

**INTEGRATING STRATEGY FORMULATION AND IMPLEMENTATION: A  
CASE OF THE COMMERCIAL BANKING INDUSTRY IN KENYA.**

**BY**

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**A RESEARCH PROJECT SUBMITTED IN PARTIAL FULFILLMENT FOR  
THE AWARD OF MASTER IN BUSINESS ADMINISTRATION DEGREE OF  
THE UNIVERSITY OF NAIROBI, SCHOOL OF BUSINESS.**



**OCTOBER, 2007.**

## DECLARATION

This research project is my original work and has not been submitted for a degree in any other university.

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D61/7630/03

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

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## **DEDICATION**

**To my beloved parents who through their noble, selfless sacrifice provided me with  
an education and a future.**

**To God almighty who gives me the strength to do all things in Christ Jesus.**

## ACKNOWLEDGEMENTS

My special thanks to my supervisor, Mr. Jackson Maalu, Lecturer, School of business, University of Nairobi, without whose guidance and advice this work would not be complete. I especially thank for his patience with me, his concern and time sacrifice.

Special thanks to Ann Muchemi, Patrick Waihenya, Wangeci Muriuki, Margaret Waweru, Steve Chege, and the entire study for their unlimited support, warmth, advice and encouragement. Also acknowledge the support I received from the entire MBA class, Esther the MBA secretary and the entire library staff for their support.

Special thanks to my family for their support and encouragement both materially and morally and to my fiancée Ann Kiunga for her understanding, forbearance and much needed prayers

Last but not least, my special thanks go to all the respondents and bank managers who spent their valuable time to participate in the study.

## ABSTRACT

Strategic thinking and the translation of its results into action programs are of overriding importance in today's globally competitive and dynamic business environment. Successful strategies rely on a judicious mix of analytical formulation, internal and external communication, and strong leadership in the execution process. Strategic success demands a simultaneous view of planning and doing. Managers must be thinking about execution as they are formulating plans, as plans are part of an integrated, strategic management approach. Separating strategy creation from strategy implementation is thus a hindrance to the evolution of a successful strategy. Linking creation and implementation supports the overall process, and thus a strategy emerges and evolves.

This study sought to analyze the integration of strategy formulation and implementation in Kenya with an emphasis on the commercial banking industry. There were two main objectives of this study: first was to establish how managers integrate the strategy formulation and implementation process; secondly, to identify the challenges that were encountered during the integration process.

The study was a Census survey and the population included all operating commercial banks licensed by the central bank of Kenya. At the time of the study there were 42 licensed commercial banks operating in Kenya. Out of the 42, only 17 commercial banks responded to this study constituting 42% of the total population. The study used primary data, collected by use of a structured questionnaire, consisting of both closed and open-ended questions where qualitative and quantitative analysis was done.

For the integration to be effective strategy making ought to be a participatory process with every one in the organization being involved in one way or the other. However it was found out that, the directors and the chief executive officers were the most heavily involved with the employees being least involved. It was further observed that all companies considered implementation issues during formulation. However emphasis was laid on resources, staffing and staff skills while organizational culture, values and structure were least considered.

In training middle managers emphasis was laid on strategy implementation as that is seen as their core function in the organization. Emergent strategies were also highly considered in strategic training. Astonishingly however, environmental scanning and management of emergent strategies were the least considered in strategic training. Some level of involvement of middle managers in strategic discussions and negotiations was also reported in most organizations.

In most organizations strategy was communicated to employees through middle managers and departmental heads in developmental meetings, staff meetings and briefings. Internal memos, E-mails, circulars, newsletters and/or magazines were used in all organizations. However, only one organization was using the balanced scorecard in communicating its strategy to its employees.

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## CHAPTER ONE: INTRODUCTION

### 1.1 Background

Enterprises often change over time, and when they do, the strategies that worked so well in the early days no longer fits. Markets mature with time, competition intensifies, the quality of business alters and the value of resources shifts. Most of all, changes in the external environment make the previous strategy, pursued by an organization, obsolete. Thus a new strategy becomes a requisite for continued success of such an organization. Previous success therefore does not guarantee continued success; indeed it can lead to failure if managers fail to think strategically and employ new superior strategies in the face of increased competition and environmental turbulence (Rowe et al, 1994). Consequently, managers' greatest challenge becomes formulating appropriate strategies that will ensure continued success in the future and which give the firm a sustainable competitive edge over its competitors.

However, the main critical phase of strategic management is not only formulation of strategies but translating strategic thought into organizational action. Hitt, et al (1997) argue that when formulating strategies, thought must be given to implementing them. There is thus need to understand the linkage between strategy formulation and implementation. Strategy development does not end when implementation starts. Similarly implementation issues are not postponed until strategy has been fully specified. The two processes are interrelated and overlap (Aosa, 1992). The object of the game is to get where one wants to go and not merely to point at it (Smith, 1977).

How well an organization's management team performs the strategy making and strategy implementation functions is always a determining factor as to the ultimate success of the organization. As strategic actions, both formulation and implementation are critical to achieving strategic competitiveness and earning above average returns.

Koske (2003) states that effective implementation begins during strategy formulation when questions of "how to do" should be considered in parallel with "what to do". Strategy development and its subsequent implementation should therefore be seen together. Quinn, et al (1988) argue that in reality, formulation and implementation are intertwined as complex processes in which politics, values, organizational culture and management styles determine or constrain particular strategic decisions. They further argue that while strategy formulation and implementation may be separated in some situations (perhaps in crises, in some totally new ventures, or organizations facing a highly predictable environment and future) these events are quite rare. Thus if managers do not see such a relationship, strategies are likely to be developed that will be difficult to implement.

Strategy and operations must be intimately interlinked if there is to be unity of purpose. However there is no universally accepted method for establishing a unity of purpose between strategy and operations. Some of the earliest strategic management theorist believed that this could be done if strategy and structure were interlinked. According to Smith (1977), Alfred P. Sloan, described a principle for affecting the conjunction when he suggested that organizational policy should be centralized but administration

decentralized. However it is the work of Chandler that was echoed the most. Chandler (1962) argues that strategy drives structure and thus structure follows strategy.

Peters and Waterman (1982) tend to differ with Chandler and introduce the 7-S framework (the McKinsey framework), which explicitly considers how strategy interrelates with other organizational factors. They argue that a productive organization is not simply a matter of structure, although structure is important. That it is not so simple as the interaction between strategy and structure, although strategy is critical. But that an effective organizational change is really the relationship between strategy, structure, systems, styles, skills, staff and shared values (super ordinate goals).

In a different approach Kaplan and Norton (1996) developed the balanced scorecard, which combines a number of quantitative and qualitative measures of the selected strategy. While recognizing that every strategy is unique, they then identify four strategy perspectives: the financial perspective, customer perspective; internal perspective and Innovation and learning perspective

The concept of logical incrementalism has also been widely viewed as an effective approach of linking strategy formulation and its implementation (e.g. Quinn, 1988(b); Lynch 2000). They contend that formulation and implementation may be better served as a series of separate small actions conducted on an experimental basis.

A critical look at the strategic management literature reveals that there are some key factors that are considered to be of great significance for the integration of strategy

formulation and implementation to occur. These include: involvement of middle/line managers and employees, in strategy formulation and implementation; interrelationship between strategy and other elements of the 7-S framework; translation of strategy into short-term goals and objectives; strategy as a continuous, step-by-step process.

### **1.1.1 Commercial Banking in Kenya**

The banking Act (CAP 488) of the laws of Kenya, defines a bank as a company, which carries on or proposes to carry banking business in Kenya and includes the Cooperative Bank of Kenya Limited but does not include the Central Bank. According to the Act banking business means the accepting of deposits from members of the public repayable on demand or at the expiry of fixed period; accepting money from members of the public on current account and payment on and acceptance of cheques; and employing of money held by lending or investment. Commercial banks normally retain a given amount of their capital base at the Central Bank and are supervised by the Financial Institutions Supervision Department of the Central Bank for their soundness and stability.

Banks play a major role in the economy of effecting financial transactions, and a banking sector problem could spill to the economy as a whole.

Banking institutions in Kenya now face uncertainty over their future profitability largely due to the stabilizing of interest rates, huge non-performing loans and the now vibrant micro finance sector. The Central Bank of Kenya projects the short-term interest rates to stabilize at below 8 per cent, as low borrowing offsets the expected tightening in liquidity by the government. Previously, the banks had their profitability buoyed by high interest

rates that saw some reap a fortune through high government borrowings from the domestic market. However, this factor was weakened following the government's move to reduce its borrowing from the domestic market, leaving banks with excess liquidity. Falling interest rates saw banks embark on an aggressive marketing drive to sell personal loans, enabling customers to access loans that were previously seen as unaffordable. However, this phase seems to be over. Since last year, interest rates have been on an upward trend, making personal loans increasingly unattractive to the borrowers (Kimathi 2005).

The banking industry in Kenya has continuously been faced with the threat of competition, within the industry and from substitute products offered by other depository and non-depository financial institutions. These has largely been due to lack of confidence by customers due to the banking crises of the 1990's where many banks collapsed and put under statutory management by the Central Bank. Customers therefore sought other substitute products that seemed more sound and attractive. Goro (2003) in her study found out that banks considered treasury bills as the main substitute as customers saw it as a better, more secure alternative way of saving. Nevertheless, in spite of this, Kenyan banks remain largely consumer-driven and will have to provide innovative products in order to gain market share and meet consumer needs. According to the Central Bank of Kenya, FIRD Annual Report (2004), banks, must endeavor to develop innovative programs and initiatives to maintain superior customer service levels while remaining profitable. However, this is bound to expose banks to more economic and operational risks, thus reducing their profitability.

## **1.2 Statement of the Problem**

Crafting and implementing a strategy for the business are at the core of management functions. Among all things that managers do, few affect organizational performance more lastingly than how well the management team handles the task of charting the organization's long-term direction, developing effective strategic moves and approaches, and executing the strategy in ways that produce the intended results (Thompson, and Strickland, 2003). Thus an organization's best chance of achieving superior performance over the long run occurs when managers do a good job both at strategy formulation and its implementation. Indeed good strategy formulation and good implementation are the most trustworthy signs of good management

The business environment in Kenya has been experiencing various challenges. This has resulted from global competition and environmental turbulence. The banking industry in Kenya has not been spared from these challenges. Over the last few years the banking industry has been faced by stiff competition, changing technology, and complexities in the environment. As a result, many banks have collapsed, put under statutory management by the central bank, salvaged or merged. Managers in this industry have therefore required new strategies to cope with these aspects and to place them at the edge of the chaos that has characterized the industry.

Gathoga (2001) in her study found out that several external factors, some of them closely related, affected commercial banks in Kenya. The key of these being: global and local competition and the threat of substitute products. The study further revealed that the

commercial banks have adopted certain strategies to counter the forces that impact upon them. Further studies done based on her findings (Goro, 2003 and Ohaga, 2004) also reveal that commercial banks have relentlessly applied diverse strategies in order to counter and overcome these challenges

Nevertheless, in spite of these strategies, very little has changed in the industry, evidenced by the high number of banks that have collapsed or merged (see Appendix III), indicating either poor formulation of the strategies, poor implementation or both. Koske (2003), states that a brilliant strategy that cannot be implemented creates no real value. However according to Mintzberg (1987(b)), while many intended strategies are ill conceived, the problem often rests a step beyond in the common assumption that thought must be independent of action i.e. the distinction made between formulation and implementation. Little has been researched on how these strategies have been implemented much less the interaction between their formulation process and implementation.

Aosa (1992) in his study concluded that companies that maintained various links between strategy development and implementation were more successful in implementing strategy than those not maintaining such links

This study therefore seeks to answer the following questions:

1. How do managers integrate the strategy formulation and strategy implementation processes in the commercial banking industry?
2. What challenges are encountered during the integration process?

### **1.3 Objectives of the Study**

The following are the objectives of this study:

- i) To establish how managers integrate the strategy formulation and implementation process.
- ii). To identify the challenges are encountered during the integration process.

### **1.4 Importance of the Study**

- i). This study will act as a useful reference point to scholars, academicians and researchers for better understanding of and further research on the strategic management process.
- ii). The study will help bridge the gap in knowledge on the interaction of various elements in the strategic management process
- iii). Top managers will find the recommendations of the study and the findings thereof useful on how to formulate and implement strategies better.

## CHAPTER TWO: LITERATURE REVIEW

### 2.1 The Concept of Strategy

The concept of strategy is an ancient one, which is believed to have originated from the art of war and the pursuit of military success. The word strategy originates from the Greek words 'stratos' meaning army and 'agein' meaning to lead or the art of the general (Macmillan and Lampoe, 2000, Quinn, 1988(a)). To date many principles of military strategy have been applied to business situations. Grant (2000), notes that military strategy and business strategy share a number of common concepts, principles, and characteristics, the most basic being the distinction between strategy and tactics.

The concept of strategy has however evolved over time to include other elements that are critical to an organization (both internal and external) and relevant to the business world. Contributions from various fields e.g economics, marketing, business policy, psychology, sociology, organizational behavior and development, have revolutionized the concept to what we know of it today.

Different scholars have defined strategy in different ways in order to capture its diverse elements, dimensions and functions. Chandler (1962), one of the earliest strategy theorists defined strategy as the determination of 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's views were later amplified by Andrews (1971) who saw strategy as a pattern of major objectives for achieving those goals in such a way as to define the kind of business the company is in or is to be in.

Ansoff (1965) saw strategy as a common thread, of five components in the organization. These components include: product-market; growth vector; competitive advantage; internally generated synergy and the make or buy decision. Mathur (1986) also shares this view and suggests that some of these components could assist a firm in generation of strategic options while framing its strategic intentions. According to him this thread include; the need thread, the customer thread, the item thread, the firm's skills and assets thread and the new opportunities thread.

Strategy is also seen as a plan established by a firm to help accomplish its objectives (Pearce and Robinson, 2003; Jauch and Glueck, 1988). Jauch and Glueck (1988), state that strategy is a unified, comprehensive and integrated plan that relates the strategic advantages of the firm to the challenges of the environment. Quinn (1988(a)) views strategy as more than just a plan but also a pattern that integrates an organization's major goals, policies and action sequences into a cohesive whole. This view of strategy as a pattern, is also shared by Andrews (1971) and Mintzberg (1987(a)) among others.

Other strategy theorists (e.g. Thompson, 1994; Johnson and Scholes, 2003) view strategy as the direction taken by an organization. Johnson and Scholes (2003), state that strategy is the direction and scope of an organization over the long-term. Thompson (1994) defines strategy as a clear direction for the organization and a means of getting there.

Further strategy is seen as a means of attaining and achieving competitive advantage (Thompson and Strickland, 2003; Porter, 1987; Thompson, 1994; Johnson and Scholes,

2003; Hitt, et al, 1997). Thompson and Strickland (2003) state that strategy consist of the competitive efforts and business approaches that managers employ to please customers, compete successfully and achieve organizational objectives. To achieve these some (e.g. Jauch and Glueck, 1988; Johnson and Scholes, 2003) argue that strategy is concerned with matching a firm's resources and strategic advantages to opportunities arising in the environment. Others (e.g. Hamel and Prahalad, 1993) view strategy as a means of developing core competencies and the leveraging of such competences and resources of the organization to generate new opportunities.

Chisenhardt and Sull (2001) disagree with these views. They argue that companies in even the oldest sectors of the economy have excelled without the advantages of superior resources or strategic positions. They view strategy as a few simple rules and processes to guide companies through the chaos in the environment. They argue that key strategic processes will position companies where the flow of opportunities is most promising, while the simple rules will poise the company on 'the edge of chaos' providing just enough structure to allow it to capture the best opportunities.

The concept of strategy embraces overall purpose of an organization. It is not surprising therefore, that many dimensions are required for its proper definition. In an attempt to unify the various dimensions, Hax and Majluf (1996), proposed a framework to reconcile the market driven and the factor driven approaches, the bridge being the mission of the firm. They further proposed an integrated definition of strategy consisting nine components of a good strategy. These include the purpose of the organization; the

business of the organization; the business environment; managerial tasks at different levels; coherence in the organization; strategic intent; core competences; and sustainable competitive advantage.

On the other hand, Mintzberg (1987(a)) stated that strategy might have different meanings in different situations. Mintzberg proposed five interrelated definitions of strategy- as a plan, ploy, pattern, position and perspective. As a plan strategy is seen as a consciously intended course of action or guideline to deal with a situation. As a ploy, strategy becomes a maneuver intended to outwit competitors. As a pattern, strategy emerges from a stream of actions over time whether intended or not. As a position, strategy tries to locate an organization in the environment. And as a perspective, strategy is seen as an abstract concept that exists in the minds of interested parties.

Macmillan and Tampoë (2000). state that the concept of strategy is more complex than it appears at first and has a number of aspects. Sharing the same view, Webb (1989), argues that strategy is in danger of being over worked as it is used for a variety of purposes in commerce, and often the meaning is obscure. In an attempt to simplify the strategy concept, Grant (2000) defines strategy in relation to its core function. Grant states that "strategy is all about winning". He argues that the purpose of strategy is to help organization win and attain success

In spite of the above definitions no single definition seems to capture all the aspects of strategy. Macmillan and Tampoë (2000) note that the definitions of strategy tend to

emphasize one or two aspects but cannot succinctly include all of them. Each definition adds important elements to our understanding of strategy, indeed encourages us to address fundamental questions about organizations in general. No single definition therefore takes precedence over the others. In some way these definitions may compete (in that they can substitute for each other) but in perhaps more important ways, they complement (Mintzberg (1987(a))).

From the above, it can be noted that the concept of strategy is somewhat evasive especially when trying to come up with an all-inclusive definition. This is so because the definition of strategy is rather contextual. The definition mostly depends on: the level of the strategy (i.e. corporate, business, or functional); the strategy model (i.e. fit, stretch or chaos); its manner of formulation (i.e. from purely deliberate to purely emergent) and its purpose (e.g. to knock off competitors or long term direction of the firm).

From the preceding discussion, strategy may be seen as the approach taken by an organization to achieve any or all of the above objectives.

## **2.2 Views on Strategy Formulation**

Mintzberg (1988) proposes three strategy modes: the entrepreneurial mode, the adaptive mode, and the planning mode. In the entrepreneurial mode, one strong leader takes bold, risky actions on behalf of his organization. Strategy making is dominated by the active search for new opportunities. Power is centralized in the hands of the chief executive. Strategy moves forward in the entrepreneurial organization by taking of large, bold decisions. Growth is the dominant goal of the entrepreneurial organization. In the

adaptive mode, the organization adapts in small, disjointed steps to a difficult environment. Clear goals do not exist. Strategy making reflects a division of power among members of a complex coalition. Strategy making process is characterized by the reactive solution to existing problems, rather than the proactive search of new opportunities. In the planning mode, formal analysis is used to plan explicit, integrated strategies for the future. Formal planning is a sequence of analytical and evaluative procedures to formulate an intended strategy and the means of implementing it. Proponents of such a view argue for a highly systematic, structured and rational approach to strategy formulation.

Johnson and Scholes (2003), views strategy formulation in form of strategy lens; the design lens, the experience lens and the ideas lens. The design lens similar to Mintzberg's planning mode, views strategy development as the deliberate positioning of the organization through a rational, analytical, structured and directive process. They view strategy development as a logical process in which economic forces and constraints on the organization are weighed carefully through analytical and evaluative techniques to establish clear strategic direction. The experience lens, views strategy as the outcome of personal and collective experience of individuals and the taken for granted assumptions most obviously represented by cultural influences. Suggest that strategies develop in an adaptive fashion building on the existing strategy and changing gradually. The ideas lens, views strategy as the emergence of order and innovations from the variety and diversity that exists in and around organizations. New ideas and innovation may come from anywhere in an organization, but quite likely from low down in an organization. Such

ideas may not be well formed or informed and at the individual level, they may be diverse. The greater the variety of experience, the more likely the innovation. Here strategy is seen as emergent from within and around the organization as people with an uncertainty and changing environment in the day-to-day activities.

Quinn (1988(b)) argues that the management process could best be described as logically incremental. That strategic decisions do not lend themselves to aggregation into a single massive decision matrix where all the factors can be treated relatively simultaneously in order to arrive at a holistic optimum. He argues that managers proceed flexibly and experimentally from broad concepts toward specific commitments, making the latter concrete as late as possible in order to narrow the bands of uncertainty and to benefit from the best available information. Logical incrementalism can thus be thought as a deliberate development process of strategy by 'learning through doing'.

A different approach to strategy formulation has been advanced in order to factor in the role of cultural aspects in strategy formulation. The cultural view takes the position that strategies can be seen as the outcome of experiences, values, beliefs and the taken for granted assumptions and routines of organizations. This taken for granted assumptions and routines are likely to be handed down over time within a group. Thompson (1994), states that there is a link between culture and strategy creation and that the boldness and magnitude of strategic change, whether resulting from planning or incremental change will reflect all the basic values and culture of the organization.

Johnson (1989) suggest that strategy is an inevitable outcome of not only the cultural process and but also the political process of organizations. He contends that an 'organizational action view' of strategy formulation argues that strategy can best be seen as the product of political, cognitive and cultural fabric of the organization. The political view takes the position that strategies develop as the outcome of processes of bargaining and negotiation among powerful internal and external interest groups (or stakeholders).

Mintzberg (1987(b)) adds a different dimension to strategy formulation as he contends that strategies can form as well as be formulated. He argues that a realized strategy can emerge in response to an evolving situation, or it can be brought about deliberately, through a process of formulation followed by implementation. But when these planned intentions do not produce the desired actions, organizations are left with unrealized strategies.

### **2.3 Strategy Implementation**

Thompson and Strickland (2003: 1989) state that good strategy execution involves a strong fit between the way things are done internally and what it will take for the strategy to succeed. A series of tight fits must be created between strategy and an organization's competences, capabilities, policies and structure; between strategy and budgetary allocation; between strategy and internal support system; between strategy and the reward structure and between strategy and the corporate culture.

Thompson (1994) notes that it is possible to view implementation as an activity that follows strategy formulation; where structures and systems are changed to accommodate changes in strategy, however, implementation, instead of following formulation, may be considered in depth at the same time as the proposed strategy is thought through and before final decisions are made.

### **2.3.1 Approaches to Strategy Implementation**

Several models have been advanced to demonstrate the various approaches that have been used in strategy implementation. These include:

#### **Bourgeois and Brodwin Five Implementation Models**

Bourgeois and Brodwin (1984) categorize strategy implementation into five models, which they say represent a trend toward increasing sophistication in thinking about implementation and also a rough chronological trend in the field. The models reflect the different approaches adopted by organizations and managers in the strategic implementation process. The approaches include; the commander approach, organizational change approach, collaborative approach, cultural approach and the crecive approach

In commander approach, the executive officer, after exhaustive period of strategic analysis, makes the strategic decision, and then presents it for implementation. He then hands over the new strategy to senior managers for implementation. In this approach, the manager has a great deal of power and access to complete information, and is insulated

from personal biases and political influences. The approach also splits the organization into thinkers and doers. In organizational change approach, after making strategic decisions, the manager plans a new organizational structure, personnel changes, new planning, information measurement and compensation systems, and cultural adaptation techniques to support the implementation of the strategy. These two models represent the normative approach to formulation and implementation of strategy, and assume the non-existence of political and cultural aspects in the organization, and also view the strategic process as two separate paradigms of implementation and formulation.

In the collaborative approach of strategy implementation, the chief executive involves the management team in strategic decision-making. The executive officer employs group dynamics and brainstorming techniques to get managers with different viewpoints to provide their inputs to the strategy process. The cultural approach takes the participative elements to lower levels in the organization as an answer to the strategic management question 'How can I get my whole organization committed to our goals and strategies?' It seeks to implement policy decisions through the development of a corporate culture throughout the organization. The manager guides organization by communicating the strategy and allowing individuals to participate in designing their work in harmony with the strategy.

In crecive model the executive officer addresses strategy planning and implementation simultaneously. Strategy comes upward from the bottom of the organization, rather than downward from the top. The manager's role is to define organization's purposes broadly

enough to encourage innovation, and to select judiciously from among those projects or strategy alternatives that reach his attention.

### A Topology of Strategy Implementation

Hrebianiak and Joyce (1984), argue that the combination of two primary characteristics of a strategic problem, i.e. size of the problem and implementation horizon, determines the style chosen to implement strategy. They develop an implementation model describing a rough taxonomy of types of strategy implementation efforts brought about by the combinations of these dimensions.

Figure 1: A topology of strategy implementations

		Implementation horizon	
		<i>Long</i>	<i>Short</i>
Strategic problem size	<i>Large</i>	Sequential Intervention	Complex Intervention
	<i>Small</i>	Evolutionary Interventions	Managerial Interventions

Source: Hrebianiak, L., and Joyce, W., (1984) page 20

Evolutionary implementation are utilized when the strategic problem is small the implementation horizon is long. Usually such changes are not recognized as changes at

all, but rather simply as differences in the way in which things are done over time. Managerial implementations occur when the size of the strategic problem is small, but the time available to implement the strategy is short. Changes occur as minor shifts that require adjustments. Sequential implementation occurs when the size of the strategic problem is large, but the implementation horizon is long enough to allow several components of the implementation model to be implemented sequentially. Connections among components of the model are explicitly recognized and accommodated and managed sequentially. Complex implementations occur when the size of strategic problem is large and the implementation horizon is too short to allow sequencing of implementation. Organizations may establish task forces for implementing strategy to accommodate the higher needs for information processing arising from mutually interdependent activities.

#### **2.4 Linking Strategy Formulation and Implementation**

The lines between strategy formulation and implementation are constantly blurred. Traditional concept is that managers formulate strategies and then implement them. However in reality thinking and action are inseparable. The link between strategy formation and strategy implementation has remained problematic despite the increasing body of literature on both topics. The discrepancy between the formulated strategy and that implemented has been made visible in discussions concerning emergent strategies for quite some time (Mintzberg 1978). Some literature goes even as far as to raise the importance of implementation above that of strategy content; for example Wheelen, T., and Hunger (1991) argue that poor implementation of an appropriate strategy can result

in the failure of that strategy. but good implementation plan, however, will not only ensure the success of an appropriate strategy, it can also redeem a less appropriate strategy. However successful implementation of an inappropriate may still mean failure of the organization in achieving its strategic objectives. It may mean a firm being unable to cope with competition, wastage of organization's resources and inability to yield the desired strategic results. Though strategic implementation is critical for an organization's success, it can only save an inappropriate strategy if, and only if, it is coupled with formulation such that changes can be made in the strategy as it is implemented. It is through its implementation that a strategy is refined and reformulated. It can therefore be concluded that the two processes are interlinked and depend on each other to attain success, and thus should be seen together and not as disjointed processes.

**Figure 2: Strategy formulation/ implementation model**

		Strategy formulation	
		<i>Good</i>	<i>Poor</i>
Strategy Implementation	<i>Good</i>	Success	Roulette
	<i>Poor</i>	Trouble	Failure

Source: Koske (2003).

Planning theory postulates that the strategy-maker "formulates" from on high while the subordinates "implement" lower down. Unfortunately, however, this neat sequence is based on two assumptions which often prove false. that the formulator is fully informed, or at least as well informed as the implementer, and that the environment is sufficiently stable or at least predictable, to ensure that there will be no need for reformulation during implementation. The absence of either condition should lead to a collapse of the formulation-implementation sequence. Strategy formation then becomes a learning process, whereby implementation feeds back to formulation and intentions get modified en route, resulting in an emergent strategy (Mintzberg 1978).

Beaudan (2001) states that managers must pay close attention not only to the substance of strategy, which they naturally do, but to how the bridge between strategy and implementation is built. This implies the following rules for today's managers:

When formulating strategy, allow voices from throughout the organization to be heard. To properly seam a strategy that people will want to implement requires both intellectual and emotional pull. The emotional pull is gained through involvement.

Engage people's intellect by clarifying what you mean in the strategy. This strengthens the strategy before it is rolled out. Managers need to spend time one on one with their direct reports to achieve this, or rely on an impartial third party.

Think of strategy (intended or emerging) not as an opportunity to define the future but as an opportunity to generate powerful conversations inside the organization.

With respect to implementation, people should feel that it is their strategy they are about to execute, not the senior manager's.

Ask people what will happen as the business environment evolves and the strategy appears to lose its relevance. How will you re-engage people in the strategic dialogue so they can advance new views? Find ways to make implementation a well-understood discipline.

#### **2.4.1 Linking Mechanisms**

##### **The McKinsey 7-S Framework**

The McKinsey 7-S Model is a widely discussed framework for viewing the interrelationship of strategy formulation and implementation. It helps to focus managers' attention on the importance of linking the chosen strategy to a variety of activities that can affect the implementation of that strategy. Originally developed as a way of thinking more broadly about the problems of organizing effectively, the 7-S framework provides a tool for judging the "duality" of strategies. According to its developers, Peters and Waterman (1982), the framework suggests that it is not enough to think about strategy implementation as a matter only of strategy and structure, as has been the traditional view. That, in practice, these notions are too limiting. To think comprehensively about a new strategy and the problems with carrying it out, a manager must think of his company as a unique culture and must think about the ability of the company to get anything really fundamental (i.e., not tactical) accomplished as a matter of moving the whole culture. The McKinsey 7-S Framework should be thought of as a set of seven compasses. When the needles are aligned, the company is "organized". When they are not, the company is

not really organized even if its structure looks right. If a 7-S analysis suggests that strategy implementation will be difficult, managers either can search for other strategic options, or go ahead but concentrate special attention on the problems of execution suggested by the framework. Peters and Waterman (1982), further suggest that the various elements of the 7-S framework interrelate and a change in one of them will or may lead to a change in the other elements (e.g. a change in structure or culture may lead to a subsequent change in strategy, systems, styles, etc. and vice versa).

### **The Balanced Scorecard**

Kaplan and Norton developed the balanced scorecard as a tool of linking strategy to managerial actions and subsequently, to reduce of the measurement gap. Kaplan and Norton (1996), state that the balanced scorecard should translate a business mission and strategy into tangible objectives and measures. They contend that the balanced scorecard is more than a tactical or an operational measurement system. It depicts an organization's vision of the future and strategy to the entire organization and thus creates a shared understanding. Innovative companies use the balanced scorecard as a strategic management system to manage their strategy over the long run. The balanced scorecard can be used to: clarify and gain consensus about the strategy; communicate strategy thought the organization; align departmental and personal goals to the strategy; link strategic objectives to long-term targets and annual budgets; identify and align strategic initiatives; perform periodic and systematic strategic reviews; obtain feedback to learn about and improve strategy.

As a result of the balanced scorecard use, strategic reviews may reaffirm belief in the current strategy, adjust the quantitative relationship among the strategic measures on the balanced scorecard or alternatively, reveal that an entirely new strategy is required.

The balanced scorecard further creates a holistic view of the strategy that allows all employees to see how they contribute to organizational success. Without such linkage, Kaplan and Norton (1996), argue that individuals and departments can optimize their local performance but not contribute to achieving strategic objectives.

In a recent article, Kaplan (2003), suggest that one can view the BSC as the contemporary manifestation of the 7-S model, helping to explain its popularity as a practical and effective tool for aligning all the organizational variables and processes that lead to successful strategy execution. He contends that, they both articulate that effective strategy implementation requires a multi-dimensional approach and both stress interconnectedness. He further argues that the Balanced Scorecard's most obvious benefit arises when managers use it to design a customized reporting and performance management system, the 'S', that many organizations fail to align with their other six S's. The Balanced Scorecard enables management reports to focus on measures specifically selected to represent the organization's strategy. The Balanced Scorecard also influences other organizational systems when managers use it to align their planning, budgeting, and resource allocation systems, and their incentive and reward systems to strategy.

## **Logical Incrementalism**

Quinn (1988(b)) argues that organizations test out relatively small changes and develop with this approach. Continual testing and gradual strategy implementation provides improved quality of information for decision making and enables better sequencing of the elements of major decisions. Effective managers thus realize that they cannot do away with the uncertainty of their environment by trying to know about how it will change. Rather, they try to be sensitive to environmental signals through constant scanning and testing changes in strategy in small steps. Incremental change could therefore be seen as adaptation to the opportunities which arise in a continually changing environment and can be also be seen as heavily influenced by experience. Properly managed, Quinn contends, that it allows the executive to bind together the contributions of rational, systematic analysis, political and power theories and organizational behavior concept. Since the change is gradual, the possibility of creating and developing a commitment to change throughout the organization is increased.

Quinn observes that successful managers who operate logically and proactively in an incremental mode build the seeds of understanding, identification and commitment into the very process, which create their strategies. Careful incrementalism allows them to improve the quality of information used in decisions and deal with the practical politics of change, while they step by step build the organization's momentum toward the new strategy and the psychological information to carry it through.

### **Middle-Level/ Line Managers' Involvement in Strategy Formulation**

The involvement of middle-level and or line managers in the strategy formulation process is paramount if the strategy is going to be successfully implemented. Thompson and Strickland (2003) observe that when the managers who implement the strategy are also its architects, it is hard for them to shift blame or make excuses if they do not achieve the target results. Johnson and Scholes (1999) state that there is evidence that middle managements involvement can and do provide a real benefit in both the development and implementation of strategy.

If middle managers are committed to helping develop effective strategy, they can help interpret the extent to which such processes can provide advantages and help to identify strategic opportunities. Beaudan (2001) states that individuals are first engaged when they are committed to a strategy, that is, when they feel that the strategy must be implemented, almost at all cost, to achieve success. If necessary, a committed individual will sacrifice his or her self-interest in order to advance the right cause. Further, Guth and Macmillan (1986) studied strategy implementation versus middle management self-interest, and concluded that "middle managers who believe that their self-interests are being compromised can not only redirect a strategy, delay its implementation or reduce the quality of its implementation, but can also even totally sabotage the strategy".

Middle managers have a key role in organizations, as they have both "the ability to combine strategic (context-free) and hands-on (context-specific) information" (Nonaka 1988). Their involvement can instill a deeper understanding of the strategy across the

organization and begin to establish the cross-functional relationships that will be necessary during implementation. This will also develop a sense of ownership of the strategy even before the implementation process begins. Having participated in developing the strategy they are trying to implement, they are more likely to support it strongly, an essential condition for effective strategy execution (Thompson and Strickland, 2003). Further Mintzberg (1987(b)) suggests that in an organization where the implementer is the formulator, innovations can be incorporated into strategy quickly and easily.

Huy (2001), after a six year study of middle managers and their role during periods of organizational change, found out that middle managers make valuable contributions to the realization of radical change. Huy suggests that these contributions occur in four major areas. First, middle management is a fertile ground for creative ideas about how to grow and change and thus middle managers often have value adding entrepreneurial ideas that they are able and willing to realize. Ascribing to this proposition, Fulop (1991) observes that middle managers have no much choice but to be excellent corporate entrepreneurs as non-entrepreneurial middle managers are considered victims of change, with rationalizations in labor, technology and management structures occurring within large organizations. Second, they are far better than most senior executives are at leveraging the information networks and are uniquely situated to communicate the proposed strategy across the organization. Thus, if middle managers are consulted and involved in strategy formulation they will genuinely sell it to they rest of the organization in subtle and non-threatening ways, and will know how to customize the message for

different audience. Third, they stay attuned to employees, moods and emotional needs, thereby ensuring that implementation momentum is maintained. Lastly, they help balance the tension between strategy continuity in implementation and flexibility in adapting to changes. They thus keep the organization from falling into extreme inertia on one hand, or extreme chaos on the other.

Floyd and Wooldridge's (1992) summarized these roles played by middle managers in the strategic process in a model. The model combines upward and downward influence with integrative and divergent thinking. According to them, there are four main roles, namely championing alternatives, synthesizing information, facilitating adaptability, and implementing deliberate strategy.

**Figure 3: A Typology of Middle Management Roles in Strategy**

		Behavioral Activity	
		<i>Upward Influence</i>	<i>Downward Influence</i>
Cognitive Influence	<i>Divergent</i>	Strategic Alternatives	Facilitating Adaptability Cognitive
	<i>Integrative</i>	Synthesizing Information	Implementing Deliberate Strategy

Source: Floyd & Wooldridge (1992).

From the above discussion it can be observed clearly that middle managers play a very important role in the strategy process. Being at the middle, their position allows them to act as double edged sword (dealing with both operational and strategic issues), and thus the single most important group to reasonably bridge the gap between the two aspects and bring them together, all at the same time. Their involvement in strategy formulation is not only critical to reducing resistance in the organization towards the strategy but also ensuring its success, flexibility, and speed in its implementation. Now only one critical question needs to be answered; how do we include them? or better still, when will they feel include in the strategy process? Westley (1990) after a study on micro dynamics of inclusion suggests that middle level managers will feel included and energized about strategic issues to the extent that;

- a) Middle managers are permitted to dominance either the feeling or the framing rules in a strategic conversation and/ or granted access to the framing rules of the superior.
- b) General strategic discussions are not formally linked to the membership in the top status group.
- c) Formal or informal mechanisms exist to sustain horizontal status groups at the middle management level, allowing middle managers to converse cross functionally around strategic issues.
- d) The organization is ideologically driven i.e. single ideology is clearly articulated and widely shared.

Apart from their inclusion in strategic conversations and negotiations, many strategic management writers (e.g. Aosa 1992; Johnson and Scholes, 2003) suggest that middle managers should also be involved in training on strategic issues in order to sharpen their strategic management skills. According to Aosa (1992) management involvement and management training go hand in hand. He argues that before managers can meaningfully participate in strategy, they must have requisite skills and abilities. Such abilities can be imparted through training. However if managers are trained and not involved such training will not be of any benefit to the organization. Similarly meaningful participation is not possible unless managers have the required skills and abilities.

### **Strategic Principle**

Beyond the involvement of middle managers, Gadiesh and Gilbert (2001) observe that it is more beneficial to involve all employees in the strategy process by pushing decision making from the chief executive's office to the far reaches of the organization. To drive such behavior, a company needs to give employees a mandate broad enough to encourage enterprising behavior, but specific enough to align employees' initiatives with the company strategy. However, as they note, it is rather tricky to achieve both decentralized decision-making and coherent strategic action at the same time within a single organization. The main concern therefore becomes addressing the issue of how organizations can give employees clear strategic direction but also inspires innovation, flexibility and risk taking. They suggest that one way is to create and broadcast a strategic principle- a concise, "memorable distillation of strategy that guides employees as it empowers them".

The strategic principle gives an organization the ability to maintain strategic focus while fostering the flexibility among employees that permits innovation and a rapid response to opportunities. The beauty of it is that everyone in the organization (in the front line office or in the operating units), can knowingly work toward the same strategic objective without being rigid about how they do so. They suggest that when the strategic principle is well crafted, and effectively communicated, managers at all levels can be trusted to make decisions that advance rather than undermine the company strategy. While top officers make final decisions, employees on the ground first screen opportunities against the organization's strategic principle. Thus emerging business opportunities can be seized quickly as empowered workers are motivated to innovate and take risks, and the risk of the organization spinning out of control (because of decentralized decision making) is minimized.

A strategic principle might seem to be the same as a mission statement, just by another name. However, Gadiesh and Gilbert state that while both help employees understand an organization's direction; the two are different tools that communicate different things. While a mission statement informs an organization's culture and is meant to inspire front line employees, a strategic principle drives an organization's strategy and is action oriented, enabling people to act quickly by giving them explicit guidance to make strategically consistent choices. As the distillation of a company's strategy, a strategic principle, guides a company's allocation of resources, time, management's attention, labor and brand, in order to build a sustainable competitive advantage. It tells a company what to do and, just as important, as what not to do. More specifically, an effective

strategic principle does the following: it forces trade-offs between competing resource demands; it tests the strategic soundness of a particular action; it sets clear boundaries within which employees must operate while granting them freedom to experiment within those constraints. Thus the ability of a company to move far and fast across untold ground lies in its practice of testing potential moves against its strategic principle.

Further, Gadiesh and Gilbert, suggests that the principle must isolate and capture the corporate equivalent of the genetic code that differentiates the company from its competitors. Thus when increasing corporate complexity threaten to confuse priorities on the front line and obscure the essence that truly differentiates the company's strategy from its rivals, a well crafted and communicated strategic principle helps them make differentiated decisions which are fully in line with the company's strategy.

A strategic principle therefore provides a mechanism, to ensure coherent strategic action in the face of strategic decentralization, provide continuity during periods of turmoil, and to get the strategies become a part of everyday life in order to enhance strategic thinking and corresponding actions in organizations.

#### **2.4.2 A Case for Integration**

##### **Bounded rationality**

Hrebiniak and Joyce (1984) argue that managers are guided by two critical principles when making decisions in the implementation process. These are the principle of bounded rationality and minimum intervention. They argue that managers have difficulty

in considering every conceivable option because of their limited information handling capacity. Because of such limitations, the decision process that is used in practice differs significantly from the decision process anticipated by the normative approach of strategic management. The major consequence of limited rationality is to require that large strategic problems be factored into smaller, more manageable proportions for implementation. They note that, "the intelligence of organizational action is seen as lying not in the capability to know everything in advance but in the ability to make marginal improvements by monitoring problems and searching for solutions". The process should therefore allow consideration of other key issues not initially considered in order to arrive at a more rational decision.

### **Environmental complexity**

A rapidly changing environment makes it essential to adapt properly to the environment. Strategies therefore must be allowed to react to the changing environment and emerge from the chaos of events. Turbulences in an organization's environment may turn a well-planned strategy into an unreasonable one. Most strategies will work if they are sustained smartly. Many of the strategies that don't work could work if senior leaders are willing to alter the pace or direction slightly as the environment evolves. On the other hand since the essence of strategy is seen as the ability to create tomorrow's competitive advantages (from strategic capabilities) faster than competitors, managers must ensure that it evolves faster than the environment does in order to fundamentally change the competitive game by novel approaches to market entry, advantage building and management of change.

## **The Role of Emergent Strategy and Learning**

Mintzberg (1987(b)) argues that effective strategies can show up in all kinds of strange ways and in the strangest of places and may develop through the most unexpected means. He argues that, "strategies grow like weeds. They take root wherever people have the capacity to learn (because they are in touch with situations) and the resources to support the capacity". According to Mintzberg, what you do when the strategic landscape suddenly changes (your emerging strategies) is as critical as what you plan to do initially (your intended strategy). Mintzberg views strategy development as a process of crafting than planning where the hands and the mind of the people crafting strategy must be in harmony. He argues that while many intended strategies are ill conceived, the problem often lays a step beyond in the common assumption that thought must be independent of action i.e. the distinction made between formulation and implementation. He states that formulation and implementation merge into a fluid process of learning through which creative strategies emerge. The problem is that a divide between formulation and implementation precludes learning. In practice, the two must go hand in hand, with strategy constantly being adjusted and revised in light of experience.

### **2.4.3 Implications of Integration**

#### **Strategy as a continuous process**

The world does not stand still while the strategy is being implemented and the strategy will need to adapt to new market realities, even as it is being rolled out. Periodic relevance checks on the strategy should be conducted. Check that the assumptions are

still valid Identify and anticipate events or developments, both internal and external, which may require a revision or addition to the strategy.

Pettigrew and Whipp (1993) after a series of research studies suggested that strategic change can be seen as a continuous process, rather than one with distinct stages such as formulation and then implementation. They argue that the hallmark of the processual dimension is that strategy does not move forward in a direct, linear way through easily identifiable sequence phases. On the contrary the pattern is much more appropriately seen as continuous interactive and uncertain process.

The continuous process may occur in three basic dimensions: either, perfecting a given strategic orientation i.e continuous improvement; slight adjustments in the pursued strategic in order to accommodate internal and external dynamics as well as emergent and/ or overlooked concepts; or a complete overhaul of the strategic orientation.

### **Flexible strategy**

Strategic management in a dynamic environment is fascinating and challenging because it is akin to managing a paradox. On one hand, effective strategy implementation requires high degree of commitment of the entire organization towards a set of interrelated strategy elements fitting with the environment; on the other hand, good strategy making demands flexibility to be in tune with the changing mood of the environment and adjust continuously. Strategies designed on day one are by necessity revisited and amended as the competitive environment evolves. This requires flexibility on the part of the strategy and the strategy founders, because adjusting to strategies can be far more difficult than

creating them in the first place. Leaders have to be willing to recognize that their intended strategy could now be irrelevant, and convince those that have already committed to it that a revised strategy is called for (Beaudan 2001).

Flexibility however, does not merely mean strategy adaptability and responsiveness to the environment, but the wholesome ability of the current strategy to factor in other concepts, including strategies emerging in organization and unseen or budding issues.

## **CHAPTER THREE: RESEARCH METHODOLOGY**

### **Research Design**

This study was a census survey whose main objective was to look into how strategy formulation and implementation are interlinked in the commercial banking sector. A census was necessitated by the relatively small size of the population. A census survey would enable the collection of adequate data to be used in further analysis and to draw adequate conclusions.

### **Population of the Study**

The population of the study included all operating commercial banks licensed by the central bank of Kenya. At the time of the study there were 42 licensed commercial banks operating in Kenya. Out of the 42, only 17 commercial banks responded to this study constituting 42% of the total population.

### **Data Collection**

The study used primary data, collected by use of a structured questionnaire, consisting of both closed and open-ended questions. The questionnaire was administered through a "drop and pick later method", a variation of the mailed questionnaire. This type of questionnaire has been used in other studies for example, Gathoga (2001), Goro (2003) and Ohaga (2004).

The questionnaire was divided into two parts, part A and Part B. Part A was meant to capture the background information, while part B intended to capture data relevant to the objectives of this study.

## Data Analysis

Since the data was descriptive in nature descriptive statistics was used to analyze the data. These included percentages and frequencies in order to meet the objectives of the study. Content analysis was also used.

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## CHAPTER FOUR: DATA ANALYSIS AND FINDINGS

### 4.1 Introduction

There were two main objectives of this study. First was to establish how managers integrate the strategy formulation and implementation process; secondly, to identify the challenges that were encountered during the integration process.

The data in this study was summarized and presented in the form of percentages, frequency distributions and other descriptive statistics, such as mean, mode and standard deviation. Factor analysis and content analysis were also carried out.

### 4.2 Profile Data of Respondent Firms

It was observed that almost half (47%) of respondents had employees in the 50 – 100 range. 23.53% of respondents had employees in the 100 – 500 range, while only 2 commercial banks had employees in 5000 – 10000 range, representing 11.76% of the respondents.

**Table 1: Number of employees in total**

No. of employees	Frequency	Percentage
5 – 100	8	47.06
101 – 500	4	23.53
501 – 1000	2	11.76
Over 1000	3	17.65
<b>Total</b>	<b>17</b>	<b>100</b>

*Source: Research Data*

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Further it was found out that 60% of the respondents had management levels ranging from 1 to 5 levels, while only one respondent had management levels ranging from 6 to 9 levels and none in the 15 – 19 levels category.

**Table 2: Number of management levels**

<b>Response</b>	<b>Frequency</b>	<b>Percentage</b>
1 – 5	9	60.00
6 – 9	1	6.67
10 – 14	3	20.00
15 – 19	0	0.00
20 and above	2	13.33
<b>Total</b>	<b>15</b>	<b>100</b>

*Source: Research Data*

A cross tabulation of the number of employees and corresponding management levels was carried out. It was found out that 57.14% of respondents with employees in the 50 – 100 range and 75% of respondents with employees in the 101 – 500 range had management levels ranging from 1 – 5 levels. Management levels of respondents with 501 – 1000 employees were evenly distributed between 1 – 5 levels and 6 – 9 levels, while those with over 1000 employees were evenly distributed between 1 – 5 levels and 10 – 14 levels. However a remarkable observation is that 28.57% of respondents with 50 – 100 employees had in excess of 20 management levels, despite their seemingly small staff, and were the only ones in this category. These observations, as would be discussed

later, do have a significant impact in respect to how the strategic management process is undertaken in different organizations especially in relation to employees and middle managers participation in the strategic management process.

#### **4.3 Integrating strategy formulation and implementation process**

Strategy formulation and implementation is an on-going, never-ending, integrated process requiring continuous reassessment and reformulation. The assumption that strategy is fully defined and requires no further development after analysis is not always factual. Most business situations are complex and thus implementation of strategy is not easily separated from the rest of the process. There is thus no clear boundary between the strategy's development and its implementation. Furthermore, there is a strong feedback link from the implementation phase to the analytical phase.

##### **4.3.1 Participation and formality in the strategy making process**

Strategy making ought to be a participatory process with every one in the organization being involved in one way or the other. Participation in the strategy making process can be undertaken by employees, managers, shareholders, corporate boards, or other stakeholders. An approach of strategy formulation should be adapted such that participation in the process can be made as inclusive and easier as possible.

The largest proposition of respondents (70.59%) reported their strategy making process as highly formal, 23.53% were partially formal while 5.88% described their strategy making process as informal. All respondents who described their strategy making process

as partially formal were locally owned, while one foreign bank reported its strategy making as informal. Further, the top brass in the organizations dominated participation in the strategy making process.

**Table 3: Participation in the strategy making process**

Factor	Mean	Mean Ranking	STD DEV	Minimum	Maximum
Board of directors	4.47	1	0.94	2	5
The CEO	4.47	2	1.16	1	5
Middle managers	3.29	3	1.35	1	5
Line / functional managers	2.94	4	1.20	1	5
Other employees	2.29	6	1.16	1	4
Consultants	2.65	5	1.58	1	5
<b>Grand mean</b>	<b>3.31</b>				

*Source: Research Data*

Most respondents were in agreement that the Board of directors was the most heavily involved, with the highest mean of 4.47 and the lowest deviation of 0.94. Equally as highly involved as the board of directors were the chief executive officers with a mean of 4.47 but with a high deviation of 1.16, followed by middle managers with a mean of 3.29. The least involved in the strategy making process were employees and consultants with a mean of 2.29 and 2.65 respectively. It must be noted however that respondents were not

in agreement in regards to the involvement of consultants and middle managers, both having the highest deviations of 1.58 and 1.35 respectively. This therefore implies that their participation was very high in some organizations and yet very low in others.

It must also be noted that not only were employees the least involved in strategy formulation but also none of the respondents allowed employees full participation in the strategy making process. This is evidenced by the fact that respondents rated maximum employee participation at 4 points in the likert scale while all the rest were ranked at 5. The implication of this finding is that employees may not be fully committed to the strategic implementation process since they were not involved in formulation in the beginning. It may also be problematic for the employees to participate in strategy reformulation since they are may not be aware of the considerations initially made in the formulation process. This observation is in line with other research findings e.g. Koske (2003), who in his study found out that employees were not involved in strategy formulation.

#### **4.3.2 Consideration of implementation issues during strategy formulation**

Strategy implementation does not necessarily start at the end of strategy formulation phase, but implementation issues ought to be considered even before the strategy is put into action i.e. during formulation. Such considerations are valuable to an organization since implementation obstacles can often be identified and pre-diagnosed. Secondly a separate implementation phase takes time to set in motion and important opportunities may be missed especially in the fast moving and turbulent banking sector environment.

**Table 4: Extent to which implementation issues were considered during strategy formulation**

Factor	Mean	Mean Ranking	STD DEV	Minimum	Maximum
Resources	4.71	1	0.58	3	5
Organization's structure	3.94	8	1.34	1	5
Organization's culture	3.29	10	1.65	1	5
Organization's policies	4.18	4	1.13	1	5
Organization's values	3.71	9	1.31	1	5
Staffing	4.47	2	0.71	3	5
Staff skills	4.47	2	0.71	3	5
Existing systems	4.11	5	0.93	2	5
Leadership in implementation	4.06	6	1.09	2	5
Strategy communication	4.06	6	1.03	2	5
<b>Grand mean</b>	<b>4.1</b>				

*Source: Research Data*

All respondents reported that implementation issues were considered during formulation, with resources, staff and staff skills being the most highly considered, having a mean of 4.71, 4.47 and 4.47 respectively. These issues were considered highly in almost all organizations, with a minimum ranking of 3 points in the likert scale and low deviations of 0.58, 0.71 and 0.71 respectively. The least considered during formulation were:

organizational culture, values and structure with respective means of 3.29, 3.71 and 3.94. However respondents could not agree on the consideration of these issues during strategy formulation, having the highest deviations of 1.65, 1.31 and 1.34 respectively. This implies that although these issues were the least considered by most organizations they were as well highly considered by others.

The failure evidenced in the banking sector to consider organizational culture, values and structures during formulation may result to various problems and obstacles to the organization as the strategy is set in action; chief among them being behavioral and systemic resistance. This may also present a challenge when reformulating the existing strategy in order to reflect prevailing conditions.

#### **4.3.3 Review of formulated strategy and translating the strategy to short-term objectives and targets**

The conditions under which strategies are executed may differ from the assumed conditions during formulation. This therefore requires managers to frequently review strategies formulated in order to identify shortcomings and to allow for adjustments where necessary. Almost all of respondents (94.12%) reviewed their formulated strategies, with more than half of them (56.25%) reviewing them on a quarterly basis, while 25% do it annually. 25% of respondents who reviewed their strategies do it on an annual basis while 6.25% and 12.5% review them semi-annually and on a monthly basis respectively. It was observed that most foreign banks reviewed their strategies on a quarterly basis, while those reviewing their strategies on a monthly basis were locally

owned with some level of government participation. The review process will enhance the integration process since strategies are reformulated to reflect current conditions and to meet the desired objectives.

**Table 5: Frequency of strategy review**

<b>Response</b>	<b>Frequency</b>	<b>Percentage</b>
Annually	4	25.00
Semi-annually	1	6.25
Quarterly	9	56.25
Monthly	2	12.50
Ad hoc	0	0.00
<b>Total</b>	<b>16</b>	<b>100</b>

*Source: Research Data*

Most respondents (70.59%) were translating their pursued strategy to short-term objectives and targets, while 29.41% were not. Further it was observed that 91.67% of those translating their pursued strategy to short-term objectives and targets, were also rewarding those who achieved those targets, with some of the respondents using performance based remuneration schemes. The translation of strategies to short-term objectives makes it easy to measure and review. This seems to be the case in the banking industry thus enhancing the integration.

#### 4.3.4 Changes in the pursued strategy, its cause and subsequent effects

Table 6: Extent to which changes in strategy had led to changes in each of the following factors

Factor	Mean	Mean Ranking	STD DEV	Minimum	Maximum
Organization's structure	3.31	6	1.04	1	4
Organization's culture	2.62	8	1.44	1	5
Organization's policies	3.38	4	1.04	1	4
Organization's values	3.23	7	1.36	1	5
Staffing	4.23	1	0.73	3	5
Staff skills and expertise	4.08	2	0.76	2	5
Existing systems	4.00	3	0.91	2	5
Leadership style	3.38	4	1.26	1	5
Grand mean	3.53				

Source: Research Data

Most respondents i.e. 76.45% reported changes in the strategy pursued over time. These changes led to changes in various elements in the organizations. Respondents were in agreement that changes in the pursued strategy had led to major changes in staffing, staff skills and existing systems with a mean of 4.23, 4.08 and 4.00 respectively. Organization's culture, values and structure were considered to have changed the least having a mean of 2.62, 3.23 and 3.31 respectively. Slight changes were reported to have

occurred on organizational culture, values and structure due to changes in strategy. However respondents could not agree on the effect of changes in strategy on the organizational culture and leadership style resulting to the highest deviation of 1.44 and 1.26 respectively.

**Table 7: Extent to which changes in these elements, had led to changes in the pursued strategy over time**

Factor	Mean	Mean Ranking	STD DEV	Minimum	Maximum
Organization's structure	3.08	5	1.32	1	5
Organization's culture	3.15	4	1.14	1	5
Organization's policies	3.08	5	1.19	1	5
Organization's values	3.08	5	1.19	1	5
Staffing	3.69	1	1.25	2	5
Staff skills and expertise	3.54	3	0.88	1	5
Existing systems	3.62	2	1.30	1	5
Leadership style	3.08	5	1.55	1	5
<b>Grand mean</b>	<b>3.29</b>				

*Source: Research Data*

In respect to strategy changes due to changes in other organizational elements, respondents reported that changes in staffing, existing systems and staff skills and

expertise to have the most profound affect on strategy. Leadership style, organization's structure, values and policies were considered to have led to the slightest changes in the pursued strategy having a mean of 3.08 correspondingly. Respondents however could not agree on the effect of changes in the leadership style and organization's structure having the highest deviation of 1.55 and 1.32 respectively.

It is worthy to note that the same strategy implementation issues, which are highly considered during formulation, seem to be causing major changes in strategy pursued and vice versa. These elements are thus seen as having a reciprocal relationship with strategy in the banking sector. After discussions with most of the respondents, the researcher was able to establish that respondents considered the industry as innovation and customer driven especially since the entry of the Automated Teller Machines and electronic funds transfer and thus a change in the existing systems may lead to a major in strategy. Further, staffing and staffing skills are considered vital to changes in strategy since the existence of creative, innovative and customer focused staff may led to major changes in strategy, either directly or indirectly as a result of their actions on existing systems and the existing or potential customer base. Resources on the other hand were highly considered during strategy formulation due to their impact on systems and staffing

#### 4.3.5 Use of management tools in the strategic management process and their effectiveness

##### a) The Balanced Scorecard

The balanced score card was relatively used by 41.18% of the respondents. Most of the respondents who used this management tool were either foreign banks or locally owned but with a government stake in them. When controlled for size it was found out that most of the respondents who used this tool were either big or multinationals banks that had a presence in various countries. Only one respondent reported to have used both the Mckinsey 7-s framework and the balanced score card.

57.14%, 14.29% and 28.57% of respondents who used the balanced scorecard rated it as very effective, highly effective and effective respectively.

**Table 8: Effectiveness of the Balanced Scorecard**

Response	Frequency	Percentage
Very effective	4	57.14
Highly effective	1	14.29
Effective	2	28.57
Relatively effective	0	0.00
Not effective	0	0.00
<b>Total</b>	<b>7</b>	<b>100</b>

*Source: Research Data*

#### **b) The McKinsey 7-S Framework**

The McKinsey 7-s framework was not highly used with only one respondent (5.88%) reporting to be using it. However although the other respondents were not using the McKinsey 7-S framework most of them had established a connection between the various elements of the 7-S framework (this was especially so with the big and multinationals banks). Respondents who used the McKinsey 7-s framework rated it as being highly effective.

All respondents reported that the use of these tools have resulted to formulation of better strategies over time. Further all respondents who used these management tools reported strategy implementation to be either quite successful or very successful. According to Valerie and Werner (2006) empirical evidence shows that there is a positive effect of strategically aligned balanced scorecard performance measures on organizational performance. Further Malina and Seltu (2001) conducted a case study in one corporate setting and revealed that the balanced scorecard has a positive impact on organizational outcomes by creating positive motivation for employees who need to achieve organizational objectives. Thus, the balanced scorecard links performance measures and operational actions to the business strategy to motivate employees to achieve the organizational objectives.

#### **4.3.6 Middle managers involvement in the strategic management process**

Middle level managers' involvement in the strategic management process is of great significance and importance to the organization. In their position, there are likely to be in

contact with aspects of the business that present threats and/or opportunities to the organization and processes which represent the competences of the organization. Nonaka, (1988) suggests that they possess "the ability to combine strategic (context-free) and hands-on (context-specific) information". Their involvement therefore, may in most cases lead to wider ideas and information input in the strategy development process. Further they are better able to interpret and support the pursued strategy as they sell it across the organization.

**Table 9: Middle-level managers involvement in strategic discussions and negotiations**

<b>Response</b>	<b>Frequency</b>	<b>Percentage</b>
Very often	6	35.29
Quite often	3	17.65
Often	5	29.41
Less often	2	11.77
Not involved	1	5.88
<b>Total</b>	<b>17</b>	<b>100</b>

*Source: Research Data*

Most respondents reported some level of involvement of middle managers in strategic discussions and negotiations with only 5.88% not being involved at all. 35.29% of middle managers were involved very frequently while 29.41% were frequently involved. Johnson and Scholes (1999) state that there is evidence that middle management's involvement can and do provide a real benefit in both the development and

implementation of strategy. This will also develop a sense of ownership of the strategy even before the implementation process begins. Having participated in developing the strategy they are trying to implement, they are more likely to support it strongly, an essential condition for effective strategy execution (Thompson and Strickland, 2003). Further, if middle managers are committed to helping develop effective strategy, they can help interpret the extent to which such processes can provide advantages and help to identify strategic opportunities.

**Table 10: Formality of strategic discussions and negotiations**

<b>Response</b>	<b>Frequency</b>	<b>Percentage</b>
Formal	8	50.00
Both formal and informal	7	43.75
Informal	1	6.25
<b>Total</b>	<b>16</b>	<b>100</b>

*Source Research Data*

Half (50%) of those involved were involved in formal discussions, 43.75% were involved in both formal and informal while 6.25% were involved in informal discussions and negotiations.

**Table 11: Extent to which middle-mangers are trained on the following strategic issues**

<b>Factor</b>	<b>Mean</b>	<b>Mean Ranking</b>	<b>STD DEV</b>	<b>Minimum</b>	<b>Maximum</b>
Strategy formulation	3.62	4	0.92	2	5
Environmental scanning	3.00	6	1.26	1	5
Emergent strategies	3.64	2	0.92	2	5
Strategic innovation	3.64	2	1.12	2	5
Managing emergent strategies	3.45	5	0.93	2	5
Strategy implementation	4.36	1	0.81	3	5
<b>Grand mean</b>	<b>3.62</b>				

*Source: Research Data*

According to Aosa (1992) management involvement and management training go hand in hand. He argues that before managers can meaningfully participate in strategy, they must have requisite skills and abilities. Such abilities can be imparted through training. However if managers are trained and not involved such training will not be of any benefit to the organization. Similarly meaningful participation is not possible unless managers have the required skills and abilities.

64.7% of respondents firms involved their managers in training programs on strategic issues, while 35.29% were not involved. It is important to note that all respondents whose managers were involved in formal discussions were also involved in training programs on strategic issues. However only 3 out of 7 (i.e. 42.86%) of those respondents whose managers were involved in both formal and informal discussions were also involved in training programs on strategic issues while those involved in informal discussions were never trained. This draws attention to the importance of involving managers in formal discussions. On the other hand all managers who were not involved in discussions at all were also not involved in training programs on strategic issues.

In training middle managers emphasis is laid on strategy implementation as that is seen as their core function in the organization. Most respondents were in agreement as to the extent of training offered on this strategic issue and thus resulting to the lowest deviation of 0.81 and the highest mean of 4.36. As earlier noted, the banking industry is mainly innovation driven; strategic innovation and resultant emergent strategies were also highly considered in strategic training. Surprisingly however, environmental scanning and management of emergent strategies were the least considered in strategic training. This oversight might lead to many good emergent strategies which could have led to competitive advantage being wasted due to failure of adequate management.

**Table 12: Frequency of middle managers involvement in training programs**

<b>Response</b>	<b>Frequency</b>	<b>Percentage</b>
Annually	1	9.09
Semi-annually	2	18.18
Quarterly	3	27.27
Monthly	0	0.00
Ad hoc	5	45.46
<b>Total</b>	<b>11</b>	<b>100</b>

*Source: Research Data*

Most banks seem not to be having well defined training programs but rather training is done as need arises i.e. as per business needs. This is especially so for respondents whose managers are involved in both formal and informal discussions. Out of the 7 respondents who involve managers in such discussions only 1 bank has constant training on quarterly basis, while the rest are trained as need arises (i.e. ad hoc basis). However it is important to note that more than 90% of those respondents who involved their managers in strategic training reported strategy implementation to be either very successful or quite successful. Aosa (1992) in his study found out that companies carrying out management training were significantly successful than those not carrying out such training

#### **4.3.7 Employees involvement in the strategic management process**

Strategic ideas can start at the bottom of the organization rather than the top. If clearly managed decision-making can be pushed to the far reaches of the organization. In doing

this voices from throughout the organization should be allowed to be heard. Employees should be encouraged to be innovative, respond to opportunities and come up with new ideas for change. However, in maintaining strategic focus while generating strategic conscious and consistent actions and decisions, the organization should endeavor to clearly and accurately communicate the strategy throughout the organization while offering tailor made training programs to employees on strategic issues.

Slightly more than half (52.94%) of respondents involved their employees in training on strategic issues while 47.06% were not involved. 11.76% of employees were involved quite frequently while 41.18% were frequently involved. It was further observed that over 90% of all respondents who involved their employees in training on strategic issues reported strategy implementation to be either very successful or quite successful.

**Table 13: Frequency of employees' involvement in training programs**

<b>Response</b>	<b>Frequency</b>	<b>Percentage</b>
<b>Very often</b>	0	0
<b>Quite often</b>	2	11.76
<b>Often</b>	7	41.18
<b>Less often</b>	0	0
<b>Not involved</b>	8	47.06
<b>Total</b>	<b>17</b>	<b>100</b>

*Source: Research Data*

#### **4.3.8 Communicating strategy to employees**

76.47% of all respondents were communicating their strategies to their employees while 23.53% were not. This was done through middle managers and departmental heads in developmental meetings, staff meetings and briefings. Internal memos, E-mails, circulars, newsletters and/or magazines were also used in all organizations. In some organizations however video communication by CEO and Directors was used. It is also worth that out of the 7 respondents who reported the use of the balanced scorecard in the strategic management process only one organization was using the balanced scorecard in communicating its strategy to its employees.

Most respondents who communicated their strategy did it by framing it in a memorable way, while only half of them encouraged their employees to memorize the communicated strategy. It was noted that most organizations that communicated their strategy in a memorable way reported strategy implementation as very or quite successful. Whoever those who did not involve their employees or middle managers in the strategy making process and decision making, reported strategy implementation as either successful or relatively successful, despite the fact they framed and communicated strategy in a memorable way.

#### **4.3.9 Using strategy to guide employees' actions and behaviors**

Aligning employees to the strategy of their business, and engaging managers and senior leadership in communicating with workers, is a key ingredient to the success of the

organization. Employees who understand the organization's strategy are more likely to make better day-to-day decisions that will support the organization's vision.

**Table 14: Extent to which the communicated strategy is used to help and guide employees in the following issues**

<b>Factor</b>	<b>Mean</b>	<b>Mean Ranking</b>	<b>STD DEV</b>	<b>Minimum</b>	<b>Maximum</b>
Maintaining strategic focus	3.92	3	1.24	1	5
Making decisions	3.83	5	0.94	3	5
Encouraging innovation	4	2	0.85	3	5
Responding to opportunities	4.08	1	1.0	3	5
Taking risks	3.83	5	1.03	2	5
Encourage enterprising behavior	3.92	3	1.24	2	5
<b>Grand mean</b>	<b>3.93</b>				

*Source: Research Data*

The communicated strategy was largely used to guide employees' actions to respond to arising opportunities and to encourage innovation. As noted earlier, respondents considered the banking industry as innovation and customer driven and thus employees were encouraged to be customer focused and as innovative as possible. On the other hand

the communicated strategy was least used to guide employees actions to make decisions or take risks.

#### **4.4 Challenges encountered during the integration process**

##### **4.4.1 Challenges experienced as a result of the use of these management tools**

###### **a) The McKinsey 7-S Framework**

Only one respondent was using the McKinsey 7-S framework and was not willing to disclose the shortcomings experienced in its use.

###### **b) The Balanced Scorecard**

Respondents saw the balanced scorecard as time consuming, and hard to interpret. Goal setting was also seen as a challenge, with high abilities to set clear goals being required, while some issues were difficult to measure with the scorecard and required users to devise methods frequently. Resistance from staff was also seen as a significant challenge with culture shift requiring adequate management. The lack of focus on a company's human resources was also sighted as a weakness. Alan, et al (2003) argue, that the lack of focus on a company's human resources dimension is perhaps one of the most notable weakness in the balanced scorecard.

##### **4.4.2 Challenges of involving middle managers in the strategic management process**

Most respondents (52%) reported lack of teamwork, co-operation and motivation as some of the main challenges of involving middle managers in strategy formulation. The ability to split between big picture thinking and tactical thinking (i.e. splitting between

operational and strategic thinking) were sighted as challenges. Middle managers also lacked training on strategic issues, which led to skills inadequacy and lack of expertise in strategy formulation resulting to sub-optimality. Involving middle managers was also seen as time consuming especially in respect of attaining buy-in and tradeoffs on various issues.

73% of respondents sighted lack of adequate resources, inadequate planning and lack of initiative as the main challenges of training middle managers on strategic issues. Respondents decried the high staff turnover in the industry due to poaching by competitors, which acted as a major deterrent on training middle managers. Strategic thinking and training was sighted as a relatively new area not covered in formal high-level education until recently and thus since in the banking industry most managers have long services, new areas are difficult to comprehend.

#### **4.4.3 Challenges of involving employees in the strategic management process**

Lack of teamwork, lack of co-operation and lack of commitment to strategic issues were sighted by most respondents (65%) as the main challenges of involving employees in strategy formulation. Convincing employees on adapting new ideas, resistance to change and lack of multi-skilled staff who are able to think outside the box was also sighted as a main challenge. Orientation on strategic management and a significant culture shift were therefore needed. Time and cost of involving employees in strategy formulation was reported as a major deterrent. This was especially so in banks having a large number of employees and management levels. In some organizations strategy was a top-down

approach and employees are only involved in the actual delivery. Stronger focus on the customer was also feared if employees were to be involved in strategy formulation.

Inadequate resources cost of training, choice of whom to train – especially for banks with a large number of staff and keeping sight of overall organizational objectives in making provisions of staff training in the budget were sighted as the main challenges. Respondents also decried the limited training opportunities, few trainers and the few credible training organizations and/or institutions available. Level of education of existing staff was also a main challenge.

#### **4.4.4 Challenges of communicating formulated strategy to all employees**

Unexpected reactions from employees, inadequate communication channels and message reception were reported as main challenges by 58% of respondents. Loss of message or message distortion through the cascading process due to formal structures in the banking sector was also sighted as a challenge. Another challenge was constantly reminding staff to inculcate the strategy in their daily roles and tasks and the lack of multi-skilled staff that could understand their role in the strategy.

#### **4.4.5 Challenges in encouraging employees to memorize and internalize the communicated strategy**

Most respondents (89%) sighted resistance, lack of motivation, the lack of a culture of belonging and negative attitude as the main challenges in encouraging employees to memorize and internalize the communicated strategy. It took time for employees to buy

into new ideas; hence the process of internalizing the strategy took even longer. It was also noted that the non-involvement of employees and middle managers - that were meant to communicate the strategy - in decision-making also resulted to resistance.

#### **4.4.6 Challenges of using strategy to guide employees' actions, decisions and behavior**

Lack of empowerment, limited understanding and lack of appreciation of strategic issues among employees and the lack of emergent approach to strategic development in the banking sector were sighted as the main challenges by 78% of respondents. External forces drove most strategies in the banking sector and therefore they were implemented for survival rather than a deliberate mode of doing business. Employees reacted differently to change and some were not be willing to change from current norms. Conflict of employees' personal strategies and those of the organization existed leading to sub optimization of goals. Another challenge was aligning strategy to the balanced scorecard and hence performance, without leaving out organizational values.

## **CHAPTER FIVE: SUMMARY, CONCLUSIONS AND RECOMMENDATIONS**

### **5.1 Introduction**

This chapter contains a summary of research findings, conclusions drawn and recommendations made. The findings of the study are presented in respect to the key aspects of the objectives of the study. First was to establish how managers integrate the strategy formulation and implementation process; secondly, to identify the challenges that were encountered during the integration process.

### **5.2 Summary, Discussions and Conclusions**

#### **5.2.1 Integrating Strategy Formulation and Implementation**

The study found out that the top brass in the organizations dominated participation in the strategy making process. However the least involved in the strategy making process were employees and consultants. It was also be noted that not only were employees the least involved in strategy formulation but also none of the respondents allowed employees full participation in the strategy making process. Further, largest proposition of respondents (70.59%) reported their strategy making process as highly formal, 23.53% were partially formal while 5.88% described their strategy making process as informal.

All respondents reported that implementation issues were considered during formulation, with emphasis being laid on resources, staffing and staff skills, having a mean of 4.71, 4.47 and 4.47 respectively while organizational culture, values and structure were least considered. It was further observed that; resources, staffing and staff skills, which were highly considered during formulation, were the major causes of changes in strategy

pursued and vice versa. This was so since the industry was considered innovation and customer driven. These elements were thus seen as having a reciprocal relationship with strategy in the banking sector.

The results of the study showed that very few organizations use management tools in the strategic management process. The balanced scorecard was however relatively used as compared to the Mckinsey 7-S framework. However although most organizations were not using the Mckinsey 7-S framework most of them had established a connection between strategy and the various elements of the 7-S framework. This was especially so with the big and multinationals banks. It was further discovered that most organizations who use this tools were either foreign banks or locally owned but with a government stake in them. When controlled for size, it was found out that, respondents who used this tool were either big or multinationals banks that had a presence in various countries.

Some level of involvement of middle managers in strategic discussions and negotiations reported in most organizations. However the frequency of involvement differed with 35.29% being involved very frequently, 29.41% frequently involved with only 5.88% not being involved at all. It was also found out that involving managers in formal discussions was essential. Managers who were involved in formal discussions were also involved in training programs on strategic issues. Less than half of managers involved in both formal and informal discussions were also involved in training programs on strategic issues, while those involved in informal discussions were never trained. On the other hand it was

found out that managers not involved in discussions at all were also not involved in training programs on strategic issues.

In training middle managers emphasis is laid on strategy implementation as that was seen as their core function in the organization having a mean of 4.36. Emergent strategies were also highly considered in strategic training. Astonishingly however, environmental scanning and management of emergent strategies were the least considered in strategic training with a mean of 3.00 and 3.45 respectively. On the other hand most banks did not have well defined training programs but rather training was done as need arises i.e. as per business needs. This was especially so for respondents whose managers were involved in both formal and informal discussions. In this respect most respondents who involved their managers in strategic training reported strategy implementation to be either very successful or quite successful.

Although middle managers are often accused for seemingly their lack to separate strategic issues from operational issues during strategy formulation, their contribution is however much needed. As strategy formulators they are able to combine both strategic and operational issues as they formulate strategies in light of those issues (i.e. operational issues). In this case operational issues and elements in the 7-S framework can be carefully considered during formulation. While as implementers they are better able to understand, interpret and support the pursued strategy. Further they are able to communicate the strategy in subtle and non-threatening ways, customize the message without distorting it, and examine employees' reactions, while rallying their actions

towards its implementation. Moreover their involvement in strategic discussions and training enables them to better incorporate and manage creative ideas, innovations and emergent strategies (which may eventually evolve to be major strategies in the long run).

Slightly more than half of respondents (52.94%) involved their employees in training on strategic issues. Almost all who involved their employees in training on strategic issues (90%) reported strategy implementation to be either very successful or quite successful. Strategy was communicated to employees through middle managers and departmental heads in developmental meetings, staff meetings and briefings. Internal memos, E-mails, circulars, newsletters and/or magazines were used in all organizations. However, only one organization was using the balanced scorecard in communicating its strategy to its employees. It was further noted that most organizations that communicated their strategy in a memorable way reported strategy implementation as very or quite successful. Whoever those who did not involve their employees or middle managers in the strategy making process and decision making, reported strategy implementation as either successful or relatively successful, despite the fact they framed and communicated strategy in a memorable way, which underscore the importance of involving employees in the strategic management process. The communicated strategy was largely used to guide employees' actions to respond to arising opportunities and to encourage innovation. Employees were encouraged to be customer focused and as innovative as possible, while strategy was least used to guide employees' actions to make decisions or take risks.

### **5.2.2 Challenges Encountered During the Integration Process**

In using strategic management tools in the strategic process, respondents saw the balanced scorecard as time consuming, and hard to interpret. Goal setting was also seen as a challenge, with high abilities to set clear goals required, while some issues were difficult to measure with the scorecard and required users to devise methods frequently. The lack of focus on a company's human resources was also sighted as a weakness.

Lack of teamwork, co-operation and motivation, and the ability to split between big picture thinking and tactical thinking (i.e. splitting between operational and strategic thinking) were sighted as some of the main challenges of involving middle managers in strategy formulation. While the lack of adequate resources, inadequate planning and lack of initiative were sighted as the main challenges of training middle managers on strategic issues. Respondents also decried the high staff turnover in the industry due to poaching by competitors, which acted as a deterrent on training middle managers

Lack of teamwork, lack of co-operation and lack of commitment to strategic issues were sighted as the main challenges of involving employees in strategy formulation. Cost of training, inadequate resources, choice of whom to train – especially for banks with a large staff and keeping sight of overall organizational objectives in making budget provisions of staff training were sighted as main challenges in training employees on strategic issues. Respondents also decried the limited training opportunities, few trainers and the few credible training organizations and/or institutions available. Level of education of existing staff was also a challenge.

In communicating strategy to all employees', unexpected reactions from employees, inadequate communication channels and message reception were reported as main challenges. Loss of message or message distortion through the cascading process due to formal structures in the banking sector was also sighted as a challenge. While in encouraging employees to internalize and memorize communicated strategy, resistance, lack of motivation, the lack of a culture of belonging and negative attitude were sighted as the main challenges. Lack of empowerment, limited understanding and lack of appreciation of strategic issues among employees and the lack of emergent approach to strategic development in the banking sector were sighted as the main challenges of using strategy to guide employees' actions and behaviors. External forces drove most strategies in the banking sector and therefore were implemented for survival purposes rather than a deliberate mode of doing business. Another challenge was assuring linkage with the balanced scorecard.

### **5.3 Limitations of the Study**

The major limitation of the study was the reluctance and unwillingness of most respondents to release information as they considered it as highly confidential and feared its use by competitors. Other organizations however had rules restricting the release of any kind of information to the public apart from the normal product information given to customers. In addition, in many organizations, most of the information sought in the study could only be provided by senior managers who were reported to be quite busy, held in meetings and in other issues. This therefore resulted to the high non-response rate

as out of the 42 commercial banks in existence at the time of the study, only 17 responded (i.e. 40%).

The duration of the study could not allow the researcher to collect enough data for comprehensive analysis. The study only focused on two management tools used in the strategic management process and therefore the use of other management tools was not considered. In addition the study focused on one industry and this being a groundbreaking research, other industries ought to be considered.

## **5.4 Recommendations**

### **5.4.1 Recommendations for Further Research**

This is a great need to undertake research in this area. A similar study should be undertaken in other industries in order to found out how strategy formulation and strategy implementation are integrated in those industries. In this only two management tools have been considered namely; the balanced scorecard and the Mckinsey 7-S framework. Various studies can therefore be carried out factoring in other management tools used in the strategic management process. As it has been seen that strategy interrelates with other organizational factors a number of studies could be carried out to found out how each of the elements of the McKinsey framework interrelate with strategy. A study by Westley, F. R., (1990) on middle managers and strategy: micro-dynamics of inclusion can be replicated in order to find out when would middle managers in Kenya feel included in the strategic process and whether there any differences with there counterparts in the west.

#### **5.4.2 Recommendations for Policy and Practice**

During strategy formulation priority implementation issues ought to be identified, capital allocation would then be based on these issues. Companies should consider all the important elements during formulation in order to appropriately allocate resources, time, labor, management's attention and effort to ensure successful strategy implementation. In order to effectively do these companies should consider all elements of the McKinsey 7-S framework. If this is not done it becomes difficult to justify resource allocation patterns. This can lead to conflicts and internal managerial politics, which may in turn, create problems during strategy implementation. Further organizations should use management tools in order to effectively manage all aspects of the strategic management process. Every one involved in the strategic management process ought to be trained on goal setting while using the management tools. Users of the balanced scorecard should devise methods frequently and add various perspectives (e.g. human resources) in order to measure issues that are difficult to measure with the scorecard.

Middle managers should be involved in the strategy making process as well as the ensuing implementation. Their involvement can instill a deeper understanding of the strategy across the organization; develop a sense of ownership, while supporting it in its execution. Their involvement will also help in communicating the strategy to all employees, as this will overcome message distortion through the cascading process. In doing this teamwork, co-operation and motivation should be instilled amongst the middle managers. Middle managers should also be involved in training programs on strategic issues, which will lead to skill adequacy and expertise in strategy formulation

while minimizing sub optimality. Environmental scanning and management of emergent strategies should be highly considered in such training.

Various mechanisms should be devised to involve employees in the strategy making process. To do this orientation on strategic management and a significant culture shift are needed. In organizations where strategy was a top-down approach and employees are only involved in the actual delivery strategy implementation was not as successful as those whose employees were actively involved. Strategy ought to be communicated to all employees framed in a memorable way since this will result to success in strategy implementation as found out in the study. Properly and accurately communicating strategy to employees will ensure employees' action – strategy consistency. While communicating the strategy motivation, positive attitude and a culture of belonging should be instilled in employees. On the other hand the communicated strategy should be used to guide employees' actions to make decisions or take risks, otherwise it will be of no value to the organization. In doing this managers should ensure a two-way communication framework. Middle managers ought to communicate the strategy in subtle and non-threatening ways, customize the message without distorting it, and examine employees' reactions, while rallying their actions towards its implementation. Their involvement will ensure proper management of resistances and unexpected reactions from the employees. In communicating strategy to employees, the use of various management tools and models used in the strategic management process e.g. balanced scorecard, would also be advisable.

Organizations should have well defined training programs where training is done on a continuous basis rather than as per need arises i.e. as per business needs. There is need to set out training objectives to assist in targeting such training effort. This will help ensure that the training is appropriate. If training efforts are not focused it will have little impact on the firm. In doing this employees should be trained on how to align strategy to the balanced scorecard or other management tools and hence performance, without leaving out organizational values. Further, since the industry was found to be innovation and customer driven it would be advisable for banks to have an innovation week for all employees done quarterly or semi-annually so as to sharpen employees' innovative ideas as well as present a forum where employees can share their ideas freely. This will subsequently help overcome lack of employees' empowerment and the lack of an emergent approach to strategic development in the banking sector.

Respondents also decried the limited training opportunities, few trainers and the few credible training organizations and/or institutions available. Thus local universities, institutions of higher learning and management training organizations are encouraged to develop tailor-made strategic management training programs aimed at employees and managers.

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## APPENDIX 1: QUESTIONNAIRE

### PART A: GENERAL INFORMATION

1. Name of your Bank

\_\_\_\_\_

2. No. of employees in total

a) a) 5 - 100 ( )

b) b) 101 - 500 ( )

c) c) 501 - 1000 ( )

d) d) More than 1000 ( )

e) Other (please specify) \_\_\_\_\_

3. No. of management levels \_\_\_\_\_

4. Ownership:

i) Is your company foreign or locally owned, and at what percentage?

Manner of ownership	percentage (%)
---------------------	----------------

a. Local	( )
----------	-----

b. Foreign	( )
------------	-----

ii) Does the government own any of your shares, and at what percentage?

a. No	( )
-------	-----

b. Yes	( )	%	_____
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**PART II**

**Strategy Formulation**

5. How would you describe strategy making process in your organization in relation to formality?

- a) Formal ( )
- b) Partially formal ( )
- c) Informal ( )

6. Who among these participates in the strategy making process and to what extent?

	Not involved			Highly	
	at all			involved	
	( 1 )	( 2 )	( 3 )	( 4 )	( 5 )
a) Board of directors	( )	( )	( )	( )	( )
b) The C.E.O.	( )	( )	( )	( )	( )
c) Middle managers	( )	( )	( )	( )	( )
d) Line / functional managers	( )	( )	( )	( )	( )
e) Other employees	( )	( )	( )	( )	( )
f) Consultants	( )	( )	( )	( )	( )
g) Other (Please specify) _____	( )	( )	( )	( )	( )

7. i) Does your organization review the formulated strategy?

- Yes ( )
- No ( )

ii) If yes, how often is the strategy reviewed?

- a. Annually ( )
- b. Semi-annually ( )

- c. Quarterly ( )
- d. Monthly ( )
- e. Ad hoc ( )
- f. Other (Please specify) \_\_\_\_\_

**Strategy Implementation**

8. Who among the following is in charge of strategy implementation?

- a) The C.F.O. ( )
- b) Middle managers ( )
- c) Line functional managers ( )
- d) Strategy manager / champion ( )
- e) Consultants ( )
- f) Other (Please specify) ( )

9. i) Are implementation issues considered during strategy formulation, in your organization?

Yes ( ) No ( )

ii) If yes, which of the following implementation issues are considered and to what extent.

	Not Considered			Highly Considered	
	(1)	(2)	(3)	(4)	(5)
a) Resources	( )	( )	( )	( )	( )
b) Organization's structure	( )	( )	( )	( )	( )

- c) Organization's culture ( ) ( ) ( ) ( ) ( )
- d) Organization's policies ( ) ( ) ( ) ( ) ( )
- e) Organization's values ( ) ( ) ( ) ( ) ( )
- f) Staffing ( ) ( ) ( ) ( ) ( )
- g) Staff skills ( ) ( ) ( ) ( ) ( )
- h) Existing systems ( ) ( ) ( ) ( ) ( )
- i) Leadership in implementation ( ) ( ) ( ) ( ) ( )
- j) Strategy communication ( ) ( ) ( ) ( ) ( )

10. i) Is the pursued strategy translated to short-term objectives and targets

Yes ( ) No ( )

ii) If yes, were those who achieved those targets rewarded.

Yes ( ) No ( )

11. How successful do you think your organization has been in implementing formulated strategies?

- a) Very successful ( )
- b) Quite successful ( )
- c) Successful ( )
- d) Relatively successful ( )
- e) Not successful ( )

### Linking Mechanisms

12. Have there been changes in strategy pursued over time?

Yes ( ) No ( )

13. What has necessitated these changes?

- a) Changes in the operating environment ( )
- b) Changes in technology ( )
- c) New opportunities ( )
- d) Employees ingenuity ( )
- e) New capabilities acquired ( )
- f) Competition ( )
- g) Other \_\_\_\_\_  
\_\_\_\_\_

14. i) Has the changes in strategy led to changes in any of the following in your organization and to what extent.

	To no		To a great		
	Extent		Extent		
	(1)	(2)	(3)	(4)	(5)
a) Organization's structure	( )	( )	( )	( )	( )
b) Organization's culture	( )	( )	( )	( )	( )
c) Organization's policies	( )	( )	( )	( )	( )
d) Organization's values	( )	( )	( )	( )	( )
e) Staffing	( )	( )	( )	( )	( )
f) Staff skills and expertise	( )	( )	( )	( )	( )
g) Existing systems	( )	( )	( )	( )	( )
h) Leadership style	( )	( )	( )	( )	( )

ii) Has changes in these elements over time, also led to changes to changes in strategy and to what extent.

	To no		To a great		
	Extent		Extent		
	( 1 )	( 2 )	( 3 )	( 4 )	( 5 )
a) Organization's structure	( )	( )	( )	( )	( )
b) Organization's culture	( )	( )	( )	( )	( )
c) Organization's policies	( )	( )	( )	( )	( )
d) Organization's values	( )	( )	( )	( )	( )
e) Staffing	( )	( )	( )	( )	( )
f) Staff skills and expertise	( )	( )	( )	( )	( )
g) Existing systems	( )	( )	( )	( )	( )
h) Leadership style	( )	( )	( )	( )	( )

15. In implementation, are the following management tools used in your organization

a) The McKinsey 7-S Framework

Yes ( ) No ( )

b) The Balanced Scorecard

Yes ( ) No ( )

16. How effective have these tools being in the implementation process

a) The McKinsey 7-S framework

Very effective ( )

Highly effective ( )

Effective ( )

Relatively effective ( )

Not effective ( )

**b) The Balanced Scorecard**

Very effective ( )

Highly effective ( )

Effective ( )

Relatively effective ( )

Not effective ( )

**17. Has the use of these tools resulted to formulation of better strategies over time**

Yes ( )

No ( )

**18. What shortcomings and challenges have your organization experienced as a result of their use**

**a) The McKinsey 7-S Framework**

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**b) The Balanced Scorecard**

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19. How often are middle-level managers involved in strategic discussions and negotiations

- Very often ( )
- Quite often ( )
- Often ( )
- Less often ( )
- Not involved ( )

20. Are these discussions formal or in formal

- Formal ( )
- Both formal and informal ( )
- Informal ( )

21. i) Are middle managers involved in training programs on strategic issues

- Yes ( ) No ( )

ii) If yes, which of the following strategic issues are they trained on and to what extent

	To no		To a great		
	Extent		Extent		
	( 1 )	( 2 )	( 3 )	( 4 )	( 5 )
a) Strategy formulation	( )	( )	( )	( )	( )
b) Environmental scanning	( )	( )	( )	( )	( )
c) Emergent strategies	( )	( )	( )	( )	( )

- d) Strategic innovation                    ( ) ( ) ( ) ( ) ( )
- e) Managing emergent strategies        ( ) ( ) ( ) ( ) ( )
- f) Strategy implementation                ( ) ( ) ( ) ( ) ( )

iii) How often are middle managers involved in such training programs

Annually                                        ( ) ( )

Semi-annually                                ( ) ( )

Quarterly                                      ( ) ( )

Monthly                                        ( ) ( )

Ad hoc                                         ( ) ( )

Other (Please specify) \_\_\_\_\_

22. What challenges has your organization experienced in:

a) Involving middle managers in strategy formulation

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b) Training managers on strategic issues

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23. i) Are other employees involved in training on strategic issues

Yes ( ) No ( )

ii) If yes, how often are they involved?

Very often ( )

Quite often ( )

Often ( )

Less often ( )

Not involved ( )

24. i) Is the strategy communicated to all employees in the organization

Yes ( ) No ( )

ii) If yes, how is it communicated

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25. i) Is the strategy framed and communicated in a memorable way

Yes ( ) No ( )

ii) Are employees encouraged to memorize the strategy

Yes ( ) No ( )

26. To what extent does the communicated strategy help and guide employees in the following issues

	To no			To a great	
	Extent			Extent	
	(1)	(2)	(3)	(4)	(5)
a) Maintaining strategic focus	( )	( )	( )	( )	( )
b) Making decisions	( )	( )	( )	( )	( )
c) Encouraging innovation	( )	( )	( )	( )	( )
d) Responding to opportunities	( )	( )	( )	( )	( )
e) Taking risks	( )	( )	( )	( )	( )
f) Encourage enterprising behavior	( )	( )	( )	( )	( )

27. What challenges has your organization experienced in:

a) Involving employees in strategy formulation

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b) Training employees on strategic issues

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**c) Communicating the formulated strategy to all employees**

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**d) Encouraging employees to memorize and internalize the communicated strategy**

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**e) Using strategy to guide employees actions, decisions and behavior**

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**APPENDIX 2: COMMERCIAL BANKS OPERATING IN KENYA AS AT  
DECEMBER 2004**

NAME	HEAD OFFICE	DATE LICENSED	BRANCHES	
			FULL	SUB
1. AFRICAN BANKING CORP. LTD	Mezzanine Plaza, Koinange Street	ABC Bank 1.5.1984	8	-
2. AKIBA BANK LTD.	Fedha Towers Muindi Mbingu St.	1972	5	-
3. BANK OF AFRICA KENYA LTD	Plaza Taifa Road	2004		
4. BANK OF BARODA (K) LTD.	Baroda House, Koinange St.	1.7.1953	6	-
5. BANK OF INDIA	Kenyatta Avenuc	5.6.1953	2	-
6. BARCLAYS BANK OF KENYA LTD.	Barclays Plaza Loita Street	1966	46	3
7. CFC BANK LIMITED	CFC Centre Chiromo road, Westlands	14.05.55	5	-
8. CHASE BANK (KENYA) LTD.	Prudential Ass. Bldng. Wabera Street	1.4.1991	1	-
9. CHARTERHOUSE BANK LTD.	Longonot Place, Kijabe Street	11.11.96	2	-

10.	<b>CITIBANK N.A.</b>	Citibank House Upper Hill	1.7.1974	3	-
11.	<b>CITY FINANCE BANK LTD.</b>	Unity House Koinange St.	10.09.1984	1	-
12.	<b>COMMERCIAL BANK OF AFRICA LTD.</b>	Wabera Street	01.01.1967	6	-
13.	<b>CONSOLIDATED BANK OF KENYA LTD.</b>	Consolidated Bank House, Koinange st	18.12.1989	12	-
14.	<b>CO-OPERATIVE BANK OF KENYA LTD.</b>	Co-Operative House	1965	30	-
15.	<b>CREDIT BANK LIMITED</b>	Mercantile House Koinange st.	14.5.1986	3	-
16.	<b>DAIMA BANK LTD. (Currently in liquidation)</b>	Utalii House, Off Uhuru Highway	1.9.1992	2	-
17.	<b>DEVELOPMENT BANK OF KENYA LTD.</b>	Finance House, Loita Street	1973	1	-
18.	<b>DIAMOND TRUST BANK KENYA LTD.</b>	Nation Centre, Kimathi Street	1946	5	-
19.	<b>DUBAI BANK KENYA LIMITED</b>	I.C.E.A Building Kenyatta avenc	1982	3	-
20.	<b>EQUATORIAL COMMERCIAL BANK LTD</b>	Sasini House, Loita street	20.12.95	3	-

21.	<b>EQUITY BANK</b>	Fourways Towers Muindi Mbingu St.			
22.	<b>FIDELITY COMMERCIAL BANK LTD.</b>	Bldng. 7th Floor Kimathi Street.	1.6.1992	2	-
23.	<b>FINA BANK LIMITED.</b>	Fina House, Kimathi Street	1986	2	-
24.	<b>FIRST AMERICAN BANK OF KENYA LTD.</b>	I.C.E.A Building, Kenyatta Avenue.	1987	3	-
25.	<b>GIRO COMMERCIAL BANK LIMITED</b>	Giro House, Kimathi Street	17.12.1993	6	-
26.	<b>GUARDIAN BANK LIMITED.</b>	Baba Dogo & Main branch Moi Avenue	17.12.1992	6	-
27.	<b>HABIB BANK A.G. ZURICH</b>	National House Koinange Street	1.7.1978	5	-
28.	<b>HABIB BANK LTD.</b>	Exchange Building Koinange Street	2.3.1956	7	-
29.	<b>IMPERIAL BANK LTD.</b>	Bunyala Road Upper Hill	1.11.1992	4	
30.	<b>INDUSTRIAL DEVELOPMENT BANK LTD.</b>	National Bank Building, Harambee Avenue	1973	1	

31.	<b>INVESTMENTS &amp; MORTGAGES BANK LTD.</b>	I & M Bank Tower 2nd Ngong Avenue	1974	7	
32.	<b>KENYA COMMERCIAL BANK LTD.</b>	Kenya Commercial Bank Building, Moi Avenue		87	26
33.	<b>K-REP BANK LIMITED</b>	Naivasha Road Riruta	25.03.99	3	
34.	<b>MIDDLE EAST BANK KENYA LTD.</b>	McBank Tower Milimani Road	Oct.1980	3	-
35.	<b>NATIONAL BANK OF KENYA LTD</b>	National Bank Building, Harambee Avenue	1.1.1968	24	
36.	<b>NATIONAL INDUSTRIAL CREDIT BANK LTD.</b>	N.I.C. House Masaba Road	17.9.1959	4	
37.	<b>ORIENTAL COMMERCIAL BANK</b>	Finance House Koinange St.	02.08.91	5	-
38.	<b>PARAMOUNT UNIVERSAL BANK LTD.</b>	Sound Plaza Building Westlands	1.10.93	3	
39.	<b>PRIME BANK LTD.</b>	Kenindia House Loita Street	1.3.92	7	-

40.	<b>SOUTHERN CREDIT BANKING CORP.LTD.</b>	Off Muranga Road	1.10.80	6	
41.	<b>STANBIC BANK KENYA LIMITED.</b>	Stanbic Bank Bldng Kenyatta Avenue.	9.5.1970	3	-
42.	<b>STANDARD CHARTERED BANK (K) LTD.</b>	Stanbank House Moi Avenue	1.10.1910	28	2
43.	<b>TRANS-NATIONAL BANK LTD.</b>	Transnational Plaza Mama Ngina Street	1.8.1985	6	-
44.	<b>VICTORIA COMMERCIAL BANK LTD.</b>	Victoria Towers Upper Hill.	1.6.1987	1	

*Source: Central Bank of Kenya, FISD Annual Report, 2004*