

Factors Affecting the Choice and Adoption of Business Strategies in Financial Sector: A Survey of Banking Institutions in Eldoret Kenya

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Abstract

Poor choice of strategies costs many organizations millions of dollars, On other hand, the good choice of strategy which is implemented and monitored badly is likely to born bad results at the end. For example a good choice of outsourcing strategy accompanied by lack of funds to support this program will be futile. This study sought to examine factors influencing adoption of business strategies in financial institutions using a survey of commercial banks in Eldoret Town Kenya. The objectives of this study was to determine the relationship between corporate culture and strategic orientation, to assess the relationship between industry competition and strategic orientation, evaluate the relationship between resources and strategic orientation and to examine the relationship between organizational structure and strategic orientation in the Banking Institutions within Eldoret town.

The study was carried out on all banks in Eldoret and five management staff were selected randomly from five sections within each bank to participate in the study and this yielded 75 respondents. The collected data was coded and analysed using both quantitative and qualitative techniques with help of SPSS. Inferential statistics were used to test the significance of findings i.e. t-test and regression analysis.

The findings of this study revealed that there is significant relationship between corporate culture and business level strategic orientation within the banking sector and that organizational structure influence the choice and adoption of business level strategies in the banking institutions. It also showed a significant correlation between industry competition and strategic orientation and .finally, resources were found to be a major factor influencing the business level strategies in the banking institutions. The findings will benefit both banks and other financial institutions in identifying the factors suitable for business performance.

Keywords: SWOT Analysis, Strategic Planning, Strategy Meetings/Workshops, Benchmarking, Porter's 5 Forces Model, Balance Scorecard, Value chain analysis, PESTEL analysis, Core Competencies, Scenario Planning, BCG Matrix, Outsourcing, Change Management Programs, Strategic alliances, Stakeholder mapping.

1.0 INTRODUCTION

1.1 Background of the study

The choice and use of any strategic tool are influenced by many factors. This includes among others, the availability of resources i.e. finances, and time and personnel required which do vary from one strategy to the other hence making it a fundamental factor determining the choice of strategy. Organization structure is another pertinent factor that influences the choice of strategy. Corporate culture can inhibit or enhance the choice and implementation of business strategy as well as manager's knowledge and attitude and industry competition which sometimes tends to push companies to act in certain ways to remain competitive.

1.2 Statement of the problem

There are many benefits of proper selection and use of business management strategies in banking industry. The importance and perceived benefits of tool usage is prominently high in the banking world. They assist in communication and co-ordination in complex and adaptive situations (Clark, 1997). However, they can also complicate information sharing between top and middle management besides being used as a means for flexing one's political power. As a result circumstances under which tools are employed can sometimes be manipulated to achieve managers' personal objectives.

Although strategy tools are being taught in many business schools there is an absence of in-depth information regarding the choice and extent of their usage. There is a mismatch between practical relevance and academic theory that spurred the curiosity of the researcher in this study to examine the pertinent factors affecting strategy adoption in banking environment. In practice, users are not using strategy tools for the purpose in which they have been developed hence research is necessary to establish reasons behind this revelation.

Furthermore, there is a greater variation in tool usage among banks. Factors leading to variations in tool usage in banking institutions have not been extensively researched on in Kenya. This study therefore attempts to address these issues by analyzing factors believed to affect the choice of strategies in banking sector.

1.3 Study objectives

The general objective was to identify pertinent factors that influence the choice and adoption of business

strategies in financial industry in a survey study of banking institutions in Eldoret town Kenya.

1.3.1 The Specific Objectives include

This study is guided by the following objectives

1. To assess the impact of corporate culture on choice of business strategies in banking institutions
2. To evaluate the influence of competition in the financial sector and the choice of business strategies
3. To examine any connection between organizational resources and selection of business strategies.
4. To examine the influence of organizational structure on formulation of organizational strategy.

1.4 Research Hypothesis

The following are research questions that will be answered at the end of the study:-

H0: There is no relationship between corporate culture and organizational strategies

H0: There is no relationship between finance and company choice of strategies

H0: There is no relationship between resources and strategic choice in banking institutions

H0: There is no relationship between organizational structure and strategy selection

1.5 Significance of the Study

The beneficiary of this study includes the banks, customers and academicians. To banks the findings will help them understand factors that should influence the choice and adoption of banking strategies. Customers will benefit from improved management using best strategy tools by the bank management. Since very little research has been done in this field in Kenya, academicians will use the findings of this study as reference material for further research.

2.0 LITERATURE REVIEW

2.1 Theoretical review

Strategy is seen as a means of direction and scope that helps to channel the course for organizations to achieve a competitive advantage in its changing environment. Traditionally, strategy was seen as something organizations have. Recent research on strategy has taken a practical stance as compared to the theoretical stance of the past (Singer, 2008., Rigby and Bilodeau, 2007). This stance reflects the critical choices about who to involve in strategy, what to do in strategizing activity, and which strategizing methodologies to use in order to guide this activity.

2.2 Strategy

Mintzberg (1994) presented five different points of reference for strategy which he labelled the 5P's for strategy: plan, ploy, pattern, position, and perspective. Quite often strategy is seen as a plan or an intended course of action planned and pursued to achieve given outcomes. However, organizations may also use strategy as a ploy to manipulate or distract its competitors. Nonetheless to develop a better understanding of the direction organizations follow or have been following it is wise to review the consistency in behaviour. This approach to strategy is known as strategy as a pattern, it can be both intended (deliberate) and unintended (emergent). Because organizations operate in different environments, strategy can often be used as a means to match the organization with its environment.

Strategy as a position allows managers to position organizations in an environment where resources are concentrated. It is noted that based on this definition of strategy, "strategy can be compatible with either (or all) of the preceding ones; a position can be reselected and aspired to through a plan (or ploy) and/or it can be reached, and perhaps even found, through a pattern of behaviour". Finally, strategy as a perspective denotes that strategy can also be seen as a concept. When organizations employ strategy as a perspective, "perspective is shared by members of the organization through their intentions and/or actions" (Mintzberg et al, 2003). In essence, strategy as a perspective is associated with "image and sense of direction, namely vision" that is created or expressed by the leader (Mintzberg et al, 2003).

Looking at strategy from Mintzberg's definition it becomes clear that strategy formation is complex. However, developing strategy is only the first step, what happens in the decision making and implementation stages can change the intended direction of strategy.

Ohmae (1982) notes "successful business strategies result not from rigorous analysis but from a particular state of mind." Even though strategists do not work without conducting analysis, this is only done to stimulate the creative process, to test ideas that emerge and to determine any strategic implications or to ensure the successful implementation ideas that may otherwise be poorly implemented.

Accordingly, strategic management can serve as a map which helps achieve milestones and to clarify the right strategy (O'Shannassy, 2001). Consequently, strategists should be familiar with the various concepts available to them and should narrow their focus to a specific sub-model that is most appropriate to their situation. Therefore there is a need to fully analyze a given situation before strategic decisions are made, pursue and implement strategic decision, implement adequate planning processes and finally when using new business concepts develop an understanding of them before apply them to a practical situation (Porters, 1985).

2.3 Business Strategies

These strategies and strategic tools are marketing strategies such as market development and penetration strategies, benchmarking, fact-finding/environmental scanning, SWOT analysis, strategic planning, Porter's 5 Force Model, Balance Score Card, Value Chain Analysis, PESTEL analysis, Core Competences, Scenario Planning BCG Matrix, Change Management and pricing strategies. However these strategies are used under different circumstances and their usages are influenced by various factors which vary from one organization to the other (Porters, 1980). These factors include the structure of the firm, corporate culture, industry competition, finance and time used in formulation of these strategies.

It may be argued that while analysis is good, analysis alone seldom produces strong strategy. Managers' ability to make sense of the information acquired through analysis also plays a significant role in strategy development. O'Shannassy (2003) notes that while sense-making may not always result in action it can influence managers' understanding that action should not be taken or that a better understanding of an event is needed. Therefore, sense-making quite often plays a role in the strategizing process

2.4 Banking Strategies

While the mission, vision and general strategy statements may vary, most banking strategies tend to concentrate on resource allocation, growth, employee satisfaction, increase in shareholders wealth and customer satisfaction (Rigby, 2001). The management of these strategies makes a significant difference in the bank's performance. Although some traditional banks enjoy competitive advantage based upon long-standing reputation this trend is quickly being eroded by other banks that have strategically positioned themselves through adequate marketing and resource allocation. Bankers must therefore decide when to pursue opportunities for profit and when to adopt traditional business that are mainly geared towards looking for corporate customers

2.5 Factors affecting selection of strategies

The choice and the intensity of use of any strategic tool are influenced by many factors. This includes among others, the availability of resources i.e. finances, and time and personnel required which do vary from one strategy to the other hence making it a fundamental factor determining the choice of strategy. Organization structure is another pertinent factor that influences the choice of strategy. Corporate culture can inhibit or enhance the choice and implementation of business strategy as well as manager's knowledge and attitude and industry competition which sometimes tends to push companies to act in certain ways to remain competitive.

O'Shannassy (2003) notes managements' strategic thinking abilities originate from instinct and analytical understanding regarding the future of the organization. For banks to achieve its vision and move towards its strategic intent, a critical requirement for success and progress is to gain support from sectional heads in the development and implementation of strategic activity. Banks' management plays a critical role by ensuring that they survive in an environment where industry competition affects all their activities (Rigby, 2001).

2.3 Conceptual Frameworks

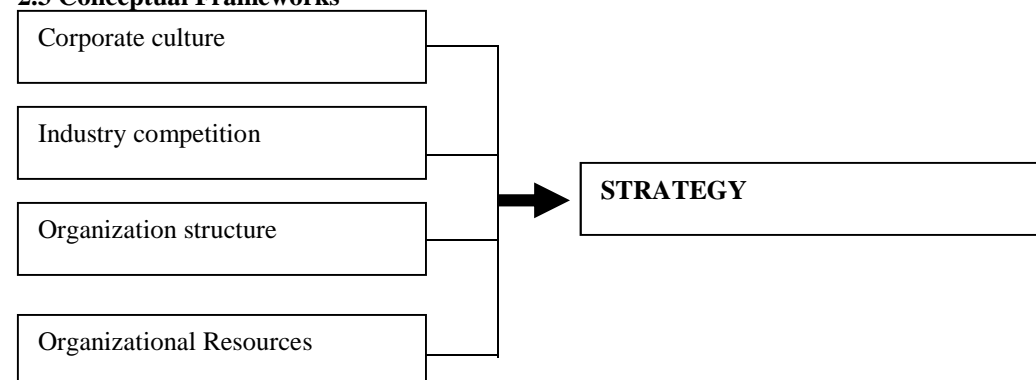


Figure 2.1: Factors affecting strategic choice and adoption

3.0 RESEARCH METHODOLOGY

3.1 Research Design

Since the purpose was to determine the factors that influence strategic orientation in banking industry from the manager's perspective quantitative research was found to be more appropriate for this study. Descriptive research design was adopted in this study and both secondary and primary data was used in the study.

3.2 The Population of Study

The target population was bank managers and units of study consisted of all banks operating in Eldoret town. The study surveyed bank employees in the managerial positions.

3.3 Sample Size and Sampling Method

This was a survey study of banking institution's management staff in Eldoret town and investigated their perception on factors influencing strategic selection and adoption in their organizations. The survey of all fifteen

banks in Eldoret town was conducted and five management staff from each bank was selected. The five respondents consisted of the heads of the following sections/ departments: finance/accounts, credit or advances, customer service, marketing department and Auditing and system maintenance. This comprised the elements of study, and 75 section heads were selected and used as study respondents. However only 60 of the sampled respondents satisfactorily filled and returned the questionnaires that used to analyze the study.

3.4 Data Collection tools and administration

Primary data was collected through oral interview, personal observations, and self administered structured questionnaires served to management staff in various departments. Questionnaires were given more emphasis because of its flexibility and convenience especially for those respondents who hardly ever have enough time during office hours to attend to non business issues. Seventy five (75) questionnaires were distributed out of which sixty (60) were filled and returned to the researcher constituting eighty (80%) percent response rate.

The secondary data was obtained from internal publications, company reports, and manuals end year publications, personnel manuals and journals. Documentary sources however, mainly served to provide complimentary information (factual and historical) for the study.

3.5 Data Analysis

There are two types of data that was collected and analyzed namely primary and secondary data. Data was edited, coded then analyzed with help of statistical package for social sciences (SPSS). The inferential statistics were used i.e. t-test and ANOVA were used to test the significance of the collected data and the research hypothesis. For all likert type questions, Cronbach's Coefficient Alpha was computed for each item. A reliability coefficient of 0.7 or over was assumed to reflect the internal reliability of the instruments. This is because likert type questions are best tested for reliability using Cronbach's Coefficient Alpha which combines all the items and advises on which item to discard if it does not capture what it is intended to capture (Neuman, 2000).

4.0 Findings

4.1.1 Relationship between corporate culture and strategic choice

The study revealed that there were various factors which influence the selection and adoption of strategies in the banking institutions. The culture of the bank was a major factor influencing selection and adoption strategies in the banks. The study revealed that banks usually carry out SWOT analysis, they have classified their activities into various functional departments and they usually concentrate in their core competent areas. The study also showed that change management programmes are common in banking institutions and they have increasingly penetrated new markets to increase their customer size as supported by most of the survey respondents.

The study further discovered that organizational culture contributes to resistance to change programmes in banking sector. Study also found that organizational culture leads to adoption of best practices and benchmarking in their firm. Furthermore, current and past culture emphasize the importance and acknowledgement of stakeholders views and expectations in their organization and that their organizational culture gives banks a competitive age over their rival in the industry as supported by most of the respondents. However, most of the respondents also disagreed that formulating strategic plan is part of their organizational culture for many years.

4.1.3 Relationship between resources and strategic orientation

Study findings revealed that resources adversely affect the choice and adoption of business strategies and inadequate resources hinders banks from to engage in best practices. Most respondents disputed that availability of qualified personnel are essential in formulation of strategic plans as most banks engage the services of consultants to conduct environmental analysis and formulation of strategic plans. All in all, availability of personnel and finances are critical for product development and diversification of banking services and products.

4.1.4 Relationship between competition in the industry and strategic orientation

As supported by a majority of respondents, industry competition drives the selection and adoption of best practice strategies in banks. Competition has forced banks to operate in new markets and diversify their products and services to diversify risks. Product differentiation strategies have become common in banking sector to lure many customers and to develop customer loyalty to stem competition. Price variations are in constant use across financial institutions due to intense competition while formulation of strategic plan is mandatory to overcome intense competition in financial sector.

4.1.5 Impact of organizational structure on strategy formulation

The study revealed adoption of change programs are greatly hindered by organizational structure of the firm. Organization structure has hindered the adoption of best practices in banks and that classification of banking activities have been highly impaired by the existing structure while on the other hand entry of new players in the industry is difficult due to the complex structure required of banking firms. Furthermore this management structure always delays the implementation of pricing and other functional strategies. The study revealed that resources required, corporate culture, organizational structure and industry competition influence the choice of strategy as supported by a majority of study respondents. Further it was established that banking policy and

managers' attitude are the main factors influencing intensity of strategy use in banking firms as supported by most of respondents.

4.2 Conclusion of the study

It was also noted that the culture of the bank was the main factor influencing selection and adoption strategies in the branches. The strategies used by the organisation SWOT analysis, classification of activities into departments, concentrating on core competent areas, change management programmes and market growth to increase their customer size. It was noted that PESTEL analysis is not common to aid in formulating their operational strategies, but they diversify and develop new products to remain competitive and that they differentiate their products regularly by way of branding and repackaging to remain competitive in the market.

Most of the firms develop specific products for specific customers, conduct market research and repackage their products regularly to meet the changing demands of customers. Pricing strategies are used to attract and retain customers.

The organizational culture has been the major source of resistance to change programmes being introduced in banks and helps to adopt best practices and benchmarking strategies. Current and past culture has strictly emphasized the importance and acknowledgement of stakeholders' views and expectations in their organization and that their organizational culture is used to gain competitive advantage in the market. Inadequate resources have adversely affected the organization to employ best practices in the industry and availability of qualified personnel is not necessary in formulation of strategic plans since firms hire consultants to assist in conducting both internal and external environmental analysis and product development and diversification is not subject to availability of personnel and finances.

The industry competition has been the driving force behind the selection and adoption of best practice strategies in most banks, competition has forced banks to penetrate new markets and diversify products to diversify risks. Product differentiation and rebranding is becoming increasingly used to win new clients and gain customer loyalty. Pricing strategies are used to leverage competition. Adoption of change programs have been greatly hindered by the structure of their firm. Organization structure also hinders adoption of best practices and classification of banking activities into departments or units have been highly impaired by the existing structure while the entry of new banks is hindered by complex organization structure. Further it was noted that resources required, corporate culture, organizational structure and industry competition influence the choice of strategy, banking policy and the managers attitude were that main factors influencing intensity of strategy use are the factors influencing the intensity of strategy.

5.3 Recommendations of the study

The study findings were limited to the Banks in Eldoret Kenya and according to the study there were various shortcomings which prompted the following recommendations in regards to the study limitations.

- i) Culture should be prevented from being a source of resistance to the change programmes
- ii) The organisation should hire consultants to assist in conducting internal and external environmental analysis
- iii) The structure of the organisation needs to be changed in order for it not to hinder the adoption of change
- iv) The banking policy and the managers attitude should be changed so as not to influence the intensity of strategy

5.4 Recommendations for further study

The study recommends further study to be undertaken in following research topics;

- i) The effects of strategic orientation in financial organisation
- ii) The importance of in micro financial institution
- iii) Factors influencing the choice and selection of business strategies in large business organisations
- iv) The methods used to select and implement business strategies in financial organisation

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