FACTORS INFLUENCING STRATEGY IMPLEMENTATION ON THE PERFORMANCE OF COMMERCIAL BANKS IN KENYA, A CASE OF CO-OPERATIVE BANK OF KENYA

DR. GLADYS ROTICH PHD, COLLINS OCHIENG ODERO
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1* Dr. Gladys Rotich PHD, 2 Collins Ochieng Odero

1* Jomo Kenyatta University of Agriculture & Technology (JKUAT), Nairobi, Kenya
2 Jomo Kenyatta University of Agriculture & Technology (JKUAT), Nairobi, Kenya

Accepted May 3, 2016

ABSTRACT

Strategy implementation involves allocation of sufficient resources financial, personnel, time, and establishing a chain of command or organizational structure. It involves assigning responsibility of specific tasks or processes to specific individuals or groups. In the world of management, increasing numbers of senior people are recognizing that one of the key routes to improved business performance is better implementation of strategies. Strategy implementation is an enigma in many companies illustrated by the unsatisfying low success rate (only 10 to 30 percent) of intended strategies. The Kenyan economy has over the last five years, suffered major shocks including post-election violence, high oil and fertilizer prices, the global economic and financial crisis, exchange rate volatility, high inflation rates and severe drought that affected most parts of the country (CBK, 2010). However despite the unfavorable business environment, the banking sector's growth has been on an upwards trend posting double digit growth in profitability during the period. The study sought to investigate factors influencing strategy implementation on the performance of commercial banks in Kenya with particular reference to Co-operative Bank of Kenya. The study adopted a descriptive cross-sectional research design; descriptive cross-sectional research design was applied when the problem was defined specifically and where the research had certain issues to be described by the respondents concerning the problem. The target population composed of 486 staff in different managerial levels at bank. Stratified proportionate random sampling technique was used to select the sample while simple random sampling was used to select 91 respondents. The questionnaires were used to collect mainly quantitative data although some qualitative data was collected from the open ended questions. Quantitative data collected was analyzed by the use of descriptive statistics using SPSS (Version 20) and presented through percentages, means, standard deviations and frequencies. Content analysis was used to test data that was qualitative in nature and aspect of the data collected from the open ended questions.

Keywords: organization structure, staff training, managerial skills, innovation
Introduction

The Kenyan economy has over the last five years suffered major shocks including post-election disturbances, high oil and fertilizer prices, the global economic and financial crisis, exchange rate volatility, high inflation rates and severe drought that affected most parts of the country (CBK, 2010). The overall balance of payments deteriorated from a surplus of Ksh 75.2 billion in 2009 to a surplus of Ksh 12.2 billion in 2010. Even though the GDP growth improved to 4.5% by 2011 from measly 1.6% in 2008, this represented a far cry from the 7.1% and 6.3% achieved in 2007 and 2006 respectively (CBK, 2007). The annual average price of oil increased to US$ 79.16 per barrel in 2010 compared to US $ 62.65 per barrel in 2009. As a result, this had driven inflation upto 12.95% from 3.18% in 2010. The current account balance widened to a deficit of Ksh 199.2 billion in 2010 from a deficit of Ksh 129.2 billion in 2009. The Kenya Shilling depreciated against major world currencies over the period. At December 2007, it exchanged at an average of Ksh 63.3, 92.2 and 128.5 against the US dollar, Euro and Sterling Pound respectively. At December 2011, the Kenya shilling exchanged at an average of Ksh 63.3, 92.2 and 128.5 against the US dollar, Euro and Sterling Pound respectively. (CBK, 2011) However, despite the unfavorable business environment, the banking sector's growth has been on an upwards trend posting double digit growth in profitability during the period. The sector posted a profit of 48 billion in 2009 which was 14.3% growth from 2008. This result jumped by 28.4% in 2010 and 35.1% in 2011 (CBK, 2011). Firms have not been short of strategies but have fallen short of strategy implementation (Alexander, 1985; Brinkerhoff, 1996; Charan and Colvin, 1999; Gluck et al., 1980; Kazanjian and Drazin, 1987; Weiss and Birnbaum, 1989). It is estimate that 70% of chief executive officers fail due to bad execution (Charan and Colvin, 1999). Research by the Kenya Bankers Association found that as much as 37% of the potential value of a strategy in commercial banks in Kenya is lost during implementation (KBA, 2012). Raps and Kauffman (2005) concluded that success of strategy implementation has been 10 to 30 %. Researchers note that organizations fail to implement up to 70% of their strategic initiatives (Miller, 2002). Would successful strategy implementation be the source of this impressive performance?

General objective of the study

The general objective of the study was to investigate factors influencing strategy implementation hence performance in commercial banks with reference to Co-operative Bank of Kenya.

Specific objective of the study

- To determine the effects of organization structure on strategy implementation and how it impacts on performance of Co-operative Bank of Kenya.
- To establish the effects of staff training on strategy implementation in relation to performance of Co-operative Bank of Kenya.
- To examine the effects of managerial skills on strategy implementation hence performance of Co-operative Bank of Kenya.
- To find out the role of innovativeness on strategy implementation in relation to the performance of Co-operative Bank of Kenya.

Literature review

Organizational Structure

All organizations have some form of more or less formalized structure which has been defined by Borjas (2012) as comprising all the tangible and regularly occurring features which help to shape their members behaviour. The organizational structures incorporate a network of roles and relationships and usually help in the process of
ensuring that collective effort is explicitly organized to achieve specified ends. Rose (2008), argue that HR systems and the organization structure should be managed in a way that is congruent with organizational strategy. They further explained that there is a HR cycle which consists of four generic processes or functions that are performed in all organizations (Lewis and Cooper, 2005). These include slimmer and flatter organization structures in which cross-functional operations and team-working have become more important, more flexible working patterns, total quality and lean production initiatives, and the decentralization and devolvement of decision-making. According to Hellgren and Sverke (2003), there are no absolute standards against which an organization structure can be judged. There is never one right way of organizing anything and there are no absolute principles that govern organizational choice. The fashion for delayering organizations has much to commend it, but it can go too far, leaving units and individuals adrift without any clear guidance on where they fit into the structure and how they should work with one another, and making the management task of coordinating activities more difficult (Jones and Arnold, 2003). Traditional organization structures consist of a range of functions operating semi-independently and each with its own, usually extended, management hierarchy. The organization structure should be flexible enough to respond quickly to change, challenge and uncertainty.

Innovativeness
Technology innovation is of vital importance for firms to survive and develop in a market under intense competition. A firm's decision-making of technology innovation strategy involves two phases. Firstly, a firm decides whether to innovate. With the influence of market structure, scale, intensity of competition, and other factors, different firms show clear distinctions in their motivation to innovate; many researchers have centered on this (Ye and Qiu, 2004). Secondly, if a firm chooses to innovate, it has to decide how to organize its innovation. The specific definition of technology innovation strategy equals the second phase of this decision-making, that is, the choice over innovation path. Drucker (1958) distinguished between doing the right things and doing things right. When it comes to strategic management, one can reformulate this distinction to market the right products/services on the right markets on one hand and, on the other hand, develop, produce, and distribute the products/services in the right way. It is intuitively clear that a company needs to focus on both issues in the long run while at the same time maintaining a dual focus on business development and operational effectiveness. The foundation for our work on strategic innovation is that people think of strategy as: Change of the position of the company in the market place at the same time as exploiting the current position. The environment consists of both present and potential customers as well as a large number of different players, i.e. it is the entire environment of the company that needs to be taken into account in strategic management.

Managerial skills
The fatal problem with strategy implementation is the de facto success rate of intended strategies. Research studies indicate it as low at 10 percent (Judson, 1991). Despite this abysmal record, strategy implementation does not seem to be a popular topic at all. In fact, some managers mistake implementation as a strategic afterthought and a pure top-down-approach. Instead, management spends most of its attention on strategy formulation. This can be documented by the focus on strategy formulation in strategic management literature. To resolve this, strategic management should accomplish its very own shift of emphasis by moving from a 90:10 concern with strategy formulation relative to implementation to a
minimum 50:50 proportion with each (Grundy, 1998).

To overcome and improve the difficulties in the implementation context, Rapa and Kauffman (2005) compiled a checklist of ten critical points. The most important thing when implementing a strategy is the top management's commitment to the strategic direction itself. This is undoubtedly a prerequisite for strategy implementation. Therefore, top managers must demonstrate their willingness to give energy and loyalty to the implementation process. This demonstrable commitment becomes, at the same time, a positive signal for all the affected organizational members (Rapa and Kauffman, 2005). To successfully improve the overall probability that the strategy is implemented as intended, senior executives must abandon the notion that lower-level managers have the same perceptions of the strategy and its implementation, of its underlying rationale, and its urgency. Instead, they must believe the exact opposite. They must not spare any effort to persuade the employees of their ideas. Strategy implementation is not a top-down-approach. Consequently, the success of any implementation effort depends on the level of involvement of middle managers.

Staff training and Strategy Implementation

Human resources represent a valuable intangible asset. Latest study indicates that human resources are progressively becoming the key success factor within strategy implementation. In the past, one of the major reasons why strategy implementation efforts failed was that the human factor was conspicuously absent from strategic planning (Lorange, 1998) which lead to a dual demand (Rapa and Kauffman, 2005). First, considerations regarding people have to be integrated into considerations about strategy implementation in general. Second, the individual behavior of these persons is to be taken into account. Individual personality differences often determine and influence implementation. The difference of individuals requires, as a consequence, different management styles. For the purpose of strategy implementation, it is desirable to create a fit between the intended strategy and the specific personality profile of the implementation’s key players in the different organizational departments (Rapa and Kauffman, 2005).

Methodology

The research adopted a descriptive cross-sectional research design, which is used when the problem has been defined specifically and where the research has certain issue to be described by the respondents about the problem. For purpose of this study the target population was stratified through top management level, middle level managers and low level management. The target population was composed of 486 members of staff in different managerial levels currently working at the Cooperative Bank of Kenya. This population suits the research in view of the fact that it is the role of the management to oversee the implementation of strategies.

Stratified random sampling technique was adopted to produce estimates of overall population parameters with greater precision and ensures a more representative sample is derived from a relatively homogeneous population. Stratification aims to reduce standard error by providing some control over variance. From each stratum the study used simple random sampling to select 97 respondents; this was 20% of the entire population. The questionnaire was used to collect mainly quantitative data. However some qualitative data was collected from the open ended questions. Secondary data involved the collection and analysis of published material and information from other sources such as annual reports, published data. The questionnaire was designed and tested with a few members of the population for further improvements. This was done in order to enhance its validity and accuracy of data to be collected.
Secondary data was collected to generate additional information for the study from the documented data or available reports.

The research perused completed questionnaires and document analysis recording sheets. Quantitative data collected was analyzed using SPSS and presented through percentages, means, standard deviations and frequencies. The information was displayed by use of bar charts, graphs and pie charts and in prose-form. This involved tallying up responses, computing percentages of variations in response as well as describing and interpreting the data in line with the study objectives and assumptions through use of SPSS. Content analysis was used to test data that is qualitative nature or aspect of the data collected from the open ended questions.

**Results**
The study sought to determine the extent to which Co-operative Bank of Kenya face challenges in the strategy implementation at the various levels. It was found that majority of the respondents rated the challenges at these levels to a great extent; business level as shown by mean a of 2.1234, functional level as shown by the mean of 2.0108, corporate level as shown by the mean of 1.9032, dynamic level as shown by the mean of 1.8989, operational level as shown by the mean of 1.6548.

**Organization Performance and Strategy Implementation**
On the respondent level of agreement on various statements relating to organization performance and strategy implementation, the study established that majority of the respondent agreed that the types of performance measures used by the organization affects strategy implementation as shown by mean of 2.2500. The organization's targets affect implementation of strategy in the organization as shown by the mean of 2.1576, Time spent undertaking a job affects implementation of strategy as shown by the mean of 1.9167, The organization's output levels affect strategy implementation as shown by the mean of 1.8075, Individual employee's performance affects strategy implementation as shown by the mean of 1.7812.

**Innovativeness**
The study also sought to find out the role of innovativeness on strategy implementation in relation to the performance in Co-operative Bank. On whether innovativeness is a key success factor within strategy implementation, the study found that majority of the respondents as shown by 75.0% indicated that innovativeness is a key success factor within strategy implementation at Co-operative Bank whereas 25.0% of the respondents were of the opinion that innovativeness is not a key success factor during strategy implementation. This is an indicated that innovativeness is a key success factor during strategy implementation at the bank.

**Staff Training**
The study also sought to establish the effects of staff training on strategy implementation in relation to performance. The study found that majority of the respondent by 50.0% indicated that staff training affected strategy implementation at the bank great extent, 33.3% indicated that staff training affect strategy implementation to a very great extent, whereas 16.7% indicated that staff training affected strategy to a moderate extent. This is an indication that staff training affects strategy implementation to a great extent.

On the respondents rating of the various aspects of staff training that affect strategy implementation at Co-operative Bank, the study found that the respondents rated the following to a great extent; Employee training is an attempt to improve employee performance by increasing the employees' ability to perform by the mean of 2.8012, Creating and sharing an organizational goal
by the mean of 2.3364, Acting as a role model by the mean of 1.9467, Training and development programmes are designed to educate employees beyond the requirements of their current position so that they are prepared for a broader and more challenging role in the organization by the mean of 1.9123.

**Organizational Structure**
The study further sought to determine the effects of organization structure on strategy implementation and how it impacts on performance of the Co-operative Bank. From the finding on the extent to which organizational structure affects the strategy implementation in the organization, the study found that majority of the respondents by 58.3% indicated that organizational structure affect the strategy implementation in the 47organization to a great extent, 41.7% indicated that organizational structure affect the strategy implementation in the organization to a very great extent, whereas 20.3% indicated that organizational structure affect the strategy implementation in the organization to a moderate extent. This is an indication that the organizational structure affects the strategy implementation in Co-operative Bank to a great extent.

In regard to the level of agreement on statements relating to organization structure, the study found that the respondents agreed that the organization embraces freedom of expression during strategy implementation by the mean of 2.2341, Organization size affects strategy implementation as shown by the mean of 2.1525, Organization chart affects strategy implementation as shown by the mean of 1.9845, Supervisors delegate duties and functions during strategy implementation by the mean of 1.8713, Management organizes meetings to discuss issues on strategy implementation by the mean of 1.7274. Organizational Structure is different in each business and is key to strategy implementation. Olson et al. (2005) mention that organizational structure (such as formalization, centralization, specialization, and integration) is a critical component of strategy implementation (Tan, 2001). Consequently, a suitable structure of an organization may have influence on organizational innovation. Then it brings about to superior organizational performance. The study established that the organization structure affects strategy implementation through bureaucratic bottlenecks, differentiated roles that lead to specialization, number of reporting lines, implementation challenges, type of the structure, harmony of reporting lines and employee placement.

**Regression analysis**
Adjusted R squared is coefficient of determination which tells us the variation in the dependent variable due to changes in the independent variable. From the findings in the table below the value of adjusted R squared was 0.731 an indication that there was variation of 73.1% on the organizational performance due to changes in organization structure, managerial skills, staff training and innovation at 95% confidence interval. This shows that 73.1 % changes in organizational performance could be accounted to changes in organization structure, managerial skills, staff training and innovation. R is the correlation coefficient which shows the relationship between the study variables, from the findings shown in the table below there was a strong positive relationship between the study variables as shown by 0.874.
Table 1: 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>.874$^a$</td>
<td>.764</td>
<td>.731</td>
<td>.12225</td>
</tr>
</tbody>
</table>

From the ANOVA statics in the table below, the processed data, which is the population parameters, had a significance level of 0% which shows that the data is ideal for making a conclusion on the population parameters as the value of significance (p-value) is less than 5%. The calculated value was greater than the critical value (3.131>1.9861) an indication that there were significant difference between organizational performance and organization structure, managerial skills, staff training and innovation. The significance value was less than 0.05 indicating that the model was significant.

Table 2: 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>1 Regression</td>
<td>0.744</td>
<td>2</td>
<td>0.372</td>
<td>3.131</td>
<td>.048$^b$</td>
</tr>
<tr>
<td>Residual</td>
<td>25.662</td>
<td>78</td>
<td>0.329</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>26.406</td>
<td>80</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

The established regression equation was

$$Y = 0.878 + 0.305 X_1 + 0.071 X_2 + 0.158 X_3 + 0.245 X_4$$

From the above regression equation, it was revealed that holding organization structure, managerial skills, staff training and innovation to a constant zero, organizational performance would stand at 0.878, a unit increase in organization structure would lead to increase performance by a factor of 0.305. A unit increase in managerial skills would lead to increase in performance by factors of 0.071. A unit increase in staff training would lead to increase in performance by a factor of 0.158 and unit increase in innovation would lead to increase in performance by a factor of 0.245. The study further revealed that organization structure, managerial skills, staff training and innovation were statistically significant to affect the organization performance, as all the p value sig) were less than 0.05%. The study also found that there was a positive relationship between organization performance and organization structure, managerial skills, staff training and innovation.

Summary of Findings

Effects of Management skills on strategy implementation

The study established that the level of management skills affected the strategic implementation at the bank to great extent. The study revealed that there is lack of manager's commitment to performing their roles which leads to the lower ranks of employees missing support and guidance, the top management's skill to the strategic direction itself is the most important factor. The top management demonstrates their willingness to give energy and loyalty to the implementation process for it to succeed, there is lack of top management backing which is the main inhibiting factor and that the managers do not spare any effort to persuade the employees of their ideas for strategy implementation to be effective. Hence study is in agreement with Rapa and Kauffman, (2005) who
argues that the most important thing when implementing a strategy is the top management's commitment to the strategic direction itself. This is undoubtedly a prerequisite for strategy implementation. Therefore, top managers must demonstrate their willingness to give energy and loyalty to the implementation process. Strategy implementation is not a top-down approach. Consequently, the success of any implementation effort depends on the level of involvement of middle managers (Rapa and Kauffman, 2005).

**Role of Innovativeness in strategy implementation**

The study found that innovativeness is a key success factor within strategy implementation at Co-operative Bank of Kenya. The study further revealed that innovativeness affects strategy implementation at Co-operative Bank of Kenya to a great extent. It established that product development that are radical, inventive and early offer greater rewards and performance improvement, use of technology innovation promotes a friendly and helpful staff hence customer satisfaction, product development is important in both the supply of the core product as well as in the support part of any offer, less time is required at the service point due to innovations in the bank, the bank remains open in good time to serve the customers efficiently, the bank's product development strategy aims to hit many singles and the innovations ensure that the services given to customers are of high quality. This is in line with the conclusion made by Drucker (1958) that distinguished between doing the right things and doing things right. When it comes to strategic management, we can reformulate this distinction to, on the one hand, market the right products/services on the right markets and, on the other hand, develop, produce, and distribute the products/services in the right way.

**Effects of Staff Training on strategy implementation**

The study established that staff training affects strategy implementation at to a great extent. The study established that employee training is an attempt to improve employee performance by increasing the employees' ability to perform, creating and sharing an organizational goal, acting as a role model, training and development programmes are designed to educate employees beyond the requirements of their current position so that they are prepared for a broader and more challenging role in the organization. It revealed that the training allowed employee participation in making job-related decisions, encouraging creativeness, providing support for employees, training is the process of imparting knowledge and skills and presents employees or beneficiaries with the skills they need to perform their jobs better. Thus the study concludes as having been documented by Lorange,(1998) who argued that human resources represent a valuable intangible assets, he further asserts that one of the major reasons why strategy implementation efforts failed was that the human factor was conspicuously absent from strategic planning. Rapa and Kauffman, (2005) argues that for purpose of strategy implementation, it is desirable to create a fit between the intended strategy and the specific personality profile of the implementation's key players in the different organizational departments.

**Effects of Organizational Structure on strategy implementation**

The study established that the organizational structure affects the strategy implementation in the bank to a great extent. The study further revealed that the organization embraces freedom of expression during strategy implementation. Organization size affects strategy implementation while supervisors delegate duties and functions during strategy implementation. Management organizes meetings to discuss issues strategy implementation. It was found out that the
organization structure affects strategy implementation in the organization through bureaucratic bottlenecks, differentiated roles that lead to specialization, number of reporting lines, implementation challenges, type of the structure that allow implementation, harmony of reporting lines and employee placement. Organizational Structure is different in each business and is key to strategy implementation. Olson et al. (2005) mention that organizational structure (such as formalization, centralization, specialization, and integration) is a critical component of strategy implementation (Tan, 2001).

Conclusion
From the findings the study concluded that level of management skills influences the strategy implementation in the bank to great extent. The study established that innovativeness is a key success factor in strategy implementation. It affects strategy implementation to a great extent. Products developments that are radical, inventive and early offer greater rewards and performance improvement. Use of technology innovation promotes a friendly and helpful staff resulting to customer satisfaction.

The study further concluded that training affects strategy implementation. It was further established that training was meant to improve employee performance by increasing the employees' ability to perform, creating and sharing an organizational goal, acting as a role model, training and development programmes are designed to educate employees beyond the requirements of their current position. The study concluded that the organizational structure influences strategy implementation in the bank. This was through bureaucratic bottlenecks, differentiated roles that lead to specialization, number of reporting lines, implementation challenge, type of the structure with the flat allowing implementation, harmony of reporting lines and employee placement.

Recommendation
The study recommends there is need to enhance the level of management skills in the organization as this will help in strategy implementation thus enhancing the performance. Managerial skills promote shared vision, integrity and promote innovations. The study also recommends that there is need to enhance innovativeness in the organization through product development, inventive and early offer greater rewards as innovation is a key success factor within strategy implementation. The study further recommends that there is need to train employees as employee training was found to affect strategy to great extent. Employee training is an attempt to improve employee performance by increasing the employees' ability to perform and sharing an organizational goal. There is need for the management to have an organizational structure that support strategy implementation as it was found that organizational structure affects the strategy implementation to a great extent.

Acknowledgement
I acknowledge my supervisor mentor and Gladys Rotich PHD whose incisive leadership and constructive critique of the research project progress has been invaluable.
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