INFLUENCE OF REGULATORY ENFORCEMENT ON THE RELATIONSHIP BETWEEN STRATEGIC DECISIONS AND PERFORMANCE OF COMMERCIAL BANKS IN KENYA

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DECLARATION

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

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

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DEDICATION

I dedicate this project to my family for their unfailing encouragement and love. To my dear husband and best friend Fredrick I Amasinde, and to my loving daughter Natasha and son Joshua.

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I wish to express my humble gratitude to the Almighty God for His abundance grace and for the good health he gave me throughout my studies and for bringing me this far. Special thanks to my supervisor Dr. Joseph Owino for his thoroughness, positive criticism and undivided commitment helped in the successful completion of this project.

To my wonderful family for their support both morally and financially, to my classmates Rachel and Seth, and all other people who in one way or another played a part in my entire MBA process. May the Almighty God bless you abundantly.

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ACRONYMS AND ABBREVIATIONS

CBK	-	Central Bank of Kenya
CMA	-	Capital Markets Authority
PWC	-	Price WaterHouse Coopers

ABSTRACT

In any country, commercial banks play an important role in the economic resource allocation by channeling funds from depositors to investors continuously. To do so, they need to generate necessary income to cover their operations and these calls for effective strategic decisions to be adopted by the bank management. The banking business at the same time faces many challenges and the diversity of banking risks necessitates the need for regulation of the industry and this can affect the performance of the same banks. Consequently, the research sought to find out the influence of regulatory enforcement on the relationship between strategic decisions and performance of commercial banks in Kenya. The research design was a census survey whereby the population of the study consisted of all the 41 commercial banks operating in Kenya. The study used primary data which was collected through a self-administered questionnaires and the data collected was analyzed by the use of mean and standard deviations while presentations was done using tables, pie charts and percentages. The findings were that regulatory enforcement affected the performance of the commercial banks in Kenya and the most influential regulatory factor was the capital adequacy requirements, liquidity management and the supervisory powers enforced by the CBK. The strategic decisions that were found to influence the bank performance was the ability of the top management to scan the environment appropriately for opportunities and at the same time involve all levels of staff in the implementation of the same strategic decisions. From the regression, it was found that indeed regulatory enforcement was a moderating factor to strategic decision influencing the performance of the banks. The research concludes that there is need for appropriate regulations to be developed to guide the sector and the same regulation should evolve with the changes happening in the banking sector. The study recommends that the players in the banking sector should not consider the regulations introduced by the CBK as unnecessary obstacle but instead it is established for their own good since the study proved that the bank performance is better achieved when the bank strategic decision is supplemented with appropriate regulatory enforcement. The study recommends that a study be undertaken in a different industry facing regulation such as the sugar sector due to the challenges that the sector faces in being competitive like other firms in the COMESA market.

CHAPTER ONE: INTRODUCTION

1.1 Background of the Study

An environment in which managers face a scenario where regulated institutions continue becoming complex and active internationally , and the international markets become more volatile ,competitive and interconnected, regulatory techniques cannot remain static (Dempsy, Kumar, Loyd, & Merkel, 2008).Indeed the recent collapse of corporate firms due to financial scandals have created worldwide concerns on issues relating to corporate governance since it has become apparent that the failures resulted from a lack of adequate accountability. This development has therefore necessitated the establishment of new laws and regulations to govern the operations of the organizations as it has been established that a risk based supervision serves as part of good and sound corporate governance (Hertog, 2007). Across the globe, the trend among corporate institutions is moving towards establishment of an improved risk management system that are developed and implemented by the individual organization or the regulator of the sector.

The main guide to a the process of strategic management , whether in private or public sector, is the understanding of the changes that are needed in an institution, how to implement and manage these changes, as well as creating a sustainable roadmap for improving in the internal operations of the firm which is expected to improve organizational performance. Tarraf (2011) opined that in the present day business environment, the challenge to a firm will revolve around setting up a foundation for a successful future while at the same time meeting the current challenges that arise due to the unpredictable events.

The study is based on Transparency-Stability Theory which states that greater transparency and disclosure in an organization will result in efficient resource allocation that come about from reducing informational asymmetry between the organization and the general public (Tadesse, 2006).The argument behind the theory is that by virtue of public entities releasing their financial statements, then they are expected to disclose all material facts that will lead to an informed decision and if the same, in terms of disclosures is not achieved, then a regulator has to come in to compel them to do so.

Commercial Banks in Kenya propel the entire economy by transmitting monetary policy impulses to the economic system. In the course of their operations, commercial banks face competition among themselves and microfinance institutions, and lately mobile phone operators that offer saving platforms. Because of the critical nature of their role, Commercial Banks operations need to be regulated by an independent body that will safeguard their operations as well as that of the general public. Due to the role they play in the economy, the Managers of Commercial Banks will need to plan for their operations and strategies in such a way that the probable decision from the regulators should be considered and their probable effect on the decision banks make. Banking regulation and its enforcement play a significant role in determining banks cost of services, such as, interests' rates on loans advanced. When such an important parameter that determines the level of investment in a country is not regulated, then it has a potential to create a huge discrepancy in the savings- loans nexus in a country (Tarraf, 2011).

1.1.1 Regulatory Enforcement

Bank regulation is a form of regulation that subjects a bank to certain guidelines restrictions, and requirements (Barth, Caprio& Levine, 2011). Banks regulation aims at ensuring safe and sound operation of institutions in the financial sector. Regulation creates some form of transparency between the organization and the general public. Given that the banking industry is inter-connectedness and has its reliance on the national and global economy, regulatory agencies need to ensure that they maintain control over standardized practice of the institutions since a failure in one or a few of the institutions will send shock-waves across a national and global economy as it did during the financial crisis of the years 2008-2009 period. This supports the argument that financial institutions have too much control in an economy for them to fail without a huge impact or consequences (Martines, 2003).

In Kenya, the Central Bank regulatory requirements for banking institutions refer to guideline and regulations issued by the Central Bank that subject banks to certain guidelines, requirements, and restrictions. Central bank regulatory requirements can also be defined as legal framework for regulating financial transactions by the commercial banks. The regulations are a significant contributor to preventing or minimizing financial sector problems. According to CBK (2012) Annual report, the aim of setting up these regulations include reducing the level of risk to which bank creditors are exposed, management of systemic risk that might result in the country's' financial system failure and also reduce the risk of banks being used to undertake criminal activities, such as laundering the proceeds of crime and to protect banking confidentiality.

1.1.2 Strategic Decisions

Strategic decisions those decisions that concern with the whole environment in which an organization operates which includes the organizations resources and the interface between the two (Mullins, 2005).Strategic decisions are those that have major resource implications for an organization as they concern acquiring new resources, organizing and reallocating others. They are handled at the corporate level of an organization due to their complex, uncertain, futuristic and risky nature (Bartol& Martin, 2014). Crook, Ketchen, and Snow (2013) state that strategic decisions determine overall direction of an enterprise.

Digman (2006) notes that the management should make competitive decisions to build a sustainable competitive advantage over its rivals. Fredrickson and Mitchell (2004) contend that strategic decisions should be long-term in nature since they highly act as a guide in the future planning of the organization in working towards achieving the mission and the vision of the organization. The importance of strategic decisions is that they are the means by which the scarce resources of an institution are rationally committed to satisfy managerial expectations for success (Mullins, 2005). Dutton and Duncan (1987) put forth that the importance of strategic decision making is that it combines experience with training which aid in developing the skills. Strategic decisions bind a team and improve focus on working towards achieving certain goals and objectives. Therefore, managers require an approach that is well thought out to ensure that the decisions they make are successful in the long run.

1.1.3 Organizational Performance

Organizational performance refers to an organisations final achievement and relates to realization of set targets, includes a period of time in achieving these targets and involve and an operating system that incorporates higher level of effectiveness and efficiency (Gibson *et al.*, 2010). Performance of the organization therefore is the achievement of set objectives such as increased market share, increased revenues, and release of products of good quality at set timeframes through relevant strategies (Koontz and Donnell, 1993). An organization can identify areas of strength and weakness, access how well it's progressing towards its predetermined objectives and deciding on how future initiatives are to be undertaken through performance (Van Weele, 2006).

There are three measures used in accessing the financial performance of banks, namely, profits (or net income), return on investment and return on shareholder equity (Hopkins & Hopkins, 1997).Deposit growth is another measure which is unique to financial institutions. It's the deposit percentage change in consumer deposits from year to year. Financial and non-financial indictors can be employed to measure performance (Rowley, 2011).Mishra (2006) noted that employee productivity is used as measure of performance especially in the service sector. The measure is important particularly in the banking sector as it's a reflection of an employee's efforts disassociated from variations in product and capital markets.

1.1.4 Commercial banks in Kenya

Brooks (2008) defined commercial banks as financial institution that accepts deposits, offer loans, and other financial. According to CBK (2016) there are forty one commercial banks operating in Kenya. The banking sector in Kenya has over the last years grown in profitability, deposits, assets, and products offering. In the period 2006-2013, the sector has encountered remarkable changes. This has mainly been due to the rapid expansion of their branch networks in Kenya and in East Africa community region as well as the transfer of banking services to the digital platform where most banking services were automated. Key among these innovations includes having a one bank branch enabled by various integrated banking functions (PWC, 2012).

The CBK (2015) annual supervision report emphasizes that the institutions in the financial sector will need to adopt continuously with environment they operate in through a robust ICT platform. Consumers will continue to demand individualized services, and to demand them faster than ever (CBK, 2014).The banking industry in Kenya has found it necessary to embrace business integration as one way of responding to the changing needs of the customers. Contemporary customers have become more informed and require efficient and faster service delivery than before. Nyaoke (2007) indicates that there are some challenges that are encountered by the banking industry in Kenya such as money laundering, but such kind of challenges are easily overcome once banks embrace integration since various departments are able to share real time information. In a country such as Kenya where Commercial Banks have dominated the financial sector, a failure in the sector has the propensity to have great implications on the economic growth of the country. This is due to the contagion effect the sector has such as any bankruptcy can lead to bank runs, crises and overall financial crisis or economic tribulations. Despite the fact that the banking industry's in Kenya has had good performance, there are banks declaring losses.

1.2 Research Problem

The recent years have witnessed rapid changes in regional economic powers, new world economic order, information technology and many others. These changes present a very dynamic world of increased inflation, population, social consumption on one hand and on the other scarce resources (Crandall & Crandal, 2011). Strategic managers cannot avoid making decisions or the process of decision making and as Pearce and Robinson (1989) puts it the process is inevitable .Beatty and Liao (2014) note that both public and private institutions today operate in a fairly competitive and dynamic environment which makes it necessary to put sound strategic decision making processes in place. Firms that invest in effective timely decision making systems stand better chances of taking advantage of emerging opportunities while mitigating threats.

Kenya's Vision 2030 has three key pillars among them being the economic pillar which advocates for access to financial services. The banking sector plays a key role in the achievement of this targeted economic growth trajectory. Recent collapse and financial scandals in Commercial Banks in Kenya have created concerns of corporate governance hence the need for the observation to the latter the tenets of corporate governance as well as the regulations by the Capital Markets Authority (CMA) and the Central Bank of Kenya. The collapse of Commercial Banks due to lack of observance of code of conduct further reinforces the need of a regulator to enforce the same set of laws and regulations. However, the enforcement of practices by the Central Bank would succeed with corresponding cooperation by commercial banks managers and the board through strategic decisions that ensures that the institution achieve its objectives and realize its mission. Thus strategic decision making forms the core of strategic management process and leads to formulation of strategies.

Several studies have been undertaken both locally and across the globe on the importance of strategic decisions. Kariuki (2015) researched on the influence of strategic decisions on performance of secondary schools in Nakuru Sub County in Kenya and found that the decision making process in the secondary schools are meant to evaluate strategic plans before implementation. This study similarly did not extend to determine how the regulatory authority affected strategic decisions and more possibly because schools do not have a regulator, but the ministry of Education which runs the management of the education system in Kenya. Oluoch (2012) researched on the challenges of implementing strategic decisions for service delivery in the public service and found that financial management policies and procedures, as well as the internal factors to the Ministry were a hindrance to an effective implementation of strategic decisions. Though the research dealt on the factors hindering effective strategic decisions in the ministry, the study did not delve into how the regulatory authority' decisions affect the ministry's strategic decision. Muteti (2015) researched on the strategic decision making at Kenyatta University in Kenya and established that majority of staffs were not involved in the implementation of the decisions and that the Board makes key decisions. The study however did not focus on the effect that the Ministry of Education enforcement of policies affecting the higher education's had on strategic decision of the board.

From the reviewed studies, while the reviewed studies have demonstrated an attempt to establish how strategic decision making is done and how the implementation phase is undertaken, there has been limited focus on the influence of regulatory authorizes on the strategic decisions and the performance of the firms. This gap is what the study sought to bridge. What is the influence of regulatory enforcement on the relationship between strategic decisions and performance of commercial banks in Kenya?

1.3 Research Objective

The study sought to determine the influence of regulatory enforcement on the relationship between strategic decisions and performance of commercial banks in Kenya.

1.4 Value of the Study

The finding is of value to Commercial Banks as they will know the need to ensure that proper decision making is made in order to improve the performance of banks while at the same time ensuring that it complies with the regulations of the Central Bank of Kenya. The findings of this study is helpful to the regulator as it contributes towards the formulation of better strategies that will be relevant towards implementation of banking regulations thereby facilitating a transparent, effective and efficient system of governing and administration of commercial in Kenya.

The policy makers would be interested with the findings of the study for they will know the role being played by regulations put in place and thus come up with policies that would guide the changing business dynamics in the industry. The study will also assist risk management consultants to identify potential business opportunities within the banking sector by assisting commercial banks companies to develop risk management systems and tools and ensure compliance to the risk and guidelines of internal control issued by the Central Bank of Kenya. The employees in commercial banks will benefit from the research as they will understand in depth what the regulator requires them to do and the professional and ethical requirements introduced.

The finding of this study is expected to contribute to research and practice, by elaborating the influence of effective strategic decisions that are pursued by the commercial banks in order to be competitive in the industry. It may also add to existing body of knowledge through the findings and recommendations by bringing to other areas for further research.

CHAPTER TWO: LITERATURE REVIEW

2.1 Introduction

This chapter reviews the relevant literature on theoretical framework, regulatory enforcement and performance and the effect of strategic decisions on performance.

2.2 Theoretical Foundation of the study

The study based its theoretical foundation on the transparency-stability theory, resource based view theory and public interest theory of bank regulation.

2.2.1 Transparency-Stability Theory

This theory holds that greater disclosure and thus transparency leads to efficient resource allocation by reducing informational asymmetry (Tadesse, 2006). Central Banks demand extensive disclosures that satisfy public need since they are funded by conscripted taxpayers. The public view of accounting is that it's for the general good of the public (Watts &Zimmerman, 2006). This resonates with the transparency-fragility theory which states that great disclosures reveal issues in the banking sector which could in turn bring about negative perception that could lead to vulnerability of the financial system.

Smellie (2004) however emphasized on enforcement to regulate institutions as organized crime thrived without some form of enforcement put in place to regulate the institutions that might be a conduit in abetting the same crime. Such enforcement should be found in the extensive disclosure practices required by Central Banks. Countries with greater disclosures that are regulated are less likely to experience banking crises (Tadesse, 2006).

2.2.2 Resource Based Theory

Valmohammadi & Servati (2011) note that the theory focuses on the organizations internal resources as a source of competitive advantage that is sustainable in its markets. Therefore, the theory is based on the developing unique and distinctive capabilities, which in nature may often be implicit or intangible. A firm's strategy is unique and a resource to the firm (King, 2007).

Barney (1991), defined the competitive advantage of a firm's as the non-substitutable and unique capabilities that drivers the performance of the firms. This is by creating economic rents from particular capabilities and resources, through the development of internal capabilities (Makadok 2011). The control of these capabilities and resources at different levels of productivity will determine performance for the firm.

2.2.3 Public Interest Theory

The theory by Pigou (1932) focuses on public good from which citizens benefit. Under the approach, regulation of banks exists for benefit of investors and depositors and therefore regulatory bodies represent the society's interest (Hantke-Domas, 2009). Hertog (2007) opined Government regulations as a reaction to public demands for rectification of market failure. The theory assumes that markets are not capable of fixing market problems, and that the Government interventions are able to fix these failures efficiently, and that its intervention benefits more than the additional cost created by it. Barth *et* a*l*., (2012) provided many arguments in favor of governmental interventions in the financial service sector. Their argument was based on the monopolistic tendencies that facilitated information asymmetries that created an environment for Government interventions enhancing social welfare and offsetting market failures.

Dawatripartwe *et al.,* (2011) observe that that there is a high existence of information asymmetry that normally occurs in the financial institutions and therefore justifying the need for regulation. They further point that whereas the financial managers may be privy to certain important financial information, they may not want to share this information with the rest of the stakeholders and consequently, the need for an independent body that will demand the provision of this information. The theory has however been unable to put into account varied conceptions of public good.

2.3 Strategic Decisions and Performance

An internal decision-making capability that is well-developed is considered key to a firm's effective strategic decisions (Spira & Page, 2013). Managers are concerned actions that result in a firm having a competitive advantage leading to performance of the firm in a complex business environment. The success of the strategic management is dependent on top managers of the firm because these are managers that define the firm's direction (Barth et al., 2011).

Strategic decision making is important in situations where a delay doesn't provide any useful information (Bower and Christensen, 2005). Even in markets whose behavior is erratic, due to technological causes and effects, strategic decision making speed and adaptation are shown as a source of competitive advantage (Liao, Kickul & Ma, 2009). This brings the assumption that strategic decision-making is related to organizational performance in different contexts. According to Pearce and Robinson (2007) strategic decisions made by an organization highly influence the performance of that particular organization. Both Papadakis (1998) and Elbanna (2006) concluded that there was a positive relationship between rational decision makers and organizational performance. Forbes (2010) found significant relationships between strategic decision making and performance. The findings concluded that there was a positive relationship between strategic decisions and organizational performance.

Dutton and Duncan (2007) found that there wasn’t any relationship between the firm’s performance and strategic decision making in their study, except for 10 biotechnology firms, belonging to a high-tech industry. Barth et al., (2011) confirmed that the probability of a major banking crisis occurring was due to greater regulatory restrictions on the activities of banks, whereas, Fernandez and Gonzalez (2005) confirmed that greater restrictions on banks activities in effect reduces banking risk, although their argument is that its mitigation is through higher auditing and information disclosure and requirements. Sink and Tuttle (2013) found that performing firms adopt more rational decision-making processes, which leads to the conclusion that better performance of the firm is a reflection of a more rational the strategic decision-making process they undertake. Other findings as that of Rodrigues and Hickson (2011) state success of a decision is a function of information and availability of resources (a product of good performance). These findings depict a positive interaction between performance and rationality, which in turn influences strategic decision success.

2.4 Regulatory Enforcement, Strategic Decision and Performance

The regulation of financial institutions is an important function of Central Banks and a topic of debate amongst the policy-making community. Corporate governance plays a significant role in the future of a bank. It gives an overview of a bank's operations, quality of loans and profitable. A powerful supervision enhances corporate governance, and functioning of banks as intermediaries in the financial sector (Beck et al., 2006).They found that monitoring assists in creating efficiency in corporate finance which creates a positive influence on the integrity of banks. The reporting by banks in a regular intervals and the provision of accurate financial data to regulators and market participants' results in sounder banks (Demirguc-Kunt et al., 2008).

Acharya (2003) noted that a proactive action preventing banking crisis was by having minimum capital requirements and a reactive mechanism to handle closure cost associated with banking failures. Capital requirement regulations are the mainstay of banking sector policies globally which is determined by rules and policies which states the nature of capital and amount to be held. Bartholdy, Boyle and Stover (2011) note that capital requirements have been a focus of many regulators, as it forces banks to hold more capital, which gives banks a larger buffer to absorb losses. Hence, theoretically larger capital requirements should lead to fewer bank failures. Furthermore, from a corporate governance perspective, an incentive for introducing capital requirements is that these are said to reduce the risk taking behavior of banks, as they force bank owners to put in more personal funds (Laeven & Levine, 2009). On the other hand, the theory also states that capital requirements can increase moral hazard and risk taking. This is so since more stringent capital requirements results in utility losses, as share capital is more expensive than borrowed funds, which banks might attempt to compensate for. According to the theory this compensation would be done by increasing the expected return through higher risk taking (Laeven & Levine 2009). The inclusion of risk weights in the measurement of capital ratios, as under the Basel accords, should to some extent mitigate this problem. However, it is a well-known fact the risk weights are not perfect, and that it is possible for banks to increase risk without increasing the risk weighted assets.

Beckmann (2007) argument was that increasing capital lead to lowering of profit due to banks with such requirement has tendencies of becoming risk averse in that they ignored investment viewed as potentially risky leading to investors demanding less returns in exchange of lower risk. Majority of countries are aware about the minimum capital requirement hence most require a ratio that assist in adhering to some measure of weighted risk. Stringency in capital requirement has been associated with non-performing loans in contrast there has been no link between regulation and performance (Barth et al., 2004).

Barth et al. (2010) argued that a tighter restriction on activities of banks has a negative effect on banks efficiency, whereas a greater capital restriction has slightly positive effect. The study also established that although there is no significant relationship between bank efficiency and official supervisory power, there exists significant and positive relationship between the latter and supervisory authority independence.

Chortareas et al. (2012) investigated the various aspects between bank performances, regulatory and supervisory policies for some European banks for the period between 2000-2008. Their investigations revealed that strengthening of official supervisory powers and capital restrictions can improve the efficiency of banks operations. It also indicated that supervisory interventions and regulatory policies can result in higher levels of inefficiency. The beneficial results of official supervisory powers and capital restrictions on banks' efficiency are more defined in countries with higher quality institutions. Lee and Hsieh (2013) studied Asian banks for the period 1994-2008 and the study pointed to a positive relationship between profitability and capital in the banks, and the conclusions was that the effects of the influencing factors should be taken into consideration.

The study by Demirguc-Kunt, Laeven and Levine (2004) showed increased cost of financial intermediation due to barriers to entry brought about by regulations of banks which was consistent with literature that stringent measure don't necessarily bring much benefits as it did not play a positive role in regard to the banks valuation but also was a setback to the development of the industry. Pasiouras, Tanna and Zopounidis (2009) using a fairly large data set of 74 countries, focused on the impact that regulations had on banking efficiency in which their findings were that efficient banks were not necessarily efficient in profit generation.

CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Introduction

The chapter focus is on the methodology used in the study to achieve the research objectives. The areas covered include research design, population of the study, data collection procedures and data analysis.

3.2 Research Design

Sekaran & Bougie (2010) define a research design as a strategic blueprint for the collection, measurement and analysis of data whose choice is dependent on the stage to which knowledge about the research topic has advanced. It provided both quantitative and qualitative information from all the chosen population and enabled the researcher to gauge a situation, understand the characteristics of a group, and assemble data around possible change.

The study adopted a cross-sectional descriptive survey design. A survey was deemed appropriate as it enabled the researcher to collect data from selected respondents in order to understand the group or population represented. In addition, it allowed the researcher draw conclusions about the variables under study without manipulation of the respondent and thus allows the measurements to be controlled fully.

3.3 Population of the Study

Population is the complete group of companies or individuals that the researcher wishes to investigate (Sekaran & Bougie, 2010). It's defined in terms of topic of interest, time frame, availability of elements, and geographical boundaries. The population of the study comprised of all the commercial banks operating in Kenya. According to Central Bank of Kenya (2016) there are 41 commercial banks operating in Kenya and all of them participated hence the study was a census.

3.4 Data Collection

The study used primary data which was collected using a structured questionnaire that consisted of closed-ended questions. Walliman (2011) notes that use of questionnaire ensured that confidentiality is upheld, saves on time and is very easy to administer.

The questionnaire targeted business development and strategy managers, marketing managers and finance managers of the commercial banks and it was administered through the “drop and pick” later strategy. The respondents gave their response in a five point Likert scale. Mugenda & Mugenda (2003) notes that the use of questionnaire ensured that confidentiality is upheld, saves on time and is easy to administer.

3.5 Data Analysis

Analysis was done based on responses received through the questionnaires. Once the data was collected, questionnaires were edited for completeness, consistency and accuracy. The data was then sorted for elimination of discrepancies and classification was done based on similarity and then tabulation was done. Statistical analysis was done by encoding responses into numerical format.

Data was analyzed based on the results from the questionnaires. In particular standard deviations, mean scores, frequency distribution and percentages were used to summarize the responses and to show the magnitude of similarities and differences. Results are presented in tables and charts. The study used Baron and Kenny (1986) 3 step regression model to establish the influence of regulatory enforcement on the relationship between strategic decisions and commercial banks performance in Kenya.

The regression model was of the form;

Y = Performance

X = Strategic Decisions

M = Regulatory Enforcement

Using Baron and Kenny (1986) three steps regression analysis for testing moderating variable, we can say if an X-Y causal relationship is moderated by M then:

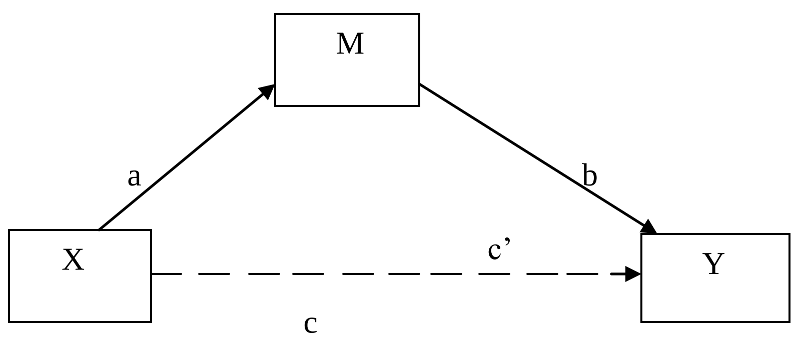
(1) X significantly predicts M (path **a** is significant)

(2) X significantly predicts Y (path **c** is significant)

(3) In the presence of X, M significantly predicts Y (path **b** is significant)

(4) The effect of X on Y is reduced when M is in the model and with complete moderation (**c'** is less than **c**) and path **c'** is zero

Figure 3.1: Moderation Model Showing strategic decision and performance



a = regression weight on X when predicting M

b and **c'** are the regression weights on M and X, respectively, when both are used together to predict Y

c = regression weight on X when predicting Y

CHAPTER FOUR: DATA ANALYSIS, RESULTS AND DISCUSSION

4.1 Introduction

The research objective was to establish the influence of regulatory enforcement on the relationship between strategic decisions and performance of commercial banks in Kenya. This chapter presents the analysis, findings and discussion. The findings are presented in frequency distributions, percentages, mean and standard deviations.

4.2 Response Rate

The number of questionnaires returned were 29, out of the 41 issued representing a response of 71% that was considered adequate for analysis as it conforms to Mugenda and Mugenda (2003) who stipulated that a 70% response rate was adequate. Considering the time taken by the researcher on following up on the responses, possibilities of receiving more questionnaires declined with time.

4.3 Demographic Characteristics of Respondents

The demographic information that was sought includes respondent's level of education, length of continuous service, duration of commercial bank operation and number of employees. The results on the demographic information are presented in Table 4.1.

Table 4.1 Demographic Characteristics of Respondents

Category	Item	Frequency	Percentage	Cumulative
Level of Education				
	Tertiary college	3	11.5	11.5
	University	16	53.8	65.3
	Post Graduate	10	34.7	100.0
Length of Continuous Service	Less than 5 years	8	26.9	26.9
	5-10 years	9	30.8	57.7
	Over 10 years	12	42.3	100.0
Category	**Item**	**Frequency**	**Percentage**	**Cumulative**
Duration of Commercial Bank operation	6-10 years	3	11.5	11.5
	11-20 years	5	15.4	26.9
	Over 25 years	21	73.1	100.0
Number of Employees	Less than 200	3	11.5	11.5
	201-499	10	34.6	46.1
	Above 500	16	53.9	100.0

The results educations background of the employee’s shows that majority (53.8%) of the respondents on the attained university education with 34.7% more having also attained a post-graduate level. This means that over 88% of the respondents had at least a university degree. In addition, most of the respondents (42.3%) had worked for more than 10 years in their respective banks and coupled with their educations achievement, ceteris paribus, it was fair to assume that the respondents were knowledgeable enough to understand the questions on the questionnaire and answer appropriately on the influence of regulatory enforcement on the relationship between strategic decisions and performance of Commercial Bank in Kenya.

The researcher also sought to establish the period of time that the commercial banks had operated in Kenya. The results indicate 73.1% of the banks had operated in Kenya for more than 25 years and only 3 banks had set business in Kenya in the last 10 years. Banks that were found to have operated for less than 10 years, did not establish business in the same period but rather employed acquisition strategy to enter the Kenyan market. This strategy involves buying an existing bank and branding to the foreign acquirer name and examples of such banks include the M-bank, GT bank, Sidian bank, and Jamii Bora bank. In terms of the average employees a bank has, the study found majority of bank had more than 500 employees which are explained by the fact that most banks have a wide branch network which requires them to employ more staffs given that majority of its services are accessed by visiting a brick and mortar outlet.

4.4 Regulatory Enforcement

This section of the questionnaire sought to find out the perceived effect that the various forms of regulations that had been introduced by the CBK affected the performance of the banks. The range was from ‘Not at all’ (1) to the ‘Very great extent’ (5). 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; ($3.5 \leq$ S.A. <5.0). The disagreeing scores had a representation of variable with a mean score of 0 to 2.5 and on a continuous Likert scale ($0 \leq$ S.D <2.4). The scores for moderate effect had representation of variable with a mean score of 2.5 to 3.4 and on the continuous Likert scale: ($2.5 \leq$M.O. <3.4). A standard deviation of > 0.9 implied significant differences on the impact on variables among respondents.

Table 4.2 Regulatory Enforcement

Statement	Mean	Std. Deviation
Interest rate capping	4.31	0.891
Liquidity management	3.59	1.402
Official supervisory power	3.38	1.498
Market discipline mechanism	3.17	1.256
Anti-money laundering	3.07	1.438
Foreign exchange exposure limits	3.03	1.322
Capital adequacy requirements	3.00	1.439
Corporate governance	3.00	1.309

From the findings, the most influential regulatory move that was perceived to affect the performance of the Kenyan Commercial banks, to a great extent, was the Interest rate capping (M=4.31) followed by liquidity management requirements (M=3.59). In addition, the official supervisory power enforced by the CBK was perceived to impact on the performance of the banks (M=3.38) as well as the market discipline mechanisms (M=3.17). However, on the lower side of the Continuum, the regulatory policies that were found to affect moderately the performance of the banks was the Corporate governance (M=3.00) and capital adequacy requirements (M= 3.00). This indicates that the most critical regulatory enforcement policy that affects the performance of commercial banks is the Interest rate capping and liquidity management policy.

4.5 Strategic Decisions

The performance of a bank is not only affected by the regulatory policies existing in a country, rather the internal strategic decisions instituted by the management of a bank. Further, a well-developed internal decision-making capability is generally considered critical to the effectiveness of a firm's strategic decisions. Indeed, a bank executive that is involved in the making of strategic decisions is always concerned with the resulting actions effect on a firm’s performance and a common goal amongst strategic leaders is the development of sustainable competitive advantage. Developing becomes increasingly difficult in complex business environment as myriad stakeholders strive to influence decisions made by the financial institution. The Table 4.3 presents results of how banks strategic decisions influence its performance.

Table 4.3 Strategic decisions

Statement	Mean	Std. Deviation
The management shows commitment and support in implementation of strategic decisions	4.00	0.655
Decision making approach used in strategic decision making in the bank influence performance	3.83	0.711
The bank management has created an organizational systems that is perceived by employees as fair, caring, and open	3.59	0.780
The bank has effective communication between management and its employees	3.52	1.122

The external environment influence strategic decisions made by the bank	3.31	1.072
Internal organizational factors influence performance of my bank	3.31	1.105
The bank launches new products faster than competitors	3.03	0.865
The management of the bank makes their decisions based on their intuition	2.28	0.960

The result show that the management commitment and support in implementation of strategic decisions (M=4.000) was the most critical internal factor that affects the performance of the banks and also the decision making approach used in strategic decision making in the bank (M=3.83) was found to great extent affect the performance of the banks. The bank management has created an organizational system that is perceived by employees as fair, caring, and open (M=3.59) affected the performance of the banks to a moderate extent.

To a small extent, the other internal decision making strategies that were found to affect the performance of the banks include the bank launches new products faster than competitors (M=3.03) and the management of the bank makes their decisions based on their intuition (M=2.28). Based on the finding, it can be concluded that strategic decision influences performance of the commercial banks through management committed and support during implementation, development of organisation system and effective communication with employees.

4.6 Organisation Performance

Organizational performance is the ability of a firm to achieve objectives. The objectives can be increased revenues, increased market share, and reduced risk at specific timelines. This means that an organization should be able to access how well it's progress is towards its set objectives and deciding on how future objectives will be undertaken. The findings on how the regulatory policies and the bank strategic decision had affected the performance of the bank are presented in Table 4.4.

Table 4.4 Organisation performance

Statement	Mean	Std. Deviation
Increased revenue	4.10	1.012
The product was perceived by customers as more reliable than competitors' products	4.07	0.961
Accelerated cash flows	3.93	0.799
Increased market share	3.55	0.827
Reduced risk	3.48	1.122
Reduced revenue volatility	3.28	0.882
Lower costs	3.28	0.797
Lower fixed capital	2.90	1.047
Lower working capital	2.83	1.071

From the findings, the internal strategic decisions made by the bank had to a large extent led to increased revenue (M=4.10) through the introduction of a product that was perceived by customers as more reliable than competitors' products as well as led to increased revenue (M=4.07). The other positive attribute that resulted from the regulatory policies introduced by the CBK to the banks include the increased market share (M=3.55) and reduced risk. However, the least influence on the performance by the regulatory policies has been lower working capital (M=2.83) and a lower fixed capital (M=2.90).

4.7 Reliability Test

Prior to interpreting of the data for inferential statistics purposes, checking reliability and validity of the data was necessary. The study involved collection of data using a closed questionnaire and most of the observed variables were from both global and local researches in accordance with the requirements of content validity. To check for reliability and the consistency of the answers by respondents Cronbach's alpha was used whereas variable reliability is tested with Cronbach's α coefficient. A value of α that is lower than 0.35 should be rejected whereas one ranging from 0.7 to 0.8 represents high validity in accordance with the requirements of content validity. The reliability scale is as provided below in Table 4.5.

Table 4.5 Reliability Scales Output

Row	Assessment question	Measure	No. of questions	Reliability
1	6	Regulatory Enforcement	8	0.753
2	7	Strategic Decisions	8	0.816
3	8	Organization Performance	9	0.721

The results showed a factor greater than 0.7 a reflection of greater internal consistencies in the variables and survey.

4.8 Inferential Statistics

The purpose of the research is to establish the relationship between regulatory enforcement, Strategic decisions and bank performance in Kenya. The researcher adopted the three steps described by Baron and Kenny (1986) to establish the moderating role between of regulatory decision in a firms strategic decision influence on performance. In the study, Let;

X = Strategic decision

M = Regulatory Enforcement

Y = Organization Performance

Step 1: The step is to establish that there is an effect of X on Y that could be moderated. The simple regression model is presented in Table 4.6 below. In a simple regression model, the researcher used variable Y with the variable (X) as the only predictor and thereafter an estimated weight of the regression for path c is estimated.

Table 4.6 Regression Predicting Strategic Decision with Performance (N=29)

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Correlations	
		B	Std. Error	Beta			Zero -order	Partial
1	(Constant)	11.045	4.654		1.373	0.174		
	X_1	1.457	0.498	0.007	2.926	0.947	0.902	.893

The model in Table 4.6 has a weight of 1.457 for X predicting Y. Therefore, c = 1.457 with a standard error of 0 .498, giving the t = 1.457/.498 = 2.926 (df =27, p=0.947). From this and according to Baron and Kenny (1986), this satisfies the first condition necessary for moderation. This findings is that, as we increase X by one unit (strategic decision), the predicted value on Y (bank performance) increases by 1.457 units.

Step 2*:* The second step involves the variable (X) relating to the moderator (M). This is to be done by having X as the only predictor of M, a regression model was carried out and the weight (regression), that corresponds to path a in the Figure 3.1.The results is presented in Table 4.7.

Table 4.7 Regression on Strategic Decision with Regulatory Enforcement (N=29)

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Correlations	
		B	Std. Error	Beta			Zero – ord.	Partial
1	(Constant)	11.045	4.654		1.373	0.174		
	X_1	-2.457	0.218	0.119	-11.271	2.933	0.202	.202

Table 4.7 indicates regression (unstandardized) weight of -2.457 for X predicting M. hence, a = -2.457 with a standard error is 0.218, giving it t = -2.457/.218 = -2.58 (df =1413, p=0.010). This satisfies the 2nd condition for moderation. The findings indicate

that as strategic decision increase by one unit, the predicted value on M (regulatory enforcement) decreases by -2.457.

Step 3: This step involves showing that the moderation factor predicts the outcome with the predictor's presence. A regression model using Y as the criterion, X and M as predictors and M test weight is established. This corresponds to path **b** in Figure 3.1.

Table 4.8 Regression Predicting Regulatory Enforcement and Performance (N=29)

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Correlations	
		B	Std. Error	Beta			Zero –ord.	Partial
	(Constant)	11.045	4.654		1.373	0.174		
	M_1	2.28	0.101	0.119	22.732	2.933	0.202	.202

The model in Table 4.8, the regression (unstandardized) weight of M=2.28 predicting Y while controlling for X. Therefore b=2.28 and Se, which gives t = 2.28/.101 = 22.73 (df =27, p <0.001). This satisfies necessary condition for moderation.

In conclusion, moderation could be calculated as change in the regression weight of regression for X on Y when M is included: -2.457 + 2.286 = -0.171. The moderation effect is found by determining products of the indirect paths from X to Y through M. (-2.457 * 2.286) = -5.617. This means that regulatory enforcement is moderating factor on the relationship between strategic decisions and performance of Kenya's commercial banks.

4.9 Discussions of the Findings

The study was to establish the influence of regulatory enforcement on the relationship between strategic decisions and performance of commercial banks in Kenya. As in Lee and Hsieh (2012), the financial regulation and supervision was apprehended through different variables including capital adequacy, liquidity requirement, anti-money laundering laws and interest capping. From the findings, the most critical regulatory move was the Interest rate capping and the liquidity management requirements. The results on the interest capping law were considered to influence the performance of the banks to a large extent. This might be attributed to the fact that the law capping interest rates was implemented recently and its effect on bank performance is perceived to greatly affect banks revenues. Most bank managers foresee a reduction in revenue based on the effect the law has on their main source of income; loans. The other regulatory requirement that was found to affect the performance of the banks was the liquidity requirement with the CBK. The regulator is proposing to increase its retention ratio of 10% of the capital base and this will reduce the liquidity position of the banks. The intention of CBK is in tandem with the position of Acharya (2003) of minimum capital requirements as an ex-ante mechanism to prevent bank failures.

Consistent with Spira and Page, (2013) position that internal decision making capability is considered critical to the firm's strategic decisions, the findings was that an effective management team that develops good policies and strategies for the bank, positively affects the banks performance. Strategic managers are concerned with how actions taken by the firm impact performance. This finding is in line with the works of Sink and Tuttle (2013) who find that in a performing firms use rational decision-making processes, leading to the conclusion that the more better performing firms reflect rational strategic decision-making process that they undertake. This includes establishing an open and inclusive decision making process. The study revealed that as a result of good strategic decision, commercial banks performance increased through increase revenue, accelerated cash flows, and their product being perceived by customers as more reliable than competitors ‘products, However, the study also found that strategic decision enabled banks to increase its market share, reduce risk and lower its costs. However, results of the regression are that the regulatory enforcement had a moderating effect on strategic decision and the performance of the banks.

CHAPTER FIVE: SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

The chapter is outlined into summary of the findings, conclusions, recommendations, limitations of the study and suggestions for further research.

5.2 Summary of Findings

The findings on the respondents and the banks operations were that most of the bank employees had university education and worked in the respective banks for more than 10 years. The banks sampled was also found to have operated in the country for more than 15 years and the five banks that indicated to have operated in Kenya for less than 10 years was by virtue of acquiring local banks and it was basically an entry strategy. From this it was fair to assume that the respondents were knowledgeable enough to understand the questions on the questionnaire and answer appropriately on the influence of regulatory enforcement on the relationship between strategic decisions and performance of Commercial Bank in Kenya.

From the findings regulatory enforcement was found to affect the performance of the commercial banks in Kenya. The most influential regulatory move that was perceived to affect the performance of the Kenyan Commercial banks, to a great extent, was the Interest rate capping, liquidity management and the supervisory powers enforced by the CBK. Further, the banks highlighted the market discipline mechanism and the anti-money laundering as the other regulatory factors that affected the performance of the banks. This indicates that the most critical regulatory enforcement policy that affects the performance of commercial banks is the Interest rate capping and liquidity management policy.

The result on the effect of strategic decisions on the performance of the banks was that the top management commitment and support in implementation of strategic decisions was an important factor that will affect the performance of the banks and also the decision making approach used in strategic decision making in the bank. In addition, the ability of a bank to create an organizational system that is perceived by employees as fair, caring, and open affected the performance of the banks to a moderate extent. From the inferential statistics, it was found that the regulatory enforcement had a moderating effect on the relationship between strategic decision and performance of the banks.

5.3 Conclusion

Today's strategic decision is highly demanding to business environment. For commercial banks to succeed in the competitive environment and have good performance they have to adopt strategic decision to meet their objectives better than competitors. Based on the results from data analysis and findings of the research, it can be concluded that the regulatory enforcement affect performance of commercial bank through capital interest rate capping, liquidity management and official supervisory power. Strategic decision resulted to commercial bank increasing their revenues, accelerated cash flows and having their product being perceived by customers as more reliable than competitors 'products. It also increased the market share, reduce risk and cost.

5.4 Recommendations for Policy and Practice

The study established that the commercial banks were influenced by regulatory enforcement on the relationship between strategic decisions and performance. It is recommended that other financial institution need to find out whether it has positive influence on strategic decision and performance.

The regulatory enforcement was found to be affecting performance of commercial bank. It is therefore recommended that financial institution need to adopt them because they assist them in achieving their goal and competition from others. The study established that strategic decision enables the commercial banks to increased revenue, increase market share and reduce cost. Therefore it is recommended that the organisation need to adopt strategic decision on performance.

5.5 Limitations of the Study

The limitation was due to the use questionnaire as an instrument of data collection as with most questionnaires there may be a problem of social desirability that is respondents instead of giving honest responses, may have tendencies of providing responses that seem desirable by others. The findings should therefore be viewed based on the research method employed and results thereof. The research was based on a single industry and generalizability of the results is limited.

The respondents may be hesitant to give some information to the researcher, which they regard as confidential in nature. To overcome this limitation, the researcher will assure the respondents that the information will strictly be used for the study. The respondents will not be asked to write their names on the questionnaire and the employee demographics page will be detached immediately after data entry to ensure confidentiality.

5.6 Suggestion for Further Research

The study was undertaken to determine the influence of regulatory enforcement on the relationship between strategic decisions and performance of commercial banks. It is recommended that future research studies can examine how regulatory enforcement influences the relationship between strategic decisions and performance of a different industry outside the jurisdiction of the CBK. A case in point is the agricultural sector firms.

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APPENDICES

APPENDIX I: COVER LETTER

Anna Njoki

P.O. Box 12063, 00400

Nairobi.

August, 2016

Dear Respondent,

RE: RESEARCH QUESTIONNAIRE

This questionnaire (attached) is designed to gather information on influence of regulatory enforcement on the relationship between strategic decisions and performance of commercial banks in Kenya. This study is being carried out for a management project paper as a requirement in partial fulfillment of the Master of Business Administration, University of Nairobi

Please note that this is strictly an academic exercise towards the attainment of the above purpose. You are hereby assured that the information will be treated with the strictest confidence. Your co-operation will be highly appreciated.

Thank you for your anticipated kind response.

Yours Sincerely,

Anna Njoki

APPENDIX II: QUESTIONNAIRE

Section A: Demographic Characteristics of Respondents

1. Name of the commercial bank (Optional)…………………………………….

2. What is your highest level of education qualification?

   a) Post graduate level ( )

   b) University ( )

   c) Tertiary College ( )

   d) Secondary ( )

3. Length of continuous service with the commercial bank?

   a) Less than five years ( )

   b) 5-10 years ( )

   c) Over 10 years ( )

4. How long has your commercial bank been in operation in Kenya?

   a) Under 5 years ( ) b) 6 – 10 years ( )

   c) 11 – 15 years ( ) d) 16 – 20 years ( )

   e) Over 25 years ( )

5. How many employees are there in your bank?

   a) Less than 200 ( )

   b) 201 – 499 ( )

   c) Above 500( )

Section B: Regulatory Enforcement

6. How has the regulations put forward by the regulatory bodies affected performance of your bank? Use 1-Not at all, 2-Small extent, 3-Moderate extent, 4-Great extent and 5-Very great extent.

Regulatory Enforcement	**1**	**2**	**3**	**4**	**5**
Capital adequacy requirements					
Market discipline mechanisms					
Official supervisory power					

Corporate governance					
Liquidity management					
Foreign exchange exposure limits					
Anti-money laundering					

7. To what extent has the following strategic decisions made by your bank influencedperformance? Use 1-Not at all, 2-Small extent, 3-Moderate extent, 4-Great extent and 5-Very great extent.

Strategic decisions	1	2	3	4	5
The external environment influence strategic decisions made by the bank					
The bank launches new products faster than competitors					
Internal organizational factors influence performance of my bank					
Decision making approach used in strategic decision making in the bank influence performance					
The bank management has created an organizational system that is perceived by employees as fair, caring, and open					
The bank has effective communication between management and its employees					
The management shows commitment and support in implementation of strategic decisions					
The management of the bank makes their decisions based on their intuition					

8. Indicate in terms of average percentage the extent to which the following performance measures have changed in your bank as a result of strategic decisions made? Where, 1 = (0% – 10%); 2 = (11% – 20%); 3 = (21% – 30%); 4 = (31% - 40%); 5 = (Over 41%)

Organizational Performance	**1**	**2**	**3**	**4**	**5**
Increased revenue					
Accelerated cash flows					
Reduced revenue volatility					
Lower costs					
Lower working capital					
Lower fixed capital					
Reduced risk					
Increased market share					
The product was perceived by customers as more reliable than competitors 'products					

THANK YOU FOR YOUR TIME