AN ASSESSMENT OF THE EFFECTS OF ENVIRONMENTAL TURBULENCE ON COMMERCIAL BANKS’ PERFORMANCE AND THEIR RESPONSES: A CASE STUDY OF ECOBANK KENYA LIMITED

BY

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UNITED STATES INTERNATIONAL UNIVERSITY

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

UNITED STATES INTERNATIONAL UNIVERSITY

SPRING 2014
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: ____________________________

Ochieng Charlotte Awuor (ID 625334)

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

Signed: ___________________________
Date: ____________________________

Dr. Paul Katuse

Signed: ___________________________
Date: ____________________________

Dean, School of Business
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ABSTRACT
Organizations exist in an environment where they have to develop an art of survival. The environment consists of factors and conditions; some of which are beyond the firm’s control, and consequently influences the firm’s strategic choices and its competiveness in the industry. Managers need to be aware of these factors in order to take advantage of the opportunities and turn them into possibilities and consequently reduce the impact of the threats that can harm the organization’s future. Thus, organizations operating in turbulent environments must continuously forecast and predict future changes and thereby develop strategies to cope in the environment besides closely monitoring the changing environmental conditions.

The main purpose of this study was to examine the external competitive environment that Ecobank Kenya Limited operates in and how the bank responds to the turbulence in the industry. In this regard, the specific objectives of this study were: to determine how the external environment affects the bank’s performance, to establish the responses employed by Ecobank Kenya to survive the turbulence in the industry and lastly to determine the best practices that the bank can employ in turbulent times.

Its design was derived largely from the descriptive research design and non probability sampling method was used to collect data from the sample population. The researcher collected data from managers and employees of Ecobank Kenya Limited based at the head office in Nairobi, Kenya. Primary data was used, collected and presented through self-administered print questionnaires. The researcher drew the findings and conclusions from these statistics through calculations of means, median, mode, frequency distributions, cross-tabulations and standard deviation. Cross-tabulations with bank performance was done in order to determine how the external competitive environment, strategic responses and possible best practices each affect it as the dependent variable. This was done through the use of Statistical Package for Social Sciences (SPSS) software for drawing an analysis of the data, tabulation of data and for the pictorial representation of data.

The external environmental factors that cause turbulence and affect bank performance as indicated in the findings include: unstable political climate, government regulations, liberalization of the financial sector – interest rate determined by market forces, increased
change in customer tastes, abrupt changes in ICT, threat of entry into the banking industry, political and legal factors. Findings indicate that complying with statutory regulations was very significant within the banking industry. The findings also indicated that there was a strong relationship between bank competition and new products.

In response to the turbulence in the environment, the findings indicated that responses such as diversification, restructuring, product development, creation of new market, collaborative strategies (strategic alliances, business acquisition) were used strategically in response to the changing business environment at Ecobank Kenya.

Whereas this study focused on the responses from the employees of Ecobank Kenya Limited, further studies should focus attention on the responses of customers in turbulent times. This would in turn shed more light to bank mangers on the behaviors of their clients. Moreover, it would be important for researchers to replicate this study to other sectors of the economy such as education; agriculture; transport, it would be necessary to find out they respond to turbulence in business environment.
ACKNOWLEDGEMENTS

First and foremost, I would like to give all glory to the Almighty God and thank Him for His unswerving love, care and guidance as I undertook the research and writing of this project. He gave me good health, unrelenting attitude and the endurance to press on. This would not have been possible without Him. Thank you Lord.

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DEDICATION

This project is dedicated to my loving Father, Mr. Ochieng J. Owuocha, a wonderful dad; he has inspired me that I can do anything I put my mind into. This work is also dedicated to my loving and caring Mother, Mrs. Millicent Ochieng, a woman of great faith, who has kept me in prayers with her unconditional support and encouragement to make this research a reality.

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CHAPTER ONE

1.0 INTRODUCTION

1.1 Background of Study

Organizations exist in an environment where they have to develop an art of survival. The environment consists of factors and conditions; some of which are beyond the firm’s control, and consequently influences the firm’s strategic choices and its competiveness in the industry. How well the organization understands the environment is a step towards the right direction. Managers in firms need to be aware of these factors in order to take advantage of the opportunities and turn them into possibilities and consequently reduce the impact of the threats that can harm the organization’s future. Managers should therefore formulate strategies that seek to attain a fit or match between internal capabilities and external possibilities (Mintzberg, Ahlstrand and Lampel, 2009).

Karake (1997) says that managers encounter environmental changes and complexity in terms of the emergence of new technologies, rapidly changing economic and political trends, changes in societal values and shifts in consumer demands. According to Rigby (2001) when the conditions in the environment suddenly change, senior executives need to shed the one – size fits all strategies that have been popular in less turbulent times. Karake (1997) adds that management has a daunting task – to keenly monitor environmental conditions and to develop and implement effective strategies for dealing with those conditions. Effective adaptation requires that top management be better informed. Rigby (2001) confers and argues that to succeed in turbulent times; top managers must continuously review three dimensions of their business content; their industry source and level of turbulence, their own strategic position within their sector and their financial strength.

The experiences as evidenced by history show that the pace of change in the business environment has been on the rise (Rigby, 2001). Recent developments such as the global financial crisis and in Kenya, the new political leadership, formation of the “Jubilee government”, increasing costs of running businesses, have posed a myriad of challenges to the manager in the 21st Century. The external environments create problems for organizations because it is a source of uncertainty and constraints. Some organizations are affected by a large number of environmental factors while others are affected by few
Economic conditions are constantly changing; interest rates fluctuate, consumer tastes and preferences are changing, new government regulations and changing technologies notwithstanding. All these changes create turbulence (Perrot, 2011).

Organizations operating in turbulent environments must continuously forecast and predict future changes and thereby develop strategies to cope in the environment besides closely monitoring the changing environmental conditions (Karake, 1997). Organizations therefore have a mandate to gather information about their environments in order to address issues of uncertainty and dynamism. As the turbulence level increases more information is required to successfully maneuver. How the management prefers to handle the changing conditions in the environment affects decisions about resources, competences and organizational structures that will pave way for the firm’s competitiveness (Ireland, Hoskisson and Hitt, 2013).

The most pronounced line of argument is that top managers in firms functioning in high turbulent environments must depend on large amounts of information to plan on the unpredictability and change, while managers in firms confronting low turbulence need minimal organizational planning (Ansoff, 1991; Miller and Friensen, 1983). Miller and Friensen (1983) argued that a dynamic environment must be studied more carefully and diligently to afford executives with the adequate degree of mastery. According to Rigby (2001) when the conditions in the environment suddenly change, senior executives need to shed the one–size fits all strategies that have been popular in less turbulent times.

According to Kipley, Lewis and Jewe (2012) environmental turbulence refers to “the amount of change and complexity in the environment of an industry” (pp.251). Khandwalla (1977) defines environmental turbulence as dynamic, unpredictable, expanding, fluctuating environment; an environment whereby the components are marked by change. With increasing environmental turbulence, strategic issues crop up more rapidly that challenge the way the organization formulates and implements its strategy (Perrot, 2011). The type of response taken in order to survive must be informed by the level of turbulence. For instance, an organization might respond by making operational changes but few strategic changes at relatively low levels of turbulence (Perrot, 2011). Ansoff and McDonnell (1990) postulates that for a firm to achieve optimal return on
investment, the firm’s strategic aggressiveness and general management capability must
be aligned to the environmental turbulence. Navigating through the complexity is a
daunting task for senior managers and executives. Instinctively the urge is to cut costs and
go into ‘lock –down’ until things get better. However, for every downturn is an
opportunity to challenge the status quo. Managers and employees alike must realize that
the firm cannot continue to behave as it did in the past. A downturn lowers resistance to
change and cuts through complacency, allowing managers to harness the energy released
by these events and make radical changes to an organization’s strategy, structure and
culture (KPMG, 2009).

Porter (1980) put forward a framework of industry analysis, which entails five forces that
drive industry competition. Industry rivalry is one of the forces. An evaluation and
scrutiny of the industry rivalry requires an analysis of market structure, differentiation of
product and utilization of plant capacity. About a century ago, in the United States for
instance, banks accounted for more than two-thirds of the assets of all financial-service
providers (Rose and Hudgins, 2013). However, the share has fallen to just under one-
quarter of the assets of the U.S financial market place (Rose and Hudgins, 2013). This
increased rivalry competition gives rise to increased turbulence in the industry.

There is a common assumption that relatively few companies survive as independent
entities for very long periods of time. For example, of the top 100 U.S.-based industrial
companies listed in Fortune Magazine in 1965, only 19 remained in the top 100 in 2005,
15 fell out of the top 100 and only 66 were acquired or disbanded (Burgelman and Grove,
2007). An organization has to develop competitive strategy to out compete the
competitors. Strategy links organizations to the environment (Mintzberg, Ahlstrand and
Lampel, 2009). To achieve its objective the organization chooses strategies that align
them properly with environment (Ansoff and McDonnell, 1990). This is aimed at
avoiding any mismatch between the organization and the environment. This in turn leads
to effect on the performance of the organization. The choice of strategies to employ at a
given time is informed by different factors within and without the organization (Ireland,
et al, 2013). Different firm’s strategies differ from organization to another which is
influenced by the external and internal factors. The choice of strategy is an important step
in the strategy development process. The difference in factors involved in various firms
explains the difference in strategy chosen which eventually is reflected by the
organization performance which can be measured using different methods (Pearce and Robinson, 2008).

The banking sector has had to deal with high interest rates which have caused an increase in nonperforming loans approximated at 36% of the total advances (CBK, 2007). In addition to this, the period between 1998 and 2001 saw the collapse of five banks in Kenya. This sent shockwaves in the banking industry. The government had to intervene to avoid an occurrence of the same. The government measures undertaken to bring down the interest was expected to reverse this trend and stimulate economic growth (Mwangi, 2001). With this realization the banking sector has had to compliment its product portfolio from interest related products to cushion themselves. The increase in the number of bank failures in the 1980s had no single cause or short list of causes. Rather, it resulted from a concurrence of various forces working together to produce a decade of banking crises (Banking Survey, 2013). First, broad external forces, economic, financial, legislative, and regulatory factors established the preconditions for the increased number of bank failures (Banking Survey, 2013). Second, a series of severe regional and sectoral recessions hit banks in a number of banking markets and led to a majority of the failures. Third, some of the banks in these markets assumed excessive risks and were insufficiently restrained by supervisory authorities, with the result that they failed in disproportionate numbers (FDIC, 2009). Between 1980 and 1994 more than 1,600 banks insured by the Federal Deposit Insurance Corporation (FDIC) were closed or received FDIC financial assistance.

Many Financial institutions that collapsed in Kenya since 1986 failed due to non performing loans (Waweru and Kalani, 2009). The study revealed that full-blown banking crises were associated more with external developments, and domestic variables were the main leading indicators of severe but contained banking distress. According to the Banking Survey (2013), the year 2012 was a particularly challenging year in the banking sector in Kenya. The cost of doing business was high as revenues were impaired and the cost for lending almost doubled. The first half of the macro environment was characterized by a series of oscillations in lending rates as the Central Bank battled with high inflation in turn tremendously affecting the appetite for loans and general borrowing. The last half of the year was also affected as pre-election jitters gripped the country slowing down economic activities, decision making and investments (Banking Survey,
Kenya’s financial system is among the largest and most developed in sub Saharan Africa, with a large banking sector. According to the CBK February 2007 monthly economic review, the banking sector is composed of one non-bank financial institution (NBFIs), 2 mortgage finance institutions, 3800 savings and credit cooperatives, 89 foreign exchange bureaus and 45 commercial banks, with the six largest bank accounting for about two-thirds of all assets, loans and deposits of the banking system. Other participants in the financial sector include; 4 hire purchase companies, 48 insurance companies, National Social Security Fund and Kenya Postal Office services Bank (CBK, 2007).

An understanding of the environmental changes in the banking industry and their effect on banking business as a whole could help managers and stakeholders in the business develop effective strategies that would match the turbulence in the world.

1.2 Statement of Problem

News reports and adverse political developments rocked the financial world as the 21st century began and gave rise to more financial – services regulation (Rose and Hudgins, 2013). Consider the recent happenings in the world over; the Tohoku earthquake and tsunami, the eruption of the Katla volcano spewing ash over Northern Europe disrupting air travel and affecting trade, and the failure of major financial institutions pushing the entire global financial system to a near meltdown- during the 2007 – 2009 global financial crisis (Kipley, Lewis and Jewe, 2012). These discontinuities have revolutionized managers’ decisions and how they deal with changes in the environment. Perrot (2011) argues that as the turbulence in the environment increases, emergence of strategic issues are more frequent that challenge the way an organization formulates and implements its strategy.

The banking industry is faced with challenges because of the increasing volatility and unpredictability of changes in the environment (Karake, 1997). The factors that lead to turbulence in the environment arise from the areas of technology, political, legislations, customer preferences and economic dimensions (Karake, 1997). Since the end of the 1960s, the world banking industry has been rapidly changing. In the 1970s, the industry in the developed countries of the world experienced a substantial change in competitive conditions as a result of a number of factors (Channon, 1996). According to Rose and
Hudgins (2013) the banking industry’s market share has recently fallen as other financial institutions have moved in to compete for the same share.

In Zimbabwe, the events occurring in the banking sector have been concurrently influenced by political factors (Muranda, 2006). The collapse of the local currency and unprecedented rise in inflation led to economic meltdown in Zimbabwe. As a result, a black market emerged and other unorthodox means of making profits by the banks. Muranda says that this turned out to be the source of collapse for most newly established banks. The Central bank had to intervene to save the entire industry from collapse. Research done by Alao and Raimi (2011) show that African economies have a lot to emulate from South Africa in response to environmental turbulence. The findings from the study (Alao and Raimi, 2011) indicate that South Africa had foresight in dealing with the recent global financial crisis on account of its financial regulation and control.

Rapidly changing technology has changed the way consumers relate with their financial service providers (Krishnan, Ramaswamy, Meyer and Damien, 2003). Mobile banking has revolutionized the industry. Deregulation has made competition border-less, allowing not only intrastate branching, which has encouraged consolidation. Most recently, financial liberalization has led to intensified competition not only within banking institutions (i.e. commercial banks, savings and loans, credit unions) but also with other non-banking financial firms, such as securities and insurance (Orlow, Radecki and Wenninger, 2004).

Studies undertaken by Prowse (2003) indicate that research on the responses to turbulent business environment by financial institutions is indeed scarce. Oman (2004) confirms this shortage, and holds the view that the subject of business turbulence has indeed received a lot of attention in developed economies; this literature has almost been overlooked by researchers in developing economies. Studies undertaken in Kenya focusing on the responses of financial institutions to the changing business environment include the following:-

Studies undertaken by Warucu (2001) focused on identification of competitive strategies employed by commercial banks in Kenya in order to gain a competitive edge. The findings show that the strategies employed by commercial banks to achieve competitive advantage include muscle-flexing strategy, fortify-and-defend and stay-on-the-offensive
strategy; a study by Goro (2003) sought to determine the strategic responses employed by commercial banks in Kenya when faced with threat of substitute products. The results indicate that responses include vacant-niche strategy, specialist strategy, superior product strategy, distinctive image strategy and content follower; a study by Omondi (2004) sought to establish responses of Savings and Loans (K) Limited to threats of new entrants. The findings indicate that Savings and Loan (K) Limited responded by adopting a restructure of the company’s business lineup, divested some business and broadened the diversification base; Muse (2006)’s study aimed at establishing responses to environmental challenges by Agricultural Finance Corporation. The findings indicated that Agricultural Finance Corporation invested in Research and Development with a view of developing demand driven products and services; A study by Ndubi (2006) sought to find out the strategic responses by Nairobi Province KUSCO affiliated SACCOs to the changing environment. The findings show that in the changing operating environment, KUSCO affiliated SACCOs adopted market differentiation and product diversification; Okolo (2009) sought to examine the strategic responses to business turbulence by Kenya Commercial Bank. The findings indicated that responses adopted by Kenya Commercial Bank included product diversification, market differentiation, personal selling, and increased branch network.

The Kenyan banking framework as at December 31st 2012 comprised of 52 financial institutions, out of these, 43 are banks (Banking Survey, 2013). Ecobank Kenya Limited, a Pan- African bank, made its entry into the Kenyan market in the year 2008. The Togolese based lender is yet to break even in Kenya, having reported a pre-tax loss of Ksh. 620 Million ($ 7.3 Million) in six months to June 2012 (Macharia, 2012). Macharia argues that this was largely attributed to a harsh operating environment that saw the operating costs go up. Wetangula (2010) confers and says that Ecobank Kenya Limited is faced by a myriad of challenges among others strategy implementation and fitting in to the competitive Kenyan market.

In view of the foregoing and the studies undertaken in Kenya focusing on the responses of financial institutions to the changing business environment, none of them focused on the responses by Ecobank Kenya Limited to business turbulence. This study, therefore, sought to fill this knowledge gap in literature. Furthermore, this study also sought to find
out how the external competitive environment affects Ecobank Kenya’s performance and the best practices that the Bank can employ to survive in turbulent times.

1.3 Purpose of Study
The main purpose of this study was to identify the effects of environmental turbulence on Ecobank Kenya’s performance and its responses during turbulent times.

1.4 Research Questions
The Study was guided by the following research questions:

1.4.1 How does the external competitive environment affect Ecobank Kenya’s performance?
1.4.2 What are the responses employed by Ecobank Kenya Limited to survive in the ever changing environment?
1.4.2 What are the best practices /tools that can be employed by Ecobank Kenya Limited in turbulent times?

1.5 Importance of Study
This study aims to shed light on the different strategic responses employed by commercial banks in order to survive in a changing environment. It will therefore provide useful information on the different stakeholders related to it, as follows;

1.5.1 Management of Ecobank Kenya Limited
This study will be of importance to the management of banks in helping them understand the environment and therefore develop appropriate responses to the challenges posed by the dynamic nature of the environment.

1.5.2 Researchers
This study will make a significant contribution to the growing body of research on the response to turbulence in the business environment. The findings of this research may also be used as a source of reference for other researchers.

1.6 Scope of Study
This study covered the responses from Ecobank Kenya on how the environment affects their ability to form or generate strategies. It also covers the ways in which environmental
factors influence firm performance. Demographically, the study was limited to the Head Office in Nairobi, Kenya, with the assumption that the responses will represent the views of other employees in the branches. The study was conducted for a period of five months.

1.7 Definition of Terms
1.7.1 Environmental Turbulence

Environmental turbulence refers to the amount of change and complexity in the environment of an industry (Kipley, Lewis and Jewe, 2012).

1.7.2 Strategic Response

A strategic response is a market-based move representing a significant commitment to specific and distinctive organization resources (Dess, Lumpkin and Eisner, 2008).

1.7.3 Strategic diagnosis

Strategic diagnosis is a systematic approach to determining the changes that have to be made to a firm’s strategy and its internal capability in order to assure the firm’s success in its future environment (Ansoff and McDonnell, 1990).

1.8 Chapter Summary

Organizations operating in turbulent environments must continuously forecast and predict future changes and thereby develop strategies to cope in the environment besides closely monitoring the changing environmental conditions. Consider the studies undertaken in Kenya focusing on the responses of financial institutions to the changing business environment, none of them focused on the responses by Ecobank Kenya Limited to business turbulence. This study, therefore, sought to fill this knowledge gap in literature. Furthermore, this study also sought to find out how the external competitive environment affects Ecobank Kenya’s performance and the best practices the Bank can employ to survive in turbulent times. The purpose of this study therefore, was to examine the external competitive environment that Ecobank Kenya Limited operates in and how the Bank responds to the turbulence in the industry.

This study was guided by the following research objectives; to determine how the external competitive environment affect Ecobank Kenya’s performance, to establish the responses employed by Ecobank Kenya Limited to survive in the ever changing
environment and identify the best practices /tools that can be employed by Ecobank Kenya Limited in turbulent times. Demographically, the study was limited to the Head Office in Nairobi, Kenya, with the assumption that the responses will represent the views of other employees in the branches. The study was conducted for a period of five months. The chapter also included the statement of the problem, significance and scope of the study as well as a list containing definitions of terms. The following chapters will include a literature review, methodology, results and findings and lastly, discussions, conclusions and recommendations for improvement respectively.
CHAPTER TWO

2.0 LITERATURE REVIEW

2.1 Introduction
The general objective of this study was to examine the external competitive environment that Ecobank Kenya Limited operates in and how the bank responds to the turbulence in the industry. This chapter covers an analysis of empirical literature mostly consisting of summaries of other related studies conducted in other countries around the world in support of this research. The literature consists mainly of review and analysis of peer reviewed journals, news articles and academic journals all obtained from online database sources and academic books. This literature meets the research objectives by covering the relationship that exists between the independent variable external environment (remote, industry and operating) and how each of them affects the dependent variable; firm performance. It also gives an extensive look at organizational responses to turbulence.

2.2 External Competitive Environment and Firm Performance
The notion that organizational performance is influenced by the external environment is widespread in the generic management and public management literatures (Boyne and Meier, 2009). Consider, Lynn, Heinrich, and Hill’s (2000) “logic of governance” model which includes political, economic, legal, and social dimensions of organizational context. These environmental factors are postulated to have direct effects on performance. Boyne’s (2003) categorization of “sources of public service improvement” also includes environmental dimensions, such as economic resources, political regulation, and market structure.

2.2.1 External Environment
PEST analysis then becomes vital for any business that wants to survive the changes in the environment as discussed in the figure 2.1.
2.2.1.1 Political Factors

The existence of political uncertainty is a worldwide phenomenon that affects most national bond and stock markets (Beaulieu, Cosset and Essadam, 2005). Jorian and Goetzmann (1999) as mentioned in (Beaulieu, et al, 2005) report that activities of political origin have caused market interruptions in 25 countries including; Chile, France, Germany, Japan and Portugal. A major consideration for most managers when formulating strategy is the direction and stability of a nation (Pearce and Robinson, 2009). Pearce and Robinson maintain that political issues define the legal and regulatory parameters within which firms must operate. Constraints can be placed on firms through tax programs, anti-trust laws, minimum wage legislation, pollution and pricing policies.
Ireland et al (2013) argue that regulations formed in response to new laws often influence a firm’s actions.

According to Pearce and Robinson (2008) laws and regulations are commonly restrictive and they tend to reduce potential profits, despite the fact that some political laws are designed to benefit and protect firms – such as patent laws, product research grants and government subsidies. Therefore, in order to deal with the political issues; firms need to develop a political strategy to influence government policies that affect them (Ireland, et al, 2013). Furthermore, studies by Ozer, Alakent and Ahsan (2010) indicate that as a result of a firm’s propensity for political engagement, organizations get involved in corporate political strategies. In addition; Holburn and Vanden Bergh (2008) say that the need for firms to have an effective political strategy is heightened by the effects of global governmental policies on a firm’s competitive position. The uprisings in the Middle East and throughout the Arab world caused significant turmoil and consequently led to temporary increase in world oil prices (Strumpf, 2011).

The importance of bank regulations to hedge against the high risk attributed to the imbalances in bank’s balance sheet have been revealed by recent economic crises (Naceur and Kandil, 2009). Nevertheless, excessive regulations may have adverse effects. On the other hand, they serve as prudential measures that mitigate the effects of economic and financial crises on the stability of the banking system. On the other hand, excessive regulations may lead to increased cost of intermediation and reduced earnings and profitability of the industry (Naceur and Kandil, 2009). A study undertaken by Furlong (1992) and Haubrich and Wachtel (1993) found that capital regulations in the U.S contributed to a decrease in lending that fueled a post-capital requirement credit crunch. A panel of data for 572 banks in 15 developing countries was examined by Chiuri, Ferri and Majnoni (2002). They found consistent evidence – that the imposition of capital regulation led to a decrease in the supply of loans and consequently reducing total lending in the countries.

A study by Barth, Caprio and Levine (2004) to determine the relationship between specific regulatory and supervisory practices and banking-sector development, the findings therein raised a cautionary flag regarding government policies that rely heavily on direct government supervision and regulation.
Not everyone shares this opinion on effects of banking regulations. Kane (2012) argues that banking regulations can increase customer confidence, which in turn, may lead to customer loyalty and confidence towards the regulated banks. A study by Petersen and Rajan (1995) established that banks with monopolistic power are enabled with stronger incentives to incur necessary costs associated with overcoming barriers, which facilitate the flow of credit to more worthy enterprises. These political events create uncertainty in the world’s business affairs and make decision-making process to be cumbersome.

The next section aims to shed light on how technological factors affect bank performance.

2.2.1.2 Technological Factors

In a bid to evade obsolescence and promote innovation, a company must be aware of technological changes that might influence its industry (Pearce and Robinson, 2008; Euchner, 2011; Sinha and Noble, 2008). Ireland et al (2013) says that the importance of awareness efforts is supported by the findings that early adopters of technology often achieve higher market share and earn high returns. It is therefore of paramount importance to firms to continuously scan their external environment, to identify new emerging technologies that could give them a competitive edge.

According to Pearce and Robinson (2008) companies operating in turbulent environments must scan their environments for an understanding both of the existing technological advances and probable future advances that can affect their products and services. The importance of technological forecasting cannot be overstated since it can help protect and improve the profitability of firms in growing markets. The internet is a significant technological development – with a remarkable capability to provide quick access to information. Many companies continue to study the opportunities availed by the internet to be able to create more value for customers and anticipate future trends (Ireland, et al, 2013). Technological developments have enhanced performance. For example eBay’s iPhone application is arguably the largest mobile commerce in the world; registering $600 million in volume in 2009 to between $1.5 billion and $2 million in 2010 (Ignatius, 2011).
According to Goyal (2012) technology has played a key role in the development of banking industry in emerging economies. He argues that a factor in favor of financial institutions in emerging markets is that they are not burdened by vast legacy systems, which has allowed them, adopt modern IT systems and integrate them easily with existing infrastructure. The banking industry has overtime greatly used technology to achieve high productivity and performance. Banks have employed economic and statistical models to create and value new securities, estimate return distributions and make portfolio decisions based on financial data (Berger, 2003). In his findings Berger notes that technological progress results in improved variety and quality of banking services, which has seen increased costs, and yet customers are still willing to pay for those improvements and enhancements, so banks are able to earn revenues sufficiently to more than cover the high costs.

However, the adoption of technology in banking is not without hitches. The adoption of mobile banking has caused many customers direct access to their banks, and the ‘relationship’ could be injured. According to Mishra and Sahoo (2013) effective communication may not be easily achievable in diverting the customers to indirect channels through migration. Mishra and Sahoo argue that the feelings, complaints and feedback of customers cannot be accessed to directly and senior citizens, High Net worth Individual customers may be dissatisfied. In addition, Koskosas (2011) argue that internet banking has led to an increased number of identity thefts.

The next section aims to shed light on how social factors impact on bank performance.

2.2.1.3 Social Factors

Societal factors that affect firm operations involve beliefs, attitudes, opinions and lifestyles of persons’ in the firm’s external environment (Ireland, et al, 2013; Pearce and Robinson, 2009). The scholars contend that these elements are as a result of cultural, ecological, demographic, religious and ethnic conditioning. As social attitudes change, the demand for various products and services also change. Profound social changes in the recent years that continue to affect firms include: shift in age distribution; accelerating interest of consumers and employees in quality-of-life issues; and entry of a large number of women to the labor market (Pearce and Robinson, 2009). Pearce and Robinson agree
that forecasting social changes effects on business can be a daunting task; however, informed estimates of alterations such as ethical standards, religious orientations, changing work values- can help a strategizing firm in its attempts to flourish.

Around the world retail banks are facing intense margin pressure, an uncertain economic outlook, slow balance sheet growth and a growing threat from new entrants (Ernst & Young, 2012). Banks are also confronted with growing regulatory costs and increasing demands for more clarity and fairness in their dealings and interaction with consumer. In their 2012 survey of retail banking customers around the world; Ernst & Young established that consumers are taking greater control of their banking relationships. Customers are shifting bank loyalty by the minute, changing their behavior and demanding improvement. A report by Business Development Bank of Canada (2013) on five game changing consumer trends is in support of the foregoing. The findings in the report indicate that consumers are increasingly looking for tailor-made solutions that would match their specific needs.

A banking organization has to prioritize the provision of high quality service to their clients as this will help to gain positive attitude from customers (Sarker, Bose and Khan, 2012). In addition, responding to these consumer concerns banks need to reevaluate their customer, embrace change by giving their clients greater control, choice and flexibility (Ernst & Young, 2012). The next section aims to shed light on how economic factors affect bank performance.

2.2.1.4 Economic Factors

Economic environment refers to the nature and direction of the economy in which a firm (Chua and Tsiaplias, 2011; Pearce and Robinson, 2009). Ireland et al (2013) states that firms generally seek to compete in a relatively stable economies with potential for growth. Because of the changing consumption patterns in the industry, firms must continually consider economic trends that would affect them (Ireland, et al, 2013; Pearce and Robinson, 2009). Managers should consider the following factors both at national and international level: the availability of credit, the level of disposable income, the propensity of the people to spend, inflation rates, trends in the growth of the gross national product.
According to Boyd and Champ (2003) inflation affects economic development through the banking sector by reducing the amount of credit that is available to business. The study revealed that higher inflation decreases the real rate of return on assets whereas lower rates of return discourages consumers from saving but encourages increased borrowing from banks. A study Ghazouni (2004) to establish the relationship between inflation and financial sector performance revealed that inflation has a negative impact on the banking industry. Boyd, Levine and Smith (2000)’s study indicates evidence that there is a significant negative relationship between inflation and the banking sector. The findings indicate that inflation is associated with financial repression; the financial sector is less developed as inflation increases.

This section has covered the external environmental factors that affect the bank on four fronts; which include political, societal, technology and economics. Further, these fronts provide the links on how the external environment can positively or negatively impact the performance of an organization. The next section talks about the industry environment.

2.2.2 Industry Environment

Pearce and Robinson (2009) define industry environment as; the general conditions for competition that influence all businesses that provide similar products and services. In comparison to the remote environment, the industry environment has a direct impact on the firm’s strategic competiveness an ability to earn above-average returns (Tarzijan and Ramirez, 2011). Ireland et al (2013) says that an industry’s profit potential is determined by the five forces of competition: the threat posed by new entrants, the bargaining power of suppliers and customers, product substitutes and the industry of rivalry. The collective strength of these forces determines the ultimate profit potential in an industry (Porter, 1979).

New entrants to a market pose a threat because they bring new production capacity, the desire to gain market share and resources (Pearce and Robinson, 2009; Ireland et al, 2013). Porter (2008) writes that the threat of entry puts a cap on the profit potential of an industry. He maintains that when the threat is high, the existing companies must hold down their prices or boost investment to deter new competitors. According to Karake (1997) an industry with above average rate of entrance in the market is likely to be
associated with higher environmental turbulence. Karake (1997) defines supplier power as the capability of suppliers to bargain on prices. Karake maintains that an input supplier can raise prices, thereby, leading to increase in environmental turbulence. Suppliers can exert bargaining power by increasing prices or reducing quality of goods and services (Porter, 2008; Pearce and Robinson, 2009; Ireland et al, 2013; Dess, Lumpkin, Eisner, 2008).

Bhattacharyya and Nain (2011) argue that customers bargain for higher quality, greater levels of service in order to reduce their costs. Peace and Robinson (2009) argue that consumers can play competitors against each other by demanding low prices, high quality or more services. According to Ireland et al, (2013) customers are powerful when: they purchase a large portion of an industry’s output; they could switch to another product at little. Karake (1997) adds that the more bargaining power customers have the more environmental turbulence firms face.

Porter (2008) defines a substitute as a product or service that performs the same or similar function as an industry’s product by different means; videoconferencing is a substitute for travel. Porter maintains that when the threat of substitutes is high industry profitability suffers and it offers and attractive price-performance trade-off to the industry’s product. According to Karake (1997) the level of environmental turbulence and uncertainty is also affected by product substitutes. Karake argues that the arrival of new substitutes into the market presents new technologies whose prices are likely to decline over the years or months due to the learning curve thus threatening the survival of existing products.

Ireland et al (2013) postulate that actions taken by one firm in an industry will invite competitive responses. Sirmon, Hitt, Arregle and Campbell (2010) argue that companies within an industry are rarely homogenous since they differ in capabilities and resources as they seek to differentiate themselves. Porter (2008) in “the five competitive forces that shape strategy” states that rivalry among existing firms takes forms such as: price discounts, new product introduction, advertising campaigns and service improvements.

2.3 Organizational Responses to Environmental Turbulence

Ansoff and McDonnell (1990) state that environment-serving organization such as the business firm exhibit a variety of responses to the changes in the environment. The
authors examined the incremental and entrepreneurial styles of response to change. Incremental response is directed toward minimizing departures from historical behavior; both between the organization and the environment. Ansoff and McDonnell (1990) maintain that the entrepreneurial mode entails a drastic change; rather than suppress and minimize it, an entrepreneurial organization seeks change.

According to Ireland, Hoskisson and Hitt (2009) a competitive response is a strategic or tactical action that a firm takes to counter effects of competitor’s action. Dess, Lumpkin and Eisner (2008) argue that before initiating a response a firm needs to evaluate what the competitor’s action is likely to be. According to Ireland, et al (2009) responses are part of the competitive strategies that an organization develops in an effort to beat competition. There are two types of responses to environmental changes: strategic and tactical responses (Dess, Lumpkin and Eisner, 2008; Ireland, Hoskisson and Hitt, 2009).

A strategic response is a market-based move representing a significant commitment to specific and distinctive organization resources (Dess, et al, 2008). It is difficult to implement and to reverse, for example, the introduction of an innovative product into the market (Dess, Lumpkin and Eisner, 2008; Ireland, Hoskisson and Hitt, 2009). Strategic responses require the organization to change their strategy to match the environment (Ansoff and McDonnell, 1990) and also to transform or redesign their internal capabilities to match its strategy. Tactical responses are taken to fine-tune a strategy, unlike strategic responses, they are relatively easy to implement and reverse (Juma, 2007). Examples of tactical responses involve cutting prices, improving gaps in service. These responses have more immediate impact, for example price reduction could increase demand in the short run. Operation responses involve changes in standard operating procedures and are founded on efficiency (Juma, 2007).

The next subsection highlights the three generic strategies by Porter (1980), which seek to outline how an organization can respond to turbulent environment.

2.3.1 Generic Strategies

According to Pearce and Robinson (2008), a generic strategy is a core idea about how a firm can best compete in the market place. Lynch (2008) defines generic strategies as the
three fundamental strategies of cost leadership, differentiation and focus. Porter (1980) as mentioned in Lynch (2008) claimed that there were only three strategies that a business could undertake. According to Porter (1980) low cost leadership it is a set of actions taken to produce goods or services that are acceptable to customers due to the uniqueness of low price charged relative to competitors. Lynch (2008) says that the low cost leader in an industry has built its structures and operations in a way that will deliver the lowest costs in that market. Lynch maintains that having low costs can create competitive advantage.

Gehlhar, Regmi, Stefanou and Zoumas (2009) postulate that appropriate process innovations are necessary for successful use of cost leadership strategy. Ireland et al (2013) argue that firms associated with low cost strategy normally sell standardized goods or services. Low-cost leaders take advantage of the economies of scale; they implement cost-cutting techniques, press for reductions in overhead cost and consequently use volume sales technologies to push them up in the learning curve (Pearce and Robinson, 2008). Customers with a special sensitivity for a particular product attribute are commonly targeted with differentiation dependent strategies (Pearce and Robinson, 2008). Pearce and Robinson maintain that by stressing the product attribute customer loyalty is built which primarily translates in a firm’s ability to charge premium prices for its products. Lynch (2008) says that success in this strategy can be achieved through injection of extra cash to cater for advertising. Firms opt for focus strategy to utilize their core competencies to serve the needs of a specific niche market (Ireland et al, 2013).

2.3.2 Product Strategies for Growth

Ansoff (1990) proposed a matrix that can be of much help to organizations when it comes to responding to the environmental issues. These strategies are seeking growth: (1) Market penetration: by pushing existing products in their current market segments. (2) Market development: by developing new markets for the existing products. (3) Product development: by developing new products for the existing markets. (4) Diversification: by developing new products for new markets.
The matrix depicts the kind of risk a particular strategy will expose one to; adopting a new strategy will always represent its own risks. According to Jobber (2010) one can achieve market penetration by winning competitors’ customers. Firms can achieve this by effectively utilizing promotion or distribution and price cuts. For example Apple used price to achieve market penetration in the launch of the 3G iPhone. Jobber (2010) says that another way of gaining market penetration is by way of buying or acquiring the competitors. For example, a supermarket chain (Morrisons), bought Safeway, a competitor, in order to gain market penetration (Jobber, 2010). According to Havila, Johanson and Thilenius (2004) the market penetration strategy is the least risky since it leverages many of the firm's existing resources and capabilities. In a growing market, simply maintaining market share will result in growth, and there may exist opportunities to increase market share if competitors reach capacity limits. However, market penetration has limits, and once the market approaches saturation another strategy must be pursued if the firm is to continue to grow (Havila, Johanson, and Thilenius, 2004).

The development of products involves creating new products for existing markets (Edwards, 2008). Jobber (2010) says that one of the variants is to expand the existing product lines and give the consumers variety. Etzel, Walker and Stanton (2007) argue that
an organization develops new products to sell to its present markets. For example the Apple company has extended the product lines; the original iPod has been succeeded by the launches of the iPod nano, shuffle and touch, this has given its target market a greater variety to choose from in terms of capacity, size and price (Jobber, 2010). Jobber argues that product replacement can also feature here; whereby the firm can replace the old brands/models with new ones. This is most prominent in the automobile industry.

Market development options include the pursuit of additional market segments or geographical regions. According to Etzel et al., (2007) firms engage in market development to spread their risk especially when the firms involved depend on a few customers. The authors mention that the firms continue to sell their existing products but to a new market altogether. The development of new markets for the product may be a good strategy if the firm's core competencies are related more to the specific product than to its experience with a specific market segment (Jobber, 2010). Because the firm is expanding into a new market, a market development strategy typically has more risk than a market penetration strategy. Jobber (2010) adds that market development could entail getting overseas opportunities for exploitation. Perreault, Cannon and McCarthy (2011) argue that firms strive to improve their sales by selling current products and services in new markets.

Diversification is the most risky of the four growth strategies since it requires both product and market development and may be outside the core competencies of the firm (Jobber, 2010). However, Jobber adds that it can be the most rewarding. Consider the case of Honda’s move from motorcycles to cars, and Apple Computer’s introduction of the iPod mobile music player, which has the capacity to download music via a computer (Mitchell, 2005). In fact, this quadrant of the matrix has been referred to by some as the "suicide cell". However, diversification may be a reasonable choice if the high risk is compensated by the chance of a high rate of return. Other advantages of diversification include the potential to gain a foothold in an attractive industry and the reduction of overall business portfolio risk. Ireland et al (2013) say that diversification strategies can lead to strategic competitiveness and above average returns. However, according to Wowak and Hambrick (2010), if a firm’s governance mechanism is not strong, the executives may diversify the firm to the point that it fails to earn even average returns.
Hayward and Shimizu (2006) warn that over diversification can lead to a decline in firm performance, after which units in the business are divested.

2.3.3 Restructuring
This is a strategy that would enable a firm change its businesses or its financial structure (Lee and Madhaven, 2010; Bergh and Lim, 2008). Pearce and Robinson (2008) define restructuring as changing an organizational structure with an intention of emphasizing and enabling activities most critical to the firm’s strategy to function at maximum effectiveness. Pearce and Robinson maintain that it is based on the notion that some activities in a business value chain are more critical to the success of its strategy than others. Managers need to make the strategically critical activities the central building blocks for designing the organization structure. The types of restructuring that firms use include; downsizing, Business process reengineering, downscoping and leveraged buyouts (Ireland et al., 2013; Pearce and Robinson, 2008).

Jones and Hill (2013) give the following reasons as to why firms opt for restructuring; a change in the industry environment that could not have been predetermined; changing technology that could have rendered the firm’s products obsolete; a firm having excess capacity because the company’s products or services no longer appeal to customers; some firms have grown to be tall and less dynamic making bureaucratic costs too high; some firms restructure even when in a stable condition just to build and improve their competitiveness and consequently stay ahead of competitors. Business process reengineering is the fundamental re-thinking and radical redesigning of the business processes to achieve significant improvement in critical contemporary measures of performances such as costs, quality, and speed (Hammer and Champy, 1993).

According to Pearce and Robinson (2008) downsizing is doing away with a certain number of labor force in an organization, particularly middle level management (Pearce and Robinson, 2008). Pearce and Robinson maintain that globalization of the marketplace, information technology and rivalry in competition has caused many firms to reevaluate middle management to ensure that there was value addition to an organization’s products and services. Research indicates that downsizing does not necessarily lead to good performance as exemplified by U.S and Japanese firms (Ireland et al., 2013). Ireland et al., (2013) define downscoping as a means of eliminating
businesses that are unrelated to a firm’s core business. According to Bergh and Lim (2008) downscoping has a positive impact on the performance of a firm compared to downsizing; this is because downscoping enables a firm to concentrate on its core business.

2.3.4 Collaborative Strategies

Firms may enter into collaborative arrangement with other industry players, either domestic or foreign, such collaboration can take the form of strategic alliances, mergers, acquisitions, and joint ventures, licensing and franchising (Juma, 2007). Johnson, Scholes and Whittington (2008) say that in reality and practice few acquisitions would be hostile and also few mergers would be joining of equals to form an entity. Johnson et al., (2008) add that both strategies; acquisition and mergers usually entail or involve the managers of one firm exerting strategic expertise over the other. A major explanation as to why firms would prefer developing through acquisition or merger is the need to stay competitive in the changing environment (Johnson et al., 2008).

According to Sadler (2004), a strategic alliance is whereby to or more companies reach an agreement to share knowledge or resources to their mutual benefit. Sadler adds that, alliances are increasingly getting popular among companies as a strategy for the future in comparison to simply ‘going it alone’. The attractiveness of this strategy reflects a number of factors, including risk reduction, avoid barriers to entry, and gain access to new markets, to source for raw materials increasing global competitiveness and improvements in information and communications technology. Sadler (2004) notes that synergy is the most evident reason and advantage of an alliance. The partnership therefore must be more effective and efficient in operations than if each individual partner was performing the similar tasks individually.

Gupta, Gollakota and Srinivasan (2007) writing on franchising, describe it as giving another company (franchisee) the right to use the company’s trademark, and providing assistance in setting up and running the business. In return, the franchisee has to pay fees and royalties, and has a responsibility of maintaining standards set by the franchisor. According to the authors, the advantages of franchising include; the firms are able to get a revenue stream without much investment. A firm can expand rapidly to numerous markets since it does not have to bear the cost of set up and learning about local
regulations. On the flip side, a franchisee might not adhere to the standards of the franchisor.

2.4 Best Practices to thrive in turbulent times

2.4.1 Strategic Diagnosis

Strategic diagnosis is a systematic approach to determining the changes that have to be made to a firm’s strategy and its internal capability in order to assure the firm’s success in its future environment (Ansoff and McDonnell, 1990). This is a tailored approach which determines the nature of a firm’s strategic problem. Strategic diagnosis answers two questions: (a) How to diagnose the future environmental challenges which will confront the firm? The answer to this question is diagnosis of future turbulence levels in the firm’s environment. (b) How to determine the firm’s strategic response which will assure success? The answers to this question are diagnoses of strategic aggressiveness and the organizational responsiveness which will match the future turbulence (Ansoff and McDonnell, 1990).

The strategic success hypothesis states that a firm’s performance potential is optimum when the following three conditions are met: (i) Aggressiveness of the firm’s behavior match the turbulence of its environment. (ii) Responsiveness of the firm’s capability matches the aggressiveness of its strategy. (iii) The components of the firm’s capability must be supportive of one another.

Strategic diagnosis identifies whether a firm needs to change its strategic behavior to be sure of success in the future environment. If the diagnosis confirms the need, the next step is to select and execute specific actions which will bring the firm’s aggressiveness and responses in line with the future environment (Ansoff and McDonnell, 1990). The adaption starts with a forecast of future growth/profitability in each of the firm’s business areas and the factors which will be key to success. The information is used to select the strategic response which will assure the firm’s future success. Whenever the gap between the present and desired capability is discontinuous, implementation of change typically encounters organizational resistance. In summary, the conceptual model describes strategic management through four closely inter-related activities; Strategic diagnosis – identifies the need for a new strategic response; Strategic planning – determines the future
strategic response; Organizational design – determines the future strategic responses; and change management which implements the response and capability.

2.4.2 Strategic Issue Management
As environmental turbulence increases, strategic issues emerge more frequently that challenge the way an organization formulate and implement strategy (Perrot, 2011). The Level of turbulence will determine the type of response an organization must make to survive (Ansoff and McDonnell, 1990). For example, at relatively low levels of turbulence, the organization might respond by making operational changes but few strategic changes. However, at higher turbulence levels, strategic issues that may affect the organization’s ability to achieve its objectives may emerge at more frequent intervals and between planning cycles. Strategic issues are events or forces (with either positive or negative effects) either inside or outside an organization that are likely to alter its ability to achieve its objectives (Perrot, 2011).

In times of environmental turbulence and uncertainty, the current position of a business needs to be established before setting future directions and strategies (Perrot, 2011). In the strategic issue management approach, external issues are manifest as opportunities and threats, and internal issues as strengths and weaknesses. For companies entering a period of turbulence, the tracking, monitoring and management of priority issues become imperative for corporate survival. Strategic-issue-processing techniques can help managers to identify issues and plan appropriate actions that address high priorities (Palese and Crane, 2002). Stages in this process include capturing issues, reviewing implications, assessing importance, setting priorities, and planning actions. Strategic-issue management can spur organizational action and creates momentum for organizational change (Perrot, 2011).

During times of relatively high turbulence, an organization must consider relegating formal business and marketing plans to the background. Instead, decision-makers will focus on strategic issue management by scanning the relevant sections of the environment, sorting and prioritizing issues as they emerge, then mobilizing resources and projects that address critical issues (Camillus and Datta, 1991). The issue management team would meet for the purpose of conducting a strategic issue Workshop. Here all members would list the issues that are relevant to the organization’s operation.
They may be listed under the separate headings of External Issues (Opportunities and Threats) and Internal Issues (Strengths and Weaknesses). Working together, they could then place each strategic issue in terms of its perceived level of urgency and potential impact on the “Strategic Issue Priority Matrix” (SIPM). Impact relates to senior manager’s concerns as to the level of potential impact an issue may have on the organization’s operation and performance (Ansoff and McDonnell, 1990).

2.4.3 Enterprise Risk Management

Enterprise Risk Management is a relatively new approach to addressing strategic issues facing organizations (Hughes, 2009). Organizations increasingly face a multitude of risks that, if not identified and integrated into an overall business strategy, may result in lost revenues or business failure (Burnaby and Hass, 2009). Hughes (2009) says that enterprise risks are those events that would negatively influence or constrain the organization’s ability to achieve its strategic goals. Specific risks may appear in what has been described as the five factors affecting a firm’s operation, namely: environmental uncertainty, industry competition, firm size, firm complexity, and board of director monitoring process (Hughes, 2009).

The Enterprise Risk Management concept involves establishing well-defined controls to mitigate risks in line with the risk profile and culture of the particular organization (Burnaby and Hass, 2009). Enterprise Risk Management systems typically provides the ability to catalogue risks within categories, give them weights and measures and associate them with business functions that have methods and the authority to control them. The risks faced by organizations have been broadly categorized as operational, market and credit (Bainbridge, 2009). Approaches to managing risks include; avoiding risk, transferring risk, mitigating risk, and finally accepting risk within certain limitations. The first phase is to identify the various areas of risk across the organization and its operations. These must be managed continuously in an Enterprise Risk Management process (Hughes, 2009).

2.4.4 Balanced Scorecard

The balanced scorecard is a management control system that enables companies to clarify their strategies, translate them into action and provide quantitative feedback as to whether the strategy is creating or adding value, leveraging core competences satisfying the
company’s customers and generating a financial reward to its shareholder (Pearce and Robinson, 2008).

In order to achieve optimum success, the balanced scorecard requires comprehension, support and commitment from the very top of the business down. As the organizational culture evolves and develops to appreciate the novel approach of employees of the organization mature within the new culture, the organization will find new things to measure and monitor progress. Latshaw and Choi (2002) as mentioned in Chavan (2009) state that organizations have traditionally measured their performance on short-term financial measures; the balanced scorecard however, extends this to include measures of performance relating to customer, internal processes and learning and growth needs of their people.

Chavan (2009) argues that over reliance on financial indicators encourages short-term behavior that sacrifices long-term value addition for short-term performance. Brown (2000) adds that the balanced scorecard has enhanced the traditional financial measures with lead indicators of future financial performance. According to Hagood and Friedman (2002) a firm can assess its performance in building key competencies needed in terms of strategy and future survival by focusing on the non financial dimensions. Waal (2003) says that the purpose of the balanced scorecard is to direct and manage an entire company towards achieving a shared vision of the future. In accordance with the balanced scorecard an organization ought to view itself from four perspectives and to develop metrics, collect data, and analyze it relative to each of these perspectives (Pearce and Robinson, 2008):

The balanced scorecard can measure how well an organization is continuously improving and creating value by motivating employees. The scorecard is persistent on procedures related to innovation and organizational learning to gauge performance on this dimension – technological leadership, product development cycle times. These measures can be used; employee capabilities, information system capabilities, motivation, empowerment and alignment (Pearce and Robinson, 2008).

Effective execution and internal business processes are monitored and measured by productivity, cycle time, quality measures, downtime and various cost measures, among others (Capon, 2008). The customer perspective; this will measure and determine the
satisfaction of the customers. A perspective of customer satisfaction typically adds measures related to defect levels, on time deliver, warranty support and product development. A company can use the following metrics; image/reputation, product/service attributes and customer relationships (Capon, 2008).

According to Pearce and Robinson (200) a financial perspective typically uses measures like cash flow, return on equity, sales and income growth. The following measures can be used; return on capital, improved shareholder value and asset utilization. Pearce and Robinson (2008) maintain that an integration of goals through the above mentioned perspectives, the balanced score card approach enables the strategy of the business to be linked with shareholder value creation while providing several measurable short term outcomes that guide and monitor strategy implementation.

![Figure 2.3: Basic design of a Balanced Scorecard Performance System](source: Chavan (2009)).

Chavan (2009) maintains that the final success of a change strategy greatly depends on how the change is to be introduced and implemented rather than the qualification of the strategy itself. This will allow management to set objectives for the team, individual and the entire organization, build performance criteria, assess competences, identify strengths and weaknesses and provide feedback.
2.4.5 External Environmental Analysis

Organizations have to analyze the external environment in which they operate in order to make sense of the volatile world in which they exist, such that appropriate management and business decisions can be taken (Capon, 2008). In contemplation of the complex and dynamic world in which they operate, organizations have to consider numerous influences and issues. For instance in 2005, the US motor industry faced a turbulent environment in the form of fierce competition and loss of market share to Asian car producers, with both Ford and General Motors having to make undertake downsizing as a result (Capon, 2008). To manage unpredictability and incomplete environmental data in order to increase comprehension of the remote environment, firms engage in external environmental analysis (Ireland, Hoskisson and Hitt, 2013). This analysis includes scanning, monitoring, forecasting and assessing (see Table 2.1).

Table 2.1: Components of the External Environmental Analysis

<table>
<thead>
<tr>
<th>Scanning</th>
<th>• Identifying early signals of environmental changes and trends</th>
</tr>
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<tbody>
<tr>
<td>Monitoring</td>
<td>• Detecting meaning through ongoing observations of environmental changes and trends</td>
</tr>
<tr>
<td>Forecasting</td>
<td>• Developing projections of anticipated outcomes based on monitored changes and trends.</td>
</tr>
<tr>
<td>Assessing</td>
<td>• Determining the timing and importance of environmental changes and trend for firm’s strategies and their management</td>
</tr>
</tbody>
</table>


Analyzing the remote environment is a daunting task, yet very significant (Lamberg, Tikkanen, Nokelainen and Suur-Inkeroinen, 2009). In studying the general environment, identification of threats and opportunities is an important objective. Scholars (Ireland, et al, 2013; Mintzberg et al, 2009) contend that understanding the threats and opportunities in the firm’s environment can present a situation that would enable the firm attain a fit between internal capabilities and external possibilities.
2.4.5.1 Scanning: Environmental scanning is the acquisition and use of information about events, trends and relationships in an organization’s external environment (Choo, 2001). Choo argues that organizations participate in environmental scanning in order to understand the external forces of change so that they may develop effective responses which secure or improve their position in the future. Organizations participate in this exercise in order to avoid surprises, identify threats and opportunities, gain competitive advantage and improve long and short term planning (Choo, 2001). According to Hong, Alapo and Glawacki (2008), the purpose of an environmental scan is to first detect scientific, technical, economic, social and political trends; second is to spell out the future potential threats, opportunities and changes for organizations; third to elevate an orientation in the thinking of leaders and subordinates and finally to warn of management trends and interactions.

Morrison (1992) states that a scanning activity provides strategic intelligence as a tool to determine organizational strategies. Morrison further mentions that the results of the scanning activity is to foster an apprehension of the effectiveness of change in organization, to aid forecasting, and to bring expectations of changes that bear on decision making process. According to Jelonek (2006) environmental scanning improves a firm’s ability to deal with a rapidly changing environment in the following ways; helping an organization capitalize on early opportunities, providing an early signal of impending problems and sensitizing an organization to the changing needs and wishes of the customers, providing a base of objective qualitative information about the environment, providing intellectual stimulation to strategies in their decision making and it improves the image of an enterprise with the public by showing that it is sensitive to its environment and responsive to it.

2.4.5.2 Monitoring: Ireland et.al. (2013) says that analysts observe environmental changes to see if an important trend is emerging from among the changes spotted during scanning. The firm’s ability to detect meaning in environmental events and trends is critical to successful monitoring. According to Dahlsten (2003), effective monitoring requires the firm to recognize key stakeholders and comprehend its reputation among these stakeholders as the foundation for serving their unique needs. Liebling and Madsen (2009) note that for a firm competing in an industry with high a technological uncertainty, scanning and monitoring are very paramount. Scanning and monitoring can provide an
organization with that much needed information; they also serve as a means of importing knowledge about markets and also how to successfully commercialize new technologies and products developed by the firm (Randaccio and Veugelers, 2007).

2.4.5.3 Forecasting: while environmental scanning, monitoring and competitive intelligence are important parameters for analyzing the external environment, they however remain useless if they do not provide raw material is reliable to help managers make accurate forecasts (Ireland, et al., 2013). The authors add that environmental forecasting involves the development of plausible projections about the direction, scope, speed and intensity of the environmental change.

According to Moon, Mentzer, Smith and Garver (1998), accurate forecasts allow a company to provide high levels of customer service. When demand can be accurately predicted, it can be met in a timely and efficient manner, keeping both channel partners and final customers satisfied. At the bottom line, the effect of accurate forecasts can be profound. Raw materials and component parts can be purchased much more cost-effectively when minute, spot market purchases last can be avoided (Moon et. al, 1998). According to Saffo (2007) forecasting looks at how hidden currents in the present signal possible changes in direction for companies, societies or the world at large. Saffo maintains that the fundamental goal is to identify the full range of possibilities.

2.4.5.4 Assessing: Sueyoshi and Goto (2011) mention that the goal of assessing the external environment is to determine the timing and the significance of the effects of environmental changes and trends that have been identified. While through scanning, monitoring and forecasting, analysts are able to understand the general environment, the intent of assessment is to specify the implications of that understanding. Devoid of assessment the firm is left with data that may be interesting but of unknown competitive relevance (Ireland, et al., 2013). In as much as gathering and organizing information is important, appropriate interpretation of market intelligence to determine if an identified trend in the external environment is an opportunity or threat is paramount (Exu, Ong, Duan and Mathews, 2011).
2.5 Chapter Summary
This chapter covered an analysis of empirical literature consisting of summaries of other related studies conducted in other countries around the world in support of this research. The general objective of this study was to examine the external competitive environment that Ecobank Kenya operates in and how the bank responds to the turbulence in the industry. This chapter extensively covered the three research objectives that have formed the backbone of this research.

The first objective determined to establish how the external competitive environment affects bank performance. Factors such as politics, societal changes (customer tastes and preferences), economy and technology were examined in depth to determine how each of them affects the performance of the bank. As evidenced in the literature, firms have little or no control at all of the happenings in the external environment. Indeed the external environment affects the performance of a bank either positively or negatively depending largely on the bank’s reaction. In view of the foregoing, several responses aimed at surviving the turbulence have been established by scholars; diversification, restructuring, collaborative strategies, product and market development, cost leadership among others.

Organizations have to keep learning and reinventing themselves in order gain an edge over their peers. They need to develop an art of survival as they do not operate in a vacuum. It is against this backdrop that this chapter covered best practices that could be employed by Ecobank Kenya Limited to survive turbulence in the industry. Practices that can be employed as evidenced by the literature include but not limited to strategic diagnosis (aligning strategies and general management capability to the turbulence; determine the type of uncertainty in the environment before making a response), establishing controls to mitigate against risk, and also having measures that would enable one to gauge performance besides the traditional financial measures.

The next chapter, chapter three, will focus on the research methodology.
CHAPTER THREE

3.0 RESEARCH METHODOLOGY

3.1 Introduction
This chapter reviews the research design of the study; target population and its sample size; the methods and procedures that were used in the data collection segment and lastly the techniques that were used in the data analysis.

3.2 Research Design
According to Cooper and Schindler (2008), a research design is the determination and statement of the general research approach or strategy adopted of the particular project. It is the heart of planning. If the design adheres to the research objective, it will ensure that the client's needs will be served.

The researcher adopted a descriptive research design which is very important and plays a big role in business research. The descriptive research design addresses the questions posed by exploratory research offering solutions to different business issues (Shajahan, 2008). The design is preferred because it involves answering questions such as who, how, what, which, when and how much (Cooper and Schindler, 2008).

Descriptive survey attempts to identify and explain variables that exist in a given situation and to describe the relationship that exists between these variables in order to provide a picture of a particular phenomenon (Cooper and Schindler, 2008). Descriptive research is considered appropriate because subjects are normally observed in their natural set up and can result in accurate and reliable information (Britt, 2006). This method was most appropriate for this study because by analyzing the collected data one was able to determine the ‘what’ and ‘how’ of the phenomenon. That is: how does the external competitive environment affect bank performance? What are the strategic responses employed by Ecobank Kenya to survive in the ever changing environment? Indeed any firm is faced with turbulence and the managers need to act promptly and swiftly. That is why descriptive research was found appropriate for this study.
3.3 Population and Sampling Design

3.3.1 Population

Population is the total collection of elements with common observable characteristics about which some inferences can be made (Mugenda and Mugenda, 1999). Cooper and Schindler (2008) describe a population as the total collection of elements whereby references have to be made. The target population for this research was employees of Ecobank Kenya Limited. They were opted for because they are fully engaged in the process of strategy formation and implementation. The target population was 550.

3.3.2 Sampling Design

3.3.2.1 Sampling Frame

A sample frame refers to a list of elements from which the sample is actually drawn and is closely related to the population (Cooper and Schindler, 2008). The list could be of geographical areas, institutions, individuals, or other units (Gill and Johnson, 2002). In this study, the sampling frame was obtained from Ecobank Kenya’s human resources department. The list consisted of all employees of Ecobank Kenya Limited at September 2013, their designations and their specific work locations.

3.3.2.2 Sampling Technique

The sampling technique in this study was non-probability sampling. A sampling technique is the name or other identification of the specific process by which the entities of the sample have been selected (Wolcott, 1997). According to Cooper and Schindler (2008), non-probability sampling is subjective and non-random, the interviewer is at liberty to choose the sample elements. The non-probability sampling methods adopted by the researcher were: Judgmental sampling commonly referred to as purposive sampling where subjects are chosen to be part of the sample with the researcher deeming some subjects more fit for the research than others, and Convenience sampling where samples are selected because they are accessible to the researcher (Cooper and Schindler, 2008). These techniques were appropriate as they enabled the collection of data from different segments of Ecobank Kenya conveniently while also ensuring that the respondents were knowledgeable enough in the area of study.
3.3.2.3 Sample Size

A sample is a finite part of a statistical population whose properties are to be studied to gain information about the whole (Jankowicz, 2002). Cooper and Schindler (2008) argue that a sample size as the set of elements from which data is collected. A good sample size should provide information that is detailed and comprehensive.

Researchers rarely survey the entire population for two reasons (Jackson, Thorpe and Smith, 2008): the cost is too high, and the population is dynamic in that the individuals making up the population may change over time. The study used a sample size of 55 Ecobank Kenya’s head office staff, 20 from the management and 35 from non-management positions respectively. This sample was arrived at based on the respondents who were willing to participate in the study; more so, the convenience of finding them was also a factor that was considered.

A sample of 55 employees from Ecobank Kenya Limited was chosen from the total population of about 550 employees in Kenya giving a percentage of 10. This sample fits the random approach that states that a sample should be at least 5% of the population under study (Burns and Bush, 2010).

According to Burns and Bush (2010), in almost all research cases, the accuracy of a random sample is independent on the size of the population. Based on this, a sample size determination formula was adopted to come up with the sample size of both the drivers and pedestrians who were to represent the population under study. The formula is: \[ n = \frac{z^2 \cdot (pq)}{e^2} \]
where \( n \) is the sample size, \( z \) is the standard error, \( p \) and \( q \) are the variability’s pertinent in respondents and \( e \) is the acceptable sample error (Burns and Bush, 2010).
With a \( z \) of 1.96, \( PQ \) of 50-50 and an \( e \) of plus or minus 13.9%, a sample size of 55 was arrived at.

3.4 Data Collection Methods

The method of data collection instruments uses primary data and secondary data. Primary data refers to the collection of data that is unique to the specific research and that has never been used by others before (Cooper and Schindler, 2008). There are different ways to collect primary data and some of the more common ones are through interviews, questionnaires, and case-studies. (Saunders, Lewis and Thornhill, 2006). Secondary data
is the term used for data that has already been collected for a specific purpose and then is used again during other circumstances for other reasons (Saunders et al., 2006).

The Primary source of data collection method used in the study included the use of questionnaires. The questionnaire was structured as follows: here were four distinct parts or sections. Part 1: general information, part 2: Likert scale supported by an open ended question at the end, part 3: Open ended and closed ended questions and part 4: Likert scale with an open ended question at the end. The questionnaire targeted at the Bank population was both unstructured and unstructured. Closed-ended questions helped the respondents make decisions that were chosen among several alternatives while open-ended questions allowed the respondents to answer the questions in any way they found suitable enabling the researcher to dig enough information. Closed-ended questions helped the respondents make decisions that were chosen among several alternatives while open-ended questions allowed the respondents to answer the questions in any way they found suitable.

According to Malhotra (2007) open ended questions enable respondents to answer questions in their own opinions. This was in an effort to give respondents the freedom to express their views relating to the research question. The questionnaires were all personally administered by the researcher to ensure respondents understood the nature and importance of the research. A structured approach in data collection was utilized. According to Sekaran (2003), a questionnaire presents a pre-formulated written set of questions to which respondents record their answers, and can be administered and personally mailed to the respondents or electronically distributed.

### 3.5 Research Procedure

A pilot study was carried out to ensure that the questionnaire met the set objectives. A draft research questionnaire based on the research objectives and the pilot study was conducted on 5 randomly selected subsets of the original population. Mugenda and Mugenda (2003) suggest that pre-testing allows errors to be discovered and acts as a tool for training a research team before the actual collection of data begins. The pilot study included information from the draft questionnaire on how easy the questions were understood and how long it took to complete the questionnaire. This was done to ensure
data effectiveness and hence validity of the instrument used before being administered. A refined questionnaire was then sent out after completion of the pre-test. It is recommended in the research discipline (Collis and Hussey, 2003) that a pilot study be conducted as a trial run through to provide feedback on the phraseology, focus, clarity and intelligibility of the questions to the respondents.

A cover letter was attached to the questionnaire to state the purpose of the study and to ensure the various guidelines are met. Questionnaires were administered by hand delivery and respondents were given a two week period for the completion of the questionnaire. Follow-up visits were made to ensure timely completion of questionnaires. After the two week period, the questionnaires were personally picked for analysis.

3.6 Data Analysis

According to Cooper and Schindler (2008) data analysis is a research technique for the objective, systematic and qualitative description of the manifest content of a communication. In order to attain research quality in this study, both qualitative and quantitative methods of data analysis were used.

According to Collis and Hussey (2003), descriptive statistics involves a process of transforming a mass of raw data into tables, charts, with frequency distribution and percentages, which are a vital part of making sense of the data. The research data was analyzed using the Statistical Package for Social Sciences (SPSS) program and presented using tables to give a clear picture of the research findings at a glance.

Key among the quantitative tools that were employed is descriptive statistics, which include measures of central tendencies such as Standard deviation. Cross-tabulations, frequencies and percentages were also used. These tools of analysis were used for instance to determine views of commonality and deviations from commonality. Correlation was another useful statistic tool that described the degree of relationship between variables used.

The purpose of descriptive statistics was to enable the researcher to meaningfully describe a distribution of scores or measurements using a few indices or statistics of the data collected. The descriptive statistics obtained from the survey described the basic features
of the data in the study. This provided simple summaries about the samples and the measures. The output after analysis was prepared through frequency tables, graphic presentations and inferential statistics outputs.

3.7 Chapter Summary

This chapter gave insight into how the study was conducted. The research design used was descriptive design. The researcher discussed in detail; the Research Design, the population and sampling design, Research procedures, Data collection methods and Data analysis. A case study of Ecobank Kenya was undertaken with a focus on the head office staff in Nairobi. The respondents were both managers and employees of the bank. The researcher adopted a descriptive research design. This design was most appropriate for this study because by analyzing the collected data one was able to determine the ‘what’ and ‘how’ of the phenomenon. That is: how does the external competitive environment affect bank performance? What are the strategic responses employed by Ecobank Kenya to survive in the ever changing environment? Indeed any firm is faced with turbulence and the managers need to act promptly and swiftly. That is why descriptive research was found appropriate for this study.

The sampling technique utilized in the study was the non – probability sampling. The researcher preferred it because of the liberty to choose where data would be collected from in the different segments within the bank. Primary data was collected with the aid of semi-structured questionnaires that were administered by hand delivery. The study used a sample size of 55 Ecobank Kenya’s head office staff, 20 from the management and 35 from non-management. This population was arrived at based on the respondents who were willing to participate in the study; more so, the convenience of finding them was also a factor that was considered. Data interpretation and analysis was done by utilizing the SPSS software. The next chapter, chapter four, focused on data analysis.
CHAPTER FOUR

4.0 RESULTS AND FINDINGS

4.1 Introduction

The chapter provides the findings and results on the examination of the strategic responses undertaken by Kenyan commercial banks. The chapter is divided into different sections starting with section 4.2 that provides general information about the population of study. Section 4.3 presents analysis on the external factors affecting firms’ performance. Section 4.4 presents the analysis of the strategic responses that have been employed by Kenyan commercial banks. Section 4.5 has the analysis on the best practices to be employed in turbulence times while section 4.6 is a summary of the whole chapter.

4.2 General Information

This section provides the background information concerning the response rate, age in percentages of respondents, years of experience and the educational levels of the people who participated in this research. This information provides a basic understanding of the composition of the respondents based on these variables. Also, these variables were used to enrich the analysis by providing different dimensions of understanding responses provided by the people who participated in the study.

4.2.1 Response Rate

Response rate is the total number of respondents who participated in the study and it is presented as a percentage. This study had a sample size of 55 respondents from the major sections in the bank.

4.2.2 Age

The banking industry is very vast, it comprises of all ages. This study aimed at finding out the different ages of the respondents that participated in the study. Figure 4.1 represents the age categories of respondents in the Bank.
Figure 4.1: Age

From figure 4.1, the age of the respondents that participated in the study ranged from 18 years to 55 years. The age bracket that had higher numbers of the people who participated was that of between the ages of 25 to 35 years, followed by age category of 36 to 45 years. The age categories of 18 to 24 years and 46 to 55 years had percentage representation less than 10%. The finding implies that generally, the banking industry has higher numbers of employees within the age category of 25 to 35 years than the other age categories.

4.2.3 Years of Experience

Experience plays a critical role in shaping and determining the decision made at any senior level management levels. Through this experience, one is able to execute action that is reliable and beneficial to the organization without having to worry. Based on this, this study sought to find out the level of experience of the respondents in the study, this was carried out based on their gender. Table 4.1, respondent’s years of experience tested across gender lines.

Table 4.1: Years of Experience

<table>
<thead>
<tr>
<th>Gender</th>
<th>Count</th>
<th>%</th>
<th>Count</th>
<th>%</th>
<th>Count</th>
<th>%</th>
<th>Count</th>
<th>%</th>
<th>Count</th>
<th>%</th>
<th>Total</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Male</td>
<td>6</td>
<td>22.2%</td>
<td>6</td>
<td>22.2%</td>
<td>6</td>
<td>22.2%</td>
<td>2</td>
<td>7.4%</td>
<td>7</td>
<td>25.9%</td>
<td>27</td>
<td>100.0%</td>
</tr>
<tr>
<td>Female</td>
<td>9</td>
<td>34.6%</td>
<td>9</td>
<td>34.6%</td>
<td>5</td>
<td>19.2%</td>
<td>2</td>
<td>3.8%</td>
<td>3</td>
<td>7.7%</td>
<td>28</td>
<td>100.0%</td>
</tr>
<tr>
<td>Total</td>
<td>16</td>
<td>30.2%</td>
<td>15</td>
<td>28.3%</td>
<td>11</td>
<td>20.8%</td>
<td>4</td>
<td>3.8%</td>
<td>10</td>
<td>17.0%</td>
<td>55</td>
<td>100.0%</td>
</tr>
</tbody>
</table>
As shown in the table 4.2, 22.2% of male respondents have experience of 1 to 7 years while 25.9% of the same gender has experience of over 10 years in the banking industry. Contrarily, 34.6% of female counterparts were found to have of 1 to 4 years of experience while 7.7% of the same gender has an experience of more than 10 years. The implication of these findings is that there are more male employees who have served longer in the banking industry than female employees. The study also shows that at the entry level, more women are eager to work in the banking industry but they don’t sustain for long.

4.2.4 Level of Education

Education is very important in the operation expertise of the banking industry. Through education, employees are trained and equipped with sufficient knowledge and expertise to perfume optimally at their job stations. With various levels of levels of education shown by this population, this study sought to find out the educational level of the participants.

<table>
<thead>
<tr>
<th>Level of Education</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>University</td>
<td>54.5%</td>
</tr>
<tr>
<td>Masters</td>
<td>36.4%</td>
</tr>
<tr>
<td>Diploma</td>
<td>7.3%</td>
</tr>
<tr>
<td>Post Graduate</td>
<td>1.8%</td>
</tr>
</tbody>
</table>

Figure 4.2: Level of Education

Results presented in figure 4.2 show that there were more of undergraduates in the banking industry than other levels. Respondents from undergraduate are represented by 54.5% while graduates are represented by 36.4%. Respondents with post graduate qualifications accounted for 1.8%, while 7.3% were those with diploma holders. This implies that the banking industry comprises of highly trained personnel. Summarily, this section has provided information on the response rates, with over 60% of the respondents participating in the study; the section has also established that most of the respondents have undergraduate qualifications with their ages ranging between 25-35 years. The next section, 4.3 provides analysis on the external factors affecting banks performance.
4.3 External Factors Affecting Firm Performance

Every organization, firm or institution operates in an environment that is ever changing. Many factors in this external environment play very critical roles in determining the mode as well as the rates of operation of these organizations. This section provides analysis of the finding on how the various external factors affect forms operation. This is the first objective in analysis.

4.3.1 Statutory Regulations on Technological Change

Statutory regulations are those set by the state, of which all business must comply with. By so conforming to some of these regulations, some firms are made to go extra miles in terms of resources and time. Correlation analysis based on (Kendall’s and Spearman’s and level of 0.05) was carried out to find out whether these statutory regulations indeed affected the operations of the banking sector. Table 4.2 confirms the significance of relationship between statutory factors and technological factors that affect the banking industry.

Table 4.2: Statutory Regulations on Technological Change

<table>
<thead>
<tr>
<th></th>
<th>Kendall's tau-b (τ)</th>
<th>Spearman’s rho (ρ)</th>
</tr>
</thead>
<tbody>
<tr>
<td>We comply with government statutory regulation with ease</td>
<td>.243*</td>
<td>.281*</td>
</tr>
<tr>
<td>We continuously invest in new equipment and upgrade our systems in order to cope with technological changes</td>
<td>.243*</td>
<td>.298*</td>
</tr>
</tbody>
</table>

*. Correlation is significant at the 0.05 level (2-tailed).

Table 4.2 shows that complying with statutory regulations is very significant to the banking industry. The statutory regulations compel the banks to invest in new technology and advance their systems in order to muddle through technological change. These results imply that respondents believed that statutory regulations were very crucial in determining the daily functioning and operations of the banks in the Kenyan markets.

4.3.2 Experience and Technological Change

Based on individual experience in working in certain environments, one is bale to confidently state whether by improving on technology, quality output would be realized within the shortest time possible by use of minimum resources. Based on this assumption,
a cross tabulation between years of experience and need to invest in technology was conducted. Table 4.3 shows the relationship between the eager to adapt to a new technology and employees’ years of experience.

Table 4.3: Experience and Technological Change

<table>
<thead>
<tr>
<th>Years of Experience</th>
<th>Total</th>
<th>We continuously invest in new equipment and upgrade our systems in order to cope with technological changes</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Strongly Disagree</td>
</tr>
<tr>
<td>0-1 yrs</td>
<td>16</td>
<td>0</td>
</tr>
<tr>
<td></td>
<td>%</td>
<td>0.0</td>
</tr>
<tr>
<td>2-4 yrs</td>
<td>16</td>
<td>2</td>
</tr>
<tr>
<td></td>
<td>%</td>
<td>12.5</td>
</tr>
<tr>
<td>5-7 yrs</td>
<td>11</td>
<td>0</td>
</tr>
<tr>
<td></td>
<td>%</td>
<td>0.0</td>
</tr>
<tr>
<td>8-10 yrs</td>
<td>2</td>
<td>0</td>
</tr>
<tr>
<td></td>
<td>%</td>
<td>0.0</td>
</tr>
<tr>
<td>Above 10 yrs</td>
<td>10</td>
<td>0</td>
</tr>
<tr>
<td></td>
<td>%</td>
<td>0.0</td>
</tr>
<tr>
<td>Total</td>
<td>55</td>
<td>2</td>
</tr>
<tr>
<td></td>
<td>%</td>
<td>3.6%</td>
</tr>
</tbody>
</table>

Results presented on table 4.3, show that employees’ years of experience is directly related to their desire to adapt to new technology. The more the employee stays in the organization the more he/she desires new equipment that is capable of coping with the technological change. From the table, 25% of employees who have experience of one year in the organization believe that the organization should acquire new equipment that would help cope with technological change. As one grows in experience to over ten years, 60% of such respondents believe that organization needs to cope up with technological change. This implied that employees with more experience know what the organization need to change and why it should change to remain competitive than those employees who have stayed for less than a year.

4.3.3 Competition and New Product

Entry of new products in the market is a factor that provides an edge in any business industry. Competition on the other hand makes firms want to invest in research and design to come up with superior products that would make them acquire maximum market and sales revenues. This study sought to find out whether this was the ideal case in the banking sector. Correlation analysis based on (Kendall's and Spearman's and level
of 0.05) was carried out to find out whether these two factors affected banks as well. Results were presented in table 4.4.

**Table 4.4: Competition and New Product**

<table>
<thead>
<tr>
<th>Threat of entry by other banks (foreign and domestic) into the Kenyan market</th>
<th>Kendall's tau-b (τ)</th>
<th>Spearman's rho (ρ)</th>
</tr>
</thead>
<tbody>
<tr>
<td>The increased change in customer tastes, attitudes and perceptions has led us to adopt new products</td>
<td>( .282^* )</td>
<td>( .312^* )</td>
</tr>
</tbody>
</table>

\* Correlation is significant at the 0.05 level (2-tailed).

As indicated in table 4.4, there is a strong relationship between bank competition and new products. From the table, competition from foreign and domestic banks brings in the market new products that eventually change customers’ tastes, attitudes and perceptions from the already existing products. These results imply that respondents believed that competition and new products had a great effect on the daily operations of the bank.

**4.3.4 Gender and New Products in the Market**

New products come with different market appeals. Some come with customer tastes, preferences while others help customers identify strong attitudes with them. This study sought to find out from the respondents how this was a factor in developing and adopting of new products to the market. A cross tabulation was used. This was done based on gender, as a very critical factor in determining tastes. Table 4.5 presents the findings.

**Table 4.5: New Products**

<table>
<thead>
<tr>
<th>Gender</th>
<th>The increased change in customer tastes, attitudes and perceptions has led us to adopt new products</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Disagree</td>
<td>Uncertain</td>
</tr>
<tr>
<td>Male</td>
<td>Count</td>
<td></td>
</tr>
<tr>
<td>1</td>
<td>2</td>
<td>15</td>
</tr>
<tr>
<td>%</td>
<td>3.7</td>
<td>7.4</td>
</tr>
<tr>
<td>Female</td>
<td>Count</td>
<td></td>
</tr>
<tr>
<td>2</td>
<td>1</td>
<td>5</td>
</tr>
<tr>
<td>%</td>
<td>7.7</td>
<td>3.8</td>
</tr>
<tr>
<td>Total</td>
<td>Count</td>
<td></td>
</tr>
<tr>
<td>3</td>
<td>3</td>
<td>20</td>
</tr>
<tr>
<td>%</td>
<td>5.7</td>
<td>5.7</td>
</tr>
</tbody>
</table>

Results from Table 4.5 reveals that customers’ increased change in tastes, attitudes and perceptions as a result of competition has led to an increase in the adoption of new products. Result shows that over 88.6% of respondents believe that increased change in customer tastes, attitudes and perceptions led them to adopt new products.
Also based on the same premise of taste attitudes and perceptions the study went further to seek whether such variable had an effect on the consumption patterns. A correlation analysis based on (Kendall's and Spearman's and level of 0.05) was conducted to prove this. Results were presented in table 4.6.

Table 4.6: Consumption Patterns

<table>
<thead>
<tr>
<th>Because of the changing consumption patterns in the industry, we continually consider economic trends that would affect our business</th>
<th>Kendall's tau-b (τ)</th>
<th>Spearman's rho (ρ)</th>
</tr>
</thead>
<tbody>
<tr>
<td>.254*</td>
<td>.281*</td>
<td></td>
</tr>
</tbody>
</table>

*. Correlation is significant at the 0.05 level (2-tailed).

From table 4.6, there is a strong relationship between the changing consumption patterns in the banking industry and the development of new products by the banks. It is well clear that banks study consumption patterns of consumers to determine the best strategies to survive their businesses.

4.3.5 Bank Performance Model Summary

A model summary is used when predicting the value of a variable based on the value of another variable. The variable being used to predict the other variable's value is called the independent variable. The variable being predicted is called the dependent variable. Under this analysis, the dependent variable is banks performance that depends on the interest rates, change in customer tastes and Government statutory requirements which are the independent variables. R square is 0.463 which implies that there is chance that 46.3% of in interest rates, change in customer tastes and statutory requirements determines banks performance. This analysis was carried out to ascertain the degree of correlation between the dependent and independent variables. Table 4.7 presents the model summary of a regression analysis. In it we have the R- value, 0.680 which indicates the degree of the correlation.

Table 4.7: Model Summary

<table>
<thead>
<tr>
<th>Model</th>
<th>R</th>
<th>R Square</th>
<th>Adjusted R Square</th>
<th>Std. Error of the Estimate</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>.680*</td>
<td>.463</td>
<td>.430</td>
<td>.33772</td>
</tr>
</tbody>
</table>

a. Predictors: (Constant), Interest rates, Change in customer tastes, Government statutory regulation
4.3.6 ANOVA

ANOVA table 4.8 indicated that the regression model predicted the outcome variable significantly well. As indicated in Sig. column, $P$ is 0.000 which is less than 0.05 and which implies that, overall, the model applied is significantly good enough in predicting the outcome variable, $(r=0.680, p=0.000)$.

**Table 4.8: ANOVA**

<table>
<thead>
<tr>
<th>Model</th>
<th>Sum of Squares</th>
<th>Df</th>
<th>Mean Square</th>
<th>F</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Regression</td>
<td>4.814</td>
<td>3</td>
<td>1.605</td>
<td>14.070</td>
<td>.000b</td>
</tr>
<tr>
<td>Residual</td>
<td>5.589</td>
<td>49</td>
<td>.114</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>10.403</td>
<td>52</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

a. Dependent Variable: Bank Performance  
b. Predictors: (Constant), Interest rates, Change in customer tastes, Government statutory regulation

4.3.7 Coefficient

The values in the table 4.19 helped in developing the regression equation, which indicated the coefficients part of the outputs. This equation took the following form: dependent variable = slope, times independent variable, and intercept. The dependent variable is banks performance (BP) and independent variables are: interest rate (IR), statutory regulations (SR) and Customer Taste (CT). For every increase in one unit of IR, CT and SR, banks performance changes by 0.262, 0.178 and 0.146 units respectively.

The equation of regression line is: $BP = 1.466 + 0.146 \cdot SR + 0.178 \cdot CT + 0.262 \cdot IR$

**Table 4.9: Coefficients**

<table>
<thead>
<tr>
<th>Model</th>
<th>Unstandardized Coefficients</th>
<th>Standardized Coefficients</th>
<th>T</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>(Constant)</td>
<td>1.466</td>
<td>.429</td>
<td>3.416</td>
<td>.001</td>
</tr>
<tr>
<td>We are affected by the government statutory regulation</td>
<td><strong>.146</strong></td>
<td>.039</td>
<td>.401</td>
<td>3.713</td>
</tr>
<tr>
<td>The increased change in customer tastes, attitudes and perceptions has led us to adopt new products</td>
<td><strong>.178</strong></td>
<td>.056</td>
<td>.331</td>
<td>3.152</td>
</tr>
<tr>
<td>Liberalization of the financial sector – interest rates determined by market forces</td>
<td><strong>.262</strong></td>
<td>.084</td>
<td>.337</td>
<td>3.134</td>
</tr>
</tbody>
</table>

a. Dependent Variable: Bank Performance

47
4.3.8 Expected Social Change Effect on Businesses

The society is configured to act on and pursue change whenever it comes. This change comes with its consequences on the business environments. Some businesses make a consented effort to try and understand this changes and how it could affect their businesses operation. By so doing they act by coming up with adequate strategies that will help them remain relevant in the market. Based on this premise, this study sought to find out whether bankers rely on these changes to make decisions based on informed estimates of the expected social changes effect on the bank business. The social factors range from ethical standards, religious orientations and changing work values. Table 4.10 reveals the percentage of the responses.

Table 4.10: Expected Social Change

<table>
<thead>
<tr>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Disagree</td>
<td>5</td>
</tr>
<tr>
<td>Uncertain</td>
<td>7</td>
</tr>
<tr>
<td>Agree</td>
<td>25</td>
</tr>
<tr>
<td>Strongly Agree</td>
<td>18</td>
</tr>
<tr>
<td>Total</td>
<td>55</td>
</tr>
</tbody>
</table>

From table 4.10, 78% of the respondents believe that changes in social factors affect banking business. Contrary to this, 9% disagreed to the statement while 13% were uncertain about the statement. These results prove that expected social changes have a great effect in the banking industry.

4.3.9 Political and Legal Factors Model Summary

Politics play a crucial role in determining the operating environment of businesses in any nation. With it comes the framework within which regulations of business are developed. This study sought to find out how these factors affect the banking industry.

Table 4.11: Model Summary

<table>
<thead>
<tr>
<th>Model</th>
<th>R</th>
<th>R Square</th>
<th>Adjusted R Square</th>
<th>Std. Error of the Estimate</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>.544a</td>
<td>.906</td>
<td>.268</td>
<td>.37662</td>
</tr>
</tbody>
</table>

a. Predictors: (Constant), Legal Factors, Political Factors
Table 4.1 presents a model summary that was used in predicting the dependent variable: Bank Performance (BP) using two independent variables: Political Factors (PF) and Legal Factors (LF). R square value is 0.906 that implies that 90.6% chance that (PF) and (LF) will always determine Bank Performance (BP).

Table 4.12: ANOVA

<table>
<thead>
<tr>
<th>Model</th>
<th>Sum of Squares</th>
<th>Df</th>
<th>Mean Square</th>
<th>F</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Regression</td>
<td>3.095</td>
<td>2</td>
<td>1.548</td>
<td>10.910</td>
<td>.000b</td>
</tr>
<tr>
<td>Residual</td>
<td>7.376</td>
<td>52</td>
<td>.142</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>10.471</td>
<td>54</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

a. Dependent Variable: Bank Performance
b. Predictors: (Constant), Legal Factors, Political Factors

ANOVA table 4.12 indicated that the regression model predicted the outcome variable significantly well. As indicated in Sig. column, $P$ is 0.000 which is less than 0.05 and which implies that, overall, the model applied is significantly good enough in predicting the outcome variable, $(r=0.544, p=0.000)$.

Table 4.13: Coefficients

<table>
<thead>
<tr>
<th>Model</th>
<th>Unstandardized Coefficients</th>
<th>Standardized Coefficients</th>
<th>t</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>(Constant)</td>
<td>2.662</td>
<td>.289</td>
<td>9.203</td>
<td>.000</td>
</tr>
<tr>
<td>Political Factors</td>
<td>.142</td>
<td>.048</td>
<td>.352</td>
<td>2.940</td>
</tr>
<tr>
<td>Legal Factors</td>
<td>.184</td>
<td>.065</td>
<td>.341</td>
<td>2.847</td>
</tr>
</tbody>
</table>

a. Dependent Variable: Bank Performance

The political and legal factors are significant in predicting the bank performance. The values in the table 4.13 helped in developing the regression equation, which indicated the coefficients part of the outputs. This equation took the following form: dependent variable = slope, times independent variable, and intercept. The dependent variable is banks performance (BP) and independent variables are: interest rate (PF) and Legal factors (LF). For every increase in one unit of PF and LF, banks performance changes by 0.142, and 0.184 units respectively.

The equation of regression line is: $BP = 2.662 + 0.142 PF + 0.184 LF$
4.3.10 Capacity Building and Organizational Adaptability

Organizations have always endeavored to improve both in their output as well as their operations. To achieve this, most engage in practices that are geared at equipping their personnel with adequate skills and competencies. This study sought to find from the respondents on their perceptions on whether they felt that having capacity building programs for them would in any way benefit their bank. Results of these findings are represented in table 4.14.

**Table 4.14: Capacity Building and Organizational Adaptability**

<table>
<thead>
<tr>
<th></th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strongly Disagree</td>
<td>2</td>
<td>3.6%</td>
</tr>
<tr>
<td>Disagree</td>
<td>3</td>
<td>5.5%</td>
</tr>
<tr>
<td>Uncertain</td>
<td>5</td>
<td>9.1%</td>
</tr>
<tr>
<td>Agree</td>
<td>24</td>
<td>43.6%</td>
</tr>
<tr>
<td>Strongly Agree</td>
<td>21</td>
<td>38.2%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>55</strong></td>
<td><strong>100%</strong></td>
</tr>
</tbody>
</table>

From the table, 81.8% of respondents agree that capacity building on staff has the capacity to ensure the organization adapts to any changes in the environment. This implies that banks should continuously build capacity of their staff to ensure the organization adapts to any changes in the environment.

4.3.11 Change in ICT and Threat of Entry Model Summary

The world today is very unpredictable, thanks to evolution changes presented by ICT. Information sharing has been easily facilitated by this. On the other hand, entry into markets by new business has always been perceived as a threat by the existing players who have to work extra hard to maintain their respective market shares. This study sought to find out how these factors affect the banking industry.

**Table 4.15: Model Summary**

<table>
<thead>
<tr>
<th>Model</th>
<th>R</th>
<th>R Square</th>
<th>Adjusted R Square</th>
<th>Std. Error of the Estimate</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>.753*</td>
<td>.567</td>
<td>.550</td>
<td>.29858</td>
</tr>
</tbody>
</table>

a. Predictors: (Constant), Threat of entry by other banks, Abrupt and rapid changes in (ICT)

Table 4.15 presents a model summary that was used in predicting the dependent variable: Bank Performance (BP) using two independent variables: Change in ICT (CIT) and
Threat of Entry by other bank in the Kenyan market (TOE). R square value is 0.567 that implies that 56.7% chance that (CIT) and (TOE) will always determine Bank Performance (BP).

**Table 4.16: ANOVA**

<table>
<thead>
<tr>
<th>Model</th>
<th>Sum of Squares</th>
<th>Df</th>
<th>Mean Square</th>
<th>F</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Regression</td>
<td>5.727</td>
<td>2</td>
<td>2.864</td>
<td>32.121</td>
<td>.000</td>
</tr>
<tr>
<td>Residual</td>
<td>4.368</td>
<td>49</td>
<td>.089</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>10.095</td>
<td>51</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

a. Dependent Variable: Bank Performance

b. Predictors: (Constant), Threat of entry by other banks, Abrupt and rapid changes in (ICT)

ANOVA table 4.16 indicated that the regression model predicted the outcome variable significantly well. As indicated in Sig. column, $P$ is 0.000 which is less than 0.05 and which implies that, overall, the model applied is significantly good enough in predicting the outcome variable, ($r=0.753$, $p=0.000$).

**Table 4.17: Coefficients**

<table>
<thead>
<tr>
<th>Model</th>
<th>Unstandardized Coefficients</th>
<th>Standardized Coefficients</th>
<th>T</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>(Constant)</td>
<td>2.319</td>
<td>.213</td>
<td>10.869</td>
<td>.000</td>
</tr>
<tr>
<td>Abrupt and rapid changes in Information and Communication Technology (ICT)</td>
<td>.231</td>
<td>.045</td>
<td>.481</td>
<td>5.110</td>
</tr>
<tr>
<td>Threat of entry by other banks (foreign and domestic) into the Kenyan market</td>
<td>.202</td>
<td>.035</td>
<td>.552</td>
<td>5.863</td>
</tr>
</tbody>
</table>

a. Dependent Variable: Bank Performance

From table 4.17, abrupt change in ICT and threat of entry are significant in predicting the bank performance. The dependent variable is Bank Performance (BP) and independent variables: change in ICT (CIT) and Threat of Entry by other bank in the Kenyan market (TOE). For every increase in one unit of CIT and TOE, cost of social marketing changes by 0.231 and 0.202 units respectively.

The equation of regression line is: $BP = 2.319 + 0.231 \text{ CIT} + 0.202 \text{ TOE}$

**4.3.12 Other External Factors**

The study asked the respondents to state other external factors that affect bank performance. It was well stated that competition from bigger banks which are able to give
comparatively low prices, dynamic customer preferences which are constantly evolving, changes in foreign currency, foreign owned banks and the idea that its origin is in West Africa greatly affects its operation in East Africa, bank policies and controlling issues with West Africa affect the performance of banks. The respondents also added that business model totally unfriendly with East Africa and competition from local banks and peculiar Kenyan consumer behaviors affect the bank performance.

4.4 Strategic Responses Employed by Kenyan Commercial Banks

Every organization has ways and mechanisms which help it operate and survive the ever changing business environment. These mechanisms are referred to as strategies. This section is important as it will enable the researcher find out the various available strategies used. Therefore, the second objective that this study sought to find out were various strategic responses that Kenyan commercial Banks employee in their day to day operations.

4.4.1 Diversification

Diversification, according to the study is one way of strategically responding to the changing environment. Respondents in this study were asked to indicate whether their organization had employed this aspect of diversification. Figure 4.3 represents the ration to which diversification has taken place in their organizations.

![Business Additions Graph](image)

**Figure 4.3: Diversification**

From the figure, it is very clear that 88% of respondents believe that their bank has acquired banking services distinct from the known traditional services. From the respondents, diversification in their organizations took a different nature ranging from
agency banking, mobile and internet banking, bank assurance/brokerage firms/insurance companies to investment banking.

To test the extent to which diversification by acquisitions have been successful, Figure 4.4 was extracted.

Figure 4.4: Objective Success

As shown in figure 4.4, most of the respondents (43%) believe that the objective of diversification has been met by large extent by their organization while 17% believe that diversification in their organization has been successful by a small extent. On the other hand 40% of respondents were neutral about the extent to which diversification objective had been met.

4.4.2 Restructuring

Restructuring is another way of strategically responding to the rapid changing environment. Figure 4.5 represents the extent to which banks have responded to the environment through restructuring.

Figure 4.5: Corporate Restructuring
From figure 4.5, it is clear that most banks in Kenya (81%) have undergone corporate restructuring. Centrally, 19% of respondents believe that their organizations haven’t undergone restructuring to respond to the changing environment.

Respondents were asked to state what they thought was the effects of corporate restructuring on the overall performance of your bank. Responses ranged from the fact that it had helped their bank streamline and align business operations, people, resources and business units. It further aided in department reorganization, separations of operations and lines of business, organizational restructure, differentiating operations and business, management segmentation, downsizing to reduce costs and restructure of domestic, corporate and treasury departments are some of the corporate restructuring experienced.

Other respondents observed that restructuring had the capacity to increase efficiency, effectiveness and ease monitoring in order to improve performance. To some respondents, restructuring was meant to reduce costs, increase customer base, increase productivity and maximize profit. While other respondents believed that restructuring was meant to create focus and give clarity to new ideas and improve business performance.

4.4.3 Banks Operation Activities

There are various activities that banks undertake in order have an edge in the market and remain relevant. These activities range from divestment, downsizing, creation of new market and product development. This study sought to find out whether the banking organizations had undertaken any of these activities to respond to changing business environment. Figure 4.6 was used to represent the percentages of the various activities undertaken by the bank.

**Figure 4.6: Bank Activities**

![Bank Activities Diagram]

- Divestment: 4%
- Downsizing: 6%
- Create New Markets: 42%
- Product Development: 48%
Figure 4.6 clearly show that 48% of organizations in the banking industry have undertaken product development, 42% have created new markets, 6% have undertaken downsizing and 4% have undertaken divestment as ways of strategically responding to the changing business environment. The findings imply that most banks would like to increase production, increase customer base and maximize profits through creating new markets and developing new products than downsizing and divesture of their assets.

Respondents were requested to state the effect that the various bank activities had had on their business operations. For product development, respondents observed that banks were now able to widen their target markets to meet their current customer’s needs. Product development had the capacity to improve on their current product that led to their growth. Other observed that product development strategy had brought new products that fit the market, increased their business portfolio; more revenue and improved banks performance.

For divestment, respondents observed that it helped save cost, reduce traffic in the banking hall and stabilize financial statements of the banks. On other hand, downsizing brought in an idea of combining units and resources (lean team concept), costs control/Optimization, local/international and alternative channels, employee redeployment and profit maximization.

For the creation of new markets, respondents observed that it helped their banks to expand organization’s customer base by tapping into previously untapped markets in institutions of higher learning, county governments and use of agency banking to reach the larger population. Other observed that this strategy helped their bank acquire new customers, improve business outcomes, increase visibility, liability and asset base. Finally, there are those who felt that creation of new markets helped their bank expand business networks by making sure that many customers were reached and product portfolio and revenues were always increasing.

4.4.4 Banks Strategy Operations

There are various strategies used by banks to enhance good performance. These include; low cost leadership, market uniqueness on products and services as well as specific group of market segment. This study went further to find out whether the banking organizations
had undertaken any of these strategy operations in order to improve on their performances. Figure 4.7 represents the percentages of the various strategies undertaken by the bank to achieve this.

![Bank Strategy Operations](image)

**Figure 4.7: Bank Strategy Operations**

From figure 4.7, most commercial banks (52%) strive to achieve market uniqueness about products and services. This is followed by 31% who focus on specific group on a specific market segment. Banks that strive to achieve low cost leadership are represented by 17%. The findings imply that the uniqueness of a strategy is very crucial for the performance of the commercial banks. Market uniqueness on products and services is the most commonly employed strategy.

**4.4.5 Collaborative Strategies**

Collaborative strategies are those strategies that are used over a tentatively longer periods of time. They help organization expand their scopes of operations regionally as well as internationally. They include strategic alliance, mergers, acquisitions and licensing and franchising. This study sought to find out whether the banking industry under focus had made use of these strategies. Figure 4.8 confirms their use by providing percentage ratios of the usage of these collaborative strategies.
Figure 4.8: Collaborative Strategies

As shown in figure 4.8, 41% of the banks have done an acquisition of a company as a way to enhance their performance. Twenty five percent (25%) of the commercial banks have done a strategic alliance while twenty percent (20%) have used licensing and franchising as collaborative strategies to boost their performance. Fourteen percent (14%) of commercial banks have merged with other banks. The study presumes that most banks have a liking of acquisition strategy so that they can have full control of the other companies businesses than sharing the management rights.

Respondents were further requested to describe the nature of their organizations preferred strategy. For strategic alliance respondents, their organization had strategic alliances with Safaricom to provide MPESA through mobile banking; with KRA tax system for effective collection of taxes and Airtel money for the provision of client channels.

For acquisition respondents, their organization had acquired EABS (East African Building Society) as a strategy for entry in the Kenyan market. The banks also acquired Oceanic bank and Trade banks in Nigeria and Ghana respectively. Lastly, respondents with franchising option, their bank had used franchising of brand name to agents to offer agency services and licensing for M-pesa agents for Mobile banking. This section has provided analysis on the various strategic responses used by Kenyan Commercial Banks. Diversification and restructuring were found to be used by the banks. On collaborative strategies, acquisition is the most commonly strategy used by the banks. The next section provides summary analysis of the best practices that are employed by the same banks while operation in turbulent environments.
4.5 Best Practices Employed in Turbulent Times

Every organization ought to have ways to survive turbulent times. Through experience and sharing of knowledge, banks have come up with ways/best practices that they use that enable them stay in the markets that they operate in. This study sought to find out from the respondents on their perceptions on the various practices that are or ought to used by the bank. Table 4.19 features the best strategies to be adopted by banks to enhance or rather maintain good performance during turbulent times.

Table 4.18: Best Practices

<table>
<thead>
<tr>
<th>In times of environmental turbulence and uncertainty, we assess the current position of the business before setting future direction or strategies.</th>
<th>Pearson Correlation</th>
<th>Sig. (2-tailed)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>.326*</td>
<td>.017</td>
</tr>
<tr>
<td>The level/type of uncertainty in the environment determines the response our organization makes in order to survive</td>
<td>Pearson Correlation</td>
<td>Sig. (2-tailed)</td>
</tr>
<tr>
<td></td>
<td>.381**</td>
<td>.005</td>
</tr>
<tr>
<td>We have aligned our strategies to fit/match the environmental turbulence</td>
<td>Pearson Correlation</td>
<td>Sig. (2-tailed)</td>
</tr>
<tr>
<td></td>
<td>.290*</td>
<td>.037</td>
</tr>
</tbody>
</table>

| * Correlation is significant at the 0.05 level (2-tailed). |
| ** Correlation is significant at the 0.01 level (2-tailed). |

From table 4.18, the level of significance is visible, clearly indicating that all the variables in that table are significant at level 0.05. Results prove that for organizations to survive in turbulent environment, they ought to first of all assess their current position in the business before setting future directions. The results also indicate that the type of uncertainty in the environment will determine the response the organizations make to survive. Finally, organization ought to align their strategies to match the environmental turbulence.

4.5.1 Type of Uncertainty and Strategic Response

Various market industries pose different challenges to the industry players. Firms need to be alert on the uncertainties that come with every opportunity. Based on this premise, the study sought to find out whether the level/type of uncertainty in the environment determines the response organization makes. A cross tabulation table 4.19, between level of education and type of uncertainty and strategic response was conducted to find out this.
Table 4.19: Uncertainty and Strategic Response

<table>
<thead>
<tr>
<th>Level of Education</th>
<th>Total</th>
<th>Disagree</th>
<th>Uncertain</th>
<th>Agree</th>
<th>Strongly Agree</th>
</tr>
</thead>
<tbody>
<tr>
<td>Diploma</td>
<td></td>
<td>0</td>
<td>2</td>
<td>3</td>
<td>0</td>
</tr>
<tr>
<td>University</td>
<td></td>
<td>2</td>
<td>6</td>
<td>19</td>
<td>2</td>
</tr>
<tr>
<td>Masters</td>
<td></td>
<td>0</td>
<td>0</td>
<td>12</td>
<td>7</td>
</tr>
<tr>
<td>Post Graduate</td>
<td></td>
<td>0</td>
<td>0</td>
<td>2</td>
<td>0</td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td>2</td>
<td>8</td>
<td>37</td>
<td>9</td>
</tr>
</tbody>
</table>

Results from table 4.19 show that more than 50% of the respondents with diploma, undergraduate certificates, master certificates, and post graduate certificates were in agreement that the type of uncertainty in the environment determines the response organization makes in order to survive.

4.5.2 Capability to Match Strategies

Despite the fact that firms employ survival strategies, they also need to have the adequate capacity to execute them optimally with tact. Here comes the issue of capability, which transcend into competent workforce with visionary leadership. The study sought to find out from the respondents whether their banks had the capability to match effective strategies. Table 4.20 was used to find out this.

Table 4.20: Capability of Matching Strategies

<table>
<thead>
<tr>
<th>Years of Experience</th>
<th>Total</th>
<th>Disagree</th>
<th>Uncertain</th>
<th>Agree</th>
<th>Strongly Agree</th>
</tr>
</thead>
<tbody>
<tr>
<td>0-1 yrs</td>
<td></td>
<td>1</td>
<td>0</td>
<td>12</td>
<td>3</td>
</tr>
<tr>
<td>2-4 yrs</td>
<td></td>
<td>2</td>
<td>2</td>
<td>9</td>
<td>2</td>
</tr>
<tr>
<td>5-7 yrs</td>
<td></td>
<td>0</td>
<td>1</td>
<td>7</td>
<td>3</td>
</tr>
<tr>
<td>8-10 yrs</td>
<td></td>
<td>0</td>
<td>0</td>
<td>3</td>
<td>0</td>
</tr>
<tr>
<td>Above 10 yrs</td>
<td></td>
<td>0</td>
<td>1</td>
<td>6</td>
<td>3</td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td>3</td>
<td>4</td>
<td>36</td>
<td>11</td>
</tr>
</tbody>
</table>
As indicated in table 4.20, more than 50% of respondents believe that their organizations have the capability of matching their strategies to fit into the type of uncertainty being experienced.

4.5.3 Investing in New Processes to Attain Operational Excellence

Investing in operations that guarantee excellence is one of the fundamental growth parameters. This study sought to find the perception of respondents as to whether investing in new processes helps in attaining operation excellence in their organizations. Table 4.21 was used to establish this.

Table 4.21: Attaining Operational Excellence

<table>
<thead>
<tr>
<th></th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Disagree</td>
<td>5</td>
<td>9%</td>
</tr>
<tr>
<td>Uncertain</td>
<td>5</td>
<td>9%</td>
</tr>
<tr>
<td>Agree</td>
<td>28</td>
<td>51%</td>
</tr>
<tr>
<td>Strongly Agree</td>
<td>17</td>
<td>31%</td>
</tr>
<tr>
<td>Total</td>
<td>55</td>
<td>100%</td>
</tr>
</tbody>
</table>

From table 4.21, a sounding 82% of respondents agreed that investing in new processes help to attain operational excellence. Nine percent (9%) of the respondents disagreed to the statement while 9% were uncertain.

4.5.4 Success in Turbulent Environment Model Summary

For any organization to survive in turbulent environment, them it must have adequate measures to achieve this. This model summary analysis provides the relationship of the various factors that leads to success in such situations.

Table 4.22: Model Summary for Success in Turbulent Environment

<table>
<thead>
<tr>
<th>Model</th>
<th>R</th>
<th>R Square</th>
<th>Adjusted R Square</th>
<th>Std. Error of the Estimate</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>.882*</td>
<td>.777</td>
<td>.763</td>
<td>24276</td>
</tr>
</tbody>
</table>

a. Predictors: (Constant), We build capacity of our staff, We rely on financial measure/ indicators, We have well defined controls

Table 4.22 presents a model summary that was used in predicting the dependent variable: Success in Turbulent Environment (STE) using three independent variables: Controls to
mitigate Risks (CR), Adequate Financial Measure (AFM) and Capacity Building (CB). R square value is 0.777 that implies that 77.7% chance that (FM), (CR) and (CB) will always determine Success in Turbulent Environment (STE).

**Table 4.23: ANOVA**

<table>
<thead>
<tr>
<th>Model</th>
<th>Sum of Squares</th>
<th>Df</th>
<th>Mean Square</th>
<th>F</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Regression</td>
<td>9.460</td>
<td>3</td>
<td>3.153</td>
<td>53.511</td>
<td>.000</td>
</tr>
<tr>
<td>Residual</td>
<td>2.711</td>
<td>46</td>
<td>.059</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>12.171</td>
<td>49</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

a. Dependent Variable: Success In Turbulent Environment  
b. Predictors: (Constant), We build capacity of our staff, We rely on financial measure/ indicators, We have well defined controls

ANOVA table 4.23 indicated that the regression model predicted the outcome variable significantly well. As indicated in Sig. column, P is 0.000 which is less than 0.05 and which implies that, overall, the model applied is significantly good enough in predicting the outcome variable, \( r=0.882, p=0.000 \).

**Table 4.24: Coefficients**

<table>
<thead>
<tr>
<th>Model</th>
<th>Unstandardized Coefficients</th>
<th>Standardized Coefficients</th>
<th>t</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>(Constant)</td>
<td>1.535</td>
<td>.214</td>
<td>7.170</td>
<td>.003</td>
</tr>
<tr>
<td>We have well defined controls to mitigate risks</td>
<td><strong>.175</strong> (.056)</td>
<td><strong>.266</strong> (.313)</td>
<td>3.148</td>
<td>.000</td>
</tr>
<tr>
<td>We solely rely on financial measure/ indicators to determine our performance as an organization</td>
<td><strong>.149</strong> (.036)</td>
<td><strong>.313</strong> (.551)</td>
<td>4.147</td>
<td>.000</td>
</tr>
<tr>
<td>We continuously build capacity of our staff to ensure that the organization is able to adapt to any changes in the environment</td>
<td><strong>.309</strong> (.046)</td>
<td><strong>.551</strong> (.551)</td>
<td>6.781</td>
<td>.000</td>
</tr>
</tbody>
</table>

a. Dependent Variable: Success In Turbulent Environment

From table 4.24, Controls on Risk mitigation, Adequate Financial Measures and Capacity Building were found to be significant in predicting the success of an organizations operating in turbulent environment (STE). The dependent variable is success of operation in turbulent environment while the independent variables are: Controls to mitigate Risks (CR), Adequate Financial Measure (AFM) and Capacity Building (CB). For every increase in one unit of CR, AFM and CB, success rates in turbulent environments changes by 0.175, 0.149 and 0.309 units respectively.

The equation of regression line is: \( \text{STE} = 1.535 + 0.175 \text{ CR} + 0.149 \text{ AFM} + 0.309 \text{ CB} \).
From table 4.24 shows that well defined controls to mitigate risks, adequate financial measures to determine performance and staff capacity building are highly significant in enhancing success rate of bank.

According to respondents, other strategies to be employed are international benchmarking, total quality management, market segmentation and outsourcing some of the activities so as to save on costs and focus on business generation.

4.5.5 Environmental Analysis

Environmental analysis involves the action of checking the operating environment that a firm is operating in. It involves scanning, forecasting, monitoring and assessing. This study sought to find out the extent to which they are employed. Table 4.25 represents the rate of dispersion of environmental analysis. The higher the dispersion, the lower the significance and vice versa.

Table 4.25: Environmental Analysis

<table>
<thead>
<tr>
<th></th>
<th>Mean</th>
<th>Std. Dev</th>
<th>Coef of Var</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Assessing:</strong></td>
<td>3.81</td>
<td>.870</td>
<td>0.23</td>
</tr>
<tr>
<td>Determining the timing and importance of environmental changes and trend for the firm’s strategies and their management</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Monitoring:</strong></td>
<td>3.61</td>
<td>.878</td>
<td>0.24</td>
</tr>
<tr>
<td>Detecting meaning through ongoing observation of environmental changes and trends</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Scanning:</strong></td>
<td>3.59</td>
<td>.901</td>
<td>0.25</td>
</tr>
<tr>
<td>Identifying early signals of environmental changes and trends</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Forecasting:</strong></td>
<td>3.85</td>
<td>1.053</td>
<td>0.27</td>
</tr>
<tr>
<td>Developing projections of anticipated outcomes based on monitored changes and trends</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Table 4.25 presents the order of priority. From it, it’s critical to first of all assess the environment to determine the timing and importance of environmental changes. After assessing the environment, it is important to monitor it by detecting meaning through ongoing observation of environmental changes and trends. Scanning is also important as it will help to identify early signals of environmental changes. After all is done, developing projections of anticipated outcomes based on monitored changes and trends are done through forecasting. Basic and mostly employed is assessment.

4.5.6 Organizational Success

Every firm or organization that engages in business has an aim of succeeding. However for it to do this and grow, various activities have to be put in clear focus. The study
sought to find the relationship between the various environmental activities and organization success. A correlation analysis was carried out to assess the significance of the environmental analysis on organization success. Table 4.26 presents these results.

**Table 4.26: Organizational Success**

<table>
<thead>
<tr>
<th>Scanning: identifying early signals of environmental changes and trends</th>
<th>Pearson Correlation</th>
<th>Sig. (2-tailed)</th>
<th>N</th>
</tr>
</thead>
<tbody>
<tr>
<td>Monitoring: Detecting meaning through ongoing observation of environmental changes and trends</td>
<td>0.406**</td>
<td>0.002</td>
<td>54</td>
</tr>
<tr>
<td>Forecasting: Developing projections of anticipated outcomes based on monitored changes and trends</td>
<td>0.278*</td>
<td>0.042</td>
<td>54</td>
</tr>
<tr>
<td>Assessing: determining the timing and importance of environmental changes and trend for the firm’s strategies and their management</td>
<td>0.443**</td>
<td>0.001</td>
<td>54</td>
</tr>
</tbody>
</table>

**. Correlation is significant at the 0.01 level (2-tailed).  
*. Correlation is significant at the 0.05 level (2-tailed).**

From table 4.26, all of the four (scanning, monitoring, forecasting and assessing) environmental analysis factors were found to be significant to the success of the organization at the level of **0.01**, indicating a very strong significant relation. Scanning is significant at (p<0.01, r=0.406**), Monitoring (p<0.05, r=0.278*), Forecasting (p<0.01, r=0.443**) and Assessing (p<0.01, r=0.391**).

**Table 4.27: Forecasting and Organizational Success**

<table>
<thead>
<tr>
<th>Forecasting: Developing projections of anticipated outcomes based on monitored changes and trends</th>
<th>Organization Success</th>
</tr>
</thead>
<tbody>
<tr>
<td>Not at all</td>
<td>Count</td>
</tr>
<tr>
<td></td>
<td>Count</td>
</tr>
<tr>
<td>Slightly</td>
<td>Count</td>
</tr>
<tr>
<td>%</td>
<td>9.30%</td>
</tr>
<tr>
<td>Somehow</td>
<td>Count</td>
</tr>
<tr>
<td>%</td>
<td>13.00%</td>
</tr>
<tr>
<td>Much</td>
<td>Count</td>
</tr>
<tr>
<td>%</td>
<td>46.30%</td>
</tr>
<tr>
<td>Very Much</td>
<td>Count</td>
</tr>
<tr>
<td>%</td>
<td>27.80%</td>
</tr>
<tr>
<td>Total</td>
<td>%</td>
</tr>
</tbody>
</table>

63
Table 4.27 shows that forecasting technique is much (74.1%) done in banking organizations to boost organizational performance. 3.7% of the banking organization doesn’t do forecasting at all while 9.3% of the banks slightly do forecasting technique.

Other techniques, according to respondents, of understanding external environment are by benchmarking and issue management. Researching on each country risk appetite and coming up with strategies to withstand the competition and stay afloat is also a technique to understand external environment.

**4.6 Chapter Summary**

This chapter presented the findings and results in accordance to the data provided by the respondents who were working in Ecobank Kenya Limited. The chapter provided analysis on the background information of the respondents. Under this we had the response rates, which showed that over 60% of the respondents participated in the study; the section also established that most of the respondents had undergraduate qualifications, majority with their ages ranging between 25-35 years.

The next section, which covered objective one, provided analysis on the external factors that affected firms’ performance. Factors that were of critical significance were the need to comply with statutory regulations, need to continuously invest in new equipments, expected social changes that manifest in customer preferences, tastes and attitudes. Political and legal factors were also found to so much affect the business operating environments and therefore the general banks performance. Finally, abrupt rapid changes in ICT and threat of entry by other banks into the Kenyan markets were the other factors that were found to impact on the external environment within which banks operate in.

Objective two provided analysis on strategic responses that are employed by Ecobank Kenya Limited. Various strategic responses were analyzed. Diversification and restructuring were found to be so much employed by the bank. On collaborative strategies, acquisition was the most commonly strategy used by the bank.

The last objective provided analysis on the best practices that could be employed by Ecobank Kenya during turbulence times. Major observation made was that type/level of uncertainty in the business environment determines the responses that organizations make
to survive. Also found out was that the bank’s success in any turbulent environment entirely depends on whether it has controls to mitigate on risks, adequate financial controls and finally whether it has programs geared at improving the capacity of its manpower. This section shed light by clearly showing the importance of conducting an environmental analysis. By so doing, the bank is able to assess, monitor, and scan before they can finally forecasting any realistic goal they intend to achieve. The next chapter provides the summary, discussions, conclusions and recommendations.
CHAPTER FIVE

5.0 DISCUSSION, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

The main purpose of this study was to examine the external competitive environment that Ecobank Kenya Limited operates in and find out how it affects the bank’s performance and how the bank responds to the turbulence in the industry. This chapter therefore covered a summary of the main elements of the research and discussions of the findings obtained based on each of the three specific objectives. It also covered the conclusions that were deduced as well as recommendations for improving research on each objective as well as provided recommendations for future research on the subject matter of the research.

5.2 Summary

The main purpose of this study was to examine the external competitive environment that Ecobank Kenya operates in and how the bank responds to the turbulent industry. The specific objectives were: to determine the external competitive factors that affect Ecobank Kenya’s performance, to establish the strategic responses which have been employed by Ecobank Kenya and to suggest best practices/tools that can be used by the bank in turbulent times.

The researcher collected data from Ecobank Kenya’s management and non-management staff based at the bank’s head office in Nairobi. The study used a sample size of 55 Ecobank Kenya’s head office staff, 20 from the management and 35 from non-management positions. This population was arrived at based on the respondents who were willing to participate in the study; more so, the convenience of finding them was also a factor that was considered. Primary data was collected through the use of semi-structured questionnaires. The administration of the questionnaires was by hand delivery. The researcher drew the findings and conclusions from these statistics through calculations of means, median, mode, standard deviations, frequency distributions, cross-tabulations, correlations and analyses of variance (ANOVA). This was done through the use of Statistical Package for Social Sciences (SPSS) software for drawing an analysis of the data, tabulation of data and for the pictorial representation of data.
The external environmental factors that cause turbulence and affect bank performance as indicated in the findings include: unstable political environment, government regulations, liberalization of the financial sector-interest rate determined by market forces, increased change in customer tastes, abrupt changes in ICT, threat of entry into the banking industry, political and legal factors. Findings indicate that complying with statutory regulations is very significant within the banking industry. The statutory regulations compel the bank to invest in new technology and advance its systems in order to survive technological changes. The findings also indicated that there is a strong relationship between bank competition and new products. Competition from foreign and domestic banks brings to the market new products that eventually change customer’s tastes, attitudes and perceptions from the already existing products.

In response to the turbulence in the environment, the findings indicate that responses such as diversification, restructuring, product development, creation of new market, collaborative strategies (strategic alliances, business acquisition) were used strategically in response to the changing business environment. Findings indicate that in times of environmental turbulence and uncertainty, it is significant to assess the current position of the business before setting future direction or strategies. The findings from the study have also established that 50% of the respondents were in agreement that the type of uncertainty in the environment determines the responses made by the organization in a bid to ensure survival.

5.3 Discussion

5.3.1 External Competitive Environment and Firm Performance

Forty six percent (46%) of the bank’s performance can be attributed to variables such as interest rates, changes in customer tastes and government regulations ($R^2$ Value =0.463). After a pre-cursor analysis to determine the most statistically significant relationship, the computed results used to compare means between the variables indicated that the regression model predicted the outcome variables significantly well ($P=0.000$, $<0.01$). These findings are in agreement with Pearce and Robinson (2009) who say that laws and regulations are commonly restrictive and they tend to reduce potential profits. Ireland et al (2013) argue that societal factors such as attitudes, opinions and lifestyles of customers affect firm performance. More consistent evidence is revealed in the findings of Chiuri,
Ferri and Majnoni (2002) which state that the obligation of capital regulation on banks led to a decrease in the supply of loans and consequently reduced the total lending. On the contrary, Kane (2012) disagrees and argues that banking regulations can increase customer confidence which in turn may lead to customer loyalty and consequently good bank performance. Findings from the study indicate that the performance of the bank is dependent on the economy. 46.3% of the bank’s performance can be attributed to interest rates, inflation and other variables. This finding is in agreement with the findings of Boyd and Champ (2003) who argue that inflation affects the economic development of a nation through the banking sector by reducing the amount of credit available for borrowing by businesses and individuals. The findings implies that the nature and direction of a country’s economy can affect the performance of a firm and it is therefore imperative that managers must continually consider economic trends that would affect them. 78% of the respondents believe social factors such as changes in customers’ tastes, preferences and lifestyle influence bank performance. A report by Ernst & young (2012), is in support of the foregoing. The findings therein established that consumer are taking control of their banking relationships, they are shifting bank loyalty by the minute, changing their behavior and demanding improvement in services and product offerings. This therefore means that when making decisions about products and services offered to customers, they are an important group to consider. Findings by Sarker, Bose and Khan (2012) determined that a bank needs to prioritize the provisions of high quality service to their consumers as this will help them gain positive attitude from their clients.

The findings indicate a significant relationship between legal factors and technological factors. This implies that statutory regulations compel the banks to invest in new technology and advance their systems to survive through technological changes. This would enable the banks register profits as technology will help to cut down on certain costs. Ireland et al (2013) supports this finding that adopters of technology often achieve higher market share and earn high returns. Further findings indicate that - as the experience grow to above ten years, 60% of the respondents believe that the organization should cope with the technological change. This implies that employees with more experience know what the organization need to change and why it should change to remain competitive than those employees who have stayed for less than a year. Pearce and Robinson (2009) in support of this findings state that companies operating in
turbulent environments must continuously scan their external environment, to identify new emerging technologies that could give them a competitive edge. On the contrary, Mishra and Sahoo (2013) disagree, they argue that the introduction of technology in banking has denied customers direct relationships with their managers and these customers may be dissatisfied in the long run.

Upon computation of three measures of association; Pearson product moment correlation coefficient, Kendall tau-b rank correlation coefficient and Spearman’s rank correlation coefficient analyses, there is a statistically significant relationship between competition and new products. The correlation between the two was significantly positive, implying that competition in the market place would push banks to develop new products in a bid to stay ahead. This finding is in tandem with Porter (2008)’s finding that rivalry among existing firms in an industry would take the form of new product introduction.

5.3.2 Strategic Responses Employed by Ecobank Kenya

Findings from the study show that in response to the turbulent environment, Ecobank Kenya has aggressively undertaken diversification from the conventional banking methods, as indicated by 88% of the respondents. This implies that the bank is willing to take risk and trade in sectors that it does not necessarily have core competences. Jobber (2011) says that diversification is a risky growth strategy since it may be outside the core competences of the firm. 43% of the respondents believe that diversification has achieved success for the firm. This is confirmed by Ireland et al (2013)’s findings that diversification strategies can lead to strategic competitiveness and above-average returns. Jobber (2010) also agrees that it can be very rewarding, in as much as it is a risky venture. On the other hand, 17% of the respondents believe that diversification has not been as rewarding. This could mostly be attributed to the fact that the firm is trading on unfamiliar grounds and the risks of failure are inevitable. This is confirmed by Wowak and Hambrick (2010)’s findings that if a firm’s governance mechanism is not strong the managers can diversify the firm to the point that it fails to earn average returns.

The findings of the study show that 48% of the respondents in Ecobank Kenya agree that the bank has undertaken product development. The findings show that product development had a positive impact to the bank. Through product development, the bank was able to widen their target markets, met the current needs of their customers, led to
product improvement and product growth. This finding is tandem with Etzel, Walker and Stanton (2007)’s findings that organizations develop new products for their existing market in order to give its target market a greater variety to choose from. The product development strategy also brought new products that fit the market, increased business portfolio for more revenue and improved bank’s performance. This finding implies that the bank is making significant investments in the firm’s resources including time. This also shows the bank’s commitment to stamp its footprint in the Kenyan market by offering their customers variety and quality.

The findings indicate that the bank has responded aggressively to the changing environment by creating new markets. 42% of the respondents agree that the bank has undertaken market creation. The findings show that creation of new markets helped to expand organization’s customer base by tapping into previously untapped markets in institutions of higher learning, county governments and use of agency banking to reach the larger population. This finding is in tandem with the finding of Perreault, Cannon and McCarthy (2011) who argue that firms try to improve their sales by selling current products and services in new markets. The strategy also helped to acquire new customers, improved business outcomes, increased visibility, liability and asset base. Creation of new markets helped to expand business networks making sure that many customers are reached and product portfolio and revenues are increasing.

In the study, 6% of the respondents agree that the bank has undertaken downsizing. From the findings, downsizing brought in an idea of combining units and resources (lean team concept), costs control/optimization, diaspora banking and alternative channels, employee redeployment and profit maximization. This finding contradicts the findings by Ireland et al (2013) that downsizing does not necessarily lead to good performance. 4% of the respondents agree that the bank has undertaken divestment as a way of strategically responding to the changing business environment. From the findings, it is evident that divestment helped to save cost, reduced traffic in the banking hall and stabilized financial statements of the banks. This finding is in tandem with Bergh and Lim (2008)’s finding that divestment has a positive impact on the performance of a firm since it enables an organization to concentrate on its core business.
5.3.3 Best practices/ tools in Turbulent Times

Findings indicate that in time of environmental turbulence and uncertainty, it is significant to assess the current position of the business before setting future direction or strategies. The findings from the study have also established that 50% of the respondents were in agreement that the type of uncertainty in the environment determines the responses made by the organization in a bid to ensure survival. This finding is in agreement with Perrot (2011)’s finding that the manner in which the organization formulates and implements strategy must be informed by the level of turbulence.

From the study, the findings have determined that it is paramount to align the bank’s strategies to match the environmental turbulence. This finding concurs with the findings of Ansoff and McDonnell (1990) which states that in order to achieve optimal return on investment, a firm strategies must be aligned to the environmental turbulence. Fifty percent (50%) of the respondents believe that the bank has the capability of matching its strategies to the kind of uncertainty in the environment. Findings of Ansoff and McDonnell (1990) indicate that matching general management capability to the organization’s strategies is a prerequisite to achieving optimum return on investment.

For any organization to survive in a turbulent environment it must have adequate measures in place to ensure survival and optimum returns. This study endeavored to establish the relationship between a dependent variable – success in turbulent environment and three independent variables – controls to mitigate risks; adequate financial measures and capacity building. A model summary analysis revealed an R square value as 0.777. These findings implies that 77.7% of changes in success in turbulent is attributed to changes in controls to mitigate risk, adequate financial measures and capacity building. These findings concur with the findings of Ansoff and McDonnell (1990); Burnaby and Hass (2009) and Pearce and Robinson (2009). According to Burnaby and Hass (2009), organizations are faced with a myriad of risks which if not well identified and controlled may lead to business failure or lost revenues. On the contrary, Chavan (2009) disagrees with this finding and argues that overdependence on financial measures stimulates short-term actions which sacrifices long-term value addition and creation for short-term performance.
Findings from the study indicate that environmental analysis is significant for organizational success. The results determined that four factors (scanning, monitoring, forecasting and assessing) in environmental analysis were found to be significant to the success of an organization at level 0.01, indicating a very strong and significant relationship. Scanning is significant at \( p<0.01, r=0.406^{**} \), Monitoring \( p<0.05, r=0.278^{*} \), Forecasting \( p<0.01, r=0.443^{**} \) and Assessing \( p<0.01, r=0.39^{**} \). There is enough empirical literature to support these findings. Choo (2001) argues that in order to improve performance in the future and to understand the external forces of change, organizations should participate in environmental scanning. Jelonek (2006) also concurs and argues that scanning enhances a firm’s ability to capitalize on early opportunities thereby leading to better firm performance. Moon, Mentzer, Smith and Garver (1998)’s findings indicate that accurate forecasting enables a company to provide high levels of customer service and consequently ensuring success. Ireland et., al (2013) argue of the significance of assessment in environmental analysis. Their findings support the findings of this study that without assessment an organization is left with data of unknown competitive relevance.

5.4 Conclusions

This section presents the conclusions to the findings of the study

5.4.1 External Competitive Environment and Firm Performance.

The environment consists of factors and conditions; some of which are beyond the firm’s control, and consequently influences the firm’s strategic choices and its competitiveness in the industry. The external factors that affected the performance of Ecobank Kenya Limited included but not limited to Political, Economic, Social and Technological. The operations of the bank under study was affected by abrupt and spontaneous changes in Information and Communication Technology, Government regulations through the Central Bank of Kenya, the industry rivalry – cut throat competition in the banking industry, changing consumer preferences and tastes and emerging economic trends.

5.4.2 Strategic Responses Employed by Ecobank Kenya

Firms operating in turbulent environments must continuously forecast and predict changes and consequently develop strategies to cope in the environment in addition to closely monitoring the changing conditions. Managers need to be proactive and develop
strategic responses that will assist their organization to navigate through turbulence in equal measure. Every level of turbulence is unique and requires a distinctive strategic response. What worked previously may not necessarily work in a different level of turbulence. Therefore, a company’s directors must be alert to formulate and implement strategies that would ensure optimum return on investment even in an economic and financial crisis.

5.4.3 Best practices/ tools in Turbulent Times

Best practices help organization to rise above the norm and shine above their peers. Organizations that would endeavor to align their strategies and management capability to the changes in the environment are destined to achieve optimum return on their capital investment. Focusing entirely on financial measures is a recipe for disaster. Firms need to intentionally involve their human capital in all level when making decision that would affect the employees, training and constantly motivating employees. Operational excellence is paramount, especially in processes and systems not withstanding customer satisfaction.

5.5 Recommendations

5.5.1 Recommendations for Improvement

5.5.1.1 External Competitive Environment and Firm Performance

Focus and attention can be directed towards research on how specific industry changes and dynamism affect banks’ performance. There is also need to determine how the internal environment can contribute to the profitability or failure of banks. More research can also be done to establish banks’ continued existence even with the emergence of substitute products in the market.

5.5.1.2 Strategic Responses Employed by Ecobank Kenya

More research can be done to establish the impacts of the strategic response undertaken by banking institutions and whether they play a significant role in determining an organization’s relevance and profitability in the ever turbulent business environment.
5.5.1.3 Best practices/ tools in Turbulent Times

More research can be done to determine other best practices that could be employed by banks to ensure survival in turbulent times and how benchmarking in the banking industry can enable banks to achieve optimum return on investment even in changing and complex environments. This will ensure that banks are constantly in check to provide quality products and services that could guarantee them business even with the fierce competition from micro-finance organizations.

5.5.2 Recommendations for further studies

Whilst this study focused on the responses from the employees of Ecobank Kenya Limited, further studies should focus attention on the responses of customers in turbulent times. This would in turn shed more light to bank managers on the behaviors of their clients. Moreover, it would be important for researchers to replicate this study to other sectors of the economy such as education; agriculture; transport, it would be necessary to find out they respond to turbulence in business environment.
REFERENCES


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APPENDICES

APPENDIX I: LETTER OF INTRODUCTION

October 2013

Dear Respondent,

RE: REQUEST FOR RESEARCH DATA

I am a Master of Business Administration (M.B.A) student at the United States International University - Africa. I am required to submit as part of my course work assessment, a research report on “STRATEGIC RESPONSES BY THE KENYAN COMMERCIAL BANKS TO THE ENVIRONMENTAL TURBULENCE: A CASE STUDY OF ECOBANK KENYA LIMITED”.

To achieve this, your organization is one of those selected to generate data required for this study. This information will be used purely for academic purpose and your name will not be mentioned in the report. Findings of the study shall upon request be availed to you.

Your assistance and cooperation will be highly appreciated.

Thank you in advance.

OCHIENG CHARLOTTE AWUOR
MBA STUDENT - RESEARCHER
UNITED STATES INTERNATIONAL UNIVERSITY - AFRICA
APPENDIX II: QUESTIONNAIRE

Data collected in this survey is intended for academic purposes only and will be used in partial fulfillment of an MBA research project to examine the strategic responses undertaken in the Kenyan banking industry and how banks respond to the turbulent industry and are still able to thrive. All information gathered will be handled with the strictest of confidentiality. There are 4 sections.

Part One: General Information

Please tick the most appropriate

1. Age
   18-24 [ ]
   25-35 [ ]
   36-45 [ ]
   46-55 [ ]
   Above 55 [ ]

2. Gender
   Male [ ]

Female

3. Highest level of Education (tick one)
   - Diploma [ ]
   - Undergraduate [ ]
   - Graduate [ ]
   - Others (Please specify) ________________________________

4. Years of experience in the industry?
   - 0-1 year [ ]
   - 2 - 4 years [ ]
   - 5 – 7 years [ ]
   - 8 – 10 years [ ]
   - Above 10 years [ ]

5. Designation/title __________________________________________________________________________
Part Two: External & Competitive Environment and How It Affects Firm Performance

To what extent do you agree with the following statements as regards external factors that affect your firm’s performance? Using a scale of 5 – 1 tick the appropriate answer from the alternatives provided for each of the questions. 5. Strongly Agree 4. Agree 3. Uncertain 2. Disagree 1. Strongly Disagree

<table>
<thead>
<tr>
<th>Environmental factors</th>
<th>Rating</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Strongly agree (5)</td>
</tr>
<tr>
<td><strong>Political/Legal factors</strong></td>
<td></td>
</tr>
<tr>
<td>We do not operate in areas affected by conflicts</td>
<td></td>
</tr>
<tr>
<td>We comply with government statutory regulation with ease</td>
<td></td>
</tr>
<tr>
<td>We are negatively affected by the political uncertainty and instability</td>
<td></td>
</tr>
<tr>
<td><strong>Economic factors</strong></td>
<td></td>
</tr>
<tr>
<td>We adjust our lending rate depending on the changes in the market interest rates</td>
<td></td>
</tr>
<tr>
<td>We seek to operate/compete in markets with relatively stable economies</td>
<td></td>
</tr>
<tr>
<td>Because of the changing consumption patterns in the industry, we continually consider economic trends that would affect our business</td>
<td></td>
</tr>
<tr>
<td><strong>Social factors</strong></td>
<td></td>
</tr>
<tr>
<td>The increased change in customer tastes, attitudes and perceptions has led us to adopt new products</td>
<td></td>
</tr>
<tr>
<td>We make informed estimates/forecasts of the expected social changes that could affect our business e.g ethical standards, religious orientations, changing work values</td>
<td></td>
</tr>
<tr>
<td><strong>Technological changes</strong></td>
<td></td>
</tr>
<tr>
<td>We continuously invest in new equipment and upgrade our systems in order to cope with technological changes</td>
<td></td>
</tr>
<tr>
<td>We continuously build capacity of our staff to ensure our organization adapts to any changes in the environment</td>
<td></td>
</tr>
</tbody>
</table>
Please state any other factor (not included above) which in your view affect the business of your bank

To what extent have the following factors affected performance and operations at your bank?

(Tick as appropriate)

<table>
<thead>
<tr>
<th>External factors</th>
<th>Rating</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Very much (5)</td>
</tr>
<tr>
<td>An unstable political climate</td>
<td></td>
</tr>
<tr>
<td>Liberalization of the financial sector – interest rates determined by market forces</td>
<td></td>
</tr>
<tr>
<td>Abrupt and rapid changes in Information and Communication Technology (ICT)</td>
<td></td>
</tr>
<tr>
<td>Aggressive competition and fierce rivalry from other banks</td>
<td></td>
</tr>
<tr>
<td>Threat of entry by other banks (foreign and domestic) into the Kenyan market</td>
<td></td>
</tr>
<tr>
<td>Rising number of substitute products/services in market such as ‘m-pesa’ and ‘m-shwari’</td>
<td></td>
</tr>
<tr>
<td>Bargaining power of customers – their demand for low pricing and quality services or more services</td>
<td></td>
</tr>
</tbody>
</table>

Please state any other factor (not included above) which in your view affect the business of your bank

________________________________________________________________________
________________________________________________________________________
________________________________________________________________________
Part Three: Strategic responses that have been employed by Kenyan Commercial Banks to cope with the changes in the business environment.

1. Diversification

   (i) Have there been any additions of business acquisition to the banking services distinct from the known traditional services?
       Yes ( )   No ( )

   (ii) If Yes please describe the nature of the new business acquisition

   (iii) To what extent have the objectives of the acquisition been met?

       | Very Large Extent | Very Small Extent |
       | 5 | 4 | 3 | 2 | 1 |
       | ( ) | ( ) | ( ) | ( ) | ( ) |

2. Restructuring.

   (i) Have there been any corporate restructuring of the business units?
       Yes ( )   No ( )

   (ii) If Yes please describe the nature of the restructuring

   (iii) What were the objectives of the restructure

   (iv) To what extent have the objectives of the restructuring been met?

       | Very Large Extent | Very Small Extent |
       | 5 | 4 | 3 | 2 | 1 |
       | ( ) | ( ) | ( ) | ( ) | ( ) |

3. Have you undertaken any of the following activities in the recent times?

<table>
<thead>
<tr>
<th>Yes</th>
<th>No</th>
</tr>
</thead>
<tbody>
<tr>
<td>Product development</td>
<td>( )</td>
</tr>
<tr>
<td>Divestment</td>
<td>( )</td>
</tr>
<tr>
<td>Downsizing</td>
<td>( )</td>
</tr>
<tr>
<td>Creating new markets</td>
<td>( )</td>
</tr>
</tbody>
</table>
4. From the statement below tick one strategy that best describes your institution.

   a) We strive to achieve low cost leadership (  )
   b) We strive to achieve market uniqueness about products and services (  )
   c) We focus on specific group of a specific market segment (  )

5. Have you undertaken any of the following collaborative strategies in the last 10 years?

   Entered a strategic alliance         Yes   No
                                              (  )   (  )

   Entered into a merger                (  )   (  )

   Acquired a company                   (  )   (  )

   Licensing and franchising            (  )   (  )

   Other ........................................

If yes please describe the nature of the strategies

............................................................................................................
Part Four: Best Practices /tools that can be employed in turbulent times
Using a scale of 1 – 5 tick the appropriate answer from the alternatives provided for each of the questions. 5. Strongly Agree 4. Agree 3. Uncertain 2. Disagree 1. Strongly Disagree

<table>
<thead>
<tr>
<th></th>
<th>Rating</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>We match the capability of our management/employees to the changes in the environment</strong></td>
<td></td>
</tr>
<tr>
<td><strong>Our bank’s capability is responsive to the environmental changes</strong></td>
<td></td>
</tr>
<tr>
<td><strong>Our bank’s capability matches the set strategies</strong></td>
<td></td>
</tr>
<tr>
<td><strong>We have aligned our strategies to fit/match the environmental turbulence</strong></td>
<td></td>
</tr>
<tr>
<td><strong>In times of environmental turbulence and uncertainty, we assess the current position of the business before setting future direction or strategies.</strong></td>
<td></td>
</tr>
<tr>
<td><strong>The level/type of uncertainty in the environment determines the response our organization makes in order to survive</strong></td>
<td></td>
</tr>
<tr>
<td><strong>We have well defined controls to mitigate risks</strong></td>
<td></td>
</tr>
<tr>
<td><strong>We are continuously improving and creating value for our customers</strong></td>
<td></td>
</tr>
<tr>
<td><strong>We solely rely on financial measure/ indicators to determine our performance as an organization</strong></td>
<td></td>
</tr>
<tr>
<td><strong>We continuously build capacity of our staff to ensure that the organization is able to adapt to any changes in the environment</strong></td>
<td></td>
</tr>
<tr>
<td><strong>We continuously improve our processes and upgrade our systems in order to attain operational excellence</strong></td>
<td></td>
</tr>
<tr>
<td><strong>We continuously invest in new processes to upgrade our systems in order to attain operational excellence</strong></td>
<td></td>
</tr>
</tbody>
</table>
Please state any other tool/practice (not included above) which in your view is a best practice

________________________________________________________________________

Kindly indicate below how often you undertake the following activities to understand the external environment in an effort to manage unpredictability.

<table>
<thead>
<tr>
<th>Environmental Analysis</th>
<th>Rating</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Very much (5)</td>
</tr>
<tr>
<td>Scanning: identifying early signals of environmental changes and trends</td>
<td></td>
</tr>
<tr>
<td>Monitoring: Detecting meaning through ongoing observation of environmental changes and trends</td>
<td></td>
</tr>
<tr>
<td>Forecasting: Developing projections of anticipated outcomes based on monitored changes and trends</td>
<td></td>
</tr>
<tr>
<td>Assessing: determining the timing and importance of environmental changes and trend for the firm’s strategies and their management</td>
<td></td>
</tr>
</tbody>
</table>

Please state any other activity (not included above) which in your view you undertake, in an effort to understand the external environment in an effort to manage unpredictability

________________________________________________________________________

________________________________________________________________________

________________________________________________________________________

Thank You!
## APPENDIX III: TITLES OF PARTICIPANTS

<table>
<thead>
<tr>
<th>Title</th>
<th>Count</th>
</tr>
</thead>
<tbody>
<tr>
<td>Credit analyst</td>
<td>3</td>
</tr>
<tr>
<td>Relationship manager</td>
<td>7</td>
</tr>
<tr>
<td>Intern</td>
<td>5</td>
</tr>
<tr>
<td>Contact centre officer</td>
<td>2</td>
</tr>
<tr>
<td>Manager</td>
<td>11</td>
</tr>
<tr>
<td>Sales agent</td>
<td>2</td>
</tr>
<tr>
<td>Head of Credit Operations</td>
<td>1</td>
</tr>
<tr>
<td>Operations</td>
<td>4</td>
</tr>
<tr>
<td>Marketer</td>
<td>1</td>
</tr>
<tr>
<td>Officer Assistant</td>
<td>3</td>
</tr>
<tr>
<td>Legal officer</td>
<td>3</td>
</tr>
<tr>
<td>Corporate Banking</td>
<td>1</td>
</tr>
<tr>
<td>Customer analyst</td>
<td>1</td>
</tr>
<tr>
<td>CAD</td>
<td>1</td>
</tr>
<tr>
<td>Chanel senior officer</td>
<td>1</td>
</tr>
<tr>
<td>Communications executive</td>
<td>1</td>
</tr>
<tr>
<td>Sales and Acquisition Manager</td>
<td>1</td>
</tr>
</tbody>
</table>