

**MANAGEMENT PRACTICES AND INDUSTRY INFLUENCES ON BANKS IN  
KENYA**

**BY**

**PAUL SESI**

**UNITED STATES INTERNATIONAL UNIVERSITY - AFRICA**

**SUMMER 2018**

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**A Project Report Submitted to Chandaria School of Business in Partial Fulfillment of  
the Requirement for the Degree of Masters in Business Administration (MBA)**

**UNITED STATES INTERNATIONAL UNIVERSITY - AFRICA**

**SUMMER 2018**

## STUDENT'S DECLARATION

I, the undersigned, declare that this is my original work and has not been submitted to any other college, institution or university other than the United States International University in Nairobi for academic credit.

**Signed:** \_\_\_\_\_ **Date:** \_\_\_\_\_

Paul Sesi ID: 642688

This project has been presented for examination with my approval as the appointed supervisor

**Signed:** \_\_\_\_\_ **Date:** \_\_\_\_\_

Dr. Peter Kiriri

**Signed:** \_\_\_\_\_ **Date:** \_\_\_\_\_

Dean, Chandaria School of Business

## **ABSTRACT**

The purpose of the study was to examine management practices and industry effects on banks in Kenya. This study was guided by the following research questions: The effects of management practices on banks in Kenya, the effects of the industry micro environment on Kenyan banks and the effects of the industry macro environment on banks in Kenya.

A descriptive research design was adopted for this study. The population was drawn from senior management of all commercial banks and from published annual results for the year 2017. Judgement sampling was used to generate the sample for senior managers and document analysis was used to scrutinize financial statements of all commercial banks. A sample size of 2,150 managers and loan data from the financial statements of all commercial banks for the year 2017. The research procedure entailed the drafting of questionnaires to managers of commercial banks, and drafting a checklist for the collection of secondary data. Data analysis was carried out and interpreted using SPSS, t-test and frequency tables.

The first research question set to establish how management practices influenced how banks positioned themselves for business, and the resultant strategic positions that management adopted to achieve desired outcomes. The findings indicated that management adopted practices that fit into their strategy, with most local banks adopting a differentiation strategy, whilst most international banks adopted cost leadership arising from a global strategy. The study also revealed that these management practices had a contribution to eventual firm and industry performance and had a bearing to the shift in dominance from international banks, to local banks. Managers overall also had a lot of emphasis on practices that enhanced employee engagement and motivation, but the approaches differed in how the organizations were designed to achieve outcomes in the market place, and the extent to which employee creativity and innovativeness were encouraged.

The second objective set to establish how, the industry micro environment had effects on the banking industry and made use of the Porter 5 forces framework as the tool to analyze the industry. The study revealed the micro environment was one to attract moderate to high industry profits arising from entry barriers created majorly from regulation with the only area of concern being the high substitutability of banking industry products. The findings also

established that customers in banking faced steep switching costs, in terms of procedural and cost considerations when intending to switch from one institution to the other. The study also indicated that though the capital requirements for new entrants were not steep, and coupled with weak incumbency advantages, due to lack of dominance in distribution channels, restrictive CBK policy heightened by the moratorium in place for licensing new banks, significantly heightened the barriers to entry.

The third objective set to establish how the industry macro environment had effect on the banking industry, and made use of the PESTEL framework as a tool for the analysis. The findings revealed that the macro environment was relatively stable with moderate external environment changes, but a highly complex environment. The complexity was brought about mainly by the number of potential external influences that are significant to the banking industry. The findings also established that the industry enjoyed high levels of trust and moderate to high levels of confidence, this was also coupled with the findings that the economic environment was favorable for business and the laws, policies and government institutions did little to create confusion and uncertainty. The study also found that the industry generally embraced technology and mainly impacted efficiency levels and customer interactions within the industry.

The study concluded that the shift in dominance from international to local banks was mainly attributed to management practices that dictated strategies that adapted and responded to the markets differently. International banks with their bias on higher control, were less responsive to the markets while majorly employing practices that were geared toward lesser employee involvement in terms of innovation and creativity, while local banks mainly embraced strategies that had lesser control and therefore more responsive to the market providing differentiated services. The study also concluded that the micro environment being conducive was a key catalyst but need for the regulators to be wary of the high substitutability of the industry products and services by unregulated players. The Macro environment exhibited highly complexity compounded mainly by the rapid developments in the technological space, and social media where fake news and information can spread so fast as to erode confidence in the industry overnight.

Finally, the research recommends that banks should be able to find a healthy tradeoff between cost leadership and differentiation with an aim at having a good level of responsiveness to the market. Local banks with the intent of venturing into the region should be wary of the same issues that international banks faced locally with the strong urge for control. Banks should also anticipate future changes in the micro environment and seek ways to adapt proactively through effective change management. The banks will also need to manage the macro environment players in the political and legal space through active lobbying and awareness with keenness not to flout corporate governance policies. Corporate social responsibility activities will be key in public engagement and education.

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## **ACRONYMS AND ABBREVIATIONS**

**BRICS** Brazil, Russia, India, China, South Africa

**CBK** Central Bank of Kenya

**EASSy** East African Sub Marine Cable System

**PESTEL** Political, Economic, Social, Technological, Environment, Legal

## CHAPTER ONE

### 1.0 INTRODUCTION

#### 1.1 Background of the Problem

The Business of Banking is essentially financial intermediation. It involves bridging the gap between economic actors with surplus funds – savers and channeling the same to economic actors in need of funds or capital at a price. Management on the other hand, constitutes the ingredients of performance management in the determination of responsiveness to customers, constant innovation and change management, stakeholder relationships and control from a leadership and operating systems point of view. Therefore the business of Banking involves the application of management in successfully managing aspects broadly concerned with financial intermediation (Cole, 1996; Economist, 2014).

Management teams throughout history, have been confronted by various challenges at different times in the histories of their nations and continents, at different geopolitical events and times and at different stages in the continuous evolution of management thought. There were eras of affordable labor, lacking in skills as the initial management problem at the time. Highly bedeviled by political instability evidenced through the world wars in the 1940s followed by regime changes coupled with rampant corruption in governments, this was a fertile breeding ground for a political economy characterized by no domestic savings, no ability to attract foreign long term investments therefore a crippled economy in all sectors including Banking. Management of banking institutions was particularly a challenge not only due to the challenge at the core of financial intermediation of having low savings, but also the fact that service industries were not as developed hence management thinking tended towards structuring of work and organizations as opposed to human motivation, organizational culture and service (Manor, 1994; Friedman, 2005; Cole, 1996).

Management then evolved into schools of thought that viewed organizations as complex ecosystems of people, whilst at the same time acknowledging that there was more to management taking into account that most economies in the post-world war era and into cold war, either embraced capitalist or socialist systems that gave managers in institutions different approaches to the challenges facing management at the time. Socialist economies embraced fixed wage systems with laws that largely had a huge control on labor practices while capitalist

economies embraced the job contracting models that in most cases bred innovation but in some cases were highly exploitative. Socialist economies were largely characterized by waste, a huge burden on state ownership almost driving the state and economy to bankruptcy with massive brain drain desperately needed by the less developed and developing economies at the time. This brain drain was not unique to banking but in all fields of management across all industries. With little or no human capital development as the focus was elsewhere during the cold war, the development of management as a discipline was in its infancy, labor was highly unskilled and classical management theorists at the time focused mainly on prescriptive management styles (Panagariya, 2013; Friedman, 2005; Manor, 1994; Linstead, Fulop, & Lilley, 2009).

This massive brain drain from developing countries, was in turn building America's economy from Wall Street to the Silicon Valley though the influx of immigrants seeking training, with America having a healthy mix of state banks, federal state banks and a vibrant public sector always signaling a healthy balance in the economy and management thinking in America slowly shifting towards studies of human behavior in the workplace championed by social scientists at the time, concerns on efficiency and effectiveness in management were also beginning to come to the fore. The legacy of a 'heavy' state in the developing world encouraged State owned enterprises in all critical sectors of the economy and Banking was no exception. State owned banks were the dominant in most developing nations looked at from all parameters. Coming from a planned economy legacy, affected economies had the lowest banking concentration indicating that no two or three institutions had significant dominance and that there was a level playing field in the sector, by deduction this indicated little or no influence on management and developing thought in the field (Boddy, 2014; Beck, Dermiguc-Kunt, & Levin, 2005; Cole, 1996).

The grit and practice of management was in lack. By contrast, some regions that adopted a planned economy and similar attributes to most developing nations in the same period showcased high concentration signaling development of strategy and management thought from early management thinkers and strategists like Sun Tzu. Free State economies at the same time had balanced dominance with high dominance rates witnessed in some jurisdictions in Europe. Application of management and issues faced by managers were varied across

geographies, with equally diversified development on management thought (Panagariya & Mukim, 2013; Manor, 1994; Beck, Dermiguc-Kunt, & Levin, 2005; Boddy, 2014).

Management thought evolved the effectiveness of organizations with a huge emphasis on strategy as most economies liberated into the 90s after the cold war, moving from state enterprise to a free market economy with huge consolidation in banking witnessing mergers and consolidation across industries and enterprises and banking was no exception. The period of consolidations across developing countries did not witness a rise in concentration of banking sector assets, but challenges were thrown at management in facing mergers and competition, the practice and complexity of management was getting evidenced. Governments still continued to provide capital support to public sector banks as opposed to policies related to human capital development like management, instead, issues in banking were still looked at from the prism of finances (Beck, Dermiguc-Kunt, & Levin, 2005).

Africa though rich in mineral resources, saw the period into the late eighties and nineties experience divestiture by multinationals due to the attractiveness that the post-cold war period presented to the developed economies, Africa had to develop its own management philosophies, and capitalize on knowledge transfer that had accrued, those educated in the diaspora with modern management skills were in pole position to carry the mantle. These shifts in turn occasioned high asset concentration in banking assets across most of Africa, and signaling similar issues in management throughout. Though some regulators had better supervision mechanisms compared to other African nations at the time, the issues bedeviling the various economies were many, common being hyperinflation. With international banks divesting further arising from pressure from home governments and international civil society groups gunning for nationalist philosophies in the 90s, the application of management and its principles was deepening with a more comprehensive view of the behavior of people at work based on the interaction of a number of variables such as organizational design, strategy technology and the business environment (Hoogeveen & Ozler, 2005; Boddy, 2014; Linstead, Fulop, & Lilley, 2009).

Kenya was not exceptional and at independence, due to a non-existent middle class, few skilled workers and little or no commercial farming or commercial activity by the indigenous population, Kenya had a huge shortage of domestic savings and skilled managers not to say a

management philosophy (Parliamentary Sessional Paper 10, 1965), at a time when foreign direct investments by transnational corporations into the developing world was rising steadily, bringing much needed knowledge transfer. The notion of bridging the investments gap from savings emanates from the Keynesian view in economics where savings in the economy eventually end up as capital to fund businesses. At Kenya's attainment of independence in 1963, Kenya had only three banks in operation (Kinyua, 2001; Porter, 1986; Smit, Cronje, Brevis, & Vrba, 2007).

Banks were of British origin at this time the multinational firm was the center piece of international competition and bridging the management skill gap that existed just like other developing nations. It was understandable therefore from the challenges identified in the sessional paper, that the government would encourage foreign direct investment into banking, and a cross pollination of management skills. Having attained internal self-rule, and having been colonized by the British, it comes as no surprise that the first banks would have been British. International banks therefore had a head start in dominance and deepening of management practices. This dominance anchored itself on the ability of the foreign institutions to exploit knowledge and management experience obtained in other jurisdictions and applying it with a fairly easy learning curve and effectively (Kinyua, 2001; Porter, 1986; Smit, Cronje, Brevis, & Vrba, 2007).

The Economics of international Banking are straight forward enough: raise funds in countries where they are cheap, lend where they are dear (Economist, 2014). A lot of vibrancy in the management of financial services and need for capital was required, as at the time, a lot of investment was demanded from all sectors of the economy if the ambition of the sessional paper 10 of 1965 was to be attained. The foreign banks driven partly by nationalistic and neo colonialist tendencies back at home and partly by the profit rush in new virtually untapped markets in Africa, were determined to be major players and so embarked on aggressive human and financial capital developments (Root, 1994; Gelinas, 2003; Parliamentary Sessional Paper Number 10, 1965; Linstead, Fulop, & Lilley, 2009; Smit, Cronje, Brevis, & Vrba, 2007).

Five years after independence, two domestically owned banks were established, one mainly to serve the members of the strong cooperative movement in Kenya, and the other as the first wholly Government owned commercial bank in Kenya signaling the deepening in

understanding of management through the application of competition concepts (CBK, 1994). The number of international and domestic banks continued to increase and there were over thirty banks after thirty years of independence. By this time, the banking industry had undergone three major disruptions arising from failure and subsequent placement under liquidation of banks and non-bank financial institutions. The first major disruption occurred between 1984 and 1986 when several indigenous banks and non-bank financial institutions failed at the same time an exponential growth in human capital (CBK, 1994). A total of 27 indigenous financial institutions had either been rescued, amalgamated or collapsed (Smit, Cronje, Brevis, & Vrba, 2007).

While indigenous banks were failing in swathes, four major commercial banks controlled 67% of the market for banks share based on the level of total assets (CBK, 1994). Another four banks controlled 13.8% of the asset base leaving the remaining local 25 banks in the industry to share slightly over 19% of market share. Sessional paper 10 of 1965 did not envision or anticipate policies to encourage such dominance (CBK, 1994; Linstead, Fulop, & Lilley, 2009).

During the ten year period to 1994, there were massive complaints from the public on the banking sector that the CBK commenced customer service inspections which would generally never be a core concern of a financial regulator, the service age had been ushered and management had to step up the plate to cope with the changing requirements that required management to not only focus on effectiveness but that it was done in a manner prescribed by the customer. The Central Bank of Kenya Act section 4(2) mandates supervision inspections touching on fostering liquidity, solvency and proper functioning of a stable market-based financial system. The epitome of the decade was when the big foreign banks wanted to rid themselves of small depositors and hiked minimum balances on savings accounts, with hindsight through the application of some management principles in competition and markets (CBK, 1994; Smit, Cronje, Brevis, & Vrba, 2007; Linstead, Fulop, & Lilley, 2009).

By 2006, the failure rate amongst banks had reduced drastically, the industry had grown to 45 institutions, 34 locally owned and 11 foreign owned institutions. Local banks dominated the Kenyan banking sector in terms of numbers but only accounted for 48.2% of the sectors total assets closely followed by the foreign owned banks with 43% of the sectors total assets (CBK,



2006). In about ten years from the financial turmoil that witnessed collapse of indigenous banks en-masse and a small clique of foreign banks controlling over 60% of the market share, the dominance seemed to be dampening and a mirage of parity was edging closer (CBK, 1994; CBK, 1996).

By the year 2013, there were 30 local banking institutions and 14 foreign institutions. At the close of the year, Net assets in the banking sector totaled 2.7 trillion with 29 locally owned commercial banks accounting for 66% of the assets and 14 foreign owned commercial banks accounting for 34% of the sectors net assets effectively demonstrating a shift in dominance from what was witnessed in the early 90s and with no local bank collapse or rescue in almost 10 years (CBK, 2013; CBK, 1994; CBK, 1996).

The strong showcase of performance and tilting of balance has also witnessed a number of indigenous banks venturing beyond the Kenyan borders in the larger East African community. Indigenous Kenyan banks have ventured into South Sudan, Uganda, Tanzania, Burundi and Rwanda with some institutions having announced plans to venture into Ethiopia, Somalia, Eritrea, Nigeria and South Africa. This demonstrates the confidence the indigenous banks have acquired in their management depth and application having come from a period of serial failure about 20 years ago (Jeffcut(Ed), 2004; Smit, Cronje, Brevis, & Vrba, 2007).

## **1.2 Statement of the Problem**

The banking industry in Kenya has transitioned since independence in a milieu initially characterized by a young nation with little expertise in banking and other sectors. An environment characterized by ideological influences on the politburo by the west and the east at the height of the cold war, causing a tag and pull to and from both ends of the capitalist and communist continuum. This was despite sessional paper 10 of 1965 clearly outlining prescriptions that prepared Kenya to be a non-aligned state during the cold war.

Prior to the fall of the iron curtain, corrupt regimes in the underdeveloped and developing world were allowed to thrive in the bi polar world order in return for exploitation and neo colonialist behavior from former colonial masters, this environment bred multinationals with a specific agenda of patronizing host environments with wasteful practices that often stifled local growth, initial intention being importation of technology and expertise to the host

country. The fall of the bi polar world order witnessed a push by the west through the Bretton woods institutions for structural reform through structural adjustment programs that witnessed a political economy that was liberated either too fast or on a very large scale instantaneously and effectively characterized by high inflation, runaway interest rates, huge deficits in balance of payments and rapid loss of value on the local currency and thus creating a hostile economic environment (Samanta, Purna; Raj Kumar Sen (Eds), 2001; Rasheed & Tomori, 1996).

The new world order was also welcomed by the crisis in Europe and the economic recession and meltdown that followed soon after, seemingly coming tertiary effects in the developing world and again coupled with phenomenal and unprecedented GDP rates were experienced in emerging economies and Africa. Having witnessed a hyper galloping economic, social and political environment, it is imperative that we are able understand effects in the evolution of management thinking, micro and macro industry factors influencing banks operating in an environment that was rapidly changing and uncertain in the wake of a globalizing world. Whereas there are many studies on the evolution of management thinking, micro and micro industry factors across many industries and jurisdictions, few have concentrated on the Kenyan banking sector without looking at the larger financial services industry. A firm must be able to understand its industry structure and competitors, understand its buyer and sources of buyer value, diagnose its relative cost position, and seek to establish a sustainable competitive advantage within some competitive scope, whether it be across the board or in an industry segment, to the best of my knowledge, there's no such study specific to the Kenyan banking sector in this era of financial technology, mobile money and interest rate capping (Porter, 1986). This study closely examined factors intrinsic and extrinsic to the banks (as institutions and as actors in a regulated sector under the financial services industry) that occasioned a dominance shift in Kenyan banks.

### **1.3 Purpose of the Study**

The purpose of the study was to examine management practices and industry influences on Kenyan Banks.

## **1.4 Research Questions**

1.4.1 What are the management practices and their resultant effects on the banking sector in Kenya?

1.4.2 What are the effects of the industry micro environment factors in the Kenyan Banking Sector?

1.4.3 What are the effects of the industry macro environment factors on the banking sector in Kenya?

## **1.5 Rationale of the Study**

Banking is often touted to be the engine that runs the economy, the dip stick through which we feel the vibrancy in the economy or lack of it. Financial intermediation being at the heart of the core purpose of banking has many stakeholders but few drivers. With this backdrop it is critical to understand drivers and factors influencing such critical players in the economy.

### **1.5.1 Bank Leadership**

This study identified factors that bank managers and investors should be aware about, especially when trying to improve performance, or penetrate new markets. The study takes an in depth look at management and its evolution, ties in management theory to its practice and application and the same for competition, effectively equipping the leadership with an understanding of the management and competitive variables at play. This understanding will be critical in determining training interventions for managers and informing the lens through which competitors and indeed the firm will be looked at in understanding the firm itself and the environment it operates in.

### **1.5.2 Policy Makers**

This study looked into competitive behavior amongst banks and how policy and regulation or lack of it determines behavior and performance in the banking industry. Industry regulators form a critical part of the industry macro environment. This study will help regulators understand how their actions are perceived by the banks and how significant their actions are as players in the macro environment. This study also focused on other macro factors in the industry and policy makers will get an appreciation of all the macro factors in concert.

### **1.5.3 Management Theorists and Scholars**

This study sought to understand changes in the application of management theory and practice and effects on banking behavior. Management theorists and scholars will get a focused perspective on management practices specific to the Kenyan banking sector whilst scholars will find a basis for further study or a reference point for deepening the area of study or as part of their literature review. This study in itself is aimed at contributing to an increase in the body of knowledge specifically to Kenyan banking sector.

### **1.6 Scope of the Study**

Banking being at the heart of the economy is often influenced and affected by many variables in the economy including but not limited to the monetary policy and monetary policy targets, fiscal policy, the political economy, security situation, sentiment and outlook by international markets, sovereign credit rating agencies among others. This study, though taking full cognizance of such variables and their significance, took into account the intrinsic variables within the banking sector like competitive behavior and industry thought, changes in regulation and banking laws, variables inward to the organization like management style, strategy formulation and shifts in the implementation of the strategy.

This study was specific to the Kenyan environment, covering all 43 banks in Kenya all of whose local operations are headquartered in Nairobi. The target respondents in these banks will be the senior leadership.

The study focused mainly on commercial banks as traditionally known, all of which are headquartered in Nairobi. This study therefore excluded development banks, microfinance banks – deposit taking and non-deposit taking, micro lenders or micro credit institutions, savings and credit cooperative societies, representative offices of commercial banks and foreign exchange bureaus. The study was conducted between December 2017 and May 2018.

## **1.7 Definition of Terms**

### **1.7.1 Management Practices**

Management practice is the art of fulfilling customer and market place requirements, adaptation to a changing market place and regulatory environment, setting and managing performance goals in an organizational setting (Boddy, 2014; Campbell & Craig, 2005; Drucker, 1974).

### **1.7.2 Industry Micro Environment**

A firm's Micro Environment entails its competition. Competition in this sense is broader context that transcends rival firms producing the same goods and services to also include four other competitive forces arising from customers, suppliers, potential entrants and substitute products (David & David, 2017; Porter, 2008).

### **1.7.3 Industry Macro Environment**

The industry macro environment is the all-encompassing milieu that consists of economic, political, legal/regulatory, technological and socio cultural factors that can exert direct and indirect pressure on a firm or industry (Kotler & Keller, 2016; Ferrell & Hartline, 2008).

## **1.8 Chapter Summary**

Chapter one presents the background information to the research problem, and succinctly describes the environment in which the research problem exists, identifies the problem statement, states the purpose and scope of the study and lists the research questions to be addressed in the study. It will also present the rationale and definition of terms used.

Chapter two delves into existing works in the area of study and will review literature in the areas of management and industry micro and macro environment. The chapter discusses in depth the effects if any, that these three factors of management practices, and industry on the performance outcome of a firm, a group of firms within the same industry in a similar tier or in similar milieu like niche market, or level of capitalization. Chapter three will delve in to the research methodology, will present the research design, population and sampling designs, data collection methods, research procedures and data analysis methods to be used in the study. Chapter four will present the data analysis of the research findings that the researcher set out to investigate regarding the management practices and industry influences among banks in

Kenya. The analysis will seek to reveal what influences management practices and industry influences at the micro and macro levels have on the banking industry in Kenya. Chapter five gives a summary of the findings that emanated from this study. The chapter will focus its discussions on the key findings in light of the objectives of the study and results of data analysis. It also gives recommendations based on the findings as well as areas for further research.

## **CHAPTER TWO**

### **2.0 LITERATURE REVIEW**

#### **2.1 Introduction**

This chapter covers literature review of the existing research on factors intrinsic to banking from a firm point of view and the Industry. This chapter will also look at literature covering industry environment from a micro and a macro level and how this interacts with internal dynamics of the firm. The chapter discusses in depth the effects if any, that these three factors of management practices, and industry on the performance outcome of a firm, a group of firms within the same industry in a similar tier or in similar milieu like niche market, or level of capitalization.

#### **2.2 The Effect of Management Practices on Organizations**

Management is as much a science as it is an art. Whilst the scientific or artistic nature of management is still debatable, it is clear that management is more a means to an end rather than an end in itself, as management is applied with an expectation of pre-determined results. Management exists only in contemplation of performance (Drucker, 1974). To manage according to Henri Fayol is to forecast and plan, to organize, to command, to coordinate and control. Management must fulfill customer and market place requirements, adopt to a changing market place and regulatory environment, set and manage performance goals (Jones, 2014; Cole, 1996; Drucker, 1974; Campbell & Craig, 2005).

Henri Fayol identified fourteen principles of management, not as absolutes but evolving in application in accordance to need. The fourteen principles according to Fayol are Division of work, Authority, Discipline, unity of command and direction, subordination of individual interest to general interest, remuneration, centralization, scalar chain, order, equity, stability and tenure of personnel, initiative and spirit de corps (Cole, 1996). In appreciating the structural and formal nature of organizations in administrative procedure, principles such as division of work, scalar chain, unity of command and centralization were conceived. Principles such as subordination of individual interests, remuneration and equity came from the practice of a dominant authoritative figure head in management. Initiative and spirit de corps principles came from Fayol's appreciation of sensitivity to humans need for an approach that is participative as opposed to a robotic or mechanistic one. To effectively implement these

fourteen principles, managers must plan, organize, command, coordinate and control. (Yoo, Lemak, & Choi, 2006) In the quest to out maneuver competitors, deliver returns to the expectations of stakeholders, management must apply itself to sound practice and thought through business level strategies which are a function of management (Cole, 1996; Yoo, Lemak, & Choi, 2006; Jones, 2014).

Michael Porter defines Strategy as the creation of a unique and valuable position, involving a different set of activities. If there were only one ideal position, there would be no need for strategy (Porter, 2008). The end goal is to always deliver a unique mix of value. To deliver value, Porter envisioned three generic strategies; Cost leadership, Differentiation and Focus. Cost leadership lends itself to generating products and services to a wide range of consumers at the lowest price possible or the best price-value through application of scale economies. Differentiation engages in producing products and services that are perceived by the industry to be unique and hence justified to command a premium price for the product or service. Focus strategy lends itself to niche customers which can either be at the lowest price or at the best price-value available in the market. The focus strategy after identification of the niche, lends itself to either lowest price or price-value in cost leadership. To implement these strategies will require application of different management principles. Multinational firms like the dominant international banks at Kenya's independence with greater access to resources typically applied cost leadership strategies arising from experience and scale efficiencies attained from home country operations (Gelinias, 2003; Porter, 2008; David & David, 2017; Root, 1994).

### **2.2.1 Management in the Structural Nature of Organizations**

Henri Fayol's principles of management are applicable and useful as management strategies in the operationalization of Michael Porters generic strategies, further cementing the fact that Fayol's principles are adaptable and to every management situation at hand. The principles of Division of work, authority and responsibility, unity of command, unity of direction and scalar chain will be appropriate in the implementation of a cost leadership strategy. The principles of stability of tenure or personnel, initiative and spirit de corps will be appropriate in the implementation of a differentiation strategy as opposed to cost leadership. The remaining principles are applicable in the implementation of Porters generic strategies though their



applicability, relevance and extent of importance will be highly dependent on the fit with the strategy the firm is pursuing and factors like management and leadership style in the institution and organizational culture. Of central importance will be the cognizance of the critical match between the principle and a strategy in the case of good fit and what principle results into a weak fit (David & David, 2017; Porter, 2008; Yoo, Lemak, & Choi, 2006).

Division of work as a principle dictates that specialization yields centers of excellence and perfection, resulting into ease in knowledge transfer to newer workers, reduced cost overheads and faster production or rendering of service always resulting in a higher output or better satisfaction to a service. According to Porter scale economies always yield cost advantages and specialization to a large extent contributes to economies of scale. Production in a large scale involves breaking down the process into a chain of events that are allocated to specialized workers who have mastered the specific task. This specialization assists mechanization and digitization of operations or specific tasks with a resultant reduction in production cost per unit. A differentiating firm will not apply this principle because such a strategy requires a dynamic culture with its core at organizational learning moving away from process and value proposition rigidity. Standardized processes inhibit innovation and adaptability therefore firms pursuing a differentiation strategy should avoid division of work as a core principle in delivering value to the market. Though, division of work may be employed in non-core activities like procurement of office consumables in a telecommunications firm. Firms using division of labor to implement a cost leadership strategy will outperform those that do not employ the principle (Yoo, Lemak, & Choi, 2006; Cole, 1996; Porter, 2008).

Fayol described authority as the right to give orders and the power to extract obedience, responsibility then follows as a consequence of authority to enforce accountability on the right conferred to give orders and the power to extract obedience. Authority according to Fayol is either formal where it is conferred based on rank and position held or informal where it is earned out of reverence, professionalism and charisma held by the person exercising it. Intensive control of labor is a commonly required skill for successful implementation of cost leadership strategy (Porter, 1986). Clearly defined spheres of authority are highly beneficial to a cost leadership strategy due to the ease of formalizing organizational controls and policies. Conversely rigid application of spheres of authority is detrimental to a differentiation strategy

as it impairs the ability of workers to contribute through innovative ideas and participating in management. Continued responsiveness to market needs is a central tenet of the differentiation strategy, as it gives employees unique opportunities to solve end user issues from a point of knowledge. Firms strictly applying the principle of authority and responsibility for cost leadership will outperform those that do not use it (Cole, 1996; Porter, 1986; Yoo, Lemak, & Choi, 2006).

With the principle of unity of command, Fayol argued that a clear and well defined chain of command be articulated, with every employee receiving instructions from only one supervisor, a violation of this, then disrupts workplace harmony and smooth flow of processes. A firm attains cost advantages when operations have no disruptions and workflow uninterrupted, with differentiation relying heavily on creative thinking, this principle would be a handicap if applied to differentiation strategy that would benefit heavily from multilayered levels of authority and matrix organizational designs that magnify a company's ability to innovate and adapt. Firms using the principle of unity of command for cost leadership will outperform those that do not use it (Cole, 1996; Yoo, Lemak, & Choi, 2006; Pucik, Tichy, & Barnettt, 1992).

Unity of direction draws its importance from the fact that it requires coordination of strength and focusing of effort towards one desired end, the end will always justify the means with each task assigned a desired outcome that is known. This principle implies that organizational effectiveness and efficiency are hinged on minimizing conflict within team members. Without unity of direction, managers would pursue intermediate goals that do not necessarily provide synergy to the end goal. Unity of direction is necessary to the achievement of unity of command and a cornerstone in the achievement of unity of command. Minimizing conflict hampers creative thinking that is central to a differentiating strategy. Constructive conflict especially in the discovery of better ways to perform tasks and in challenging the status quo will be favorable in optimal decision making. Firms using the principle of unity of command to implement a cost leadership strategy will outperform those that do not use it (Cole, 1996; Yoo, Lemak, & Choi, 2006).

Chain of command emphasizes an organizational design that lends itself to a vertical chain of authority and communication, that either top-down or bottom-up flow of authority of command, should strictly adhere to the chain of command. Horizontal or peer to peer

communication is either shunned or required authority from the vertical chain of command. Chain of command lends its usefulness to a cost leadership strategy. Such an organizational design characterized by extensive division of labor, centralized control, and flow of information through formal red tape, are central to an organization biased on producing and distributing goods and services as efficiently as possible. Strict application of scalar chain curtails constructive communication and coordination across functions and as a result, dampening innovative thinking and ideas coupled with slower adaptation to market stimuli and needs. Strong coordination and collaboration of functions such as research and design, product and marketing would benefit a differentiation strategy that seems to be a handicap of strict chain of command. Therefore firms using the principle of scalar chain for communication and decision making to implement a cost leadership strategy, will outperform those that do not use it (Porter, 2008; Yoo, Lemak, & Choi, 2006; Cole, 1996).

### **2.2.2 The Human Element in Management**

Stability of tenure of personnel speaks to a strong organization cultures that embraces a secure workforce that factors a learning curve to the settling in of a person in a new job. Settling of managers and leadership become central to the security of tenure in order to allow for clear mastery and understanding of roles. Where security of tenure lacks, managers tend to have a high degree of risk aversion and myopia. Where innovation, an acceptable propensity to risk and creativity are valued, then those attributes should be rewarded. Stability of leadership is also key to inculcating such attributes to an organizational culture which in turn, are central to a differentiating strategy. An organizational culture with stability of tenure as a central attribute, is characterized by overheads employed to employee benefits and perks and rewards for length of service. Where cost efficiency is crucial, it is beneficial to hire new employees despite the costs of attrition as opposed to keeping employees who demand permanent contracts or higher pay. Task specialization keeps training costs to a bare minimum negating the costs of attrition, therefore firms using the principle of stability of tenure to create a culture of innovation and creativity to implement a differentiation strategy, will outperform those that do not use it (Cole, 1996; Yoo, Lemak, & Choi, 2006; Pucik, Tichy, & Barnettt, 1992; Pfeffer, 1994).

Fayol underscored the importance of workers who approach their jobs with energy and enthusiasm in turn exhibiting high levels of initiative. A strategy of differentiation anchors itself on dynamic products, adaptability through research and development and innovative processes and delivery to market. This can only be achieved in an environment of maximum openness to foster employee initiative. This gives employees a sense of belonging and having a stake in the organization by having enriched jobs hence strengthening employee initiative. Firms using the principle of initiative to create a culture of innovation and creativity to implement a differentiation strategy, will outperform those who do not use it (Cole, 1996; Pfeffer, 1994; Yoo, Lemak, & Choi, 2006; Pucik, Tichy, & Barnettt, 1992).

Espirit de corps stresses building harmony and unity to boost motivation within an organization. Espirit de corps can be used to build trust and increase collaboration by distributing the over differentiated tasks and assigning collective responsibility to teams in ways that make work easier. Differentiation grows out of the firm's value chain and virtually any value activity in the value chain including both primary and secondary activities can be a potential source of competitive advantage (Porter, 1986). Attaining differentiation from secondary activities requires high levels of employee engagement stemming from harmony amongst employees and a collaborative organizational culture. A differentiation strategy will draw from collaboration and harmony amongst numerous decentralized units – a central feature of spirit de corps. Performing this principle is costly and a cost leadership firm will avoid the principle due to its fixation on increasing productivity with the lowest cost per unit. Firms using the principle of spirit de corps to create high morale and unity among employees to implement a differentiation strategy will outperform those that do not use it (Cole, 1996; Porter, 1986; Yoo, Lemak, & Choi, 2006; Pfeffer, 1994).

### **2.3 Industry Micro Environment**

To be in business and to stay in business entails a deep understanding of the environment in which the firm operates in, possess a deep understanding of the competition and cope with it. Competition in its broader context, transcends rival firms producing the same goods and services to also include four other competitive forces arising from customers, suppliers, potential entrants and substitute products. The extended intensity amongst rival firms that emanates from these five forces defines an industry structure and hence dictates the nature of

competition within the industry. The intensity or lack of it, of these forces determine the extent of company profitability and industry performance by extension. Though short term factors such as weather, and business cycles are important, industry structure as illustrated by the five competitive forces, sets the industry profitability tempo for the medium and long term. Understanding the five forces, unpacks the industry profitability drivers whilst at the same time providing a framework that can anticipate and influence competition (Porter, 2008).

### **2.3.1 Threat of entry**

New entrants into any business environment introduce a potential glut in the market coupled with a desire for a chunk of market share. This potentially triggers a price war and the amount of money invested in marketing, product development, investment in research and development in order to ward off the new competition. New entrants leveraging from home markets and hence bringing in experience and scale, usually come in with a lot of disruption that increases the rate of investment required to compete (Porter, 2008).

Threat of entry in essence dampens the profit potential of an industry. When the threat of entry is heightened, prices are generally kept low or investments put in as a deterrent to new competitors. Investments put in could be in the form of the look and feel of a bank branch for instance that improves the ergonomics and end user experience while in contact with the company. The threat of entry therefore depends on the entry barriers in place, and the reaction a new entrant should expect from incumbents in the industry. A threat to entry is considered high in industries where the incumbents would not offer much resistance and the barriers to entry are infinitesimal, usually industry profitability is moderated. Profitability is dampened not by whether a new entrant comes in, but by the potential or threat or likelihood of that happening (David & David, 2017; Porter, 2008).

Entry barriers are existential dominant positions that accrue to incumbents relative to new entrants. The accrual manifests from seven major sources: Supply-side economies of scale where firms achieve low per unit cost arising from production of larger volumes hence spreading their fixed costs over more units, have deployed better technology or command better terms from suppliers. Supply side economies of scale force new entrants to deploy a high amount of initial capital in order to achieve similar scale efficiencies to their competitors or accept a cost disadvantage from their competitors, hence deterring entry. Scale economies

can be derived from any activity on the value chain, which ones are more important vary by industry, in banking, the number of bank points of representation whether digital or physical branches that interface directly with consumers presents a scale efficiency from the sheer numbers. In Kenya, the financial liberalization of the early 1990s opened the banking industry to a number of players effectively weakening any entry barriers put in place by the existing players. The financial liberalization process put in policies to encourage local participation in the financial system (Porter, 2008; Porter, 1986; Gachunga & Osiemo, 2013; Ngugi & Kabubo, 1998).

Demand side benefits of scale according to Michael Porter are also called network effects and arises out of a buyer's willingness to engage or purchase from the company based on the number of other buyers loyal to the company's products and services. Entry is discouraged by limiting the willingness of customers to purchase from a new entrant and by reducing the price the new comer can command until the entrant builds their own network and the time it takes to do so. Product endorsements by celebrities, company taglines are generally used by banks to generate network effects that create stickiness (Porter, 2008).

Customer switching costs are fixed costs that customers incur when they change who they buy from. Such costs arise because the switch may have to incur legal services, when for instance charging a property to a new bank where a loan facility is being transferred. The larger the switching costs, the higher the barrier to gain new customers by a new entrant (Porter, 2008).

Capital requirements and the initial capital outlay required to in order to compete can be a deterrent to new entrants. Capital may be necessary not only in the acquisition of fixed assets, but also in the buildup of inventory or branches in the case of a bank, extension of loan facilities and the funding of startup losses or huge license acquisitions. The barrier is more punitive in instances where the huge capital outlay is required for consumable and irrecoverable and hard to finance expenditure like upfront advertising, research and development. The Conversion of non-bank financial institutions in the 1980s in Kenya without additional capital requirements was critical in increasing competition in Banking therefore reducing any deterrents to new entrants (Porter, 2008; Ngugi & Kabubo, 1998).

Incumbency advantages independent of size, constitute of cost or quality advantages arising from learning through pivoting products and processes and customer feedback gained over years that are not either readily available or obvious to new potential entrants. Proprietary technology, preferred access to raw material sources, preemption of favorable geographical locations, established brands are other sources of incumbency power, that would discourage or lower the threat of new entrants (Porter, 2008).

Unequal access to distribution channels: the more limited or exclusive the channels are, the higher the barriers to entry. Distribution channels in banking include branches and bank agents on the physical side, yet agents in banking are not specific or tied up to an institution due to the prudential frameworks that exist. The practice with telecommunication companies is such that agents are exclusive. The level of restriction on distribution channels or the level of investment into the channels, dictates the height of the barriers to entry. Sometimes these barriers are too high, that new entrants innovate new ways to distribute in order to bypass existing infrastructure completely (Porter, 2008).

Restrictive government policy can either be a hindrance or an accelerator of barriers to entry. Government either forecloses or limits entry directly through licensing, or restrictions on foreign ownership, or indirectly through expansive patenting rules or environmental and safety regulations that raise either initial capital or scale economies to be deployed. Governments could make it easier directly through subsidies and tax exemptions applied across the industry or indirectly by funding research and making its availability easily accessible to all concerned, effectively reducing scale economies. Kenya Government policy in the 1980s was aimed at reducing the dominance by four international commercial banks that controlled seventy percent of total industry loans and advances (Porter, 2008; Gachunga & Osiemo, 2013; Ngugi & Kabubo, 1998).

Firms should always weigh entry barriers to the context in which the industry is in and relative to the capabilities of potential entrants, always being mindful of the innovative ways newcomers may employ in circumventing the barriers. Conversely, firms plotting entry should weigh the expected retaliation by incumbents and the amount of resources, financial or otherwise at the disposal of incumbents in fighting off new entrants, long protracted and

vigorous defense of markets by incumbents could dampen industry profits below the cost of capital (Porter, 2008).

### **2.3.2 The Power of Suppliers**

Suppliers with relative high clout either command higher pricing, limit the value proposition of a product or service, or transfer the burden of some variable costs to industry players. Workers lobby groups and unions, and specialist knowledge workers fall into the category of suppliers of labor. Suppliers can extract profitability out of an industry that is unable to pass on the incremental cost to consumers through increases in price. Supplier groups are generally considered powerful when they are more concentrated than the industry they sell to, the supplier group is well diversified in terms of industries it supplies to and therefore has no concentration risk on any one industry and therefore can comfortably extract maximum profit from each industry. If the industry faces high switching costs whilst changing suppliers, then the supplier group gains undue influence over the industry in question, where suppliers also have switching costs, then their influence is also compromised. Where suppliers offer differentiated products that are difficult to replicate or have patents, they gain an upper hand over the industry. Where the supplied products or services have no close substitutes and where the supplier group has good potential to forward integrate into the industry, then the suppliers have relatively more influence (Porter, 2008; David & David, 2017).

### **2.3.3 The Power of Buyers**

Powerful customers can lobby for lower prices, demand better quality or a better value proposition that eventually drives down industry profits by increasing the cost of production, powerful buyers set industry players against each other at the expense of industry profitability. A high negotiating leverage relative to industry players when the buyers are price sensitive and using their clout to induce price reduction is a key indicator of powerful buyers. A customer group usually has a high negotiating leverage if there are few buyers or each consumer group has muscle to buy in bulk volumes that are huge relative to the size of a single vendor. Large volume buyers usually have more leverage in industries with high fixed costs and low marginal costs that amplify the pressure on rivals to keep capacity optimal through discounting. Where industry products are standard or undifferentiated, buyers will always attempt to pit one vendor against the other in an effort to drive down pricing. In instances where buyers face lesser



switching costs and can credibly threaten to integrate backwards and produce the industry's product themselves, then they are deemed to have relatively high power to the industry. Consumers of Banking products and services have had an ebb and flow when it came to their level of influence Vis a Vis the industry. In 1994 for instance, dominant commercial banks behaved in an oligopolistic fashion and failed to lower interest rates, until the Central Bank prodded for the reduction of interest rates in response to consumer sentiment (Porter, 2008; Gustafsson & Johnson, 2003; Ngugi & Kabubo, 1998).

A buyer group is price sensitive in instances where the product it purchases represents a significant fraction of its cost of production or raw material input in the production process, or procurement cost. Buyers in this case will strive to look for substitutes or negotiate hard for pricing. Where the buyer group commands lower margins, cash strapped or under pressure to reduce costs tend to be highly price sensitive. If the end product of a buyer group is highly affected by the industry product, the buyers will always have a high sensitivity to price. Where the industry product has little or no effect on the other overheads the buyer incurs, the buyers will focus on the price more as opposed to an industry product that the buyer group views to have performance improving qualities or reducing material or other labor costs, hence the buyer becomes price insensitive and concentrates more on the quality and timely delivery of the industry product. When customers are unable to differentiate between two competitor products, their price sensitivity is high as they view the product attributes as basic or take the attributes for granted and as irreducible minimums, yet these could be as important as the levels of trust in the financial services industry. In the case of intermediate customers who can influence purchasing decisions of downstream customers, the ability to give that influence gives them significant bargaining power (David & David, 2017; Porter, 2008; Gustafsson & Johnson, 2003).

### **2.3.4 The Threat of Substitutes**

A substitute is a product or service that can perform a similar function or provide a similar utility to an industry product. The threat of substitution is sometimes downstream or indirect. When the threat of substitution is high, industry profits are threatened as a ceiling price exists. Good product performance, superior brand positioning and high differentiation could shield against substitutes. The threat of substitutes is always considered high when a product

potentially suffers a reasonable price-performance trade off from another product. The better the comparable value of the substitute, the higher the threat on an industry profit potential. When a buyer's switching cost to a substitute are relatively low, the threat is compounded. Firms should be particularly alert to emerging changes in other industries that could create new substitutes, the emergence of a payment platform from a telecommunication company in Kenya, eventually created a strong substitute to traditional payment products by banks. Non-bank financial institutions like microfinance institutions and savings and credit cooperative societies in Kenya, always provided products and services that gave a high threat of substitution (Gustafsson & Johnson, 2003; Porter, 2008; Ngugi & Kabubo, 1998; Gachunga & Osiemo, 2013).

### **2.3.5 Rivalry Among Existing Competitors**

Industry rivalry assumes many forms including price discounting, new products, advertising campaigns, service improvements and branding. High rivalry limits industry profit potential, the extent to which is determined by the intensity of the competition and the form that competition assumes. Rivalry is greatest when in a perfect competition environment where firms are many, of relatively the same size and economic might, hence an inherent difficulty in gaining market share. Slow industry growth and high exit barriers keep the intensity of rivalry high as slow growth intensifies fights for growth at the expense of competitors and high barriers to exit keep firms in the industry even if they are making losses. Industries driven by ego, race for market leadership, prestige or nationalist tendencies that have primary goals like prestige or social impact tend to have profitability as a secondary consideration and intensify rivalry at the expense of industry performance. The Kenya Oligopolistic behavior among the dominant banks that controlled more than seventy percent of loans and deposit in the industry, the rivalry amongst competitors was not fierce (Porter, 2008; Gustafsson & Johnson, 2003; Ngugi & Kabubo, 1998; Gachunga & Osiemo, 2013).

The form the rivalry takes dictates the intensity of rivalry. Rivalry taking the dimension of price war is always very destructive to industry profitability as the price war focuses customers to focus less on product value proposition as a sustained price war that is always easy to match, gives the perception that the products are similar and the only differentiator can be price. Price competition is highly likely when products and services are identical with negligible switching

costs. Where fixed costs are high and marginal costs are low, pressure to reduce prices below average costs is always intense in order to attract more sales while still making extra to cover the fixed costs. Industries where scale is required for efficiency always intensify price wars to attract more sales as a result of over production. Perishability of products transcends agricultural produce and could involve a banking shoring up interest rates on deposits to attract more customers as at close of financial year as opposed to lending out the funds, the perishability of the product is the close of year date. Perishability of product and service creates a strong case for a price war (David & David, 2017; Gustafsson & Johnson, 2003; Porter, 2008).

Competition taking the form of product attributes, after sales support, warranty period, delivery time, ability to build a service culture and link activities to it or brand image as an example as opposed to price, is highly unlikely to erode industry profitability as it improves customer value and can be used as justification for higher prices. Rivalry focused on such dimensions other than price can improve desirability relative to substitutes and even raise entry barriers. It is important therefore that competitors compete on different dimension if the level of intensity is to remain low. Rivalry can increase industry profitability where each competitor chooses different customer niches and segments where they deliberately chose whom to serve and who not to, with different mixes of price, value propositions and brand identities. Such realms of competing can only serve to expand the industry. A clear understanding of the structural underpinnings of rivalry, nature of competition and be shifted to a more positive direction (Porter, 2008; Gustafsson & Johnson, 2003).

## **2.4 Industry Macro Environment**

The industry macro environment is not one to be looked down upon. Conditions in the macro environment can change so rapidly that no intended strategy can be useful, or changes in the macro milieu can be so significant rendering intended strategies useless. In a more turbulent world, it is becoming increasingly difficult to assume a macro environment that is either easily understood into the foreseeable future or highly stable. This elevates the importance of the macro environment to almost the same level as the micro environment if not at the same level (Mintzberg, Ahlstrand, & Lampel, 2009).

Organizations increasingly need to be aware of macro environment factors that could potentially impact the institution's activities as either sources of threats or opportunities. Organizations may or may not have control over macro environment factors but the implications need to be anticipated and mitigates put in place, and where anticipation is impossible, the learnings should be assimilated fast, post event. Understanding the nature of the external environment is therefore key and understanding the stability and complexity mix at play in the external environment is key (Campbell & Craig, 2005).

To assess the level of stability in an environment, management will need to gauge how often and by how much the external environment changes, an unstable environment will often call for more frequent internal changes and adaptation. Complexity in an environment refers to the number of potential external influences upon an organization. Complex environments will have many possible influences that must be closely monitored. The nature of the external environment will always have a strong influence on the effectiveness of the organization's management practices. The Kenyan banking industry successfully lobbied against the introduction of interest rate controls in the late nineties and the first decade of the new millennium, but were unable to stop an amendment to the Banking law in 2016 that introduced interest rate caps, indicating the dynamism of the macro environment where players may have influence at some point and lose it in the next, or the dynamic nature of threats that could always mutate and present themselves once again (Gachunga & Osiemo, 2013; Mintzberg, Ahlstrand, & Lampel, 2009; Ngugi & Kabubo, 1998; Campbell & Craig, 2005).

The industry macro environment consists of economic, political, legal/regulatory, technological and socio cultural factors that can exert direct and indirect pressure on a firm or industry. Issues in the external environment can often be complex and mostly be termed as "Black Swans" due to either the capacity to snowball across industries, threatening national security, transcending into geopolitical risks or their characteristic of high improbability but ultra-high impact once the probability crystalizes (Taleb, 2007; Ferrell & Hartline, 2008; Kotler & Keller, 2016; Campbell & Craig, 2005).

### **2.4.1 The Economic Environment**

Economies are in a constant state of evolution and never remain constant, therefore current and expected conditions in the economy can have a great impact on the purchasing power in an economy. Purchasing power is dependent on the disposable income of households which in turn is dependent on general levels of employment and income, savings, debt and credit access. How an economy performs dictates the strategic position a firm takes. Economic performance is then gauged by an understanding of the economic conditions in which a firm finds itself in, and include inflation, levels of unemployment and disposable incomes and how those incomes are distributed, real interest rates in the economy, tariff and non-tariff barriers to trade, levels of taxation, performance of the currency against major ones and subsidies or incentives in place and the current and future stages of the business cycle (Ferrell & Hartline, 2008; Kotler & Keller, 2016; Campbell & Craig, 2005).

Levels of confidence in an industry based on consumers overall impressions on an economy and the consumer's willingness and ability to spend are key economic factors. For instance, banking as part of the financial services industry is highly influenced by levels of confidence in an economy and where confidence is low, the industry suffers a downturn. World over, economic realities have shifted more to service based or knowledge based economies. At Kenya's independence, levels of savings were low with a non-existent middle class, low purchasing power in the economy, the gross domestic product was good and comparable to Malaysia and South Korea, coupled with healthy levels of foreign direct investment. The Kenyan economy continued to grow albeit with structural weaknesses in the economy especially in tax revenue collection and administration. Despite the challenges, Kenya's economic growth outperformed that of neighboring countries and the larger east African community and Central Africa by generally showing greater macroeconomic stability. Into the nineties, and the liberalization of the economy, Kenya encouraged non-bank financial institutions to convert to commercial banks and encouraged local participation in the industry by lowering entry barriers, in effect creating an economic environment sufficient for the mushrooming of Banks (Ndulu, 2007; CBK, 1994; CBK, 1996; CBK, 2006; CBK, 2013; Gachunga & Osiemo, 2013; Ngugi & Kabubo, 1998; Mwega & Ndungu, 2008; Rono, 2002).

### **2.4.2 The Political-Legal and Regulatory Environment**

The political-Legal and regulatory environment consists of laws and policies, government institutions and lobby groups that influence organizations and the industries they operate in. sometimes, this environment can create new business opportunities, on the other hand, this environment can not only create uncertainty but also confusion in an industry. Many organizations view political-legal and regulatory factors as beyond their control and hence do little to influence or lobby in their favor, so they end up adjusting strategy to accommodate changes, other industries take a more proactive stance and seek to influence elected officials or nominate one of their own to influential positions to represent their interests. Whatever the scenario, firms should stay apprised of happenings within this space due to the punitive nature of non-compliance (David & David, 2017; Ferrell & Hartline, 2008; Kotler & Keller, 2016; Parliamentary Sessional Paper Number 10, 1965).

The Kenya banking landscape was always collectively challenged legally and by the political class on the reduction of interest rates that gave the perception that the industry behaved in an oligopolistic manner if not as a cartel. Banks were generally viewed as exploitative, and focused only on profiteering as evidenced by steady increases in industry profit even in instances where the economy was under performing. Several attempts and calls by the regulators to get banks to reduce their lending rates always fell on deaf ears and several pieces of legislation to control interest rates were thwarted only to succeed in 2016 when the bill that introduced a cap on interest rates was signed into law (CBK, 2013; CBK, 2006; Ngugi & Kabubo, 1998; Mwega & Ndungu, 2008).

### **2.4.3 The Technological Environment**

Technology refers to the way that we accomplish specific tasks of the processes that we use to create the “things” we consider as new. (Ferrell & Hartline, 2008) Technology has an element that is creative destructiveness that is always accepted as the collateral damage of progress. Innovations long term consequences are not always anticipated say for instance, telecommunication companies competing with Banks or financial institutions that primarily operate as technology companies. Trends in technology like the accelerating pace of change, unlimited opportunities for innovation and varying research and development budgets should

be at the forefront of organizations willing to stay technologically ahead (Kotler & Keller, 2016; Ferrell & Hartline, 2008; Campbell & Craig, 2005).

Changes in technology can either assume a frontstage or backstage presence. Frontstage technologies have direct impact and interface on customer touchpoints and interaction like agency banking, or mobile banking applications used in customer transaction origination. Backstage technologies may not necessarily be apparent to customers but increase efficiency and may end up manifesting in better customer value proposition in products and services like service turn-around times, and better pricing due to elimination of overheads. In some instances, technology can be delivered in both backstage and frontstage presence at the same time. In Banking, technology has enabled real-time payments that are initiated by the customer without having to transact at a physical branch (David & David, 2017; Ferrell & Hartline, 2008; Kotler & Keller, 2016; Berger, 2006; Campbell & Craig, 2005).

Technological infrastructure was weak in more than 28 states in Africa without any fiber connection by the year 2005. Numerous network initiatives were put in place in the five years from 2007, with the completion of East African Sub marine Cable System (EASSy), The East African Digital transmission Project and the East African Blackhaul system. With these advances in technology and coupled with the information Technology revolution sweeping across the technology hubs in India, local institutions and indeed Banks, had not only access to technology, but also affordable technology, that was generally the preserve of the international banks due to the financial muscle they commanded from overseas head offices and the exclusivity in the access of such technology. Technology thus became a leveler in the playing field across many industries and banking wasn't left behind with most Banks upgrading and modernizing their core banking systems in the decade starting in the year 2005, therefore enabling high levels of customer service and reduction of costs (Padayachee(Eds), 2010; CBK, 2013; Ndulu, 2007; Friedman, 2005; Berger, 2006).

#### **2.4.4 The Sociocultural Trends**

Influences that cause changes in beliefs, attitudes, norms, customs and lifestyles profoundly affect the perceptions of consumers about a wide array of things and help determine if, when, where and how a firms product or service will be purchased. These influences are collectively termed as sociocultural factors. Changing values, population diversity and population

demographics are some of the key sociocultural factors influencing business today. Prahalad estimates that there are billions of unserved and underserved people that make up the bottom of the pyramid, the strategy should be to be able to serve this demographic by learning to do more with less (Prahalad, 2010; Campbell & Craig, 2005).

In the late nineties, the dominating international banks began a process of account and branch closure to customers and areas that they deemed not to make business sense, or extract meaningful economic value. While the decisions were purely from a business point of view, they ignored the sociocultural sentiment sweeping across the nation. The sentiment of Nationalism and being Kenyan and supporting what is Kenyan. The information age was also in its infancy and consumers had great awareness that they had an upper hand as customers. Levels of financial access were low, there was a great number of customers at the bottom of the pyramid that were grossly under served, yet banking technology was easily accessible and barriers to entry were low (CBK, 1994; CBK, 1996; CBK, 2006; Gachunga & Osiemo, 2013; Mwege & Ndungu, 2008; Prahalad, 2010).

## **2.5 Chapter Summary**

The chapter is a literature review of existing research literature on the theory and practice of management arising from Michael Porters generic strategies, micro and macro environment influences on a firm. The micro environment is reviewed using Michael Porters framework on industry analysis, whilst the macro environment review used the PESTEL framework. The discussion tackles all the research questions posed and provides a firm theoretical background for the study. The chapter explores how the practices of management through the application of Porter's generic strategies affect overall performance and if applied across industry, how it influences industry behavior. Industry structure and organization has been looked into with keenness to understanding how the firms behave and compete faced with various industry milieu. The next chapter, presents the research design, population and sampling design, data collection methods, research procedures and data analysis methods used in the study.



## **CHAPTER THREE**

### **3.0 RESEARCH METHODOLOGY**

#### **3.1 Introduction**

Research Methodology consists the overall approach used in the entire process of any research, though the research problem partly informs the approach, the assumptions and the way the research problem is defined, will always have a bearing on the way a study is conducted (Collis & Hussey, 2009). This chapter discusses the following phases; research design, population, sampling design, sample size, pre-testing, data collection, data analysis and ethical issues.

#### **3.2 Research Design**

Research design is the science and art of planning procedures for conducting a study with an end aim of coming up with the most credible findings in the circumstances. It is the blueprint to be used for purposes of satisfying the objectives of the study and answering the research questions (Cooper & Schindler, 2014; Collis & Hussey, 2009). This study used descriptive research design, to gather data on management practices and industry influences on banks in Kenya. Descriptive research design was adequate in answering the research questions on what are the management practices adopted by banks and their resultant effects on the banking sector in Kenya, what the effects of the industry micro environment factors are on the players in the Kenyan banking sector, and what effect the industry macro environment factors have on the banking sector in Kenya. Descriptive research design is useful in identifying and gathering information on the attributes of a particular problem or issue, then goes further to examine the problem, with an aim to ascertain and describe the characteristics of the issues in the study (Collis & Hussey, 2009; Cooper & Schindler, 2014).

#### **3.3 Population and Sampling Design**

##### **3.3.1 Population**

A population is the universe of units under observation and consideration for statistical purposes from which the sample is to be collected. The units therefore always must have common observable characteristics. A sample in this case, consists of a subset of this population (Bryman & Bell, 2011; Collis & Hussey, 2009). The target population for this study was senior managers of commercial banks whose source was from the Kenya Bankers Association and published financial results of commercial banks for the year 2017. The

commercial banks in Kenya had a total population of approximately 2,150 managers (CBK, 2013). The main attributes of the population are employees in management level with over ten years banking experience, and those that have gained adequate context in the banking field over time.

### **3.3.2 Sampling Design**

Sampling design consists of sampling decisions made from the nature of the management question and the specific investigative questions that evolve from the research questions. These decisions are influenced by needs of the study and its desired outcomes, level of risk the researcher can accept, budget, time, resource availability and culture (Cooper & Schindler, 2014).

#### **3.3.2.1 Sampling Frame**

The sampling frame is the list of elements from which the sample is drawn, a complete and correct record of population members only (Cooper & Schindler, 2014; Collis & Hussey, 2009). Banks in Kenya, Kenya Bankers Association and Central Bank of Kenya constituted the sampling frames (See *Appendix 1*). The sample elements were the management staff of the banking institutions, and their published financial results.

#### **3.3.2.2 Sampling Technique**

Sampling involves selecting some elements in the population, in order to draw conclusions about the whole population (Cooper & Schindler, 2014). Non-probability sampling was used as the sampling method for this study. In non-probability there is no way of foretelling that each element in the population will have an equal chance to be represented in the sample (Cooper & Schindler, 2014). Judgement sampling was used to generate the sample for senior managers this is due to the fact that not all managers had the requisite context and experience for this study. Equally, not all published secondary data will be relevant for this study, and the researcher will use industry and bank totals for values of loans and profitability for the year 2017. Judgement sampling relies on easily available samples thus it is quick and inexpensive (Collis & Hussey, 2009).

### 3.3.2.3 Sample Size

A sample is the subset of the population of direct interest to the research (Collis & Hussey, 2009). The researcher distributed questionnaires to managers covering the banking industry in Kenya and Central Bank of Kenya. Forty three senior managers from the banks were selected to form the sample. On the secondary data, the researcher will make use data from all licensed commercial banks, effectively analyzing the population of 43 banks on balance sheet size. The researcher will use the below formula in determining the sample size.

$$ss = \frac{Z^2 * (p) * (1-p)}{c^2}$$

Where:

Z = Z value (e.g. 1.96 for 95% confidence level)

p = percentage picking a choice, expressed as decimal  
(.5 used for sample size needed)

c = confidence interval, expressed as decimal  
(e.g., .04 = ±4)

### Correction for Finite Population

$$\text{new ss} = \frac{Ss}{1 + \frac{Ss}{\text{pop}}}$$

Where: pop = population

With a management staff of 2150, the appropriate sample size would be 43 using a 95% confidence level and a confidence interval of 5.

### **3.4 Data Collection Methods**

Data collection is the means of gathering empirical evidence in order to gain insights about an area of interest (Cooper & Schindler, 2014). The data collection method is chosen depending on the research problem, design and categories of data requirements. The researcher employed structured questionnaires and document analysis as data collection methods.

The questionnaire had two types of questions: close-ended and open-ended. Five-point likert type scale was used to standardize the responses. Participants were asked to indicate their level of agreement with each statement/item from 1 (Very great extent), 2 (great extent), 3 (moderate extent), 4 (low extent) and 5 (not extent). Questionnaires have the advantage of being easy to administer and execute. The questionnaire is practical where the information needed is from a large respondent and the information is unvarying and straightforward and where respondents are able to read and write (Collis & Hussey, 2009).

Secondary analysis involves the analysis of data that others have collected (Bryman & Bell, 2011). This research used secondary data from published financial statements of Banks as approved by the central bank of Kenya for the year 2017. Secondary data offers a researcher the possibility of having a larger sample size, than the researcher would feasibly gather in their own (Laurie & Jensen, 2016). Secondary data collected provided the highest level of accuracy because published statements of commercial banks in Kenya are approved by the regulator prior to publication and the regulator vets the audit firms allowed to audit commercial banks. The management staff who prepare the financial statements prior to audit are also vetted and approved by the regulator. Publication of such results in a standardized format is not only a mandatory requirement, but makes it quite convenient for statistical analysis in research. The publication of such results is not only time bound, but also readily available to the requirement that the publication of such results are published in media of wide national circulation (Mark Easterby-Smith, 2008).

### **3.5 Research Procedures**

The research procedure entailed the drafting of questionnaires to managers of commercial banks, and drafting a checklist for the collection of secondary data. The researcher identified two research assistants to help in the distribution and collection of the questionnaires, and also

for collating the financial data from published statements. The structured questionnaires were be e - mailed to the senior managers of the various commercial banks in the sample via a web link for filling in, and collected between one and three weeks. The respondents were briefed on the purpose of the study and requested to give their responses on the particulars of the questionnaires. The financial statements to be analyzed were collected from newspapers published between 1<sup>st</sup> January 2017 to March 31<sup>st</sup> that serves as the regulatory start date and deadline for banks to publish previous year's results.

Pre-testing was done so as to make an evaluation of the questionnaire before the actual study was carried out (Cooper & Schindler, 2014).The researcher pre-tested the questionnaire with five senior managers of Chase Bank who did not form part of the sample size. Adjustments were made to the questionnaire before the actual data collection after identifying the weaknesses of the tool. Feedback from piloting of questionnaire was be used to refine the questionnaire before final administration. The researcher guaranteed all respondents adequate confidentiality that none will be quoted directly without their consent throughout the conduct the study. All sources used in the research would be accredited to avoid plagiarism. The findings of the study were made available to all commercial banks and regulatory bodies for their records.

### **3.6 Data Analysis Methods**

The data collected was analyzed so as to provide answers to the research questions. Data analysis involves interpretation and processing of data collection. Data from the questionnaires was sorted, edited, identified into categories and the results interpreted. The data obtained was analyzed to describe and infer from the data using histograms and t – test respectively, using Statistical Package for Social Sciences (SPSS version 2.0) and the findings will be presented in the form of tables and figures. Content analysis was be used in processing qualitative data and results presented in prose form.

### **3.7 Chapter Summary**

This chapter presents the research methodology that will be used for this study. The chapter covers research design, population and sampling design, data collection methods, research procedures and data analysis methods. The next chapter presents the results and findings of the study.

## **CHAPTER FOUR**

### **4.0 RESULTS AND FINDINGS**

#### **4.1 Introduction**

This chapter presents the results and findings. The researcher set out to investigate the management practices and industry influences among banks in Kenya. The study sought to understand what effects management practices and industry influences at the micro and macro levels had on the banking industry in Kenya.

The 40 respondents were all management staff of commercial banks with 60% being senior management, 37.5 at middle management levels and 2.5% being at the officer level. The respondents were 60% male and 40% female. The years of experience in banking of the respondents was between 7 and 21 years. 35% of the respondents had attained their undergraduate degrees whilst 65% had attained their masters' degrees. None of the respondents had qualifications below a degree or above the masters' level.

The determined sample size was 43 and consisted of managers of commercial banks. A total of 60 questionnaires were distributed to senior managers of various commercial banks. Both local and international bank employees were included in the sample. A total of 40 out of these were correctly completed with a response rate of 93 percent out of the selected sample size and a response rate of 66% out of the distributed questionnaires, out of which 30% were international banks for the secondary data and 37.5% of the respondents were from international banks. The data presented here consists quantitative data from both primary and secondary sources.

#### **4.2 The Effect of Management Practices on Organizations**

Secondary data in the form of bank assets was analyzed from published statements of all commercial banks for the year 2017. The researcher segregated international and local banks due to their different management styles and attitudes, with an aim of understanding if there was a significant difference in the performance results from loan or asset data. The null hypothesis pointed to no significant difference in the standard deviation of the data indicating that the management styles had no effect in the performance of either international or local

banks. The alternate hypothesis pointed to a significant difference in the performance of local and international banks.

H<sub>0</sub>: The standard deviations of the asset data between local and international commercial banks are the same.

H<sub>a</sub>: The standard deviations of the asset data between local and international commercial banks are not the same.

Since at 95% confidence levels the critical values are less than the t values as shown in the table 4.1 below, the null hypothesis was rejected, an indication that management practices had an effect on performance.

**Table 4.1: T-Test Results**

One-Sample Statistics						
	N	Mean	Std. Deviation	Std. Error Mean		
Assets(L)	28	99542.64	145390.060	27476.139		
Assets(I)	12	69311.67	73702.141	21275.976		

  

One-Sample Test						
Test Value = 0						
95% Confidence Interval of the						
Difference						
	T	Df	Sig. (2-tailed)	Mean Difference	Lower	Upper
Assets	3.623	27	.001	99542.643	43166.26	155919.02
Assets	3.258	11	.008	69311.667	22483.56	116139.77

#### **4.2.1 Management and the Structural Nature of Organizations**

The purpose of the questions was to look at the various management principles employed by the commercial banks in order to understand the management style in the design of the organization. The data from the table below shows that majority of the manager's style to a very high extent (75%) manager's focus on tasks that need to be performed in order to primarily achieve a certain performance standards set around fulfillment customer and market place requirements. Managers were also unanimous (92.5%) that strategy is a critical component of

their function and how various divisional and departmental level strategies should be congruent with enterprise wide strategy. Managers however differed in how and by whom the strategies were set. The results are shown in Table 4.2 below.

**Table 4.2: Management and the Structural Nature of Organizations**

	Very Low Extent	Low Extent	High Extent	Very High Extent	N/A
My institution operates under multilayered levels of authority and matrix organizational designs	7.5%	30.0%	30.0%	32.5%	-
My institution encourages Strong coordination and collaboration of functions such as research and design, product and marketing, Operations, and frontline business functions	12.5%	27.5%	32.5%	27.5%	-
Management and leadership in my institution concentrate largely on the fulfillment of customer and market place requirements as a core component of their management role	0.0%	5.0%	20.0%	75.0%	-
It is the role of managers in my institution to guide the institution in adopting to a changing market place and regulatory environment, set and manage performance goals.	0.0%	17.5%	32.5%	50.0%	-
Over and above the overarching enterprise wide strategy, unit/department/business level strategies that are congruent to the enterprise strategy are always formulated and reviewed.	2.5%	5.0%	40.0%	52.5%	-
The strategies and the manner in which management responds to market and customer needs are largely dependent on decisions made at regional or global head offices	42.5%	22.5%	5.0%	30.0%	-



#### **4.2.2 The Human Element in Management**

The researcher sought to look at the various management principles employed by banks so to understand the management attitudes. Managers had bias on employee engagement (95%) but differed in how the organizations were designed to compete through decision making as only 52.5% encouraged participation in management decisions and the contribution of innovative ideas. Only 65% of the organizations embraced organizational learning at the expense of rigid processes that weakened the adaptability of the products and services to customer needs. Similarly, 62.5% of the respondents felt that constructive conflict was employed for the purpose of coming up with new ways of doing things. A moderate to high number of respondents (67.5%) felt that their institutions employed management styles that created work environments that facilitated employees to approach their jobs with energy and enthusiasm in turn exhibiting high levels of initiative in responding to customer needs. The results are shown in table 4.3 below.

**Table 4.3: The Human Element in Management**

	Very Low Extent	Low Extent	High Extent	Very High Extent	N/A
My institution is a highly dynamic culture environment with its core at organizational learning moving away from process and value proposition rigidity	7.5%	27.5%	35.0%	30.0%	-
My Institution enables me to contribute through innovative ideas and participating in management decisions	12.5%	35.0%	27.5%	25.0%	-
My Institution encourages constructive conflict especially in the discovery of better ways to perform tasks and in challenging the status quo	17.5%	20.0%	30.0%	32.5%	-
My institution encourages and values innovation, and an acceptable propensity to risk and creativity, coupled with a stable work environment	10.0%	20.0%	32.5%	37.5%	-
The organizational culture in my institution is about colleagues approaching their jobs with energy and enthusiasm in turn exhibiting high levels of initiative	5.0%	27.5%	25.0%	42.5%	-
My institution has high levels of employee engagement (above 75%) stemming from harmony amongst employees and a collaborative organizational culture	0.0%	5.0%	42.5%	52.5%	-

### 4.3 Industry Micro Environment

The respondents were asked to rank aspects of their industry micro environment on a scale of 1-5. The purpose of the questions was to look at the micro factors the banking industry is confronted with and the competitive forces in play in order to understand the immediate

external stimuli of the banking industry, the industry profitability tempo and how various stakeholders in the industry inter relate.

### 4.3.1 Threat of Entry

The researcher sought to gauge the threat of entry as a competitive force in the banking industry. Data from the table below indicates that the banking industry has a moderate threat to entry specifically due to restrictive government policies (92.5%) aimed at stabilizing the sector coupled by regulatory requirements (87.5%) perceived to dampen the threat of new entrants, and by the fact that there's few incumbency advantages and proprietary rights of whatever nature accruing to the banks (90%). The results are shown in table 4.4 below.

**Table 4.4: Threat of Entry**

	Very Low Extent	Low Extent	High Extent	Very High Extent	N/A
Restrictive government/regulatory policy has been a hindrance by limiting entry of new players.	2.5%	5.0%	47.5%	45.0%	-
Capital and regulatory requirements in the banking industry are punitive to new entrants	0.0%	12.5%	32.5%	55.0%	-
The banking industry is characterized by incumbency advantages independent of size, that are not readily available or obvious to new potential entrants	45%	45.0%	10.0%	-	-
The banking industry is characterized by proprietary technology and intellectual property rights as sources of incumbency power that would discourage or lower the threat of new entrants.	25.0%	25.0%	40.0%	10.0%	-

### 4.3.2 Power of Suppliers

The researcher sought to gauge the power of suppliers as a competitive force in the banking industry. Data from the table below indicates that suppliers of either technology (10%),

human(57.5%) and financial capital(65%) separately have low to moderate leverage on the banking industry as a whole, and due to the varied nature of their trade, have little or no cause to join in forces against the banking sector.

**Table 4.1: Power of Suppliers**

	Very Low Extent	Low Extent	High Extent	Very High Extent	N/A
Suppliers of technology collectively have leverage over the banking industry.	20.0%	70.0%	10.0%	0.0%	-
Suppliers of financial capital (Development financial institutions) have leverage over the banking industry as a whole	7.5%	27.5%	45.0%	20.0%	-
Suppliers of labor (including Banking Union) have strong leverage over the banking industry	15.0%	27.5%	35.0%	22.5%	-

### 4.3.3 Power of Buyers

The researcher sought to gauge the power of buyers as a competitive force in the banking industry. The data on the table below indicates very weak buyer power in as much as occasioned by lengthy procedures (100%), paperwork and high cost of switching (97.5%) from one lender to the other. The results are shown in table 4.6 below.

**Table 4.2: Power of Buyers**

	Very Low Extent	Low Extent	High Extent	Very High Extent	N/A
Customers in banking experience high costs and lots of lengthy procedural inconveniences when switching from one banking institution to another	0.0%	0.0%	42.5%	57.5%	-
Consumers of banking services face high switching costs in terms of time taken, cost and documentation required	2.5%	0.0%	55.0%	42.5%	-

**4.3.4 Threat of Substitutes**

The researcher sought to gauge the threat of substitutes as a competitive force in the banking industry. The data on the table below indicates a high substitutability of industry products and services, both from industry players (87.5%) and non-bank financial service providers (95%). The results are shown in table 4.7 below.

**Table 4.3: Threat of Substitutes**

	Very Low Extent	Low Extent	High Extent	Very High Extent	N/A
Non-Bank players, financial and otherwise easily provide products and services traditionally associated with banking	0.0%	12.5%	55.0%	32.5%	-
Products or services that can perform a similar function or provide a similar utility to banking industry products and services exist	0.0%	5.0%	47.5%	47.5%	-

### 4.3.5 Rivalry Among Existing Competitors

The researcher sought to gauge the threat of substitutes as a competitive force in the banking industry. The data from the table below indicates that the extent of rivalry among existing competitors is moderate (42.5%) based on the fact that banks have generally chosen their segments (95%) further fragmenting the competitive landscape. The results are shown in table 4.8 below.

**Table 4.4: Rivalry Among Existing Competitors**

	Very Low Extent	Low Extent	High Extent	Very High Extent	N/A
Banks serve and target specific client segments and specialize in the niche as opposed to competing across all segments	5.0%	60.0%	35.0%	0.0%	-
The banking industry is laden with price wars, huge marketing budgets, huge investments in research and technological development with an aim to ward off the new competition	7.5%	50.0%	30.0%	12.5%	-

## 4.4 Industry Macro Environment

The researcher sought to assess the entire macro environment in the banking industry using the PESTEL framework. The respondents were asked to rank aspects of their industry macro environment on a scale of 1-5. The purpose of the questions was to look at the macro factors exerting influence on banking industry as a whole as either threats or opportunities. The main aim was to understand the stability and complexity mix at play within the industry and how effective or ineffective they would render the specific management practices.

### 4.4.1 Economic Environment

The researcher sought to gauge the economic environment factors that had leverage on the banking industry. The data from the table below indicates a macro environment that was fairly stable (above 80%), the environment was however highly complex based on the number of

potential influencers that the banking sector would face as a whole (95%). The results are shown in table 4.9 below.

**Table 4.5: Economic Environment**

	Very Low Extent	Low Extent	High Extent	Very High Extent	N/A
The banking industry economic environment calls for more frequent internal changes and adaptation	32.5%	57.5%	10.0%	0%	-
The number of potential or actual external influences upon individual banks in the industry is high	0%	5%	50%	45%	-
The stability of macroeconomic indicators and a generally liberalized economy in Kenya contributes to the vibrancy or lack of it in the Kenya banking industry	0.0%	0.0%	52.5%	47.5%	-

#### **4.4.2 Political, Legal and Regulatory Environment**

The researcher sought to gauge the political, legal and regulatory environment factors that had leverage on the banking industry. The data from the table below further indicates the complexities that exist within the banking sector occurred with a moderate frequency (62.5%) to regulatory changes and adaptations (97.5%) required to the level of influence Government institutions hold on banks (100%). The results are shown in table 4.10 below.

**Table 4.6: Political Legal and Regulatory Environment**

	Very Low Extent	Low Extent	High Extent	Very High Extent	N/A
The frequency of regulatory changes and adaptations required of the banking industry players is high	37.5%	55%	7.5%	0%	-
Government institutions and regulators influence organizations within the banking industry?	0.0%	0.0%	22.5%	77.5%	-
Changes in existing laws governing financial services influence and cause drastic changes in organizations within the banking industry.	0.0%	2.5%	25.0%	72.5%	-
Pressure from lobby groups and consumer organizations influences and cause drastic changes in perception and existing policies governing the banking industry	12.5%	27.5%	42.5%	17.5%	-

**4.4.3 Technological Environment**

The researcher sought to gauge the technological environment factors that had leverage on the banking industry. The table below indicates that changes in technology influenced the industry majorly in the push for efficiency (92.5%) and a huge bias in how banks interact with customers and potential ones (above 90%). The results are shown in table 4.11 below.



**Table 4.7: Technological Environment**

	Very Low Extent	Low Extent	High Extent	Very High Extent	N/A
Changes and new developments in technology influence efficiencies and operations within organizations in the banking industry	0.0%	7.5%	27.5%	65.0%	-
Changes and new developments in technology influence how banks interact and service their customers in the banking industry	0.0%	0.0%	32.5%	67.5%	-

#### **4.4.4 Sociocultural Environment**

The researcher sought to gauge the sociocultural environment factors that had leverage on the banking industry. The data from the table below indicates considerable trust and levels of confidence to be high (100%) in the banking industry with sociocultural trends having a considerable sway in the manner in which consumers respond to the banking industry (87.5%). The results are shown in table 4.12 below.

**Table 4.8: Sociocultural Environment**

	Very Low Extent	Low Extent	High Extent	Very High Extent	N/A
Levels of confidence towards the banking industry by consumers is high	2.5%	30.0%	40.0%	27.5%	-
Influences that cause changes in beliefs, attitudes, norms, customs and lifestyles of Kenyans profoundly affect their perceptions and attitudes towards the banking industry	0.0%	12.5%	55.0%	32.5%	-
Kenyans have trust in the Kenyan banking sector compared to other players in financial services?	0.0%	0.0%	55.0%	45.0%	-

#### 4.5 Chapter Summary

This chapter presents the analysis of data of the research findings on the management practices and industry influences among commercial banks in Kenya. Majority of the manager’s style to a very high extent focuses on tasks and strategies that need to be performed in order to achieve a certain pre-determined end. The management styles with the lowest mean scores were mainly in areas where local and international banks differed in their approaches to issues confronting the banks or strategies. From the findings all the commercial banks utilized well thought through strategies to achieve agreed goals while focusing on high levels of engagement and motivation. It can be concluded that Management practices, Porter 5 forces and PESTEL factors, influence commercial bank activity to a great and moderate extent, also depending on the chosen management approach. The next chapter presents discussions, conclusions and recommendations of the study.

## **CHAPTER FIVE**

### **5.0 DISCUSSIONS, CONCLUSIONS AND RECOMMENDATIONS**

#### **5.1 Introduction**

This chapter gives a summary of the findings that emanated from this study. The objectives of the study were to determine what management practices and industry influences affect the performance of banks in Kenya. This chapter focuses its discussions on the key findings in light of the objectives of the study and results of data analysis. It also gives recommendations based on the findings as well as areas for further research.

#### **5.2 Summary**

The purpose of the study was to examine management practices and industry influences on Kenyan Banks. The research aimed to answer the following research questions; the management practices and their resultant effects on the banking sector in Kenya, the effects of the industry micro environment on the Kenyan banking sector and the effects of the industry macro environment factors on the banking sector in Kenya.

A descriptive research design was adopted for this study. The population was drawn from senior management of all commercial banks and from published annual results for the year 2017. Judgement sampling was used to generate the sample for senior managers and document analysis was used to scrutinize financial statements of all commercial banks. A sample size of 2,150 managers and loan data from the financial statements of all commercial banks for the year 2017 were applied to the study. The research procedure entailed the drafting of questionnaires to managers of commercial banks, and drafting a checklist for the collection of secondary data. Data analysis was carried out and interpreted using SPSS, t-test and frequency tables.

Majority of the manager's focused on tasks that needed to be performed in order achieve attain preset goals that were mainly drawn from a strategy that was not only granular to the departmental level, but also in line to the overarching enterprise wide strategy and mainly geared around fulfillment customer and market place requirements. Managers also clarity on the importance of a strategy, and that different management styles would yield a particular set of outcomes or steer the organization to a specific direction. Managers however differed in

how and by whom the strategies were set. Managers also had a great focus on employee engagement and motivation, but the approaches differed in how the organizations were designed to achieve outcomes in the market place or whether there would be a bias on employee creativity and innovativeness.

Majority of the respondents felt that the intensity of rivalry in the banking industry was moderate, though respondents still felt that incumbency advantages existed strongly in banking, coupled with strict regulator rules for entry that in turn lowered the threat for new entrants. Heavy switching costs faced by customers when changing from one bank to the other and or from substitute products further dampened the threat of substitution even with non-traditional players offering similar products further escalating the weakened buyer power despite the moderate strength in consumer lobbies. Suppliers of labor, capital and technology constituted the most critical of suppliers and all seem to have low to moderate leverage on the industry as a whole according to the respondents, in as much as the supplier switch cost was high in technology, the number of alternatives is high therefore weakening supplier power.

The banking industry enjoys considerably high trust and confidence levels with sociocultural trends having a considerable sway in the manner in which consumers respond to the banking industry players. The respondents also indicated that the adaptations required of the banking industry were high whether from changes in laws, the regulatory environment, government institutions and other external factors. The findings also indicated that changes in technology influenced the industry majorly in the push for efficiency and a huge bias in how banks interact with customers and potential ones making technological factors central to how banks operate. The macro environment was fairly stable but highly complex based on the number of potential influencers.

## **5.3 Discussions**

### **5.3.1 Management Practices**

The first research question aimed to explore the management practices adopted by commercial banks and how these affected bank performance. Management through different and unique styles determines the proper mix of people and teams and synchronizes operations to achieve high performance. This is in line with Yoo, Lemak and Choi's findings on the Fayol principles and how they can be aligned to Porter's strategies to create superior performance. To apply

any of Porter's generic strategies, managers must understand what management principles to put into play and in what manner. Management principles are therefore truths that can be adapted to achieve anything, therefore an understanding of the performance outcome required is very key. It can therefore be concluded that management style employed within organizations can have numerous performance outcomes (Griffin, 2000; Griffin, 2002; Cole, 1996). Managers are agents of change in the ever dynamic business environment and can translate organizational or human resource potential to reality (Drucker, 1974; Yoo, Lemak, & Choi, 2006).

The study established that general management bias in the banking industry was to mainly address marketplace and customer requirements and the adaptation to requisite changes in the industry whilst having a clear focus on performance, arising from goals that were pre-set. This was in line with Drucker's conclusion that management is in contemplation of performance. These goals were congruent to strategies that had been consistently built and aligned from the functional level, up to the enterprise level. Banks also had a focus on employee engagement and motivation and employed various strategies in achieving the engagement, which was required regardless of the strategy direction. It was therefore clear, that regardless of the level of involvement and participation required of staff, engagement was highly regarded. Local bank respondents however seemed to indicate a higher emphasis and importance on employee engagement than the international banks whose cost leadership bias may have overridden any need for creativity that is often a result of engagement, from the fact that pre-determined processes, products and business models entertain no customizations for the sake of cost leadership (Drucker, 1974; Yoo, Lemak, & Choi, 2006).

Local and International banks heavily differed on their management approaches to decision making and cultural orientation with most international banks shying away from cultural fluidity and dynamism in favor of standardized process and value proposition rigidities. Based on the outcomes presented by Yoo, Lemak and Choi, the standardization of processes allowed little or no creativity to serve customers better, therefore in turn giving a lower performance to the international banks as compared to the local banks. The international banks also had rigid decision making matrices with complicated levels and spheres of authority and reporting lines as compared to the local banks that relatively adopted simpler organizational designs and as

per Yoo, Lemak and Choi this was bound to produce weaker performance as evidenced in the study, with all decisions localized even at functional level compared to the international banks that had considerable levels of head office control. The approaches in management style adopted by the international and local banks pointed to adoption of different strategies to achieve their goals, hence pointing to cost leadership and differentiation strategies respectively (Porter, 2008; Yoo, Lemak, & Choi, 2006).

Though the study indicated that all banks were keen on the levels of their employee engagement, local banks had a stronger bias towards employee participation in management decisions and a considerable level of acceptance to innovative ideas in ways to improve efficiency and serve customers better. In as much this would often result in the pursuit of intermediate goals, not necessarily geared towards the end goal, this often resulted to the local banks having a higher propensity to risk, high levels of initiative and creativity, significantly leading to higher returns as asserted by Yoo, Lemak and Choi bearing in mind that the top three local banks had a combined loan portfolio that surpassed all the international banks combined. The reverse was true in 1994 where the four top international banks controlled and asset base of 67% of the total banking industry (CBK, 1994; Yoo, Lemak, & Choi, 2006).

### **5.3.2 Industry Micro Environment**

The second research question aimed at understanding the Industry micro environment using Michael Porter's 5 forces framework. The five forces framework by Porter assesses five variables at play in any industry and provides a useful tool of analysis. The forces at play are an assessment of the threat of entry by new players, buyer power, threat of substitution, supplier power and the level of competitive rivalry in the industry. The framework aims at gaining an understanding of the level and extent of competitive rivalry and the potential of banking or any industry performance as a whole. An in depth understanding of the banking industry structure would help unpack the industry profitability tempo and drivers and the nature of competition within the industry.

The research study indicated that generally customers in the banking industry faced steep costs in terms of both time taken procedurally and the resultant fees charged when they required to switch between banking institutions. Porter asserts that where switching costs are high, customers would generally have a weaker position due to the demerits associated with a move

to a different lender. This gives a clear indication that a price war would be highly unlikely in the banking industry in line with Ngugi and Kabubo's assertions. Though the findings of the study indicated that the capital requirements for new entrants were moderate, and coupled with weak incumbency advantages due to low preferential access to distribution channels or locations and lack of any existing proprietary knowledge, restrictive central bank policy heightened by the moratorium in place for licensing new banks, significantly heightens the barriers to entry in the banking industry in turn raising the industry profitability potential in line with Porter's 5 forces framework (Porter, 1986; Porter, 2008; Ngugi & Kabubo, 1998).

Suppliers of technology, financial capital and labor constituted the most significant suppliers to the banking industry. None of these suppliers were collectively more concentrated than the banking industry and none had the capacity to forward integrate into the banking industry due to the complexity of managing banking business and also due to the highly regulated nature of the industry. Even though the banking union had moderate clout over the industry, due to the fact that banks could easily substitute other key suppliers with little or no adverse consequences, especially on technology and development financial institutions who are generally routinely changed. Suppliers of labor were unique in the sense that their membership never constituted a critical mass in the banking industry. Senior and top managers of banks in Kenya were not eligible for membership in the banking union. The power of buyers collectively was also low to moderate as the buyers lacked the clout to set industry players against each other, could not backward integrate into the sector and had a low negotiating leverage over the industry due to the sheer numbers and the fact that buyers faced high switching costs did not make it any better for the buyers. The banking industry generally had weak buyers and suppliers on assessing the strength of suppliers using Porter's five forces framework (David & David, 2017; Porter, 1986).

Non-Bank players provided products and services that showcased good price-performance tradeoffs to the banking industry products, giving a high substitutability of banking payments and lending products. In as much as the level of substitutability was high, the impact was dampened by the switching costs experienced on the lending side of products. The level of industry rivalry was also low to moderate with very little price undercutting or new cutting edge products and services. In as much as the exit barriers to the banking industry were high,

the possibility of mergers and acquisitions provided for an environment to low rivalry. With most of the competitive forces remaining low coupled with high substitutability of banking products, the industry generally has a moderate extent of competitive rivalry coupled with a moderate to high industry profitability tempo, when the threat of substitutes is gauged in the banking industry using Porter's five forces framework (Berger, 2006; David & David, 2017).

### **5.3.3 Industry Macro Environment**

The third research question intended to gain a deep understanding of the banking industry macro environment using the PESTEL framework as a tool for analysis. The PESTEL framework is generally used in the assessment of macro environment factors using the political, economic, social, technological, ecological and legal circumstances that firms in any industry find themselves in. The macro environment potentially impacts an institutions activity as either a source of threats to the existence of the enterprise or opportunities for growth. A stability complexity mix is always at play in the macro environment and it is important for the industry to understand the relevant mix or anticipate impact of new macro environment changes to the nascent mix.

The banking macro environment is relatively stable with moderate external environment changes and infrequent internal changes and adaptations required of banks either by the regulators, lobby groups or rapidly shifting macro-economic factors. The complexity however is high due to the number of potential external influences upon the banking industry. The complexity arises as a result of the potential any one of the many change agents to industry to make drastic moves, and how this would be compounded if a number of the change agents were to act in concert. This is in line with Campbell and Craig assertions that provided the framework to gauge the stability complexity matrix in an industry. The nature of the external environment will always have a strong influence over the effectiveness of the organizations management practices, therefore developing a knack for anticipating the macro environment would prove useful to any institution (Campbell & Craig, 2005; Berger, 2006).

The banking industry enjoyed high levels of trust and moderate to high levels of confidence from the consumers, where confidence levels are very low in an economy, the banking industry suffers a downturn, this is due to the fact that banks are generally reflective of the confidence levels in the economy as observed through the financial intermediation process. Results from



the study using the PESTEL framework indicated good economic environment prospects coupled with good levels of trust and confidence buoyed the banking industry. The study also found out that the laws and policies, government institutions and lobby groups did little to create uncertainty and confusion in the banking environment, therefore creating good breeding ground for a robust milieu (Campbell & Craig, 2005; Economist, 2014; Economist, 2018).

The banking industry has embraced technology as an enabler according to the findings of the study with banks allowing technology to impact their efficiency levels and how banks interact with their customers. The technological factors were assessed using the PESTEL framework, to provide a deeper understanding. In as much as technology initially was readily available to international banks, the liberalization of the economy enabled further levelling of the playing ground with unfettered access to technology for all the banks. The levelling of the technological playing field as an enabler, is in line with Friedman's findings in a globalized world and also in line with Ngugi and Kabubo's assertions that liberalization of Kenya's economy came with unfettered access and a boost to technological infrastructure. This adoption of technology by local players signaled a shift from international to local banks dominance, as banks commenced the technological arms race in swathes (Friedman, 2005; Campbell & Craig, 2005; Ngugi & Kabubo, 1998).

Sociocultural trends according to the study were key in determining the influences consumers went through that affected the perceptions, attitudes, norms and lifestyle choices that made consumers make banking choices. While it is evident that there was a shift in dominance from international to local banks, the embracing of the low income cadres in society, coupled with the arrogant closure of some branches by some international banks shifted the conversation towards more nationalistic attitudes that eventually saw the struggling of international banks after the pro poor model that embraced all social classes was proven. Prahalad in his study also indicated similar shifts when the bottom of the pyramid is embraced. The change in segments of focus almost completely crystallized the belief that local banks can also be stable and offer superior services. This signaled the beginning of the end to international bank domination in Kenya, partly thanks to emerging sociocultural trends (Prahalad, 2010; Campbell & Craig, 2005)

## **5.4 Conclusion**

### **5.4.1 Management Practices**

Management being the art of the possible has evolved over time. Kenyan banks are no exception and have evolved since independence from an environment dominated by international banks that witnessed most of the innovations from product value proposition, to application of efficiencies and how banks interacted with customers dominated by the said international banks. Local banks eventually caught up and demonstrated that a global strategy predominantly focusing on adopting scale efficiencies from elsewhere and applying them locally, will be beneficial only in the short run as others follow a multi domestic strategy leaning a lot on local customization. As financial inclusion continues to deepen on the African continent, and with Kenya leading the pack, coupled with the fact that there's a hasty retreat by international banks from the continent, an opportunity still exists for local Kenyan banks to not only have presence beyond the Kenyan borders but be dominant further afield. The local institutions should however be wary of management practices that will work against them like failure to apply a multi domestic strategy. Local banks should also be wary of large African banks that have entered the Kenyan market, and also be wary of remaining international banks that could apply huge local adaptations using the integration-responsiveness framework.

### **5.4.2 Industry Micro Environment**

The industry micro environment in Kenya is quite favorable and provides an environment ready to provide moderate to high industry profitability. The threat of substitution for industry products remaining high should be a cause of concern to the players and the regulators. To the players there should be effort to distinguish and significantly differentiate industry products and services to avoid unregulated players with little or no disclosure requirements eating into industry profitability. To the regulators, the high threat of substitution indicates a high number of unregulated players that carry risks for financial contagion in the sector. Though the threat of entry remains low, this could easily change with a policy shift from government or emerging financial technologies that could crash existing barriers that incumbents could accrue over time, or instantaneously match scale built over years.

### **5.4.3 Industry Macro Environment**

The Industry macro environment though stable, has a high level of complexity indicating the number of potential influences could arise from varied sources. The changes could come in piece meal from every angle but compound into a difficult environment to operate in. The age of social media is also not one to be ignored where adverse information and fake news could morph into something serious to bring down an institution if not the industry as a whole. The run on Chase Bank in 2015 was fueled mainly by adverse information spreading on social media. Attitudes and beliefs also change and form quickly and this is one to be wary of, especially nationalistic sentiment that could lock out certain players or shift perception towards them adversely. Technology has the ability to break down barriers overnight, sometimes in unorthodox means from unexpected applications and sources.

## **5.5 Recommendations**

### **5.5.1 Recommendations for Improvement**

#### **5.5.1.1 Management Practices**

The researcher recommends that the commercial banks should adopt business growth and market penetrating competitive strategies based on the market segments they intend to tackle. Segmentation of the market is very key in understanding consumer motivations. Business growth may be achieved by growing the business via existing and or new products and in or existing and or new markets. The commercial banks should be able to deliver the same products and services as competitors at both cost and differentiation advantages, with a healthy tradeoff between the two. Banks can create a distinctive edge against competitors through cost leadership, differentiation and also through focus on internal strengths such as human capital, to create a unique positioning fit that would be impossible to replicate.

#### **5.5.1.2 Industry Micro Environment**

The researcher recommends that with the ever changing business environment organizations must not only adapt to current change but also anticipate future change and implement strategies to adapt. Management should also buy in to change for success. The management style and the decision making process adopted by commercial banks should take into account the rapid changing business environment and the constant evolution of the dynamics of the 5 forces of competitive position. The process should involve the key stakeholders including

employees who are involved the day to day running of the business. Managers are required to respond to rapid changing situations with a sense of urgency. Urgency is therefore a core sustained capability for change initiatives and responsiveness to change to be meaningful and effective. Management must exercise leadership and be role models through the entire changing business environment as people learn through role models.

### **5.5.1.3 Industry Macro Environment**

The Macro environment in its dynamism and complexity will require an organization to have its internal strengths and weaknesses in terms of influence reviewed and understood so to leverage on such where possible especially in the political and legal space, at the same time without a compromise on corporate governance policies. Corporate social responsibility activities and active education of the public on areas of interest or concern is one way to positively have influence over the macro environment. Strong industry lobby groups would also be very important in influencing all the macro factors with the exception of technology that management can use their experience to anticipate and manage.

### **5.5.2 Recommendations for Further Studies**

The researcher suggests that for an effective and conclusive study on management practices and industry influences among banks in Kenya, further studies on the management practices should be delved into without dwelling on strategy and looking at other management issues such as corporate culture, organizational design and corporate governance. Dynamics of the micro and macro environments should also be studied in other service industries and other sectors in the financial services like insurance, to pick up learnings that could be useful in banking or help further understand the micro and macro environment factors affecting banks. Linkages between the internal and external environments should also be studied mainly to understand influences the external environment has on the internal environment.

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## **APPENDIX I: LIST OF COMMERCIAL BANKS**

1. African Banking Corporation Ltd.
2. Bank of Africa Kenya Ltd
3. Bank of Baroda Kenya Ltd
4. Bank of India
5. Barclays Bank of Kenya Ltd
6. CFC Stanbic Bank Ltd
7. Charterhouse Bank Ltd (Under statutory management)
8. Chase Bank (K)
9. Citibank N.A Kenya
10. Commercial Bank of Africa
11. Consolidated Bank of Kenya Ltd
12. Co-operative Bank of Kenya Ltd
13. Credit Bank
14. Development Bank of Kenya Ltd
15. Diamond Trust Bank (K) Ltd
16. Dubai Bank Kenya Ltd
17. Eco bank
18. Equatorial Commercial Bank Ltd
19. Equity Bank
20. Family bank
21. Fidelity Commercial Bank Ltd
22. Fina Bank Ltd
23. First Community Bank Ltd
24. Giro Commercial Bank Ltd
25. Guardian Bank Ltd
26. Gulf African Bank Ltd
27. Habib Bank A.G Zurich
28. Habib Bank Ltd
29. Imperial Bank Ltd

30. Investment and Mortgages Bank Ltd
31. Jamii Bora Bank Limited
32. Kenya Commercial Bank Ltd
33. K-Rep Bank Ltd
34. Middle East Bank (K) Ltd
35. National Bank of Kenya Ltd
36. National Industrial Credit Bank Ltd
37. Oriental Commercial Bank Ltd
38. Paramount Universal Bank Ltd
39. Prime Bank Ltd
40. Standard Chartered Bank (K) Ltd
41. Trans-National Bank Ltd
42. UBA Kenya bank Ltd
43. Victoria Commercial Bank Ltd
44. Housing Finance Ltd

*Source: CBK website: [www.cbk.co.ke](http://www.cbk.co.ke)*

**APPENDIX II: QUESTIONNAIRE:**  
**Management Practices and Industry Influences among Banks in Kenya**

Dear respondent,

I am a postgraduate student studying at United States International University, currently undertaking a research on Management *Practices, and industry Influences among Banks in Kenya*. I kindly request your assistance by availing time to respond to the questionnaire.

The information that will be collected is solely for academic purpose and will be treated with utmost confidentiality. Your assistance will be highly appreciated.

Yours faithfully,

Paul Sesi

**Section A: General information**

**1. Level of Management:**

Senior Management  Middle Manager  Officer

**2. Gender:**

Male  Female

**3. Length of Service in the Banking Industry** \_\_\_\_\_ (In years):

**4. Level of Education:**

Secondary  Certificate/Diploma  Undergraduate  Masters  Doctorate

**5. How would you describe the ownership of the bank?**

Local

International

**Section B: Management Practices**

	<b>On a scale of 1-5 where 1 is very low, and 4 is very high while 5 is N/A (Not Applicable), to what extent do the following statements apply with respect to your management practices</b>	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>
<b>10</b>	Management and leadership in my institution concentrate largely on the fulfillment customer and market place requirements as a core component of their management role					
<b>11</b>	It is the role of managers in my institution to guide the institution in adopting to a changing market place and regulatory environment, set and manage performance goals.					
<b>12</b>	Over and above the overarching enterprise wide strategy, unit/department/business level strategies that are congruent to the enterprise strategy are always formulated and reviewed.					
<b>13</b>	The strategies and the manner in which management responds to market and customer needs are largely dependent on decisions made at regional or global head offices					
<b>14</b>	My institution is a highly dynamic culture environment with its core at organizational learning moving away from process and value proposition rigidity					
<b>15</b>	My Institution enables me to contribute through innovative ideas and participating in management decisions					
<b>16</b>	My institution operates under multilayered levels of authority and matrix organizational designs					

17	My Institution encourages constructive conflict especially in the discovery of better ways to perform tasks and in challenging the status quo					
18	My institution encourages Strong coordination and collaboration of functions such as research and design, product and marketing, Operations, and frontline business functions					
19	My institution encourages and values innovation, and an acceptable propensity to risk and creativity, coupled with a stable work environment.					
20	The organizational culture in my institution is about colleagues approaching their jobs with energy and enthusiasm in turn exhibiting high levels of initiative					
21	My institution has high levels of employee engagement (above 75%) stemming from harmony amongst employees and a collaborative organizational culture					

**Section C: Banking Industry Micro Environment**

	<b>On a scale of 1-5 where 1 is very low, and 4 is very high while 5 is N/A (Not Applicable), to what extent do the following statements apply with respect to your industry</b>	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>
22	Non-Bank players, financial and otherwise easily provide products and services traditionally associated with banking					

<b>23</b>	The banking industry is laden with price wars, huge marketing budgets, huge investments in research and technological development with an aim to ward off the new competition					
<b>24</b>	Customers in banking experience high costs and lots of lengthy procedural inconveniences when switching from one banking institution to another					
<b>25</b>	Capital and regulatory requirements in the banking industry are punitive to new entrants					
<b>26</b>	The banking industry is characterized by incumbency advantages independent of size, that are not readily available or obvious to new potential entrants					
<b>27</b>	The banking industry is characterized by proprietary technology and intellectual property rights as sources of incumbency power that would discourage or lower the threat of new entrants.					
<b>28</b>	Suppliers of technology collectively have leverage over the banking industry.					
<b>29</b>	Restrictive government/regulatory policy has been a hindrance by limiting entry of new players.					
<b>30</b>	Suppliers of financial capital (Development financial institutions) have leverage over the banking industry as a whole?					
<b>31</b>	Suppliers of labor (including Banking Union) have strong leverage over the banking industry					



32	Consumers of banking services face high switching costs in terms of time taken, cost and documentation required				
33	Products or services that can perform a similar function or provide a similar utility to banking industry products and services exist				
34	Banks serve and target specific client segments and specialize in the niche as opposed to competing across all segments				

**Section D: Banking Industry Macro Environment**

	<b>On a scale of 1-5 where 1 is very low, and 4 is very high while 5 is N/A (Not Applicable), to what extent do the following statements apply with respect to your industry</b>	1	2	3	4	5
35	The frequency of regulatory changes and adaptations required of the banking industry players is high					
36	The banking industry economic environment calls for more frequent internal changes and adaptation					
37	The number of potential or actual external influences upon individual banks in the industry is high					
38	Levels of confidence towards the banking industry by consumers is high					
39	The stability of macroeconomic indicators and a generally liberalized economy in Kenya contributes to the vibrancy or lack of it in the Kenya banking industry					

<b>40</b>	Government institutions and regulators influence organizations within the banking industry?				
<b>41</b>	Changes in existing laws governing financial services influence and cause drastic changes in organizations within the banking industry.				
<b>42</b>	Pressure from lobby groups and consumer organizations influences and cause drastic changes in perception and existing policies governing the banking industry				
<b>43</b>	Changes and new developments in technology influence efficiencies and operations within organizations in the banking industry				
<b>44</b>	Changes and new developments in technology influence how banks interact and service their customers in the banking industry				
<b>45</b>	Influences that cause changes in beliefs, attitudes, norms, customs and lifestyles of Kenyans profoundly affect their perceptions and attitudes towards the banking industry				
<b>46</b>	Kenyans have trust in the Kenyan banking sector compared to other players in financial services? ( insurance, stock brokers and fund managers)				

*Thanks for your responses*

### **APPENDIX III: SECONDARY DATA COLLECTION TOOL**

From the published financial statement of all commercial banks for the year ending 2017 collect the following data

1. General Information
  - Ownership – Local or International
  - Bank Tier
2. Financial Information
  - Total loan assets figure from published balance sheet