# THE PERCEPTION OF CREDIT MANAGERS ON THE EFFECTIVENESS OF STRATEGIES ADOPTED BY EQUITY BANK OF KENYA IN THE PERFORMANCE OF LOANS

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

NOVEMBER, 2012

# DECLARATION

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

Sign: ______________ Date: 13|11|2012

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D61/79065/2010

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

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# DEDICATION

I dedicate this project to my dear husband Mr. Stanley Kariuki and also to my dear kids Franklyn and Adrian For their support and encouragement during the whole duration of this course. To my dear parents, Mr. and Mrs. Josphat Kagori for their prayers and support while undertaking this course.

# ACKNOWLEDGEMENT

It has been a wonderful learning experience in my life since I started this project. It filled me with so much joy knowing I would experience challenges and at the same time have their solutions. The completion of my present study leads to a new beginning and a step forward in my endeavors.

I give all the glory to almighty God for this far he has brought me , he has always been there in my endeavors in life including this study. My profound gratitude goes to my supervisor Dr. J.M Munyoki and moderator Mr. Jeremiah Kagwe for their insightful guidance through the whole process of project writing. Am thankful for being available throughout, their guidance, the corrections they made on my drafts, their continuous encouragement and support in writing this project. I am also indebted to my family, my boss at my place of work and friends whom I may not mention in person for their material and moral support which enabled me complete my MBA course successfully.

# ABSTRACT

A company's strategy consists of the business approaches and initiatives it undertakes to attract customers and fulfill their expectations, to withstand competitive pressures and to strengthen its market position. These strategies provide opportunities for the organization to respond to the various challenges within its operating environment. Banking institutions throughout the world are facing a fast paced dynamic environment where efficiency and competitiveness hold the key to survival. The process of establishing a competitive advantage is at the heart of competitive marketing strategy. The objective of the study was to establish the perception of credit managers on the effectiveness of strategies adopted by Equity Bank in the performance of loans. The study adopted a census survey design. The population of the study was credit managers in the banks' branches operating in Nairobi. The study used primary data which was collected through self-administered structured questionnaires. The data was analyzed and presented using mean, standard deviation and percentages. The findings of the study was that the credit managers perceived the strategies adopted by the bank to be effective as it resulted in offering of customers quality products and services, continuously improve qualities and are more cost-conscious, being flexible in the strategies they employ and use flexible process of decision making. The recommendations of the study were that managers should be involved in formulation of strategies and the Bank should embrace risk management so as to be able to analyze its performance relating to loan default and operational losses. These strategies provide opportunities for the organization to respond to customers' needs and also to respond to the various challenges within its operating environment.

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# CHAPTER ONE: INTRODUCTION

## 1.1 Background of the Study

As the banking sector expands at an increasing rate and becomes intensely competitive, every organization needs to adopt some strategies which will enable it to have a competitive edge over the others. As competition intensifies, many businesses continue to seek profitable ways in which to differentiate themselves from competitors. Strategies are at ends and these ends concern the purpose and objectives of the organization. They are the things that organizations do, the paths they follow and the decisions they take in order to reach certain points or level of success. As the banks arm twist each other in wooing customers to take loans from them which some have even gone to the extent of offering non secured loans, the greatest challenge which all the banks faces is the effectiveness of strategies put in place by the management of the banks to manage the loans so as to reduce default or nonpayment of loans. This therefore calls for a change of tact by employing new strategies (Mullei, 2003).

A company's strategy consists of the business approaches and initiatives it undertakes to attract customers and fulfill their expectations, to withstand competitive pressures and to strengthen its market position. These strategies provide opportunities for the organization to respond to the various challenges within its operating environment. Firms also develop strategies to enable them seize strategic initiatives and maintain a competitive edge in the market (Porter, 1985). The competitive aim is to do a significantly better job to its customers. Indeed, the major dilemma faced by businesses today is managing loans efficiently and effectively (Graetz et al., 2002). The commercial banks in Kenya have been advancing loans to both its clients and non-clients so that they can increase their customer base and at the same time their profits. Equity bank has not been left behind as it advances both secured and non-secured loans and these necessitates well developed strategies in order to ensure that the loans advanced does not become non-performing as it has led to some banks collapse.

### 1.1.1 The Concept of Strategy

A strategy is the direction and scope of an organization over a long term; which gives advantage for the organization through its configuration of resources within a challenging environment, to meet the needs of markets to fulfill owners' expectation (Biggadike, 1976). Chandler (1962) stated that strategy determines the basic long-term goals of an enterprise, and the adoption of courses of action (strategy as plan of action) and the allocation of resources necessary for carrying out these goals (strategy as re-source allocation). Porter (1996) viewed strategy as the process of creating a unique and valuable position with means of a set of activities in a way that creates synergistic pursuit of the objectives of a firm. Mintzberg (1990) suggests that the term strategy is used to mean a plan, a ploy, a pattern, a position or a perspective.

Strategy can be viewed as building defenses against the competitive forces, or as finding positions in the industry which forces are weakest (Pearce and Robinson, 1997). Strategy is a plan, some sort of consciously intended course of action, a guideline (or a set of them) to deal with a situation. Strategy can be a ploy, just a specific ‘maneuver’ intended to outwit an opponent or competitor. Strategy is a pattern, specifically a pattern in a stream of actions. Strategy is a position, this means specifically identifying where the organization locates itself in what is known in the management literature as 'environment' for a business firm, usually a market. Strategy is a perspective, its content consists not just a chosen position but an ingrained way of perceiving the world. Batemand (1990) suggested that strategy is a pattern of actions and resource allocations designed to achieve the goals of the organization.

### 1.1.2 The Concept of Perception

Perception has been defined as the act of being aware of "one's environment through physical sensation, which denotes an individual's ability to understand" (Analoui, 2007). However, many social psychologists have tended to develop the concept around one of its most essential characteristics that the world around us is not psychologically uniform to all individuals. This is the fact, in all probability, that accounts for the difference in the opinions and actions of individuals/groups that are exposed to the same social phenomenon. Rao and Narayan (1998: 329-330) emphasize that perception ranks among the "important cognitive factors of human behavior" or psychological mechanism that enable people to understand their environment. In their own words, "perception is the process whereby people select, organize, and interpret sensory stimulations into meaningful information about their work environment." They argue that perception is the single most important determinant of human behavior, stating further that "there can be no behavior without perception."

The attainment of the strategic objectives underlying strategic decisions is accomplished through the effective practice of strategic leadership (van der Merwe and van der Merwe, 1995). The perceptions of executives constitute an integral part of their cognitive limitations in making strategic choices. In this context, perception is a psychological function which enables strategic leaders to receive and process information obtained from the external environment within the strategic management process (Anderson and Paine, 2005). In one sense, a strategy is a set of decisions or choices made by a leader that is filtered by his/her perceptions and limited by his/her cognitive capacity. In fact, executives vary greatly in their perceptions of effective leadership in making and successfully implementing strategic choices. Such differences may be attributable to unavoidable cognitive biases below the executive's threshold of awareness or they may reflect a conscious preference for or a predisposition toward a particular outcome inherent in the decision (Waller et al., 2005).

### 1.1.3 Strategies adopted by banks to manage loans

The service environment has evolved due to the following factors: changing patterns of government regulation, technological innovations, the service quality movement, pressures to improve productivity, relaxation of previous professional association restrictions on marketing, internationalization and globalization (Lovelock *et al.,* 1996). This has caused a lot of dynamism in the service sector: competition has increased and consumers are exposed to more information. Organizations aspiring to meet the challenges of today's rapidly changing markets and increasing competition require strategic management decisions to be founded on well-conceived strategies. Welljustified decisions and clearly defined strategies are vital if the firm is to achieve its goals and objectives while optimizing the use of its resources (Ward and Lewandowska, 2008). Managers have to identify and assess the alternative ways in which their organization can use its strengths to capitalize on opportunities or minimize threats, and invest in available opportunities to overcome its weaknesses.

One of the financial institutions in any country is the commercial bank. Its balance sheet position unveils how effectively management has been able to manage the granting of loans to borrowers. Effective loan portfolio management is more than generating favorable results, such as low levels of criticized loans or strong net interest rate margins. Effective loan portfolio management considers how those results were achieved, the likelihood those results will continue, and whether the institution is maximizing opportunities and providing the greatest benefit practicable to borrowers/members.

In a world characterized by durable products, stable consumer needs, well defined markets, and clearly defined customers, competition is a war of position in which companies' occupy competitive space, building and defending market share in clearly defined market segments. However, this traditional approach has become obsolete. As markets fragment and proliferate, owning any particular market segment becomes more difficult and less valuable and, as product life cycles accelerate, dominating existing product segments becomes less important than being able to create new products and exploit them quickly. Regardless of the industry, the changes in the marketplace that are affecting most companies, and how they compete, are the same: dramatically improving quality; increasingly global markets and more competitors; and more demanding customers, however the strategies which are used to counter the challenges differs as some are effective while others are not effective and therefore an organization needs to come up with strategies which will ensure that they maintain their market share (Graebner, 2007).

### 1.1.4 Organizational Performance

Today's organizations gain competitive advantage through the effective utilization of their human resources, since organizational performance arises mainly from employees, as they are the prime movers of all organizational resources (Kolay and Sahu, 2005). In turn, the strategic value of human resources could be reflected in how effectively these resources are managed in order to improve performance (Pfeffer, 1994). Organizational performance, although not a precisely defined concept, is assessed in terms of the results that an organization achieves in relation to its objectives. In principle, it can be measured at the output, outcome or impact level, and, less rigorously, as the organization's compliance to rules.

According to Swanson (2000), organizational performance is the valued productive output of a system in the form of goods or services. Organizational performance can be subdivided into three categories: financial performance (profit), internal non-financial performance (productivity) and external non-financial performance (e.g., customer satisfaction). Private sector organizations strive for good financial results whereas public organizations are aimed at non-financial aims like delivering good public services to citizens (Van Loo and De Grip, 2002:17). To achieve performance through employees, the organization must consider them as asset and must be treated with attention so that the employees become productive.

One of the challenges influencing the performance of a bank is the bank loans. Organizations have to respond strategically to this factor in order to maintain it at a level which it does not affect the profitability of the bank so much at the end of the year. Increased non-performing loans threaten the attractiveness of a bank and reduce its profitability, (Hamel and Prahalad 1993). To succeed in the long term, organizations must ensure that they advance loans to those customers who have a track record on servicing the loans.

### 1.1.5 Equity Bank

Equity bank was registered in Kenya as a building society in 1984. The choice of the legal format was a function of what was available at the time and what could be afforded, both in terms of license fees and capitalization. It initially focused on providing short term loans and deposit services, opening several branches in nearby Central Province. Competition for clients was fierce and, in time, many of the smaller societies were closed, with the concomitant effect of diminishing client confidence in these smaller institutions. Equity, however, mobilized customers by hard one-on-one marketing strategy. This is because financial institutions operate through the need to win the confidence of clients and authorities. Equity bank is fiercely focused on creating and containing customer loyalty and on doing everything in its power to gain and strengthen clients' confidence in it as a financial institution http://www.equitybank.co.ke/.

According to Equity Bank annual prospectus, all its activities and actions are weighed in terms of the impact they will have on customer loyalty and trust.

Equity's focus on its microfinance customers is regarded as an important success factor since 1995. This focus, which is embodied in the mission of the organization, drives most of the activities of Equity http://www.equitybank.co.ke. The bank's focus on the management of client perceptions is an embodiment of the importance attached to clients. Impeccable attention to client service is also seen as one of the most important success areas of all. The bank has also endeavored to build human resource and technical capacity over time. The Equity bank's Range of products include Loan products: crop advance loans, farm inputs loans, from single credit to include business, household, education, emergency and group loans Savings: For special events, old age, schedules, youth accounts, education, newborns.

However, the bank, like any other organization, has its own unique challenges which include maintenance of the client-focused culture, even with growth. The bank also considers maintaining a quality loan portfolio and a satisfied customer base, introducing frictionless inter branch banking services and changing client perception of the pricing of products to among other challenges the bank faces in its future operation.

## 1.2 Research Problem

Banking institutions throughout the world are facing a fast paced dynamic environment where efficiency and competitiveness hold the key to survival. The process of establishing a competitive advantage is at the heart of competitive marketing strategy

(Devlin and Ennew, 2007). With intense competition from both domestic and international players, rapid innovation and introduction of new financial instruments, changing consumer demands and explosive growth in information technology, the way in which a commercial banking firm conducts business and reaches out to its customers has significantly changed.

This new shift in the Kenyan banking industry can be attributed to the liberalization of the sector, increased adoption of information technology and improved business environment due to reforms being undertaken in the political, economic, social and cultural fields. Therefore, one of the ways that Equity Bank has adopted is the formulation and implementation of strategies which ensure efficient management of loans based on its mass marketing strategy. This will ensure that the bank does not incur losses as a result of non-performing loans emanating from poor management of the loans advanced to both its customers and non-customers.

Recent studies done on the perception of management on the effectiveness of strategies in the management of loans include Kasyoka (2009) who researched on the managers perception of strategy and structure at the Nairobi bottlers company limited and found out that the company's structure promotes implementation of the intended strategies and also that the strategies are effective. Mogere (2009) did a research on managers perception of strategic change management practices by Kenya National Assembly and found out that the relationship between perceptions of success of the ongoing change effort and perceived sense of competence; affective commitment; satisfaction with organizational members; opportunities to participate in decision making; opportunities for development and growth; and respect in the workplace was significant.

From the studies presented here, there does not seem to be any study that has been done on the perception of managers and therefore these study will seek to establish the of managers on the effectiveness of strategies adopted to manage loans and the study will be guided by the question; what is the perception of managers on the effectiveness of strategies adopted to manage in the management of loans?

## 1.3 Research Objectives

To determine the perception of the management of Equity Bank on the effectiveness of strategies adopted by the bank in the management of loans.

## 1.4 Value of the study

This study will be of value to:

The management of the Bank since it will help them to understand the importance of having efficient strategies as it will enable them to reduce non-performing loans and at the same time increasing the loans they are advancing to its customers. The recommendations of this study will form part of the action plans that will help in enhancing good service delivery by the bank. This is because management will be able to make informed decisions on issues of implementation of strategies. Other commercial banks will also be able to learn from the bank so that they can also implement their strategies which will ensure that they manage the loans they are advancing effectively.

The government and regulators in the banking sector will also find invaluable information in how to implement their strategies and as a result put in place policies that will guide and encourage other firms within and without the industry in implementing their strategies. For academicians, this study will form the foundation upon which other related and replicated studies can be based on. Scholars will find it important as the study will increase to the body of knowledge in this area.

# CHAPTER TWO: LITERATURE REVIEW

## 2.1 Introduction

This chapter discusses the concept of perception, the organizational strategies Manager's role on effectiveness of strategies and performance management.

## 2.2 The Concept of Perception

Perception is sensory experience of the world around us and involves both the recognition of environmental stimuli and actions in response to these stimuli. Roslender and Finchman (2004) define perception as the complex process by which people select and organize sensory stimulation into a meaningful and rational picture of the world. Through the perceptual process, it is possible to gain information about properties and elements of the environment that are critical to our survival. Perception not only creates our experience of the world around us; it allows us to act within our environment. In organizations, perceptions of leaders, managers and employees shape the climate and effectiveness of the working environment. Perception is the way we all interpret our experiences. It is a marvelous and difficult part of human behavior; managers must realize that all individuals have differing perceptions. In the work place, when employees and employers have very strong differing perceptions about quality, quantity and schedules, it then becomes very difficult to accomplish meaningful objectives.

Most of the time people believe that they are effective and efficient leaders using their perception but their supposed followers may have a very different perception. People react to specific situations based on what they see rather than on what it really is. Often people see only what they want to see in a given situation. Similarly how they react depends on what we hear, not necessarily on what was said. Perception therefore is just another tool, under-utilized, that requires an administrator to develop the true desire to be the best he/she can be (Mouritsen et al., 2005). Generally leaders possess three major skills in many organizations that of vision, interpersonal skills and technical skill. It is seldom forgeted that one important skill that is vital for any leader. That skill is perception. Having the right perception is significant skill for any effective leadership. It is important to understand that perception is often portrayed through communication in any organization be it big or small and therefore it is a pertinent tool in leadership. A leader sensitive to perception of employees must use communication as a tool to either reinforce a positive perception or change a negative one. Having the right perception is not only about becoming competent, polyvalent and productive but also about nurturing diversity and being able to live with all employees.

## 2.3 Organizational Strategies

Organizational strategists understand the organizational drivers of competitive advantage and combine the knowledge and skill sets of savvy business executive, organizational futurist and performance zealot. They are skilled in designing organizational strategies and building talent practices that create high performance organizations, and are credible and accomplished at leading and implementing change (Grojer and Johnson, 2008). The organizational strategist thinks, plans and acts over multiple time horizons recognizing that capabilities take time to build or acquire, and transformation takes time to orchestrate; laying the requisite organizational foundations and sequencing implementation phases are important preconditions to make sure that change sticks and sustains.

In today's world, where over 70% of the value of most companies is now considered to be intangible - knowledge, methods, capabilities, relationships, brand –all linked directly or indirectly to human capital, and where top-performing companies derive over 64% more profit per employee than next-tier performers, the lack of an organizational strategy of consequence is increasingly a competitive impediment (Devlin and Ennew, 2007). Developed and implemented effectively organizational strategy enables companies to convert strategic intent into sustainable and high performance results; we urge business leaders – as a priority - to build organizational strategy capability into their business, and its development and execution into their strategic agenda rather than continue to let its absence frustrate strategy.

Ivancevich and Matteson (2002) stated that in today's competitive world, the effective company is typically the one that provides customers with quality products and services. The evaluation on the effectiveness of an organization is very essential to help the organization identify its strengths and weaknesses. Evaluating the level of effectiveness is very important in order to determine if it is operating towards the desired objectives and goals. Once the organization has taken the time to go through this evaluation, it can identify opportunities for organizational development and growth that will dovetail nicely into the organization's overall strategic planning process. It can be the basis of benchmarking programs in organizational effectiveness to yield efficient services to meet the ever-changing demands of the clients. As such, it will allow the management to correct courses of action and realign the system and provide basis for continuous improvements in order to achieve goals and objectives and sustain the health and life of the organization.

## 2.4 Manager's role on effectiveness of strategies

To thrive or survive, banks need to continuously improve qualities, attract more customers, and are more cost- conscious. In other words, banks need to better manage their performance. Over the years, there are many practices, tools, techniques, systems, philosophies that aim to help organizations to gain competitive advantage. Some of them have proved to be effective and remain in the business management while some of them may be just a business fad (McDonald *et al.,* 2005). The watchword in the new competitive landscape is flexibility in strategy and organization. Because of the rapid changes in technology and speed with which new products are introduced to the market, firms must remain flexible in the strategies they employ to respond to competitors' strategic actions. To have strategic flexibility, firms must use a flexible process of strategic decision making to maintain flexibility in the deployment of critical resources (Sanchez, 1995).

Managers must also develop a mindset that allows cooperation with competitors as well as traditional economic competition. Because of the need to pool resources to develop more and better new technology in order to remain competitive, firms have been forced in numerous cases to form competitive alliances with current and potential competitors, Bettis and Prahalad (2005). Strategic alliances are particularly prominent between domestic and foreign competitors, but are also numerous between domestic competitors to help fight off foreign competition or achieve, at least, competitive parity in global markets.

The significant dynamism in the new competitive landscape requires that firms concurrently unlearn and learn, (McGill and Slocum 2004). Managers must have a mindset that allows them to unlearn traditional practices, processes, and strategies and to be receptive to new ones. In fact, as argue, they must have a learning-oriented mindset; the ability to learn and unlearn is important. Levinthal and March (2003), further argue that learning can improve organizational performance, but also limit future improvements. The managerial mindset must change from a focus on a vertical to a horizontal organizational structure.

Competition positioning and competitive advantage are two central components of marketing strategy. Managers routinely assess their brand's market position relative to a well-defined group of competitors and undertake actions such as evaluating competitive products' key features to gain insights. Yet, in spite of the emphasis on competitive positioning and vying for relative advantage, the scope and nature of condition are not well defined or operationalized. This may be due to the viewpoint, from which competition is defined Day and Nedungadi (1994), because competition typically is characterized from a firm's perspective instead of from a customer's perspective.

## 2.5 Performance measurement

Strategy is a pattern of resource allocation that enables a firm to maintain or improve performance that creates "fitness" among a company's activities. Simons (2000) observes that performance measurement is tracking the implementation of business strategy by comparing actual results against strategic goals and objectives. As performance is a result of an activity performance must be measured in order to analyze strategies. While traditional bank performance parameters like transactions, deposit and income are significant indicators, the criterion of efficiency has become a way of achieving firm competitiveness in the banking sector like never before. It is becoming increasingly relevant from a marketing perspective to not only outperform competitors on deposit or income, but also be cost competitive. A bank is considered to be cost competitive, if it spends equal amount of money on resources as others but generates higher levels of performance or if it spends less amount of money on resources to generate same level of performance as others in the industry..

On the conceptual front, a bank typically performs two functions: it provides product and services to its clients and engages in financial intermediation and management of risk. The servicing function is typically measured using the level of quality service provided and the intermediation activity is measured using its risk management skills (Harker and Zenios, 2008). Benchmarking on the basis of overall financial performance and resultant strategic grouping can help the banks to restructure their policy choices to compete in this dynamic environment. Analyzing its position in the performance hierarchy, a bank can take decision on certain strategic variables like product mix, client mix and distribution channel whereby they can follow the market leaders and devise their improvement strategy.

Performance of a bank is generally conceptualized as the extent to which the bank is able to utilize its resources to generate business transactions, and is measured by their ratio, which we call efficiency. Efficiency is measured by the ratio of outputs to inputs, where larger value of this ratio indicates better performance. Studies of bank performance have, to date, concentrated on obtaining a single perspective of efficiency (Cook and Hababou, 2001). Traditional accounting and financial ratio methods (like return on equity, return on assets) have been very useful in the past for providing information for benchmarking a bank's performance, but they have methodological limitations. The majority of banks losses stem from outright default due to inability of customers to meet obligations in relation to lending, trading, settlements and financial transactions. It is essential that banks manage these risks so as to reduce losses and ensure continued existence in the longer term. One major risk that needs to be effectively managed and investigated is credit risk.

Risk management is the process of analyzing economic exposure to risk and determining how best to handle such exposure (Tayles et al., 2002). Risks can be minimized or avoided through appropriate risk management practices. Given the above discussion on strategic flexibility, real options and adopting a resource-based view of the firm, it is expected that firms with high levels of effective strategies – particularly in the form of creativity, intellectual assets, and relational capital – are better positioned to be able to withstand, and even exploit, the effects of unanticipated changes in markets and economies. This presumes of course that companies always use their effective strategies to advantage, which may not always be the case. Business grows mainly by taking risk. Greater the risk, higher the profit and hence the business unit must strike a tradeoff between the two.

# CHAPTER THREE: RESEARCH METHODOLOGY

## 3.1 Introduction

The chapter describes the proposed research design to be used in the study, the target population which is credit managers working in Equity Bank Kenya, data collection instruments and the techniques to be used for data analysis.

## 3.2 Research Design

The research design was a descriptive cross sectional survey which involves data collected at a defined time. The survey sought for the opinion of the Equity Bank credit managers in all branches operating in Nairobi. The survey involves the process of collecting information about each member of a given population. The survey was adopted because it provided a quick snapshot of what is going on with the variables of interest for the research problem. The survey of a population can be one-off or repeated at regular intervals thereby providing a means of 'monitoring' changes in the population in response to societal and policy change (Kitay and Callus, 1998). The survey was to ensure that the whole population is involved and, therefore, there are no random errors or systematic errors caused by the sampling itself.

## 3.3 Population

The population of the study was all the bank's branches operating in Nairobi region. According to Annual report (2011) there are Fourty branches operating in Nairobi and each branch has one credit manager. All the credit managers in the Fourty branches participated in the study, hence the study was a census.

### 3.4 Data Collection

The study used primary data which was collected through self-administered questionnaires. A questionnaire is a useful tool for collecting data from respondents because of the need to provide a means of expressing their views more openly and clearly. The structured questionnaire consisted of both open and closed ended questions designed to elicit specific responses for qualitative and quantitative analysis. The researcher used drop and pick later method thus enabling the respondents enough time to adequately respond. The respondents for the study were credit managers in each branch. Each branch has one credit manager.

The questionnaire was made up of three sections namely: General information and the perception of management on the effectiveness of strategies in the performance of loans. A likert scale will also be used for close –ended questions. Secondary data on the subject area was collected through annual reports and organizational publications both within and without the organization.

### 3.5 Data Analysis

Before final analysis is undertaken the data collected was checked for completeness and consistency. In order to ensure logical completeness and consistency of responses, data editing was carried out by the researcher. Once editing is done with, data was analyzed qualitatively. The data collected was analyzed using descriptive statistics (measures of central tendency and measures of variations). The data was classified, tabulated and summarized using descriptive measures, percentages and frequency distribution tables while tables and graphs was used for presentation of findings.

# CHAPTER FOUR

# DATA ANALYSIS AND INTERPRETATION

## 4.1 Introduction

The research objective was to establish the perception of credit managers on the effectiveness of strategies adopted by Equity Bank in the performance of loans. This chapter presents the analysis, results and discussion of the same. The findings are presented in percentages, frequency distributions, mean and standard deviations. A total of sixty questionnaires were issued out. The completed questionnaires were edited for completeness and consistency. Of the sixty questionnaires issued out, only forty six questionnaires were returned. This represented a response rate of seventy seven percent.

## 4.2 Demographic Information

The demographic information considered in this study included respondents gender, age bracket, length of continuous service with the bank and the highest level of education.

The gender distribution of the respondents was that 56.5% of the respondents were female while 43.5% were male. The respondents were requested to indicate their age brackets and the results are as shown in Table 4.1.

**Table 4.1: Age bracket**

| Age bracket | Frequency | Percent |
|---|---|---|
| 21-30 | 8 | 17.4 |
| 31-40 | 34 | 73.9 |
| 41-50 | 4 | 8.7 |
| Total | 46 | 100.0 |

The findings on the respondents' age bracket in Table 4.1, was that 73.9% of the respondents were 31 to 40 years old, 17.4% of the respondents were 21 to 30 years old while 8.7% indicated that they were less than 41 to 50 years old. The results indicate that majority of the respondents were above 30 years and this indicate that the respondents have worked in the industry for some time and thus they know the effectiveness of strategies adopted by the bank. The respondents were asked to indicate the duration they have continuously worked in the bank and the results are presented in Table 4.2.

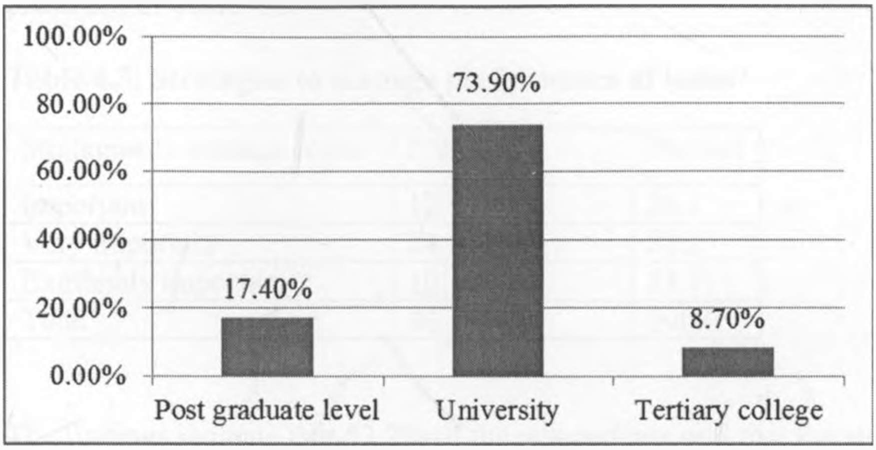
**Table 4.2: Length of continuous service with the bank**

| Length of continuous service | Frequency | Percent |
|---|---|---|
| Less than 2 | 7 | 15.2 |
| 2-5 | 32 | 69.6 |
| 6-10 | 7 | 15.2 |
| Total | 46 | 100.0 |

As shown in table 4.2, 69.6% of the respondents have worked in the bank for a period of 2 to 5 years, 15.2% of the respondents have worked in the bank for less than 2 years while another 15.2% of the respondents indicated that they have worked in the bank for a period of between 6 and 10 years. The results indicate that majority of the employees have worked in the bank for more than five years thus there is higher level of understanding on the managers perception on the perception of management on the effectiveness of strategies adopted in the management of loans.

The respondents were asked to indicate the highest level of education and the results are presented in Figure 4.1.

**Figure 4.1: Highest level of Education**




The results presented in Figure 4.1 indicate that 73.9% of the respondents had attained university level, 17.4% of the respondents had attained postgraduate level while 8.7% were tertiary college level holders. The results indicate that majority of the respondents were university degree holders an indication that the bank employs mostly graduates who are trained to be managers and thus they have high level of understanding of strategies adopted by the bank in the management of loans.

## 4.3 Perception of management on the effectiveness of strategies in the performance of loans

Managers must also develop a mindset that allows cooperation with competitors as well as traditional economic competition. Because of the need to pool resources to develop more and better new technology in order to remain competitive, firms have been forced in numerous cases to form competitive alliances with current and potential competitors.

### 4.3.1 Strategies to manage performance of loans

The respondents were asked to indicate the extent to which they perceive the strategies put in place by the bank management to manage the performance of loans. The results are presented in Table 4.3.

**Table 4.3: Strategies to manage performance of loans**

| Strategies to manage loans | Frequency | Percent |
|---|---|---|
| Important | 12 | 26.1 |
| Very important | 24 | 52.2 |
| Extremely important | 10 | 21.7 |
| Total | 46 | 100.0 |

The findings indicate that 52.2% of the respondents said that the strategies put in place by the bank management to manage performance of loans was very important, 26.1% of the respondents said it was important while 21.7% of the respondents said it was extremely important. The results indicate that the results put in place by the bank were important in the management of loans.

### 4.3.2 Formulation of strategies to manage loans

The question sought to establish from the respondents whether the banks' strategist involve them in the formulation of the strategies to manage loans. The findings indicated that 54.3% of the respondents said that they were not involved in the formulation of strategies to manage loans while 45.7% said that they were involved in the formulation of the strategies. The results indicate that the respondents were not involved in the formulation of the strategies and therefore they are to implement the formulated strategies and these may result in failure to effectively manage the loans.

### 4.3.3 Effectiveness of banks strategies

The respondents were requested to regarding the effectiveness of the banks' strategies on the performance of loans in a five point Likert scale. The range was 'strongly disagree (1)' to 'strongly agree' (5). The scores of strongly disagree have been taken to represent a variable which had mean score of 0 to 2.5 on the continuous Likert scale; (0≤ S.E <2.4). The scores of 'moderate' have been taken to represent a variable with a mean score of 2.5 to 3.4 on the continuous Likert scale: (2.5≤M.E. <3.4) and the score of both agree and strongly agree have been taken to represent a variable which had a mean score of 3.5 to 5.0 on a continuous likert scale; (3.5≤ L.E. <5.0). A standard deviation of >0.7 implies a significant difference on the impact of the variable among respondents. The results are presented in Table 4.4.

**Table 4.4: Effectiveness of banks strategies**

| Effectiveness of banks strategies | Mean | Std. Deviation |
|---|---|---|
| The bank offers its customers quality products and services as a result of effective strategies | 4.0435 | .8421 |
| An effective organization is one that is able to translate quality improvement into results: more-satisfied customers, a more-involved workforce, better-designed products, and more creative approaches to solving problems | 4.3478 | .7060 |
| The bank strategist evaluate the leadership and strategy in order to assess the branches' clear directions and see if the branch is moving towards its goals and objectives | 3.7826 | .6293 |
| The bank continuously improve qualities and are more cost-conscious in order to improve the effectiveness of its strategies | 3.7609 | .8579 |
| The bank is flexible in the strategies they employ in order to improve the performance of its loans | 3.5870 | .8838 |

### 4.3.3 Effectiveness of banks strategies

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| The bank continuously improve qualities and are more cost-conscious in order to improve the effectiveness of its strategies | 3.7609 | .8579 |
| The bank is flexible in the strategies they employ in order to improve the performance of its loans | 3.5870 | .8838 |

| | | |
|---|---|---|
| The bank uses a flexible process of strategic decision making to maintain flexibility in the deployment of critical resources | 3.5226 | .7199 |
| Managers must have a mindset that allows them to unlearn traditional practices, processes, and strategies and to be receptive to new ones | 4.1028 | .8428 |

The findings in Table 4.4 indicate that the an effective organization is one that is able to translate quality improvement into results: more-satisfied customers, a more-involved workforce, better-designed products, and more creative approaches to solving problems (mean 4.3478), managers must have a mindset that allows them to unlearn traditional practices, processes, and strategies and to be receptive to new ones (mean 4.1028) and the bank offers its customers quality products and services as a result of effective strategies (mean 4.0435).

The respondents further noted that the bank strategist evaluate the leadership and strategy in order to assess the branches' clear directions and see if the branch is moving towards its goals and objectives (mean 3.7826), the bank continuously improve qualities and are more cost- conscious in order to improve the effectiveness of its strategies (mean 3.7609), the bank is flexible in the strategies they employ in order to improve the performance of its loans (3.5870) and that the bank uses a flexible process of strategic decision making to maintain flexibility in the deployment of critical resources (mean 3.5226). The results indicate that the strategies which have been put in place by the bank were effective in managing the performance of loans. The low standard deviation variations indicate that the respondents were unanimous on the effectiveness of the strategies used by the bank.

### 4.3.4 Entrepreneurial mindset

The respondents were asked to indicate whether the bank managers have an entrepreneurial mindset. The results indicated that 73.9% of the respondents said that the bank managers do have an entrepreneurial mindset emphasizing innovation of new products while 26.1% said that they do not have an entrepreneurial mindset. The results indicated that the managers in the bank have a mindset emphasizing on innovation of new products for its customer.

### 4.3.5 Effect of structure on effectiveness of strategies

The question sought to establish the effectiveness of strategies adopted in the performance of loans. The results are presented in Table 4.5.

**Table 4.5: Effect of structure on effectiveness of strategies**

| | Frequency | Percent |
|---|---|---|
| Very great extent | 3 | 6.5 |
| Great extent | 30 | 65.2 |
| Moderate extent | 11 | 23.9 |
| Low extent | 2 | 4.3 |
| Total | 46 | 100.0 |

The findings indicate that 65.2% of the respondents noted that the structure which has been adopted by the bank contribute to the effectiveness of strategies to a great extent, 23.9% of the respondents said it contributed to the effectiveness to a moderate extent, 6.5% of the respondents said that it contributed to a very great extent while 4.3% of the respondents indicated that the structure contributed to a low extent. The results indicate that the structure which the bank currently uses contributed to the effectiveness of strategies used to manage performance of loans.

### 4.3.6 Implementation of strategies

The question sought to establish from the respondents whether the bank tracks the implementation of its strategies. The results indicated that majority of the respondents (82.6%) said that the bank tracks implementation of its strategies by comparing actual results against strategic goals while 17.4% said that the bank does not track the implementation of its strategies. The results indicate that bank tracks the implementation of its strategies to ensure that it achieves the desired objectives.

### 4.3.7 Performance measurement of services

The respondents were requested to indicate the need by the bank of performance measurement and the results are presented in Table 4.6.

**Table 4.6: Performance measurement of services**

| Performance measurement of services | Mean | Std. Deviation |
|---|---|---|
| Benchmarking on the basis of overall financial performance and resultant strategic grouping helps the bank to restructure its policy choices to compete in this dynamic environment | 3.7826 | .8922 |
| It enables the bank take decision on certain strategic variables like product mix, client mix and distribution channel by devising their improvement strategy | 3.8543 | .9653 |
| It enables the bank to analyze the alignment of the process design, the way in which the bank is utilizing different resources to deliver customer value, and its human resource management | 3.8986 | .7591 |
| The bank has level of creativity, intellectual assets, and relational capital and thus they can withstand, and even exploit, the effects of unanticipated changes in markets and economies | 3.9014 | .8936 |

The findings indicate that performance management enables the bank has level of creativity, intellectual assets, and relational capital and thus they can withstand, and even exploit, the effects of unanticipated changes in markets and economies (mean 3.9014), enables the bank to analyze the alignment of the process design, the way in which the bank is utilizing different resources to deliver customer value, and its human resource management (mean 3.8986), enables the bank take decision on certain strategic variables like product mix, client mix and distribution channel by devising their improvement strategy (mean 3.8543) and that benchmarking on the basis of overall financial performance and resultant strategic grouping helps the bank to restructure its policy choices to compete in this dynamic environment (mean 3.7826).

### 4.3.8 Existence of strategies to manage risks

The respondents were asked to indicate the existence of strategies in the bank that will enable the bank to manage risks associated with loans. The results indicated that 65.2% of the respondents said that the bank has put in place strategies which will enable the bank to manage risks associated with loans while 34.8% of the respondents said that the bank has not put in place the strategies. The existence of strategies to manage risks would enable the bank to manage loans in the long term.

### 4.3.9 Agreement with the statement

The respondents were asked the extent to which they agree with the statement and the results presented in Table 4.7.

**Table 4.7: Agreement with the statement**

| Agreement with the statement | Frequency | Percent |
|---|---|---|
| Strongly agree | 30 | 65.2 |
| Agree | 13 | 28.3 |
| Moderately agree | 3 | 6.5 |
| Total | 46 | 100.0 |

The results in Table 4.7 indicate that 65.2% of the respondents strongly agreed that efficient management of credit risk was vital for overall risk management, 28.3% of the respondents strongly agreed while 6.5% of the respondents moderately agreed. The results indicate that efficient management of credit risk was vital for the bank as it would enable the bank to maintain its level of risk at lower level.

### 4.3.10: Application of sound practices

The respondents were asked to indicate whether the bank has applied sound practices. The results findings indicate that 89.1% of the respondents said that the bank has applied sound practices while 10.9% indicated that the bank does not apply sound practices. The results indicate that the bank applies sound practices and these would enable the bank to minimize risk or avoid risks altogether. The respondents unanimously agreed that the top management of the bank was at the forefront in supporting risk management and adequacy and these would be a motivating factor to the bank employees to also ensure that that adhere to the bank credit criteria.

## 4.4 Discussions of the findings

The findings of this study was similar to the one of (Grojer and Johnson, 2008) which stated that managers should be skilled in designing organizational strategies and building talent practices that create high performance organizations. In addition to this, the findings of the study were that managers do have an entrepreneurial mindset emphasizing on innovations of new products and providing customers with quality products and services. This was similar to a study carried out by (Ivancevich and Matteson, 2002).The study also indicated that risk management is very important in ensuring existence of strategies to manage risk associated with loans which was similar to a study done by (Harker and Zenios, 2008).

# CHAPTER FIVE: SUMMARY, CONCLUSION AND RECOMMENDATIONS

## 5.0 Introduction

The chapter presents the summary of the study and it was noted the organizational structure which is in use in the Bank produces effective strategies and processes to make the Bank more competitive .The chapter also entails conclusion and recommendations of the study. The study recommends that credit managers should be involved in formulation of strategies so that implementation of the strategies can be effective.

## 5.1 Summary

The study found out that the credit managers in the bank perceive the strategies put in place by the bank was adequate to manage the performance of the loans although the formulation of the strategies in the bank does not involve all the credit managers in the bank. The effectiveness of the banks' strategies enabled the bank to translate quality improvement into results, unlearning traditional practices, processes, and strategies and to be receptive to new ones offering its customers quality products and services, evaluation of the leadership and strategy in order to assess the branches' clear directions and see if the branch is moving towards its goals and objectives, continuous improvement of qualities, flexibility in the strategies employed and use of flexible process of strategic decision making to maintain flexibility in the deployment of critical resources.

It was noted that the organizational structure which is currently in use in the bank produce effective strategies and strategic processes in the new competitive landscape through flexibility in strategy and organization. The effectiveness of the strategies has been brought about by the rapid changes in technology and speed with which new products are introduced to the market. The study established that the bank uses performance measurement and these has enabled the bank to restructure its policy choices to compete in this dynamic environment, take decision on certain strategic variables like product mix, client mix and distribution channel by devising their improvement strategy, analyze the alignment of the process design and withstand, and even exploit, the effects of unanticipated changes in markets and economies.

## 5.2 Conclusion

The effectiveness of strategies to manage performance of loans underscores the fact that the survival of an organization depends heavily on its capabilities to anticipate and prepare for the change rather than just waiting for the change and react to it. The objective of loan management strategies is to ensure that the advancement of loans by the bank is consciously taken with full knowledge, clear purpose and understanding so that it can be measured and mitigated. It also prevents an institution from suffering unacceptable loss causing an institution to fail or materially damage its competitive position. Banking is nothing but financial inter-mediation between the financial savers on the one hand and the funds seeking business entrepreneurs on the other hand. As such, in the process of providing financial services, Equity bank assumes various kinds of risks both financial and non-financial. The risks posed by loan advancement have necessitated change of approach and mindset to manage and mitigate the perceived risks, so as to ultimately improve the performance of loans.

The adoption of effective loan management strategies will enable the bank to have a competitive edge over the others. The study established that the credit managers perceive that the strategies put in place by the bank to manage loans was effective as the bank considers how those results were achieved, the likelihood those results will continue, and whether the institution is maximizing opportunities and providing the greatest benefit practicable to borrowers/members. These was achieved through flexibility in the strategies employed, flexible process of strategic decision making and leadership evaluation in order to assess the branches' clear directions.

## 5.3 Recommendations

This study makes several recommendations for policy implementation and also suggest for further research.

### 5.3.1 Recommendations with policy Implication

The study found out that the bank does not involve the credit managers in the formulation of strategies to manage loans and it is recommended that the managers are involved in the formulation of the strategies and they are the ones who implement the strategies and at the same time are in direct contact with the customers and they understand the risk facing the bank in loan advancement.

The effectiveness of risk measurement in bank depends on efficient management information system, computerization and networking of the branch activities. It is recommended that data warehousing solution should effectively interface with the transaction systems like core banking solution and risk systems to collate data. An objective and reliable data base has to be built up for which the bank has to analyze its own past performance data relating to loan defaults, trading losses, operational losses and come out with bench marks so as to prepare themselves for the future risk management activities.

### 5.3.2 Recommendations for further research

The study confined itself to Equity Bank and the findings may not be applicable in other commercial banks. It is therefore recommended that the study is replicated in other commercial banks to establish the perception of credit managers on the effectiveness of strategies adopted in the performance of loans.

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# APPENDICES

## APPENDIX I: COVER LETTER

Priscillah Kagori

School of Business, University of Nairobi

P.O BOX 30197, Nairobi

June, 2012

Dear Respondent,

I am a postgraduate student at the University of Nairobi, School of Business where I am carrying out research on “The perception of management on the effectiveness of strategies adopted by Equity bank in the performance of loans.” This is in partial fulfillment of the requirement for the degree of Masters in Business Administration (Strategic Management) Degree program at the University of Nairobi.

I hereby request you to respond to the questionnaires as honestly as possible and the best of your knowledge. The information provided will exclusively be treated with utmost confidence; neither your name nor any other details shall appear in my report.

Thank you in advance,

Yours sincerely,

| | |
|---|---|
| Priscillah Kagori | Dr. J.M Munyoki |
| (Student) | (Supervisor) |

# APPENDIX II : QUESTIONNAIRE

Please give answers in the spaces provided and tick (√ ) the box that matches your response to the questions where applicable.

**Section A: Person and Organisation Profile**

1) Name of the branch: ________________________________________

2) Gender? (tick as appropriate)

   a) Female ( )   b) Male ( )

3) What is your age bracket? (Tick as applicable)

   a) Under 20 years ( )
   b) 21 – 30 years ( )
   c) 31 – 40 years ( )
   d) 41 – 50 years ( )
   e) Over 50 years ( )

4) Length of continuous service with the organization? (Tick as applicable)

   a) Less than two years ( )
   b) 2-5 years ( )
   c) 6-10 years ( )
   d) Over 10 years ( )

5) What is your highest level of education qualification?

   a) Post graduate level ( )
   b) University ( )
   c) Tertiary College ( )
   d) Secondary ( )

**Section B: Perception of management on the effectiveness of strategies in the performance of loans**

1. How do you perceive the strategies put in place by the bank management to manage the performance of loans?

   Not important ( )
   Less important ( )
   Important ( )
   Very important ( )
   Extremely important ( )

2. Do the banks' strategists involve you in the formulation of the strategies to manage loans in order to improve its performance?

   Yes ( ) No ( )

3. To what extent do you agree with the following factors regarding the effectiveness of the banks' strategies on the performance of loans? Use 1- Strongly Disagree, 2- Disagree, 3- Moderate, 4- Agree and 5-strongly agree.

| Factors | 1 | 2 | 3 | 4 | 5 |
|---|---|---|---|---|---|
| The bank offers its customers quality products and services as a result of effective strategies | | | | | |
| an effective organization is one that is able to translate quality improvement into results: more-satisfied customers, a more-involved workforce, better-designed products, and more creative approaches to solving problems | | | | | |
| The bank strategist evaluate the leadership and strategy in order to assess the branches' clear directions and see if the branch is moving towards its goals and objectives. | | | | | |
| The bank continuously improve qualities and are more cost-conscious in order to improve the effectiveness of its strategies | | | | | |

| | | | | | |
|---|---|---|---|---|---|
| The bank is flexible in the strategies they employ in order to improve the performance of its loans | | | | | |
| The bank uses a flexible process of strategic decision making to maintain flexibility in the deployment of critical resources | | | | | |
| Managers must have a mindset that allows them to unlearn traditional practices, processes, and strategies and to be receptive to new ones. | | | | | |

4. Do the managers of the bank have an entrepreneurial mindset emphasizing innovation of new products for its customers?

   Yes ( ) No ( )

5. To what extent does the structure which has been adopted by the bank contributes to the effectiveness of strategies adopted in the performance of loans?
   - Very great extent ( )
   - Great extent ( )
   - Moderate extent ( )
   - Low extent ( )
   - Very low extent ( )

6. Does the bank track the implementation of its strategies by comparing actual results against strategic goals and objectives in order to determine its effectiveness on the performance of loans?

   Yes ( ) No ( )

7. How is the perception of the management on the quality of services they offer to its customers based on the strategies they have adopted?

   ………………………………………………………………………………………………

   ………………………………………………………………………………………………

……………………………………………………………………………………

……………………….

8. To what extent do you agree with the following statements on the need by the bank of performance measurement of its services? Use 1- Strongly Disagree, 2- Disagree, 3- Moderate, 4- Agree and 5-strongly agree.

| Factors | 1 | 2 | 3 | 4 | 5 |
|---|---|---|---|---|---|
| Benchmarking on the basis of overall financial performance and resultant strategic grouping helps the bank to restructure its policy choices to compete in this dynamic environment. | | | | | |
| It enables the bank take decision on certain strategic variables like product mix, client mix and distribution channel by devising their improvement strategy. | | | | | |
| It enables the bank to analyze the alignment of the process design, the way in which the bank is utilizing different resources to deliver customer value, and its human resource management. | | | | | |
| The bank has level of creativity, intellectual assets, and relational capital and thus they can withstand, and even exploit, the effects of unanticipated changes in markets and economies. | | | | | |

9. In your opinion, has the bank put in place strategies which will enable the bank to manage risks associated with loans and ensure continued existence in the longer term?

Yes ( ) No ( )

10. If yes, what are some of the strategies?

………………………………………………………………………………………………

………………………………………………………………………………………………

………………………………………………………………………………………………

…………………………………

11. To what extent do you agree with the following statement "Efficient management of credit risk is a vital part of the overall risk management system and is crucial to each bank's bottom line and eventually the survival all banking establishments"

Strongly agree ( )
Agree ( )
Moderately agree ( )
Disagree ( )
Strongly disagree ( )

12. Has the bank applied sound practices related to the assessment of asset quality, the adequacy of provisions and reserves, and the disclosure of credit during implementation of credit risk management practices strategies?

Yes ( ) No ( )

13. Has the top management been at the forefront in supporting risk management and adequacy in the bank?

Yes ( ) No ( )