THE LINK BETWEEN STRATEGY AND KEY INDUSTRY SUCCESS FACTORS AMONG COMMERCIAL BANKS IN KENYA

BY

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DECLARATION

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

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DEDICATION

This research work is dedicated to my husband and first love the late Symeon (Symeo) Ogutu Muga who was a great source of inspiration and encouragement to me in the acquisition of knowledge.

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The successful completion of this project was realized through the contribution, effort and commitment of several people to whom all I am immensely indebted.

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ABBREVIATIONS

ATM	-	Automatic Teller Machine
BOD	-	Board of Directors
CAP	-	Chapter
CBA	-	Canadian Bankers Association
CBK	-	Central Bank of Kenya
CEO	-	Chief Executive Officer
HRM	-	Human Resource Management
KSF	-	Key Success Factor(s)
MBA	-	Master of Business Administration
MI	-	Market Intelligence
NBFI	-	Non Bank Financial Institutions
SMS	-	Short Message Services
SME	-	Small and Medium Enterprises
MS-Excel	-	Microsoft Excel
UON	-	University of Nairobi

ABSTRACT

The banking industry is characterized by intense competition due to the dynamic changes in customer expectations, awareness and demands. The industry environment is fairly stable due to the favorable macro-economic conditions and stringent supervisory oversight by the Central Bank of Kenya. This study was carried out in Nairobi, Kenya in the month of March, 2009. The objective was to establish the key industry success factors in the banking industry and to determine whether commercial banks in Kenya leverage strategies on the key industry success factors. By establishing the key industry success factors the banks can effectively devote resources on developing strategies that are aligned and leveraged on the identified key industry success factors so as to gain and maintain sustainable competitive advantage to create an edge that would significantly impact on their operational performance hence profitability.

The survey focused on all commercial banks in Kenya. Primary data was gathered through self-administered questionnaires to senior managers in the banks, while secondary data was gathered from the Central Bank of Kenya, and from various banking and financial reports. Descriptive statistics were used to analyze the data. The findings of this study indicate that the key success factors in the banking industry have been dynamic. The key industry success factors in the banking industry are mainly leadership, wide product range, employment of modern technology, packaging and imaging (branding), convenience to customers and business location and distribution. This is in agreement with empirical studies from the developed world and available theoretical literature which postulates that success factors in an industry may be many, but key ones or those with strongest effects are few. The findings are also in agreement with empirical studies that the key industry success factors are important in implementing strategies of a company as strategies must be leveraged on these success factors to achieve competitiveness. For this reason, banks have realized the significance of the link between key industry success factors and strategy by continuously identifying the key success factors and aligning them with strategy to remain focused and competitive.

The Central Bank of Kenya, commercial banks in Kenya and academicians will benefit from the findings of this study. Banks will be able to continuously scan the environment for emerging industry success factors and capitalize on them to improve and maintain their competitive position. The banks will also ensure that their strategies are leveraged on the key industry success factors for effective operational performance, profitability and success in the unstable industry environment.

CHAPTER ONE

INTRODUCTION

1.1 Background

The environment within which commercial banks operate is constantly changing with different factors exerting influence on their operations. Constant scanning of the environment is necessary to purposely identify opportunities and threats posed by the state of the industry so as to match strategy to industry conditions, within a fit with the organization's internal capability. The legal, ethical, political, economic, social, technological and competitive environmental factors have dimensions that can affect the business strategy and performance of an organization, and ultimately its management policies and strategies. The industry key success factors (KSFs), the prerequisites for survival and success within an industry must therefore be identified to maintain a sustainable competitive advantage.

Today's customers are becoming more and more knowledgeable, with their tastes, preferences and quality expectations continuing to change hence the need for business organizations to meet these changing customer needs and expectations. Strategy is the direction and scope of an organization over the long term (Johnson & Scholes, 1999). For organizational success, the KSFs should be leveraged on strategy for sustainability. Commercial banks are facing a number of challenges in the industry against the competitive environment in which they operate. Therefore, this study intends to establish the KSFs in the banking industry and whether commercial banks leverage these KSFs on strategy.

1.1.1 Key Success Factors and Strategy

Mintzberg (2002) defines strategy as a plan, ploy, pattern, position and perspective. He says it is a plan that is developed deliberately or purposefully, a ploy with specific maneuvers intended to outwit a competitor, for examples, expansion, a pattern that emerges from a stream of actions, a position which locates an organization in the environment and development of a sustainable competitive advantage, and a perspective that gives the organization an identity and a perspective.

Jonhnson and Scholes, (2002) further views strategy in different perspectives referred to as the 'strategy lenses'. He views strategy as a design, a forward plan that comes before the events it governs, strategy as experience, being the long term direction of an organization that is developed from an organizational experience, and strategy as ideas, the emergence of order and innovation from the variety of ideas that exist in and around companies.

According to Grant (2002), strategy plays a key role in the success of any business firm. He says strategy is about winning and further describes strategy as a 'unifying theme that gives coherence and direction to the actions and decisions of an individual or organization'. Grant further clarifies four characteristics of a strategy that are conducive to success and explains them as goals that are simple, consistent and long term profound understanding of the competitive environment, objective appraisal of resources and effective implementation. The implication for a firm-strategy-industry environment framework is the concept of 'strategic fit' which provides for the strategic success.

Johnson & Scholes (1999) describes strategic fit as 'developing strategy by identifying opportunities in the business environment and adopting resources and competencies so as to take advantage of these'. He thus describes strategy as direction and scope of an organization over the long term which achieves advantage for the organization through its configuration of resources within a changing environment and to fulfill the stakeholder's expectations. It is therefore important to achieve the correct positioning of the organization for example in terms of the extent to which it meets clearly identified market needs.

Strategy operates at various levels of the organization. Corporate level strategy is concerned with the overall purpose and scope of an organization and how value will be added to the different parts (business units) of the organization. Business unit strategy is about how to compete successfully in particular markets through various strategic business units in a firm. Operational strategy is concerned with how component parts of the organization deliver effectively the corporate and business level strategies in terms of resources, processes and people. If strategy is about the long term positioning of the firm, the industry key success factors, the prerequisites for survival and success within an industry must be identified to maintain a sustainable competitive advantage (Johnson & Scholes, 2002).

The industry key success factors (KSFs) are the strategy related actions, approaches, competitive capabilities and business outcomes that every firm must be competent at doing or must concentrate on achieving in order to competitively and financially be successful (Thompson & Strickland, 1995). KSFs are business aspects all firms in the industry must pay close attention to – the specific outcomes crucial to market success (or failure), and the competencies and competitive capabilities with the most direct bearing in company profitability. This may answer the questions, what do our customers want, and what does the firm need to do to survive competition?

In an industry, success factors may be many, but key ones or those with strongest effects are few. The factors may include and not limited to management, human resources, technology, product/service quality, volume of operations or sales, financial base, location, processes and systems, image or reputation and corporate governance among many others. Customers in any market segment will have a threshold requirement on all features of the product or service and are likely to value some features above others depending on market segment and or rival firms. Some customers may be particularly interested in price, others reliability, yet others timely delivery, location and so on. These will be the KSFs in that industry and firms here must excel to out perform in them so as to out perform competition and gain competitive advantage.

By identifying KSFs, managers are able to envision the ideal strategy for building competitive edge in the industry hence an integral part of a company's strategy. Frequently, a company 'with perceptive understanding of the industry success factors can gain sustainable competitive advantage by devoting its energies to being distinctively better than its rivals at succeeding in these factors (Thompson & Strickland, 1995).

1.1.2 Commercial Banks in Kenya

The banking industry in Kenya is regulated by the Central Bank of Kenya (Cap 491) and the Banking Act (Cap 488). As at January, 2009, the banking sector comprised of forty three commercial banks, two mortgage finance companies, and a hundred and twenty three foreign exchange bureaus (Monthly Economic Review, February, 2009).

Out of the 45 institutions, 34 are locally owned and 11 foreign owned. The foreign owned banks comprise of 6 locally incorporated foreign banks and five branches of foreign incorporated institutions. Local banks dominate the Kenyan banking sector in terms of numbers but only account for 48.2 percent of the sector's total assets closely followed by the foreign owned banks with 43 percent of the sector's total assets (Bank Supervision Annual Report, 2006). In the immediate past independence in Kenya, the banking and financial industry was highly controlled. However, after 1982, the government relaxed the hitherto stringent rules in the issuance of licenses especially licenses to operate non-bank financial institutions (NBFI). The low Capital requirement of only Kshs.0.5 million for a bank financial institution brought about the mushrooming of these institutions in Kenya.

The relaxed regulatory and supervisory systems with which the banking institutions operated at this time brought with it poor governance and management culture in the industry. Despite the introduction of stringent regulations in the industry to stem further instability, the 1980's and 90's witnessed the collapse of a number of banking institutions. More banks, 32 to be precise were liquidated or put under receivership during the period following the introduction of the control mechanisms (Corporate Governance in Kenya, 2004). It is argued that the major reason for the collapse of most of the banking institutions could be attributed to weak corporate governance, poor risk management strategies, lack of internal controls, weaknesses in regulatory and supervisory systems, insider lending and conflict of interest (Mayer, 2001). Others include a slow and cumbersome judicial process, poor debt culture and the reign of political patronage that worked to the detriment of the industry (Banking Survey, 2003).

Generally, the Kenyan banking industry is more stable currently than it has ever been. The sector has improved not just in size but also in terms of product offerings and service quality. The future of the industry is promising with financial and legal sector restructuring (www.centralbank.go.ke). According to the Monthly Economic Review, (February, 2009), the stability of the banking industry is mainly due to the favorable macro-economic conditions and stringent supervisory oversight by the CBK. All banking institutions have maintained capital adequacy ratios above the statutory minimum requirements hence pre-tax profits increased by 11.8 percent compared with a similar period in 2009.

There is also renewed interest in the small and medium enterprises (SMEs) segment with a growing number of banks investing in branch expansion networks in the otherwise previously un-banked rural and remote town centres. Banks investing in new electronic banking application have increased, and the salutary effect is a shift from traditionally conservative industry experiment to diverse new electronic based products and delivery channels hence the introduction of branchless banking, e-banking and Short Message Service (SMS) banking by various banking institutions. Also introduced are additional Automated Teller Machines (ATMs) and expansion of networks countrywide (Bank Supervision Annual Report, 2006).

As a marketing strategy, new products offered continue to assume locally developed brand names to suit the domestic environment targeting the larger customer bases. Amongst the most significant developments in new products is the growth in Islamic banking products first introduced in December 2005, taking the form of deposit products tailored in line with Shariah principles. Kenya is currently positioned as the gateway to East and Central Africa in Islamic banking. Currently four banks, Barclays Bank of Kenya, Kenya Commercial Bank, K-Rep Bank, and Dubai Bank have since introduced Islamic banking products in the market (Bank Supervision Annual Report, 2006).

Further consolidation is anticipated to take place in the industry through mergers and acquisitions as institutions seek to leverage on 'size' and to achieve 'economies of scale' required to effectively compete and expand into the increasingly lucrative mass market. This may be influenced further by the CBK increasing the minimum capital requirement for banks from Kshs.250 million. According to Banking Survey Kenya (2007), the best top 10 banks which have tipped the scale in the market in terms of size, asset quality, profitability and efficiency in 2007 include the Citibank, Standard Chartered Bank, Equity Bank, Stanbic bank, Barclays Bank of Kenya, Commercial Bank of Africa, I&M Bank, Habib A.G. Zurich Bank, Bank of Baroda (K) Ltd and Diamond Trust Bank.

The main industry Key Success Factors in the banking industry which are dynamic are leadership, product range, employment of modern technology, branding, convenience to customers, business location and distribution system, reasonable cost of banking services, corporate governance, service delivery, size of bank and human resources.

However the industry continues to face various challenges which include high operational costs, lack of credit information sharing, conservative banking practices, increase in the cost of non-performing loans, poor infrastructure, insecurity and high insurance costs, mushrooming of micro-finance institutions, and delayed legal action on borrowers among others (Banking Survey Kenya, 2007).

1.2 Statement of the Problem

The banking industry in Kenya has remained stable with all banking institutions maintaining the statutory minimum requirements. This has been mainly due to the favorable macro-economic conditions and stringent supervisory oversight of the Central Bank of Kenya. However, the industry is still faced by various challenges today. These challenges include high operational costs brought about by the high cost structure of the banking sector including infrastructural costs, increasing rivalry in the industry, myriad customer expectations for quality service and products increasing the buyer power, increased barriers to entry and exit due to the regulatory and legal constraints, keeping in pace with the changes and high cost of technology, poor infrastructure in smaller towns delimiting growth, and competition from unregulated entities that collect deposits as micro-finance institutions among others.

Given the above challenges, the economy has continued to witness the stagnation of growth and or collapse of various banks. It has now become imperative that banks understand the KSFs in the industry that would lead to growth and profitability so as to formulate and leverage strategies on them in order to remain competitive and build a sustainable competitive advantage. A sound strategy incorporates industry key success factors hence this study seeks to determine the KSFs in the banking industry and whether banks leverage their strategies on these KSFs.

Research studies have been done to identity the key success factors in various industries both locally and abroad. Mathi (2004) carried out a research on KSFs for knowledge management in Germany. Locally, research studies on related subjects have focused on public listed companies including commercial banks, first moving listed consumer goods manufacturers and retailers (Wambugu 2003; Rukungu 2005; Maina 2006), formal security firms in Kenya (Muchira 2005), utility firms (Kiilu 2004), and construction firms (Nzioki 2006) among others.

According to the various research findings, the KSFs in general and particularly in the service industry have been found to be similar across the board only varying in the level of strengths as some have stronger effects than others. Further, as the environment continues to become dynamic it is necessary to confirm whether the KSFs in an industry remain the same or whether this may change as a result of environmental conditions. Maina (2006) attempted to establish the KSFs of commercial banks in Kenya and came up with a number of factors at the time. However, this study and others did not address the relationship between KSFs and strategy. This is the gap this research seeks to fill by answering the questions; "what are the KSFs factors for commercial banks in Kenya today, and do commercial banks leverage their strategies on the identified KSFs?" The understanding of this link is critical in the performance of commercial banks.

1.3 Objective of the study

The study seeks;-

i) To establish the key industry success factors for commercial banks in Kenya.

ii) To determine whether commercial banks in Kenya leverage their strategies on the key industry success factors.

1.4 Importance of the Study

The findings of this research will help the banking sector management improve their strategic planning process. Commercial banks shall become aware of the stable and emerging KSFs brought about the changes in the industry along with customer expectations so as to plan and put in place effective strategies leveraged on the KSFs to enable them develop and sustain competitive advantage in the changing environment characterized by stiff competition and stringent government regulations.

Potential investors in the sector may understand better the KSFs in the industry and the resultant strategies used by banks to create and maintain customer loyalty, while academicians and researchers may use the findings of this study as a source of reference for related studies or further research.

CHAPTER TWO

LITERATURE REVIEW

2.1 The Concept of Strategy and Strategic Management

Strategy is one of the concepts which has been developed and has become useful to management. The importance of this concept has been underscored by various leading scholars and practitioners in strategic management such as Porter (1980), Ansoff (1987), Havey-Jones (1987) among others. Different authors have thus defined strategy in different ways. Some have defined the concept broadly to include both goals and means to achieve them such as Chandler (1962), Andrews (1971), and Chaffee (1985). Others have defined strategy narrowly only as the means to achieve the goals such as Ansoff (1965), Hoffer & Schendel (1978), Gluek and Juach (1984). The various definitions suggest that the authors gave selective attention to aspects of strategy which are all relevant to our understanding of the concept.

Drucker (1954) was among the earliest authors to address the strategy concept. He viewed strategy as defining the business of a company. Chandler (1962) added to this view and defined strategy as, 'the determination of the basic long term goals and objectives of an enterprise and the adoption of courses of action and the allocation of resources necessary for carrying out these goals'. Chandler (1962) considered strategy as a means to establishing the purpose of a company by specifying its long term goals and objectives, action plans and resource allocation patterns to achieve the set goals and objectives.

Andrews (1971) brought together the views of both Drucker and Chandler in defining strategy. He viewed strategy as 'the pattern of major objectives, purposes or goals essential policies and plans for achieving these in a way to define what business the company is in or is to be in and the kind of a company it is, or is to be'. In this definition, Andres draws an additional dimension that strategy deals with the defined competitive domain of the company hence the competitive posture of the company in the market place. Porter (1980) amplified this view further by arguing that strategy is 'the central vehicle for achieving competitive advantage in the market place' hence the aim of strategy is to establish a sustainable and profitable position against the forces that determine industry competition. Gluek and Juach (1984) define strategy as, 'a unified, comprehensive and integrated plan that relates the strategic advantages of the firm to the challenges of the environment and that is designed to ensure that the basic objectives of the enterprise are achieved through proper execution by the organization. This means that *strategy is meant* to provide guidance and direction for the activities of the organization, a view held earlier by Ansoff (1965) who saw strategy as the 'common thread' that binds all the organizational activities.

Mintzberg (2002) argued. however, that we could not afford to rely on single definition of strategy despite our tendency to do so. He proposed five definitions of strategy as being a plan, ploy, pattern, position and perspective. He says it is a plan that is developed deliberately or purposefully, a ploy with specific maneuvers intended to outwit a competitor, for examples, expansion, a pattern that emerges from a stream of actions, a position which locates an organization in the environment and development of a sustainable competitive advantage, and a perspective that gives the organization an identity and a perspective. The multiplicity of definitions given on strategy suggests that strategy is a multi-dimensional concept and no one definition can explicitly capture all dimensions of strategy. As Mintzberg (2002) argues, in some ways these definitions compete in the sense that they can substitute each other, thus the complimentary nature provides additional insights that facilitate our understanding of strategy.

Advances in behavioral thinking are in the view that organizations are made up of people and so behaviour has always been an important factor in management. Some authors who have drawn attention to the behavoural aspects of strategy include Mumford and Pettigrew (1975), Kotter (1982), Quinn (1978) and Giles (1991). In recognition of the complimentary nature of strategy, Hax and Majluf (1998) have suggested a comprehensive definition of strategy as 'a coherent, unifying and integrative pattern of decisions which determines and reveals the organizational purpose in terms of long term objectives, action programs and resource priorities. They also suggest that strategy selects the business the organization is in or should be in and defines the kind of economic and human organizations the company is or intends to be in'. This means that the 'whats' of an organization's mission and objectives may remain constant for years but the 'hows' of strategy evolve constantly partly to an ever changing environment, partly on managers efforts to create opportunities and partly for fresh ideas about how to make strategy work better.

Strategy making thus proceeds on two fronts, one proactively, thought through in advance, the other conceived in response to new developments, special opportunities and experiences with the successes and failures of prior strategic moves, approaches and actions. (Thompson & Strickland, 1995).

Strategic changes may take different forms and are not a one-off changes in direction, rather they are more gradual, incremental development with only occasional more transformational change. (Johnson & Scholes, 2002). Strategies develop as a result of deliberate managerial intent, can be explained as the outcomes of cultural, political processes in and around organizations and can also be imposed on organizations. In cases of strategic drift in which strategies fail to change an organizational performance and given the turbulent environment, managers are implored to use learning as a means of generating new ideas. Organizations thus become less reliant on formalized processes of planning but more on debate, experimentation and challenge.

Strategy operates at various levels of the organization. Corporate level strategy is concerned with the overall purpose and scope of an organization and how value will be added to the different parts (business units) of the organization. Business unit strategy is about how to compete successfully in particular markets through various strategic business units in a firm. Operational strategy is concerned with how component parts of the organization deliver effectively the corporate and business level strategies in terms of resources, processes and people. These require a wide range of business decision making that leads to strategic management (Johnson & Scholes, 2002).

Strategic management assists in the management of the multifaceted internal activities, challenging external environment both immediate and remote, and all stakeholders including business owners, managers, employees, communities, customers and the country at large. This will reflect on the ability of the company to grow profitably so as to facilitate the optimal positioning of the firm in its competitive environment (Pearce & Robinson, 2002). Pearce and Robinson (2002) further describe strategic management as the set of decisions and actions resulting in formulation and implementation of strategies designed to achieve the objectives of an organization.

He goes further to explain the critical areas in strategic management that involves determining the mission of the company, developing a company profile for internal conditions and capabilities, assessing the company's external environment, matching the internal company profile with external environment identifying uncovered desired options in line with the company mission, strategic choice of long term objectives and grand strategies desired, development of annual objectives and short term strategies compatible with the long term objectives and grand strategies, implementing strategic choices based on budgeted resources and matching of tasks, people, structures, technologies and reward systems with this and finally reviewing and evaluation the success of the strategic process as a basis of control and future input for decision-making.

Thompson & Scholes (1992) cements Pearce and Robinson's definition of strategy by identifying the five tasks of strategic management as being development of a concept of business by forming its vision and establishing the mission, converting the mission into specific performance objectives, crafting a strategy to achieve the targeted performance, implementing and executing the chosen strategy an evaluating performance and reviewing the situation while initiating corrective action. Both definitions indicate that strategic management is about development of a mission and vision statement, objectives, strategies, strategy implementation and evaluation.

Johnson & Scholes (1992) actually states that strategic management is different from other aspects of management and points out that strategic management is not only about taking decisions about major issues facing the organization, but is also concerned with ensuring that strategy is put into effect. This includes strategic analysis which postulates the organization's strategic position, the strategic choice, which has to do with formulation of possible courses of action, their evaluation and the choice between them and strategy implementation which is concerned with planning of how the strategy choice can be put into effect and managing the changes required. He therefore maintains that strategic management is an on-going process.

The strategic management process can be formal or informal depending on the context. Formality refers to the degree to which membership responsibilities, authority and discretion in decision-making are specified and is usually positively correlated with the cost, comprehensiveness, accuracy and success of planning.

A number of forces determining the need for formality in strategic management such as the size of the organization, its predominant management styles, the complexity of the environment, its production processes, and the nature of its problems and the purpose of its planning system all combined. Within smaller firms entrepreneurial in nature, planning is very informal, intuitive and limited in scope. Large firms have a comprehensive, formalized multi-level strategic planning system. Henry Mintzberg called this approach the 'planning mode'. Mintzberg also associated the 'adoptive mode' with medium sized firms in relatively stable environments. However, it is not unusual to find different modes within organizations (Pearce & Robinson, 2002).

Strategic management process is developed and governed by a strategic management team comprising decision makers at all three levels, corporate, business and functional levels. These may include the Chief Executive Officer, product managers and heads of functional areas. The team also relies on input from company planning staff and lower level managers and supervisors who provide data for strategic decision making and are responsible for implementing strategies. However, because strategic decision making has a tremendous impact on a firm and requires large commitments of company resources, they are commonly made by top managers in the organizational hierarchy (Pearce & Robinson, 2002). The use of lower level employees is sometimes only to rubber stamp the decisions made for purposes of effective implementation.

To qualify as excellently managed, an organization must exhibit excellent execution of an excellent strategy. However, superior strategy making and strategy implementation doesn't guarantee superior organizational performance continuously. Even well managed organizations can hit the skids for short periods because of adverse conditions beyond management's ability to foresee or react to. It is the management's responsibility to adjust to negative conditions by undertaking strategic defenses and managerial approaches that can overcome adversity (Thompson & Strickland, 1995).

2.2 Importance of Strategy

Businesses are formed to fill gaps that exist in satisfying consumer needs with specific products and/or services. They must fulfill their mission and at the same time make an adequate return on capital provided by investors. This ordinarily would not be a daunting task were it not for the internal and external challenges faced by organizations such as competition, changing consumer tastes and preferences, unstable political and economic environments, resource limitations and technological changes among others. A firm' strategy ensures that it has a formula for success in the market place. This gives it an opportunity to not only survive, but also to increase its profitability and market share for its long term sustainability. Strategy therefore allows a firm to craft its winning options (Grant, 2002; Porter, 1980; Hax and Majluf, 1996).

In addition, strategy provides specific milestones and aspirations that act as targets for everyone in the business and thus provides the spirit and corporate culture that enhances the chances of successful implementation. These are realized through the articulation of the mission and vision statements of the firm. These policy statements are the linchpins of a firm's strategic intent (Hamel and Prahalad, 1994). They articulate the aspirations of the firm and the reasons for its existence. Thus strategy can be used as a tool for managerial decision making such as in allocation of resources, compensation of human resources, and prioritization of activities, products and markets. This helps the managers to unify numerous strategy related decisions across the organization thus creating a more proactive management posture and counteracting tendencies for decisions to be reactive and defensive.

Strategy occupies a central position in the determination of a firm's current and future intentions. The over-riding need for strategy in a firm is to give the organization a competitive edge through configuration of its resources and capabilities to match the environment. As the environment is not static, strategy needs to be flexible in order to adapt to these changes. Strategy assists companies to cope with change (Ansoff, 1988), which is usually precipitated by environmental factors. Thompson and Strickland (1995) states that strategy needs to be 'well matched' with the external environment and as changes evolve, in the environment, so must strategy. Strategy therefore makes managers more alert to the winds of change, new opportunities and threatening developments. Aggressive pursuit of creative opportunistic strategy can propel a firm into a leadership position paving the way for its products and/or services to become the industry standard.

Internally, strategy entails formulation and implementation of capabilities and resource strengths that are needed to sustain competitive edge by the firm. As a result of which scanning the operational environment is curial in detecting new trends or paradigm shifts which may call for change of strategy. Strategy provides a firm with a 'game plan' for managerial decision-making Pearce and Robinson (2002). Strategy is viewed as laying out an awareness of '..how, when and where a firm should compete, against whom and for what purpose...'. Pearce and Robinson as Porter (1980) states that strategy becomes the 'formula of how a business will compete, what its objectives should be and what policies will be needed to realize these goals'. Because of this fact, strategy becomes the reason for firms developing core competencies and investing in tangible and intangible resources and managerial capabilities so as to counter the external threats and opportunities to establish the long term objectives of the firm in relation to its strengths and weaknesses.

The role of strategy, however, can be severely handicapped if not carefully managed. As already mentioned, planning alone does not result in a strategy. In some organizations, strategy formulation is essentially a process of incrementalism based on what was achieved in the previous planning period. Hamel (2000) argues that such an approach can only be applicable to the extent that the future will be like the past. And because more often than not this does not happen, Hamel advocates for more energy to be used in creating the future than in protecting the past.

On the other hand a strategic management system with a major impact on both the formulation and implementation of plans leads to increased profit for the firm and this has been proven by scholars. As an approach that emphasizes interaction by managers at all levels of the organization, the group based strategic decisions are likely to reflect the best available alternatives with forecasts based on their specialized perspectives. Employee motivation should also improve as employees better appreciate the productivity-reward relationships inherent in the strategic plan. When employees participate in the strategy formulation process, a better understanding of the priorities and operations of the organization's reward system is achieved.

Resistance to change is, therefore, reduced as participation eliminates the uncertainty associated with change which is the root of most resistance. In a nutshell, strategy is potentially a very powerful tool for coping with the conditions of change which surround the firms today. But it is complex, costly to introduce and costly to use. Nevertheless, there is evidence that it more than pays for itself (Ansoff & McDonnel, 1990).

2.3 Key Industry Success Factors

The industry key success factors (KSFs) are the strategy related actions, approaches, competitive capabilities and business outcomes that every firm must be competent at doing or must concentrate on achieving in order to competitively and financially be successful (Thompson & Strickland, 1995). KSFs are business aspects all firms in the industry must pay close attention to – the specific outcomes crucial to market success (or failure), and the competencies and competitive capabilities with the most direct bearing in company profitability. This may answer the questions, what do our customers want, and what does the firm need to do to survive competition?

In an industry, success factors may be many, but key ones or those with strongest effects are few. The factors may include and not limited to management, human resources, technology, product/service quality, leadership, volume of operations or sales, financial base, location, processes and systems, image or reputation and corporate governance, increased earnings per share, growth in market share among many others (Grant, 2002). Each key success factor must have measurable performance indicators, for instance if product quality, the number of customer complains (Grant, 2002).

Customers in any market segment will have a threshold requirement on all features of the product or service. If one or more of these are not met, a provider will drop out of that part of the market. However, customers are likely to value some features above others and this will vary by market segment and or rival firms. Some customers may be particularly interested in price, others reliability, yet others timely delivery, location and so on. They will use this list of features to distinguish amongst those producer organizations that all meet the threshold requirements.

These will be the KSFs in that industry and firms here must excel to out perform in them so as to out perform competition and gain competitive advantage above others (Thompson & Strickland 1995).

Thompson & Strickland (1995) argue that KSFs consist of three or four really major determinants of financial and competitive success in a particular industry. From this point of view, KSFs can be defined as the specific things all firms must concentrate on doing well, the specific kinds of skills and competence needed to compete successfully and which functional area aspects are most crucial and why. According to Pearce & Robinson (1997), the KSFs for the service industry include product, quality, customer service, employee morale, competition, cost control, product performance, marketing and expansion of a company's product. KSFs however vary from industry to industry and even from time to time within the same industry as driving forces and competitive conditions change.

2.3.1 Technology

Though KSFs vary from industry to industry, across industries, a number of common factors have been observed including capacity of technology adopted and the availability of expertise to use and maintain the technology. Technology extends to the product innovation capability (Market Intelligence, 2003); Thompson and Strickland (1995) and Frei, Harker and Hunter (1995) argue that a bank's performance is 'strongly influenced by the predisposition of management to not only develop innovative solutions for the future, but also to create milieu for their successful implementation'.

According to Mullins (2002), well designed and implemented computer based communication networks spreading across functions enable employees to gain greater awareness of the organization and other employees, changes in the nature of the jobs and work practices and also empowers employees. This assertion is supported by the observed behaviour of tellers taking charge and being fully responsible for various transactions in the front offices of banks (Maina, 2006).

Technology is banking is a key resource in terms of magnitude and importance (Quinn, Doorley & Paquette, 1991). The investment in advanced technology is aimed at integration of front and back office systems into a seamless service delivery process therefore bringing quality and convenience to the customer. The application of computer systems will provide flexibility and on-line capabilities to better serve customers and increase the capacity of customer service employees. Technology in the banking sector includes the use of ATMs, and over the counter services have created such convenience that give competitive edge as to make every bank strive to go the e-way in all or most of their activities (Market Intelligence, 2003). Customers choose a bank because of the convenience it provides (Market Intelligence, 2002). From a business strategy point of view, technology can change the basis of competition form low cost to product differentiation to specialization or vice versa. Technology changes the way business firms compete or do business (McFarlan, 1991). The creative use of technological capabilities is therefore one of the KSF's among organizations.

2.3.2 Business Location, Size of an Organization and Distribution System

KSF's come in a variety of different patterns depending on the industry including the size of the plant or human resources, business location and distribution system. Some of the factors are less tangible and less obvious but are just as important, for example, quality of service offered, location, employees' attitude, cost control (Thompson & Strickland, 1995).

The size of the firm in terms of asset base, presence in may areas of a country or region, revenues it is able to generate, number of and quality of human resources and capacity to dominate in its industry and other factors considered to make a company sizeable often influence the perception of the customer of the organization (Kibera & Waruingi, 1988).

2.3.3 Product Range, Packaging and Image

A KPMG (1998) study of the banking industry in Hong Kong found that the main KSF's for the banking industry included ability to deliver product lines, strong focus on consumer business, advanced technology and delivery systems. Customers prefer an organization with a product or products that meet their different and changing needs.

Successful organizations have strong brand differentiation. They position their products to present a positive image that would go a long way in keeping the customer loyal to the product. (Quinn, Doorley and Paquette, 1991, KPMG 1998).

2.3.4 Service Delivery

Behind the success of every organization lies the quality of service. Investment in efficient processes, human resource training and development, re-design of customer service areas together with management of inbound and outbound logistics (value chain), are or should be geared towards making service delivery efficient and effective (Quinn, Doorley & Paquette, 1991; Porter, 1985). Managing operational fundamentals which involve efficient scheduling, organizing and planning among others ensure operational soundness which in turn leads to high levels of service (Denton, 1989; KPMG, 1998; Frei, Harker & Hunter, 1995).

Customers expect quality in the delivery of financial services and products. Quality suggests high standards of attention to the customer including error-free statements, correct cheque printing and the operational soundness of all delivery channels. Banks committed to quality and accuracy will anticipate problems and facilitate a friendly, fast, and easy resolution process.
Banks may require higher levels of precision than their non-bank competitors, therefore one source of advantage over other kinds of organization lies in the trust consumers place in banks to handle their assets effectively. Mistakes in this process may drive consumers to search for other financial providers (Frei, Harker & Hunter, 1995). The success of serving customers with differing levels of interaction to the banking process depends on a bank's ability to provide a responsive service which contributes to the success or ease of the process. Process redesigns (Hammer & Champy, 1993), are meant to address the needs of various consumer constituencies through alternative delivery options, some of which, such as ATMs allow customers to transact essentially at their own time (Frei, Harker & Hunter, 1995).

2.3.5 Customer Convenience

Frei, Harker and Hunter, (1995) observed that consumers choose financial services based largely on availability and location. The concept of convenience has, however, extended beyond availability and location due to advances in technology and innovation to include a wide range of products and services available at any time from any place. The development of ATMs, computer banking and the ability to engage in almost any transaction through these channels is evidence of commitment of the industry to provide customers with whatever they want, whenever they want it.

Customers are persuaded by rapid turnaround time to carry out transactions whether it is standing in teller line, filling out a loan application form or coming to the branch for an account closing. Convenience is a value perceived by the customer hence different customers perceives this value differently. Therefore success of an organization depends on how well it identifies and satisfies the conveniences of different customers (Frei, Harker & Hunter, 1995). According to a survey carried out by the Canadian Bankers Association, convenience drives consumer banking activity (CBA, 2004).

2.3.6 Cost of Services

The Central Bank of Kenya periodically publishes the charges levied by various banks in the country as a service to the public.
Literature available indicates that the various charges together constitutes a significant level of financial costs to the consumers and is one of the factors for choosing or not choosing a bank (Market Intelligence, 2002). Banks with minimal cost structures and are able to pass on the benefits to the consumers in form of low charges for various services are likely to have higher profitability than those which levy high charges to cover inefficiencies (Frei, Harker & Hunter, 1995).

2.3.7 Robust Human Resource Management

All services are driven by human resources. A robust human resource management which involves best practices in compensation, hiring and selection, staffing, training and development, performance management as well as employee involvement and empowerment is critical for the success of an organization's service delivery strategy. A robust human resource management contributes to the performance of the firm in two ways; skills and competencies, and good practices that drive desirable behaviour and attitude of employees. Generally, firms with practices which build competence and reinforce role behaviour consistent with customer demands are likely to be successful. Consistency across practices is as important as individual employee practices (Frei, Harker & Hunter, 1995).

Employees need not only be held accountable for certain activities, but also for the necessary control over and autonomy and authority to discharge that responsibility (Mullins, 2002). Getting it right internally with employee empowerment is crucial as it is the employee who delivers the services to the customer. If the customer has a bad experience with the employee, all external efforts in marketing is lost. Durkin and Bennet (1996) argue that high levels of internalized commitment are essential for the successful implementation of the merging relationship banking strategy and are key to the success of a firm in establishing competitive advantage.

2.3.8 Corporate Governance

Corporate governance entails objectively electing independent, educated professional BOD and assigning them defined roles. Their role would include requiring a corporate strategy from the management, reviewing it periodically for its validity, using it as a point of reference for all other Board decisions and sharing with the management the risks associated with its adoption (Andrew, 1991). In addition, the Board would evaluate, define or redefine the business of the organization and select, monitor and hold responsible managers entrusted with day-to-day responsibilities of value to the stakeholders (Mills, 1988).

Effective governance requires structures for accountability, independent audits, monitoring and reporting put in place to check both the board members and management.

Measures to discourage unprofessional practice including commitment to an ethical code of conduct and immediate censure for misdemeanors by any employee or even board members are part of the company policy in large well run organizations (Bennis, 2003; Mills, 1988).

Managers should endeavor to pursue strategies that are consistent with maximizing stockholders returns. This at times is not the case since like many other people, managers are motivated by desire for status, power, job security and income, hence some may stamp their authority and control over corporate funds to satisfy these desires, or invest funds in the wrong areas. Organizations should put in place governance mechanisms that allow stockbrokers to exert some control over managers through the Board of Directors, stock-based compensation schemes, corporate takeovers, and the exchange of equity for debt in leveraged buy-outs (Hill & Johns 2001).

Kenya's smaller banks have collapsed in the past and some of these experiences have been attributed to bad governance. Corporate governance is a key component of risk management which is considered a critical success factor in all leading organizations (Private Sector Corporate Governance Trust, 2002).

2.3.9 Role of Strategic Leadership

One of the key tasks of leadership is to give the organization a sense of direction. Strong leaders have a vision of where organizations should go and communicate this vision to all while articulating it until it becomes part of the organizational culture. Strong leaders commit themselves to their vision often leading by example (Hill & Johns 2001). Literature provides that consensus on the role of leadership in facilitating institution building, process review, championing technological adoption, creating a culture that embraces quality, customer focus, teamwork, employee motivation, performance measurement, accountability and the practice of good governance (Kotter, 1990; Hammer & Stanton, 1996; Peters & Austin, 1985; Kanter, 1984; Mullins, 2002).

The leadership would champion the corporate change aforementioned. Leaders innovate, initiate and manage change (Senge, 1990; Kanter, 1984; Kotter, 1990). Good leaders do not operate in a vacuum rather they develop networks of formal and informal sources that keep them well informed about what is going on around them. Good leaders are skilled delegators and willing to empower others so as to distribute responsibilities and motivate workers and create willingness in implementation. Good leaders are very astute in their use of power through use of consensus, are democratic leaders of coalition rather than dictators who hesitate to commit themselves publicly to strategic plans. Many strong leaders exhibit emotional intelligence, that includes self-awareness, self-regulation, motivation, empathy and social skills hence tend to be more effective than those who lack these qualities (Hill & Jones 2001).

Equally important is the role of leadership and factors that affect the performance of the organization (Hammer & Stanton, 1996; Peters & Austin, 1985; Drucker, 1993; Kotter, 1999).

2.4 Link between Key Success Factors and Strategy

According to Sykes (1964), success means accomplishing what is aimed at. For an organization to know that it is successful, it needs to have strategies with action plans and goals. Ndakwe (2002) observes that right decision making, planning and goal setting guarantees results and hence success. According to Rockart (1979), KSFs refer to the limited number of areas in which results if they are satisfactory will ensure successful competitive performance for the organization. He further argues that KSFs can be a specific skill or talent, a competitive capability and something a firm must to do satisfy customers. KSFs are seen to be the output of market analysis and form the basis of competition in the industry.

The question is, what are the skills and competencies needed to compete in a strategic group now and in future? KSFs are those things that affect the ability of the industry members to prosper in the market place. Pearce & Robinson (1997) argue that the KSFs identify the performance areas that are of great importance in implementing the strategies of a company and therefore must receive continuous management attention. This view point reinforces the fact that KSFs are strategic in nature. KSFs for an industry or sector therefore include the particular strategy elements, product attributes, resources employed, core competencies and business outcomes that spell the difference between profits and loss. Pearce & Robinson (1997) further argue that the KSFs identify the performance areas that are of great importance in implementing strategies of a company and therefore must receive continuous attention.

By identifying KSFs, managers are able to envision the ideal strategy for building competitive edge in the industry hence an integral part of a company's strategy. Frequently, a company 'with perceptive understanding of the industry success factors can gain sustainable competitive advantage by devoting its energies to being distinctively better than its rivals at succeeding in these factors (Thompson & Strickland, 1995). Understanding these aspects of the industry environment is a prerequisite for an effective business strategy. Since every firm comprises a unique set of resources and capabilities, every firm must pursue unique KSFs or generate unique strategies to pursue similar KSFs to establish a unique position of competitive advantage. Competitive strategy is about being different; it means deliberately choosing a different set of activities to deliver a unique mix of value (Porter, 1996).

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Research Design

To meet the objective of this study, a survey design was used. Mugenda & Mugenda (1999) note that a survey research attempts to collect data from members of a population and describes existing phenomena by asking individuals about their opinion, attitudes or behaviour or values. A census survey method involving a cross-sectional study of commercial banks in Kenya was used. The census study was preferred to sampling because the population of interest was small (Kerlinger, 2002).

3.2 The Target Population

The target population consisted of all commercial banks in Kenya. According to the Monthly Economic Review, January, 2009, there were 43 commercial banks in Kenya as at December, 2008.

3.3 Data Collection

Research data for this study comprised both primary and secondary data. Primary data was collected through self-administered questionnaires in (Appendix I). The respondents were senior managers in the respective commercial banks. These individuals were chosen as they are expected to be highly knowledgeable and therefore in a position to provide the knowledge being sought. The questionnaires were administered personally through a drop and pick method. The questionnaires were semi-structured with both open and closed ended questions, divided into three Sections; Section A which comprised the respondents' personal and bank details, Section B, the banking business and strategic planning within commercial banks and Section C, the key success factors and strategy of commercial banks.

Secondary data comprised of annual reports from the CBK and commercial banks websites, various financial reports and market surveys from the banking sector, and various published and unpublished research papers and literature from various renowned scholars in the field of strategic management.

3.4 Data Analysis

Data analysis involved a thorough check of the data to ensure completeness, consistency, accuracy and uniformity (Cooper & Emory, 1998). The data was then labeled, coded and keyed in an MS-Excel 2007 spreadsheet for analysis using descriptive statistical techniques. Quantitative data was analyzed through techniques of measures of percentages and central tendency (averages) where necessary. To facilitate conceptualization of the research findings, the data was presented in frequency tables and percentages. Qualitative data was summarized and categorized according to common themes used to explain qualitative findings through data interpretation and content analysis to establish the data relationship for purposes of correlation.

CHAPTER FOUR

DATA ANALYSIS AND INTERPRETATIONS

4.1 Introduction

Analysis of the data gathered was by comparison with the theoretical approach as documented in the literature review of this research. Data collected was analyzed using descriptive statistics. Cross tabulation, percentages, mean and mean standard deviation tables were extensively used to draw conclusions to measure and compare outcomes on the link between strategy and key success factors among commercial banks in Kenya. Ordinal level type of measurement was used to rank the level of strategy and the related key success factor(s). The response rate achieved was 74%. Thirty two (32) commercial banks responded to the questionnaires. The names of responding banks are withheld in this document because of confidentiality of information given. This response rate is high considering high levels of confidentiality of banks in providing information.

This chapter has three (3) sections. Section one captures the demographic bank details and type of business ran by commercial banks, Section two captures the banking business and strategic planning within the banking industry and Section three covers the key industry success factors in the banking industry and the linking of the KSFs with strategy among commercial banks in Kenya.

4.2 The Bank Details and Type of Business

This demographic profile was taken to enrich the study by getting a profile of the respondent banks and the type of business(s) they run. The study targeted a population of forty three (43) commercial banks in Kenya but only thirty two (32) responses were received. The overall response rate by commercial banks was 74% and non response was 26%. This was considered to be a good response rate considering the high levels of confidentiality in the banking sector. According to Mugenda & Mugenda (2003) a response rate of 50% is adequate for analysis and reporting, a response rate of 60% is good and a response rate of 70% and over is very good.

Table 2: Presence of Company's mission and vision statement

Mission and Vision statement	**No. of Banks**	**Percentage**
Yes	32	**74%**
No	0	**0%**
Total	**32**	**74%**

Source: Research Data

4.3.1 Clarity of banks mission and vision statements

According to Table 3, twenty two (22) respondents were of the opinion that their bank's mission and vision statement was very clear while the remaining ten (10) were of the opinion that the statements are clear.

The research findings illustrate that a majority of the employees within Kenyan banks are well versed with their organization's vision and mission statement which would make it easier for management to implement strategic management in order to achieve the bank's goals and objectives.

Table 3: Clarity of mission and vision statement

Clarity of mission and vision statements	**No. of Banks**	**Percentage**
Very clear	22	**69%**
Clear	10	**31%**
Unclear	0	**0%**
Very Unclear	0	**0%**
Total	**32**	**100%**

Source: Research Data

4.3.2 Who was involved in the development of the mission and vision statements

According to Table 4, fifteen (15) respondents were of the opinion that the Board of Directors (BOD) were involved, thirteen (13) were of the opinion that senior management, staff and other stakeholders were involved, three (3) were of the opinion that the CEO was involved while, one (1) specified that a consultant was involved in the development of their bank's mission and vision statements.

Table 4: Persons involved in the development of mission and vision statement

Person involved in the development of mission and vision statement	No. of Banks	Percentage
CEO	3	9%
Senior management, staff & other stakeholders	13	41%
]oard of Directors	15	47%
Other (please specify)	1	3%
Total	**32**	**100%**

Source: Research Data

Table 4 illustrates that a majority of the respondents were of the opinion that the board of directors and senior management had been involved in the development of their bank's mission and vision statement as the mean lies between two (2.0) and three (3.0). The standard deviation (SD) was 7.0. This complements Pearce & Robinson, (2002) statement that because strategic decision making has a tremendous impact on a firm and requires large commitments of company resources, they are commonly made by top managers in the organizational hierarchy.

4.3.3 Importance of factors in strategy formulation and implementation

According to Table 5, leadership, organizational structure, systems, power and politics were considered to be of utmost importance, while both internal and external analysis were considered to be of less importance as far as strategy formulation and implementation was concerned. This complements Ansoff (1965) statement that strategy is the 'common thread' that binds all the organizational activities. The findings indicate that each factor played a role however slight in strategy formulation and implementation.

Table 5: Importance of factors in strategy formulation and implementation

Factors importance in strategy formulation and implementation:									
Level of importance	**Least important**					**Most important**			
Code	**1**	**2**	**3**	**4**	**5**	**6**	**7**	**Mean**	**SD**
Factors	**No. of Banks**								
Vision	0	0	1	1	12	9	9	**5.8**	5.2
Mission	0	0	1	2	6	11	12	**6.0**	5.2
Values	0	1	1	2	9	9	10	**5.7**	4.5
Organizational structure	0	0	1	3	4	6	18	**6.2**	6.3
Systems	0	0	0	0	5	9	18	**6.4**	6.9
Culture	0	1	3	1	11	14	2	**5.3**	5.6
Power & Politics	0	0	2	1	0	12	17	**6.3**	7.0
Leadership	0	0	3	1	0	4	24	**6.4**	8.7
Internal Analysis	3	4	4	3	5	6	7	**4.5**	1.5
External Analysis	4	3	3	6	3	6	7	**4.5**	1.7

Source: Research Data

To measure the level of importance of various factors in strategy formulation and implementation, the researcher coded the level of importance with "least important" given the value one (1.0) and "most important" given the value seven (7.0). According to Table 5, leadership, organizational structure, systems, power and politics were considered to be of utmost importance as their means drew closer to seven (7.0), while both internal and external analysis were considered to be of less importance as far as strategy formulation and implementation was concerned as their means were the lowest at 4.5 and 4.5 respectively.

4.3.4 Level of involvement in the developing the organization's strategic plan

According to Table 6, senior and top level staff were involved in developing the organization's strategic plan between 61% to 100% level while, lower and middle level staff were mainly involved between 0% and 60%. This indicates that the top and senior management level played a key role in strategic plan development. This reinforces further Pearce & Robinson, (2002) statement that because strategic decision making has a tremendous impact on a firm and requires large commitments of company resources, they are commonly made by top managers in the organizational hierarchy.

Table 6: Level of involvement in developing the organization's strategic plan

Percentage of involvement	**0%-20%**	**21%-40%**	**41%-60%**	**61%-80%**	**81%-100%**
			No. of Banks		
Lower level staff	12	14	6	0	0
Middle level staff	4	7	14	7	0
Senior level staff	0	0	3	17	12
Top level staff	0	0	4	7	21
Total	**12**	**21**	**27**	**31**	**33**

Source: Research Data

4.3.5 Description of business environment

According to Table 7, twelve (12) respondent's were of the opinion that their bank's business environment was unstable, eight (8) were of the opinion that it was fairly stable, six (6.0) were of the opinion that it was stable, three (3.0) were of the opinion that the business environment was turbulent, while another three (3.0) of the respondents were of the opinion that their bank's business environment was fairly turbulent.

Table 7: Description of the bank's business environment

Description of business environment	No. of Banks	Percentage
Stable	6	19%
Fairly stable	8	25%
Unstable	12	38%
Turbulent	3	9%
Fairly turbulent	3	9%
Very turbulent	0	0%
Other (please specify)	0	0%
Total	**32**	**100%**

Source: Research Data

These findings reinforces the fact that there is that there is need for strategic planning due to the unstable business environment. The findings reinforce Ansoff (1988), who stated that strategy assists companies to cope with change, which is usually precipitated by environmental factors, as the environment is not static, hence organization' strategy needs to be flexible in order to adapt to these changes. Thompson and Strickland (1995) states further that strategy needs to be 'well matched' with the external environment and as changes evolve, in the environment, so must strategy. Strategy therefore makes managers more alert to the winds of change, new opportunities and threatening developments.

4.3.6 Reasons for the above answer in 4.2.5

According to Table 8, thirteen (13) of the respondents were of the opinion that the technological environment was the most attributable cause of their bank's unstable business environment, eleven (11) concurred that it was the economic environment, six (6) of the respondents concurred that the political environment was responsible for such instability while the remaining two (2.0) respondents were of the opinion that social-cultural environment was responsible for the instability in their bank's business environment. This reinforces Ansoff (1988) statement that the environment is not static.

Table 8: Nature of business environment described

Attributes to business environment	No. of banks	Percentage
Political environment	6	19%
Economic environment	11	34%
Technological environment	13	41%
Socio-cultural environment	2	6%
Total	**32**	**100%**

Source: Research Data

4.4 Key Industry Success Factors and Strategy(s) of Commercial Banks in Kenya

4.4.1 Factors that contribute to success in the banking industry

The findings of this section was to establish the KSFs in the banking industry today and to determine whether or not they are aligned to the company strategies.

Research findings indicate that leadership, product range, technology, branding, and convenience to customers are the main key success factors in the banking industry. Other key success factors included business location and distribution system, cost of banking services, and corporate governance. According to Table 9, twenty six (26) of the respondents were of the opinion that leadership is a critical success factor in the banking industry; twenty two (22) vouched for banking product range as being critical; twenty one (21) technology; twenty (20) branding; eighteen (18) convenience to customers; seventeen (17) business location and distribution system; fifteen (15) cost of banking services; thirteen (13) corporate governance; twelve (12) service delivery; eleven (11) size of the bank; while another ten (10) were of the opinion that human resources was a critical success factor in the banking industry.

These research findings illustrate that leadership, banking product range, technology, branding and convenience to customers are considered by a majority of Kenyan banks to be critical to their success. Human resources and the size of the bank were not considered to be so critical in the success of banks in the Kenyan banking industry.

Table 9 Analysis of KSFs in the banking industry by percentage

Success factors in the banking industry	No. of Banks	Percentage
Leadership	26	81%
Banking product range	22	69%
Technology	21	66%
Packaging and imaging of the banks products (branding)	20	63%
Convenience to customers	18	56%
Business location & distribution system	17	53%
Cost of banking services	15	47%
Corporate governance	13	41%
Service delivery	12	38%
Size of the bank	11	34%
Human resources	10	31%
Other (please specify)	5	16%

Source: Research Data

According to Grant (2002), in an industry, success factors may be many, but key ones or those with strongest effects are few. In the banking industry, the five major key success factors listed are the factors that firms in the industry must excel in so as to out perform competition and gain competitive advantage above others (Thompson & Strickland 1995). Thompson & Strickland (1995) argues further that KSFs consist of three or four really major determinants of financial and competitive success in a particular industry. The banking industry must therefore concentrate on these success factors to remain competitive.

4.4.2 Link between KSFs and Strategy of Commercial banks

Research findings indicated a link between the identified industry success factors and the banks' strategy. This was in order to maximize on sustaining competitive advantage through the identified key success factors. The findings illustrated that most Kenyan commercial banks incorporate the key industry factors into their organizational overall strategy. Table 10 illustrates the success factors and the related strategies.

Table 10: KSF's and the related Strategy(s)

Success Factor	Related Strategy(s)	No. of Banks	Percentage
Leadership	- Proactive innovative leadership styles - Tapping local leadership talent - Frequent SWOT analysis and swift strategic alignment to the changing political, economic and technological environments facing the bank - Strategic change management and organizational development - motivational leadership - effective leadership of high integrity - performance contracting system ensuring service delivery from the top	26	81%
Technology	- Strategic adoption and acquisition of latest most efficient IT and ICT solutions e.g. mobile banking - Increased use of ATM's - Use of centralized banking automation software - Online banking e.g. interactive websites that can handle online transactions - Cost effective services to a wider range of customers and services - High level efficiency and effectiveness with open and dynamic systems	24	75%
Human resources	- Recruitment of more qualified and specialized staff - Training and team building activities - Outsourcing specialized skills - Recruitment of young and qualified employees	23	72%
Convenience to customers	- Extended banking hours - Introduction of executive banking - Increased functionality at the ATM's e.g. cash deposit and account transfers - Introduction of mobile banking and online banking - Increased efficiency to customers	21	66%

Success Factor	Related Strategy(s)	No. of Banks	Percentage
Banking product range	- Product diversification and organizational branding within its target markets - Introduction of non-traditional banking products e.g. insurance services, stock market CDS accounts, Islamic banking products etc - Marketing and promotion of wide range of banking products catering for all customer needs and expectations	19	59%
Corporate governance	- Responsible company citizenship -Alignment of KSFs to bank's mission and vision statements and values - Incorporation of the various department in planning and strict adherence to short term and long term strategic plans - Corporate Social Responsibility (CSR) activities	17	53%
Packing and imaging of the banks products (branding)	- Branding of banking products and increasing their range - Increased marketing promotion - investing in print and electronic media advertisements	16	50%
Cost of banking services	- Greater cost efficiency and increased productivity to counter the effects of the global economic down turn - Waiver of ledger fees on particular accounts - Provision of friendly costs of banking to customers - provision of competitive low cost services - Marketing and promotion of friendly and cost effective product ranges and services	15	47%
Service delivery	- Frequent and timely market surveys to keep the bank properly informed of the ever changing customer needs and consumer trends - Increased geographical presence through agencies and physical branches - Marketing and promotion of wider product range to wide customer base	12	38%

	- Customer focused banking that gives efficiency in providing quality services to maintain customer loyalty - Well trained human resources to handle customers efficiently and effectively.		
Business location & distribution system	- Ease of business location and accessibility - Distribution of branches in all major towns and continuous strategic expansion to other towns - Expanded use of ATM's in areas that have no banking hall facilities e.g. Auto branches - Increased marketing and promotion of wide range of banking products for different clientele	11	34%
Other (please specify)	- Proper hedging of foreign currency held by the bank, i.e. the Kenya Shilling - Greater diversification of alternate investments - Corporate social responsibility to create awareness of banks' presence and offer community services and sponsorship of social events	6	19%
Size of the bank		0	0%

According to Table 10 research findings illustrate that the industry success factors most aligned with the various commercial bank's strategies include: Leadership, technology, branding and convenience to customers. This was reflective of the fact that the said industry success factors were pointed out as most critical success factors in the banking industry today. This compliments Pearce & Robinson (1997)'s argument that the KSFs identify the performance areas that are of great importance in implementing strategies of a company and therefore must receive continuous attention. This view point reinforces the fact that KSFs are strategic in nature and must therefore be aligned to strategies to achieve competitiveness in an industry.

On the other hand, a large number of respondents at 72% and 53% respectively clearly indicated aligned strategies for human resources and corporate governance success factors. This illustrates that human resources and corporate governance cannot be overlooked as key success factors in the banking industry despite not being mentioned among the major key success factors currently in the industry.

The size of a bank being a minor success factor in the banking industry however had no strategies aligned to it. It can be deduced therefore that performance of banks in the banking industry does not depend on the size of the bank.

Nevertheless, the size of a bank remains critical as a success factor because according to Kibera & Waruingi, (1988), the size of the firm in terms of asset base, presence in many areas of a country or region, revenues it is able to generate, number of and quality of human resources and capacity to dominate in its industry and other factors considered to make a company sizeable often influence the perception of the customer of the organization.

In addition, a majority of the respondents were positive that the alignment of the key industry success factors with their overall organizational strategy allowed their banks to not only utilize existing capabilities by maximizing and sustaining a competitive advantage within their respective markets, but has also assisted their organization in sustaining profitability and good overall organizational performance in the dynamic Kenyan banking industry.

4.5 Qualitative Data analysis

The researcher also collected qualitative data relating to the benefits arising from strategic planning, challenges the banks have faced in strategy formulation and implementation and how the banks counter the mentioned challenges and, data relating to the link between the success factors and the bank's strategic alignment.

Results indicated that majority of banks have strategic plans ranging from 5-10 years, and strategic planning have brought with it a number of benefits which included: cost reduction, increased efficiency leading to increased market share, increased productivity and continuous growth, stronger organizational culture, better alignment of management policies within the entire organization and improvement of the completion rate of organizational tasks e.g. marketing campaigns, product development, system and business processes upgrades e.t.c.

In relation to the challenges faced by the commercial banks in strategy formulation and implementation several challenges and suggestions to handle these challenges were suggested by the respondents. The mentioned major challenges included: a volatile local currency i.e. the Kenya Shilling, changing customer needs and emerging consumer trends, inadequate or poor planning by management, the global economic down turn, low returns in alternate investments and the stock market, lower than required project implementation levels, increased competition, unstable political environment, declining loan repayment rates and an ever changing technological environment e.g. mobile banking and money transfer services.

The various suggestions provided in handling the mentioned challenges included: proper hedging of foreign currency held by the bank, i.e. the Kenya Shilling, frequent and timely market surveys to keep the bank properly informed of the ever changing customer needs and consumer trends, incorporation of the various departments in planning and strict adherence to short term and long term strategic plans, greater cost efficiency and increased productivity to counter the effects of the global economic down turn, greater diversification of alternate investments, adherence to project implementation deadlines and objectives, increased marketing promotion, product diversification and organizational branding within the target markets, strategic adoption of IT and ICT solutions and, frequent SWOT analysis and swift strategic alignment to the changing political, economic and technological environments facing the bank.

CHAPTER FIVE

SUMMARY, DISCUSSIONS, AND CONCLUSIONS

5.1 Introduction

In this chapter, the findings of this study are summarized, discussed and conclusions made. Also presented in this chapter are the limitations of this study, recommendations for further research and recommendations for policy and practice.

5.2 Summary, Discussions and Conclusions

The study objective was to establish the key success factors for commercial banks in Kenya and to determine whether the commercial banks leverage their strategies on the identified industry key success factors.

A survey design was used for this study through a census study of all commercial banks in Kenya. Research data comprised of both primary and secondary data. Descriptive statistics was used to analyze data. The empirical results showed an overall response rate of seventy four percent. However, most respondent banks withheld their names for purposes of confidentiality.

Commercial banks in Kenya generally operate both personal and corporate banking businesses to diversify and optimally tap on the banking market. The banks continue to operate in a competitive environment which has posed adverse challenges and opportunities to businesses in Kenya. There has been need to develop capabilities to manage threats and exploit emerging opportunities promptly to ensure survival and success. Success therefore calls for proactive approach to businesses as observed by Pearce and Robinson (2003). Commercial banks have therefore embraced strategic management aimed at achieving their organizational goals and objectives.

Strategic planning has been necessary in order to leverage the bank strategies to the identified KSFs in the environment. The findings reinforce literature from other scholars that the environment within which businesses operate is constantly changing with different factors influencing their operations. Constant scanning of the environment is therefore necessary to purposely identify opportunities and threats posed by the state of industry so as to match strategy to industry conditions, within a fit with the organization's internal capabilities and the identified KSFs.

The key success factors (KSFs) for commercial banks in Kenya are mainly leadership, product range, technology, branding and convenience to customers. Grant (2002) states that in an industry, success factors may be many, but key ones or those with strongest effects are few. As stated by Thompson & Strickland (1995), frequently, a company 'with perceptive understanding of the industry success factors can gain sustainable advantage by devoting it energies to being distinctively better than its rivals at succeeding in these factors. He further states that the KSFs are business aspects all firms in the industry must pay close attention to – the specific outcomes crucial to market success (or failure), and the competencies and competitive capabilities with the most direct bearing in company profitability. This may answer the questions, what do our customers want, and what does the firm need to do to survive competition? The KSFs, the prerequisites for survival and success within an industry are therefore important for sustainable competitive advantage hence commercial banks that perform distinctly better at the said KSFs are bound to succeed in their operations.

Since KSFs are strategic in nature, they must be linked to the strategies for organizational success. The research findings indicate that commercial banks rely heavily on the identified KSFs for leveraging of strategies. The banks have had to therefore continuously identify and monitor the KSFs in the banking industry for linking of strategies so as to perform and remain competitive. This reinforces Thompson & Strickland (1995) statement that the industry key success factors (KSFs) are the strategy related actions, approaches, competitive capabilities and business outcomes that every firm must be competent at doing or must concentrate on achieving in order to competitively and financially be successful. Commercial banks have therefore linked or aligned the KSFs to the overall strategies to sustain competitive advantage and to survive in the industry.

The most aligned KSFs with the banks' strategies included technology and adoption of modern IT and ICT. According to Quinn, Doorley & Paquette, (1991), technology in banking is a key resource in terms of magnitude and importance. The investment in advanced technology is aimed at integration of front and back office systems into a seamless service delivery process therefore bringing quality and convenience to the customer. Business location and distribution systems was also critical as a strategic location enabled the marketing of banking products that further enables expansion by creating branches in other towns assuring convenience and accessibility to bank customers.

Cost of banking created strategies for low cost banking to customers, reduced cost of business and easy marketing. Service delivery enabled the marketing of products and services, providing convenient services, customer focus with well trained personnel to provide efficiency and reduce operational costs. Product range strategies included offering of diverse products to meet the customer needs and expectations while providing for diversification, while branding and re-branding of banking products provided strategies for improved service delivery, investing in imaging and advertisements.

Leadership being the top most KSF laid out strategies in the provision of good stewardship for market leadership, offering direction and vision for the bank, and enabling faster decision making that leads to the achievement of the long term objectives. Good corporate governance policies provided strategies for responsible corporate citizenship with high integrity in line with the company's mission, vision and values while human resources had strategies on recruitment of young, qualified and specialized staff continuously trained with skills to match the emerging market environment, within a culture of creativity, innovation, and motivation. Finally, corporate social responsibility though not relayed as a key success factor was a strategy to attract customers through sponsorship of social events to create public awareness about a given bank.

Findings indicated further that commercial banks have in place the necessary capabilities to maximize on sustaining competitive advantage through the said KSFs. Some of the internal capabilities mentioned included use of technology which enhances cost reduction, range of products and services offered, maximization of distribution and coverage and the continuous training and development of the human resources.

The KSFs in the banking industry have, however, not remained constant. Findings indicate a dynamic change of the KSFs as demanded by the changes in the environment. These changes are prompted by the changes in the unpredictable customer expectations, technological and economic changes as well as other market forces. Studies done by Maina (2006) to determine the KSFs in banking industry during the period 2005 indicated service delivery, low cost of banking services, robust human resource management, product range, technology, and good corporate governance as the key industry success factors at the time. The limitation was that the study was done only on five top banks in terms of profitability at the time and hence could not be generalized.

The findings of this study have brought in new factors such as leadership, branding, convenience to customers and business location and distribution system as the main KSFs currently in the banking industry. The size of banks and human resource management in this study were the least success factors while product range, technology, service delivery, and corporate governance though not main, are still maintained as KSFs in the banking industry. This illustrates that KSFs in the banking industry have been changing. Some banks were positive that such changes were necessary to allow for competitiveness in the industry so as to provide quality services to the customers. This has called therefore for continuous scanning of the environment so as to work out clear strategies that would meet both the current and emerging KSFs.

From the foregoing findings, it can be concluded that to remain competitive, commercial banks in Kenya have taken seriously the concept of strategic planning and have strategic plans that give them a business direction. They continuously identify the dynamic KSFs in the banking industry and make deliberate efforts to leverage their strategies within the identified KSFs to survive in the industry. Leadership is currently the top KSF in the banking industry, but advancement in technology remains a strong KSF in the industry and has improved service delivery within commercial banks by providing for more products ranges to customers and reaching the non banked areas hence attracting and retaining customers due to high levels of efficiency boosting the customer base. Banking product range, branding and convenience to customers are other KSFs.

It has now become imperative that to survive in the turbulent banking industry, the alignment and or leveraging of the KSFs in the industry with the bank strategies is critical for profitability and success of commercial banks in Kenya today. The observation is that, there must therefore be a link between KSFs and strategy in business organizations for organizational success.

5.3 Limitations of the Study

Time and financial resources were not adequate for exhaustive study as the banks are widely distributed in different areas. The researcher had anticipated 100% response rate this being a census study, however 25% of the commercial banks declined to offer information as they considered the subject matter highly confidential and hence refused to either provide adequate information and/or declined to participate in the research citing confidentiality.

5.4 Recommendations for Further Research

It is generally truism that no research is an end to itself. From the insights gained from this study, the researcher offers the following suggestions which should act as direction for future researchers. Further research is recommended in identifying the challenges faced in the identification of key industry success factors by Kenyan commercial banks since these keep changing, as such challenges would shed light on the strength of correlation between strategy, KSF's and organizational performance. The researcher also recommends the need for experts to identify the basic industry specific KSFs.

5.5 Recommendations for Policy and Practice

The researcher recommends that commercial banks' management should take a critical look of the country's political landscape and strive to integrate their strategic plans within a country's political indicators as these has become very critical to the success of organizations. Management should also continuously strive to scan the environment for the emerging KSFs to develop strategies based on them so as to remain competitive. By identifying KSFs, managers will be able to envision the ideal strategy for building competitive edge in the industry hence an integral part of a company's strategy.

Management should give consideration to the importance of human resources in running organizations since all services are driven by human resources. The research findings indicate that human resources was seen as a least key success factor in the banking industry. Emphasis should be given to the significance of human resources as the 'engine' that drives other resources without which an organization becomes static. As companies continue to ignore the importance of human resources while giving emphasis to other resources, research has shown that human resource is the most valuable asset in any organization due to the fact that it is 'unique', making it rare, imperfectly imitable and non substitutable. These are the resources in terms of skills, knowledge, competencies, attitudes, capabilities, and potentialities an organization utilizes to meet its core business objectives and goals so as to maintain a sustainable competitive advantage.

A robust human resource management contributes to the performance of the firm in two ways; skills and competencies, and good practices that drive desirable behaviour and attitude of employees. Generally, firms with practices which build competence and reinforce role behaviour consistent with customer demands are likely to be successful (Frei, Harker & Hunter, 1995). Commercial banks should therefore strive to tap in this important resource that enhances both creativity and innovation. Getting it right internally with employee empowerment is crucial as it is the employee who delivers the services to the customer. If the customer has a bad experience with the employee, all external efforts in marketing is lost (Mullins, 2002). As done with technology, more effort should be put in human resources to get the right caliber of manpower to drive technology.

On the other hand, commercial banks should strive to maintain good corporate governance as a key to good corporate image for transparency and value adding services.

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APPENDICES

Appendix I: Questionnaire

PART A: Personal Details

Designation:--

1.1 Name of your bank ---------------------------------- Branch---------------------------

1.2 Type of Business run:

	Personal Banking	( )
	Corporate Banking	( )
	Both	( )
	Other (specify)	( ) --------------------

PART B: Banking Business

2.1 Does your bank have mission & vision statements? YES ( ) NO ( )

2.2 Briefly describe how the mission and vision of your bank was developed stating the people who were involved.

2.3 How would you rate the clarity of your bank's mission and vision statement?

Very clear ( )

Clear ( )

Unclear ( )

Very unclear ( )

2.4 Who was involved in the mission & vision statement development?

Chief Executive Officer ( )

Senior management, staff & other stakeholders ( )

Board of Directors ( )

Others (please specify) ( )

2.5 Do you have a strategic plan? YES ( ) NO ( )

If YES, how are strategies formulated or developed in your bank? Please explain

----

If your answer to question 2.5 and 2.6 is NO, please go to question 2.9

2.6 What is the duration of your strategic plan?---

2.7 How would you rate the importance of the following in so far as strategy formulation and implementation is concerned?

1 = Not Important **7 = Very Important**

		1	**2**	**3**	**4**	**5**	**6**	**7**
1.	Vision							
2.	Mission							
3.	Values							
4.	Organizational structure							
5.	Systems							
6.	Culture							
7.	Power & Politics							
8.	Leadership							
9.	Internal Analysis							
10.	External Analysis							

2.8 Please rate the level of involvement in developing the organization's strategic plan for the following categories of people.

Staff	**0-20%**	**21-40%**	**41-60%**	**61-80%**	**81-100%**
Lower level staff					
Middle level staff					
Senior level staff					
Top level staff					

2.9 How would you describe your business environment?

Stable ( )

Fairly stable ( )

Unstable ( )

Turbulent ( )

Fairly turbulent ( )

Very turbulent ( )

Other (please specify) ( )

2.10 Which of the following best explains your answer above?

Political environment ( )

Economic environment ( )

Technological environment ( )

Socio-cultural environment ( )

2.12 What can be said as some of the benefits arising from strategic planning by your bank?

2.13 What are some of the challenges the bank has faced in strategy formulation and implementation?

2.14 How does your bank counter the challenges mentioned above?

PART C: Key Success Factors and Strategy

3.0 Which factors do you consider count for success in the banking industry? Please tick as appropriate.

Technology	( )
Business location & distribution system	( )
Size of the bank	( )
Banking product range	( )
Packing and imaging of the banks products (branding)	( )
Service delivery	( )
Convenience to customers	( )
Cost of banking services	( )
Human resources	( )
Corporate governance	( )
Leadership	( )
Other(s) – please specify	( )

3.1 Which of the factors you have chosen above do you have a strategy related to?

Success Factor	**Related Strategy**
--	--
--	--
--	--
--	--
--	--
--	--
--	--
--	--
--	--

3.2 Does your bank's success emanate from strategic alignment of its strategies to the industry key success factors above? Please explain

----

3.3 In your own assessment, does your bank have the necessary capabilities to maximize on sustaining competitive advantage through the said key success factors? Please explain

----

3.4 Have the key success factors in the banking industry remained the same, or has this been changing? Please explain

----

Thank you for your time and patience.

Appendix II: Commercial Banks in 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 Bank Ltd
7. Chase Bank Ltd
8. Charterhouse Bank Ltd
9. Chase Bank (K) Ltd
10. Citibank N.A. Kenya
11. City Finance Bank Ltd
12. Co-operative Bank of Kenya Ltd
13. Commercial Bank of Africa Ltd
14. Consolidated Bank of Kenya Ltd
15. Credit Bank Ltd
16. Development Bank of Kenya Ltd
17. Diamond Trust Bank (K) Ltd
18. Dubai Bank Kenya Ltd
19. Equatorial Commercial Bank Ltd
20. Equity Bank Ltd
21. EABS Bank Ltd
22. Family Bank Ltd
23. Fidelity Commercial Bank Ltd

24. Fina Bank Ltd
25. Guardian Bank Ltd
26. Giro Commercial Bank Ltd
27. Gulf African Bank Ltd
28. Habib Bank Ltd
29. Imperial Bank Ltd
30. Investment & Mortgages Bank Ltd
31. K-Rep Bank Ltd
32. Kenya Commercial Bank Ltd
33. Middle East Bank (K) Ltd
34. National Bank of Kenya Ltd
35. National Industrial Credit Bank Ltd
36. Oriental Commercial Bank Ltd
37. Paramount Universal Bank Ltd
38. Prime Bank Ltd
39. Southern Credit Banking Corporation Ltd
40. CFC Stanbic Bank Kenya Ltd
41. Standard Chartered Bank (K) Ltd
42. Trans-National Bank Ltd
43. Victoria Commercial Bank Ltd

Source: Monthly Economic Review, July, 2008

Appendix III: Letter of Introduction

UNIVERSITY OF NAIROBI
SCHOOL OF BUSINESS
MBA PROGRAM - LOWER KABETE CAMPUS

Telephone 020-2059162
Telegrams: "Varsity", Nairobi
Telex: 22095 Varsity

P.O. Box 30197
Nairobi, Kenya

DATE 9TH FEBRUARY 2009

TO WHOM IT MAY CONCERN

The bearer of this letter OKETCH JUDITH ATIENO

Registration No: D61/P/8462/05

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

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

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

Thank you.

UNIVERSITY OF NAIROBI
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MBA OFFICE
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CO-ORDINATOR, MBA PROGRAM