) as a major source of competitive advantage for numerous firms in today's intensely competitive global economy. It's thus imperative to quickly adjust and formulate strategies so as not to be overtaken by events.

If a firm wants to remain vibrant and successful in the long run, it must make impact assessment of the external environment, especially such relevant groups as customers, competitors, consumers, suppliers, creditors and the government and how they impact on its operations success is dependent on productivity, customer satisfaction and competitor strength. Critical success factors are crucial to an organization because it takes into consideration fundamental changes in the environment thus making firms proactive rather than reactive. Strategy has an important role in helping businesses position themselves in an industry.

Effective strategy may enable a business to influence the environment in its favour and even defend itself against competition. Aaker (1992) also adds that given the current focus in business, there is need to understand competitor strengths in the market and then position one's own offerings to take advantage of weaknesses and avoid head on clashes against strengths. Kotter (1998) says that to adapt to environmental changes, firms require effective leadership. He further states that, while leadership is crucial, most organizations are over-managed and others under-led. In this regard therefore it is necessary to examine what impacts leadership and strategic management have on an organization in relation to its external environment.

Between the 1950s and 1970s, many companies diversified to embrace a wide spectrum of products and manufacturing sectors. (Yasuda, 1994). A swell of speculative financing sparked a surge of restructuring through hostile take-overs and leveraged management buy-outs. When this subsided in 1990, the business scope and ownership of many of the leading firms had changed radically, and many firms were left burdened with high levels of debt (Yasuda, 1994).

Common strategies employed included an exit from commodity goods and a retreat in higher quality, volume products. There has also been some movement into less exposed

markets, and into technical products. These are seen as offering growth opportunities while being less exposed to international competition. In the latter segment, specialized and technically demanding customer needs, and close customer relationships are believed to provide significant entry barriers (Singletary and Winchester, 1996; Yasuda, 1994).

Since the early 1990s, international expansion has been pursued with greater vigor than hitherto, through a combination of export development and foreign direct investment (FDI). This has intensified since 2000, Some firms have adopted a more global approach to manufacturing, by establishing operations in various locations to service regional markets (Kilduff and Priestland, 2001).

After 1997, alongside a deteriorating competitive situation, retail customers have sought greater variety, smaller volumes and fashion innovation, with better service and lower prices. In response, the apparel industry has accelerated the introduction of more flexible manufacturing arrangements (Company annual reports, 1979-2004b; Kilduff and Priestland, 2001).

Product innovation has been especially vigorous since 2001, assisted by a new wave of advanced technologies. This has been accompanied by an increase in trade and consumer branding, with products (Company annual reports, 1979-2004b). Manufacturers have pursued marketing strategies by developing an extended range of products and a portfolio of brands each targeted at specific customer segments (Company annual reports, 1979-2004b; Kilduff and Priestland, 2001; Standard & Poor's, 1980-2002c).

These changes have been supported by extensive investments in process automation, information systems, and human resources in order to raise productivity and improve connectivity with suppliers, manufacturers, and retailers. However, the extremely difficult conditions since 1999 have sent investment to historically low levels, and relationships with companies remain fractious (Company annual reports, 1979-2004b; Kilduff and Priestland, 2001).

2.4.1 Adoption of IT

China's accession into the internet banking resulted in a significant impact on its domestic banks' strategies since market complexity and turbulence have increased drastically in the banking sector as a result. For instance, some banks have chosen the strategy of the so-called international expansion (Zheng, 2002), some have chosen acquisition strategy and strategic alliance (Pan and Hu, 2002), while others have considered stock listing and/or an increase in IT investment. Increase in IT investment, mainly reflected in internet banking innovation, has become one of the most important strategic responses for domestic banks. With internet banking as the most significant IT application since ATM was introduced decades ago, it is only natural that these banks would choose it as the strategic response to the accession into the internet banking. IT maturity and the firm's size would influence firms' willingness to use IT as part of their strategic responses to changes in the operating environment (Karimi et al., 1996).

According to Chwelos et al. (2001), external pressures, perceived benefits, and readiness are significant predictors of intent to adopt IT by organizations, with external pressures and readiness being considerably more important than perceived benefits. Internet banking adoption is an adoption of information and communication technologies (ICT) to enhance an organization's competitiveness in the changing environment.

In Chwelos et al. (2001), perceived benefits are regarded as an important factor in IT adoption. Similarly, internet banking may improve operational efficiency and dramatically change the ways banks build and maintain relationships with their customers. In order to sustain their competitiveness in the marketplace that is rapidly changing, a number of banks in the world have increased investment in internet banking. They perceive that they can substantially reduce operating and fixed costs by replacing employees and physical facilities with IT, while at the same time improving their customer services (Zheng, 2002).

Perceived benefits of internet banking refer to the anticipated advantages to banks when they are planning for internet banking implementation. The perceived benefits of IT can

be divided into two kinds: direct benefits and indirect benefits. Direct benefits include operational cost savings and internal efficiencies arising from reduced paper work, faster processing of banking transactions, etc. Likewise, indirect benefits include opportunities that emerge from the use of internet banking, such as improved customer services, establishment of technology innovation image, and the potential ability to compete (Zheng, 2002).

2.4.2 High Quality Products

Producing high quality products within a reasonable lead time is necessary, but not sufficient, in today's fiercely changing environment. Providing quality merchandise in a convenient and friendly atmosphere is also needed. Companies try to improve sales and develop better image through quality merchandise, right merchandise type for target market, friendly personnel, and convenient store layout. Friendly personnel distinguish one company from others (Lee and Suh, 1998).

2.4.3 Product Differentiation Strategies

Product differentiation strategies strive to create unique products that are not easily matched by others (e.g., Porter, 1985). Increased environmental changes drives increased use of product differentiation strategies in terms of innovation, speed, and offered services to the customer for a variety of reasons. Availability of the latest technology that is crucial for product innovation is more likely to exist in developed countries than in less-developed countries (Lee and Suh, 1998). Market change knowledge allows domestic companies to be more nimble than their competitors at least in the early stages (Zou, Fang, and Zhao, 2003).

2.4.4 Avoidance Strategies

Following the strategic choice theory, market incumbents can also respond by avoiding direct effects of environmental changes by switching into market segments that are less affected. Such a move constitutes a defensive strategy which is only possible if similar but more attractive niches exist in the market. Typically those segments are characterized by higher skill and capital intensity (Bernard, Jensen, and Schott, 2006). In case of

increasing local companies' intensity, we expect companies to switch their market segment or industry to avoid severe effects of drastic changes in the environment.

2.4.5 Deterrence Strategies

Another strategy focused on environmental change aims to raise market entry costs. In the case of increasing dynamic environment, this may take the form of lobbying for tariffs or quotas, a dramatic build-up of capacity. An entry deterrence strategy built upon aggressive over-capacity may require companies to forgo short-term profitability in the hopes that they may maintain a long term market presence (Porter, 1985).

CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Introduction

This chapter discusses the methodology that was used in gathering the data, analyzing the data and reporting the results. Here the researcher will aim at explaining the methods and tools used to collect and analyze data to get proper and maximum information related to the subject under study.

3.2 Research Design

This was a case study since the unit of analysis is one organisation. This is a case study aimed at getting detailed information regarding the response strategies adopted Commercial Bank of Africa to changes in the environment.. According to Yin (1989) a case study allows an investigation to retain the holistic and meaningful characteristics of real life events. Kothari (2004) noted that a case study involves a careful and complete observation of social units. It is a method of in depth study rather than breadth and places more emphasis on the full analysis of a limited number of events or conditions and other interrelations.

3.3 Data Collection Methods

Primary data was collected from the company staff by use of interview guides in order to investigate the response strategies adopted Commercial Bank of Africa to changes in the environment. An interview guide (see attached) was administered through interview and discussions key informants from the senior management team in the following areas: finance, strategy and change, audit, marketing and projects/enterprise development. The interview guide will comprise open ended questions. Mugenda and Mugenda (1999) notes that such questions allow for a greater depth of response. Primarily data collected from such a study is more reliable and up to date.

Secondary data sources was also used to provide additional information. This was obtained from already documented materials such as in-house publications, in-house training materials and periodic performance reviews.

3.4 Data Analysis

The completed interview guides were edited for completeness and consistency before processing the responses. Being a case study, content analysis was most useful. Mugenda and Mugenda (1999) describe it as any technique used to make inferences by systematically and objectively identifying specific characteristics and messages. This was the best method of analyzing the qualitative data that was collected from the interviews and discussions.

CHAPTER FOUR: DATA FINDINGS AND ANALYSIS

4.1 Introduction

This chapter presents analysis and interpretations of the data from the field. The study sought to establish the response strategies adapted by Commercial Bank of Africa to changes in its environment. The data was gathered through interview guides and analysed using content analysis. According to the data found, all the respondents projected in the previous chapter to be interviewed were interviewed which makes a response rate of 100%. The commendable response rate was achieved after the researcher made frantic effort at booking appointment with the interviewees despite their tight schedules and making phone calls to remind them of the interview.

4.2 General Information

The study, in an effort to establish the interviewees' competence and conversance with matters regarding response strategies adopted by Commercial Bank of Africa to changes in the environment asked a question on their highest level of education. According to the interviewees' responses all of them were university degree holders with professional training in their areas of speciality with several having post-graduate degree such as an MBA and MIBA&S. Further on the question on the years that the interviewees had worked for the organisation (Commercial Bank of Africa). According to the interviewees' response, all of them had worked for the organisation for more than two years. The interviewees' responses hence had the advantage of good command and responsibility being that they head departments and had experience and aptitude owing to their level of education and years of experience in the CBA.

To the question on who are responsible for setting organization mission and vision the interviewees said that those responsible for setting organization mission and vision for CBA include the senior management team, executive committee, strategy department and the board.

The interviewees, on the changes that have taken place in the last ten years in the business environment which have affected CBA, said that the changes included shift

from focusing on corporate to finding “fortune at the bottom of the pyramid (SMEs and retailers), changed interest rate regime, change in government policies resulting in pumping a lot of money to the economy through massive funding of the infrastructure, change in core banking system by the large banks which are aimed at driving operational efficiency and product development, alternative delivery channels as opposed to the traditional branches (ATMs, internet, mobile), doubling of the number of banks, licensing of non-bank institutions to offer some banking services and technology advancements. Other interviewees stated that there have been legislative changes in the banking industry like minimum capital requirements as amended in various Finance Acts, Regional Economic Integration (East African Community), Customer acquisition (shift from the traditional approach of waiting for customers to visit the branches; new aggressive marketing to the point of visiting customers or prospective ones at their places of work), global financial crunch, and changing customer needs/demands.

4.3 Strategic Responses to Changes in the Environment

To the question on the response strategies that CBA has implemented to counter the changes that have taken place in the business environment, the interviewees indicated the response strategies as building/consolidating partnerships/alliances e.g. with Safaricom on MPESA, PesaPoint, Kenswitch; moving to retail and SME, investment in technology such as the T24 core banking system, personalized customer service, a strong customer feedback system hinged on technology with set standards of providing feedback, recruitment of highly educated and experienced staff with entry positions being university graduates, internal clear company policies and procedures, motivation of staff through performance based remuneration using the Balanced Score Card; staff reward system for innovativeness; staff bonding, new products and services development, branch expansion (local and regional), internal organizational structure and process review, mergers and acquisition activities, conducting surveys to make more informed decision, defined corporate strategy (5yrs plan), automation of processes and deploying new technology to increase efficiency.

Most of the interviewees said that the most significant environmental change that poses a threat to the survival of CBA is customer sophistication against so much choice. According to some interviewees political instability is key because the political landscape creates an enabling environment where the government can formulate and implement policy while insecurity increases the cost of doing business.

The interviewees, on how the bank is dealing with the challenges posed by the above change, said that through new product development, improving operational efficiency (T24), service excellence, expansion and also through process reengineering. The interviewees further said that the adoption of IT (internet banking) has helped CBA to respond to the change in the operating environment by enabling the installation of alternative delivery channels (ATM/POS, mobile banking), improved turn around time, enabled provision of data for strategic management and also enabled CBA to serve a huge customer base with fewer branches. Some of the interviewees also said that adoption of IT has helped in the introduction of relevant and reliable services and products to meet the now highly discerning and sophisticated customers as well as enhanced the operating efficiencies and also delivers cost savings.

The researcher also sought to investigate CBA has come up with Product Differentiation Strategies in response to the changing environment. From the findings, the interviewees said that CBA has come up with Product Differentiation Strategies by segmenting the customers based on their needs, size and type of business and designing products that meet the unique needs of these customer segments and also creating a pricing strategy for each segment.

To the question on the corporate strategies applied by CBA as strategic responses to changes in the environment, the interviewees said that corporate strategies applied by CBA include local and regional expansion, adoption of new core business system (revision of the business model), channel partnerships, investing in a more robust information technology platform, devolution of segmented departments such as corporate and institutional banking and making this one unit, introduction of new departments such

as credit analysis that better determine the customers segments and designing products that meet the unique needs of these customer segments, research based decision making.

The interviewees, on whether they consider the CBA's strategic responses to environmental change adequate, said that the strategic responses to environmental change are satisfactory. According to some of the interviewees, CBA currently is working fine but need to be fine tuned to look into the future and the eventualities that are expected.

To the question on the challenges faced in the strategic response to changes in the environment, the interviewees said that the challenges faced are limitation in resources for expansion, internal resistance to change (culture change), and product development in keeping up with the customer sophistication.

To the question on the interviewees view on what else CBA should do to stay competitive in the dynamic business environment, the interviewees said that CBA should focus on the value chain concept of SMEs to provide needed solutions, refine retail and SME strategy, employ greater customization of products, employ dynamism of the products portfolio in order to remain relevant in the fiercely competitive landscape, inculcate the vision and mission of the bank, review the corporate strategy constantly and have an audit of success and failure, become agile and proactive, determine what its competitive advantage is and build/sustain it, build a strong brand royalty and affiliations both internally and externally, demystify management and ensure all inclusive management approach and investment highly in brand communication initiatives.

CHAPTER FIVE: SUMMARY OF FINDINGS, CONCLUSION AND RECOMMENDATION

5.1 Introduction

This chapter presented the summary of key data findings, conclusion drawn from the findings highlighted and recommendation made there-to. The conclusions and recommendations drawn are in quest of addressing the research question or achieving at the research objective which is the to establish the response strategies adopted Commercial Bank of Africa to changes in the environment

5.2 Summary of Findings

On who are responsible for setting organization mission and vision, the study found that those responsible for setting organization mission and vision for CBA include the senior management team, executive committee, strategy department and the board.

The study found that the changes that have taken place in the last ten years in the business environment which have affected CBA included shift from focusing on corporate to finding “fortune at the bottom of the pyramid (SMEs and retailers), change interest rate regime, change in government policies resulting in pumping a lot of money to the economy through massive funding of the infrastructure, change in core banking system by the large banks which are aimed at driving operational efficiency and product development, alternative delivery channels as opposed to the traditional branches (ATMs, internet, mobile), doubling of the number of banks, licensing of none bank institutions to offer some banking services, technology advancements, legislative changes in the banking industry like minimum capital requirements as amended in various Finance Acts, Regional Economic Integration (East African Community), global financial crunch, and changing customer needs/demands.

On the response strategies that CBA has implemented to counter the changes that have taken place in the business environment, the researcher found the response strategies as

building/consolidating partnerships/alliances e.g. with Safaricom on MPESA, PesaPoint , Kenswitch; moving to retail and SME, investment in technology (T24), new products and services development, branch expansion(local and regional), process review, personalized customer service, a strong customer feedback system hinged on technology with set standards of providing feedback, motivation of staff through performance based remuneration using the Balanced Score Card; staff reward system for innovativeness; staff bonding, mergers and acquisition activities, conducting surveys to make more informed decision, defined cooperate strategy (5yrs plan), automation of processes and deploying new technology to increase efficiency.

The researcher also found the most significant environmental change that poses a threat to the survival of CBA as customer sophistication against so much choice and also political instability was key because the political landscape creates an enabling environment where the government can formulate and implement policy while insecurity increases the cost of doing business.

On how the bank is dealing with the challenges posed by the above change, the study found that the bank was dealing with them through new product development, improving operational efficiency (T24), service excellence, expansion and also through process reengineering. The study further found that the adoption of IT (internet banking) has helped CBA to respond to the change in the operating environment by enabling the installation of alternative delivery channels (ATM/POS, mobile banking), improved turn around time, enabled provision of data for strategic management and also enabled CBA to serve a huge customer base with fewer branches, introduction of relevant and reliable services and products to meet the now sophisticated customers, enhance the operating efficiencies and also delivers cost savings.

The study also revealed that CBA has come up with Product Differentiation Strategies by segmenting the customers based on their needs, size and type of business and designing products that meet the unique needs of these customer segments and also creating a pricing strategy for each segment.

On the corporate strategies applied by CBA as strategic responses to changes in the environment, the researcher found that corporate strategies applied by CBA include local and regional expansion, adoption of new core business system (revision of the business model), channel partnerships, investing in a more robust information technology platform, devolution of segmented departments such as corporate and institutional banking and making this one unit, introduction of credit analysis departments that better determine the customers segments and designing products that meet the unique needs of these customer segments and research based decision making.

On whether the employees considered the CBA's strategic responses to environmental change adequate, the researcher found that the strategic responses to environmental change are satisfactory but need to be fine tuned to look into the future and the eventualities that are expected.

The researcher also found that the challenges faced in the strategic response to changes in the environment included limitation in resources for expansion, internal resistance to change (culture change), and product development in the face of dynamic changes and customer sophistication.

On what else CBA should do to stay competitive in the dynamic business environment, the researcher found that CBA should focus on the value chain concept of SMEs to provide needed solutions, refine retail and SME strategy, employ greater customization of products, employ dynamism of the products portfolio in order to remain relevant in the fiercely competitive landscape, inculcate the vision and mission of the bank, review the corporate strategy constantly and have an audit of success and failure, build a strong brand royalty and affiliations both internally and externally, become agile and proactive, determine what its competitive advantage is and build/sustain it, demystify management and ensure all inclusive management approach and investment highly in brand communication initiatives.

5.3 Conclusions

In the current world of highly dynamic environment, Commercial Bank of Africa has been able to keep pace with the continuously changing business environment scenario by having strategic business partnerships/alliances/associations; adoption of new products and services; personalized customer service, a strong customer feedback system hinged on technology with set standards of providing feedback, motivation of staff, conducting surveys to make research based decisions and also by deploying new technology to increase efficiency. The study concludes that Commercial Bank of Africa has effectively been responding to challenges brought about by changes in the environment which has enabled it perform well even in the current situation of global recession and inflation.

The study also concludes that CBA has come up with Product Differentiation Strategies by segmenting the customers based on their needs, size and type of business and designing products that meet the unique needs of these customer segments and also creating a pricing strategy for each segment. The study further concludes that the corporate strategies applied by CBA in responses to changes in the environment include local and regional expansion, adoption of new core business system, channel partnerships, devolution of segmented departments and by introduction of new ones such as credit analysis department.

5.4 Recommendation

From the discussions and conclusions in this chapter, the researcher recommends that in order to remain competitive in the market and remain profitable despite the changing business environment, CBA should engage in vigorous marketing strategies especially through use of various advertising media, with a view to communicate its unique products and reinforce its brand as the bank offering stress-free banking, but also to demystify the perception of its being an exclusive bank just for a select few which may be keeping potential clients which are part of its niche market away and especially due to its venturing into the SME sector. The researcher further recommends that CBA should conduct countywide surveys to make research based decisions and also employ

dynamism of the products portfolio in order to remain relevant in the fiercely competitive landscape that is characterized by customers with sophisticated demands.

5.5 Area for Further Research

The researcher recommends that a similar study be done on other companies in the banking industry so as to find out how they also respond to changes in the environment since each company has a different approach to strategy. He further recommends a further look on how the banks riding on new technology have managed their transition from the old to the new systems.

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Appendix 1: Interview Guide

General Information

1. Your department
2. Your designation
3. What is your highest level of education?
4. How many years have you worked in this institution?

Strategic Response to Changes in the Business Environment

5. Who is/are responsible for setting organization mission and vision?
6. Please describe the changes that have taken place in the last ten years in the business environment which have affected CBA.
7. Which are some of the response strategies that the organization has implemented to counter these changes?
8. Which is the most significant environmental change that poses a threat to the survival of the organization?
9. How is CBA dealing with the challenges posed by the above change? Explain briefly
10. How has Adoption of IT (internet banking) helped CBA to respond to the change in the operating environment?
11. Has CBA come up with Product Differentiation Strategies in response to the changing environment? Briefly explain.
12. Which are the corporate strategies applied by CBA as strategic responses to changes in the environment?
13. Do you consider CBA's strategic responses to environmental change adequate?
14. What are some of the challenges faced in the strategic response to changes in the business environment?
15. What else do you think CBA should do to stay competitive in the dynamic business environment?