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Strategic Implementation Practices And Performance Of Commercial Banks In Nakuru Town, Kenya

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***Abstract:** The study specifically sought to examine the effect of, strategy implementation practices on the performance of commercial banks in Nakuru Town, Kenya. The study was anchored on the concept of resource based view theory and institutional theory. A descriptive survey design was adopted in the study which enabled the researcher to gain data relating to the present position of the banks. The target population of the study was 245 management employees from three different management levels of selected number of banks. Simple random sampling was used to drive the sample size of 74 respondents. The sample consisted of 20 employees from senior management, 24 employees from middle management and 30 employees from lower management. The study used questionnaires to collect data. Both descriptive statistics and inferential statistics were used to analyze the data collected. Regression analysis was to be used to show the relationship between the dependent and independent variable, ANOVA regression model and multiple regression was used to show this relationship. The findings revealed that strategy implementation practices have a statistically significant effect on the performance of commercial banks in Nakuru Town. The study recommended that strategic implementation practices have to be aligned with management style, organization culture and strategic decisions to environment. Senior management should also introduce strategic management practices and balance score card as performance measurement tool as it ensures that all employees play their role and achieve their targets towards the overall objective of the bank.*

***Keywords:** Strategic implementation practices and performance of commercial banks.*

I. INTRODUCTION

A. BACKGROUND OF THE STUDY

The Banking Industry has experienced a prompt growth in terms of profits, deposits and revenues in the recent past (Central Bank of Kenya, 2016). This trend has caused a lot of rivalry among commercial banks. To deal with this rivalry and to stand out as successful Kenyan companies, commercial banks, just like other public and private organizations have adopted strategic management practices. Successful implementation of strategies is important to any business. However transforming strategies into action is a far more difficult and daunting task to most firms' managements which has led to a high rate of failure in strategy implementation.

Research on the determining factor of banks' profitability has been focused to both the returns on bank assets and equity and net interest rate margins. Bank performance and bank interest margins can be seen as indicators of the efficiency or inefficiency of the banking system, as they drive a wedge between the interest rate received by savers on their deposits and the interest paid by borrowers on their loans (Kunt et al., 2001). Profitability measure seems to be most important for bank's stakeholders since it exposes what the bank is grossing on their investments. Rasiah, (2010), Loans are termed as the bank's assets whereas the deposits are termed as the bank's liabilities. Though there are many other sources of income for banks such as account maintenance fees, cheque clearance fees, over the counter and ATM withdrawal charges etc, interests charged on bank loans are expected to be the main source of income and are expected to have a positive and greatest impact on a commercial banks' performance (Bennaceur et al.,2008).

B. PROBLEM STATEMENT

Commercial banks are profit making financial establishments that play an important role in the financial system. Commercial banks offer an extensive variety of corporate financial services that address the specific needs of private enterprise. They provide deposit, loan, trading facilities and investment services in financial markets (Magutu. 2017).The fiscal performances of these banks have a general upward growth trend which is primarily endorsed by proper administration, creation and execution of strategy. In Kenya, commercial banks all compete for the same market share (CBK, 2016).Commercial banks in Nakuru town play a number of roles in the financial stability and cash flow of the county's private sector. They process payments through a range of means including telegraphic transfer, internet banking and electronic funds transfers. They also issue bank cheques and drafts, as well as accept money on term deposits. They act as moneylenders, by way of installment loans and overdrafts. Loan options include secured loans, unsecured loans and mortgage loans.

However, banks performance is facing a lot of challenges like stiff competition from other financial institutions, poor strategy adopted to cope with these rivalry, poor or lack of proper strategy management thus despite of the banks performing financial functions in boosting the economy of the town their performance is still very low due to poor formulation and implementation of strategic management practices, (Elfenbein& Walsh 2017). Strategic implementation practices play a very important role in the performance of commercial banks hence for a bank to be more profitable it has to ensure that the strategies they intend to implement will be of great help to boost their performance.

A review of past research studies illustrates that strategic implementation practices are vital to a bank's performance though very little research has been done on the said topic. Margolis, Elfenbein and Walsh (2014) established that only 27% of the banks implemented strategy management. Okiro, Omoro and Kinyua (2017) found that only 11% of banks sustained growth by investing in strategic management this implies that banks still experience low performance due to lack of proper strategic implementation practices. Therefore there is a need to research more on the effect of the strategic implementation practices on the performance of commercial banks in Nakuru Town.

C. OBJECTIVES OF THE STUDY

The study sought to establish the effect of strategy implementation practices on the performance of commercial banks in Nakuru Town, Kenya.

D. RESEARCH QUESTION

The research sought empirical literature review to answer the following research question.

- ✓ What are the effects of strategy implementation practices on the performance of commercial banks in Nakuru Town, Kenya.

II. LITERATURE REVIEW

A. THEORETICAL REVIEW

Theories are articulated to explain, predict, and understand phenomena and, in other cases, to contest and outspread prevailing knowledge, within the limits of the critical bounding assumptions. The theoretical framework is the structure that can hold or support a theory of a research study, (Abend& Gabriel 2013). This study would be informed by the resource based view theory and the institutional theory.

B. MC KINSEY 7S

This model was developed in 1980s by Tom Peters and Robert Waterman. It is used as an organizational analysis tool to assess and monitor changes in organizational internal environment. This theory is based o the fact that for an organization to perform successfully, the seven elements must be aligned and should work in harmony.The 7Ss composes of structure, strategy, systems, skills, style, staff and shared values. To analyze how well an organization is positioned and aligned to help achieve its intended purpose.

The elements are divided into hard elements and soft elements. Hard elements include strategy which is the way organization seeks to enhance its competitive advantage, structure which is division of activities and systems which are formal procedures for measurement and resource allocation. Soft elements include shared values, skills which are core competencies in an organization, staff who are human resources of an organization and style which is the typical patterns of behavior of key organizational groups (Pascale and Athos 1981).Organizations use this model to improve their performance, evaluate future changes in the organization and how they affect it, help align and position departments and processes in cases of mergers and acquisitions and determine how best to implement a chosen strategy. This is very important if an organization wants to have a competitive advantage over its competitors.

The theory is relevant to the current study in that commercial banks vary in structure, management styles and systems they use since each bank owns an exceptional package of resources both tangible and intangible. These resources eg skills, staff and shared values enable banks to advance and endure competitive advantage against its rivals in the stiff competing financial environment. This theory enhances an argument for firms to attain performance using the 7Ss.

C. BALANCE SCORE CARD

The balanced score card is a strategy performance tool developed by Robert Kaplan and David Norton in 1992. Its main objective is to translate an organization's mission and vision into actual operational actions. It is used by managers to keep track of execution of activities. Most organizations make use of a balance score card as a tool to measure its performance.

The balance score card measures organization performance in both financial and non-financial terms. It gives four major perspectives to be used to measure performance namely financial perspectives, customer perspectives, internal business process perspective and learning and growth perspective. First, financial perspectives include indicators like operating profits and return on investment. Secondly, customer perspectives like market share customer retention, loyalty, customer acquisition, customer satisfaction and customer profitability. Thirdly, internal business perspective which focuses on internal processes that have the greatest impact on customer satisfaction and the organizations financial objectives which include innovation, operation and post sales services and processes. Lastly learning and growth perspective identifies the capabilities the organization must excel at to achieve internal processes that create value for customers and shareholders (Taracha, 2007).

This theory is relevant to the current study in that measures of bank performance include profitability, customer base, quality of products or services, ability to attract essential employees, development of new products or services, retention of customers, relationship among employees, satisfaction of customers' ability to retain essential employees (Walsh, 2014).

D. EMPIRICAL LITERATURE

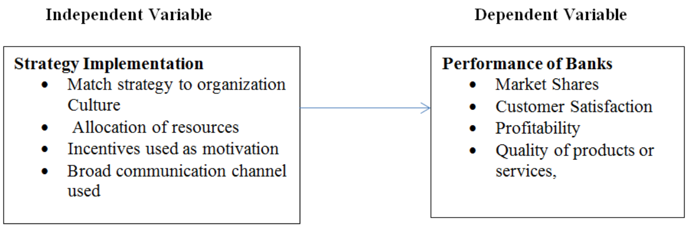
Ngui (2018) studied strategy implementation and organizational performance in the pharmaceutical industry in Kenya. It applied a descriptive survey research design. The study established that there exist a significant influence of strategy implementation on organizational performance and that organizational structure, resources and culture have a positive effect on performance of pharmaceutical industry. The study recommended that senior management should empower employees and give them freedom to succeed. Also, pharmaceutical companies should balance resource allocation and allocate more funds to this practice of strategy implementation.

Somi (2017) carried out a study on influence of strategy implementation on performance of government owned entities in Kenya. The study adopted a descriptive survey research design approach. It used purposive sampling to select 42 managers from government owned entities. The study established the existence of a significant relationship between reward structure like long term incentives and performance of government entities. It also found that strategic alignment of strategy with performance objectives, organization processes and employee was significant in enhancing the performance.

Chengetai (2011) carried out a study on the impact of organizational culture on business strategy implementation. A case study of AMTEC motors. The study adopted a qualitative research design. In this study interviews were used to gather data from managing directors and top management heads of major functions within the organization. It was established that there is a strong relationship between strategy implementation and organization culture. It was deduced that organizational culture, specifically the extent that it is either aligned or not aligned with strategy, is the single important factor determining whether or not a strategy is successfully executed and performance goals achieved. It was concluded that the hindrances to expected level of success of execution of strategies is negative attitudes, poor group synergy, lack of capital, poor training and communication. The study recommends that Amtec should introduce vision awareness campaigns, reintegrate its culture and recapitalize the business.

E. CONCEPTUAL FRAMEWORK

It showed relationship between strategic implementation practices that commercial banks used to gain competitive advantage and ensure growth of the commercial banks in Kenya. The independent variable was strategic implementation practices which led to a firm gaining a competitive advantage and improving its performance which is the dependent variable.



Source: Author (2019)

Figure 2.1: Conceptual Framework

III. RESEARCH METHODOLOGY

A. RESEARCH DESIGN

The study adopted descriptive survey design which enabled the researcher to gain data relating to the present position of the occurrences to refer to, what exists with reverence to variables in a situation, of which the researcher has no direct control over the variables Mugenda and Mugenda (2003). This design is commonly used when the study pursues to define the features of certain sets, estimate the percentage of people who have certain features and make predictions. It is deemed appropriate since it aimed at obtaining information that can be analyzed, patterns extracted and comparison made for the purpose of clarification and provision of the basis for making relevant decisions.

B. TARGET POPULATION

This study targeted74 management employees from three different management levels of a selected number of banks, Equity bank, Cooperative bank and KCB bank, who are assigned tasks in the bank and conversant with the banks operations so as to provide needed information on relationship between strategic implementation practices and performance of commercial banks in Nakuru town. The target population was the whole collection of characters or objects to which an examiner is interested in order to generalize his/her conclusion Mugenda&Mugenda (2003.

C. RESEARCH INSTRUMENT

The research instruments of this study which was used were questionnaires. The questionnaires included both open

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ended and close ended questions which were used to gather data from top, middle and low level management employees. To ensure primary data was effectively and efficiently collected and was per the research objectives, test for validity and reliability were done on the research instruments to make sure there are consistent and purports what it is supposed to measure Kothari (2004).

a. *VALIDITY OF INSTRUMENTS*

The research conducted various test to ensure and ascertain the content, construct and face validity. According to Kothari (2004), content validity is a purpose of the magnitudes or essentials of a concept that have been captured. Validity is the extents to which an instrument measures what it purports to measure and explanations of the outcomes of a test are justified, which mainly depend on the particular use the test will be intended to aid. A content validity test was conducted so as to ensure all pointers measured are sufficiently represented.

b. *RELIABILITY OF INSTRUMENTS*

The research also did some test to examine the reliability of a research instrument. Golafshani (2003) reliability is the extent to which outcomes of a study are constant over a period of time and have a precise and accurate representation of the total study population and aims at establishing the ability of the research instrument to produce similar results over time. This was examined by the test-retest method.Cronbach alpha coefficient of 6 items was calculated and resulted to 0.789 which was considered acceptable. According to Golafshani (2003) a reliable coefficient is equated with the threshold of 0.7 or greater than for it to be acceptable.

D. DATA COLLECTION PROCEDURE

This study relied mainly on primary data sources which were collected using questionnaires where both open and close ended questions were used. Questionnaires were dropped and picked at a letter date since the respondents were the top, middle and low level management employees who were very busy since they had a lot of responsibilities.

E. DATA ANALYSIS AND PRESENTATION

Data analysis involved scrutinizing what had been gathered in a study and making appropriate and sufficient deductions and inferences from the data gathered. Data analysis is a systematically process of searching; arranging, organizing and synthesizing the data gathered Kombo and Tromp (2006). It referred to examining the attained information and making important inferences. Both descriptive statistics and inferential statistics were used to scrutinize data collected. Descriptive statistics for example mean, frequency and standard deviation were used for general comparison of variables. To describe data measures of central tendency, dispersion, proportions and percentages will be used. Data was presented inform of table, bar charts, graphs and histograms for easier interpretation.

The relationships between the independent and dependent variables were explained by;

P= f (X1)

The function means that organization performance (P) is a function of strategy implementation. The multiple regression model developed by the study took the following format;

$P= \beta 0+\beta 1X1 +\varepsilon$

Where;

P is Organization performance as measured by composite score of financial and nonfinancial performance indicators

X1 is strategy implementation practices

ε is the error term

β represent the coefficients

IV. RESEARCH FINDINGS AND DISCUSSION

A. RESPONSE RATE

A response rate of 50% is considered adequate, 60% good and above 70% rated very well (Mugenda&Mugenda, 2003). Out of the 74 questionnaires that were issued, 70 of them were correctly completed and collected. This makes the response rate be 94.5% of the study. For this study, a response rate of 94% was considered very well and hence the researcher proceeded for data analysis. The table below represents respondents from different management level of the three banks.

B. STRATEGY IMPLEMENTATION PRACTICES AND PERFORMANCE

The objective of the study sought to establish the impact of strategy implementation practices on the performance of commercial banks. The respondents were asked to indicate the aspect of strategy implementation practices. The results were as shown in Table 4.1

Strategy Implementation Practices Statement	N	Mean	Std
Company strategy is sufficiently and broadly communicated to members of the staff	70	4.28	0.534
Organization strategy is matched to organizational structure.	70	4.62	0.323
Satisfactory resources are allocated to strategy implementation	70	4.40	0.764
Organization is keen on executing organization strategy in a way that yield highest performance.	70	3.873	1.037
Organization strategy is implemented chastely founded on set objectives and expected performance	70	4.42	0.745
There are motivational systems in place to ensure success of strategy implementation	70	4.04	0.453

Source: Survey Data (2019)

Table 4.1: Strategy Implementation Practices and Performance

From the findings, the respondents strongly agreed that company strategy is sufficiently and broadly communicated to members of the staff. In addition, the strongly agree that organization strategy is matched to organizational structure. Further, the respondents agreed that satisfactory resources are allocated to strategy implementation, The respondents also agreed that organization is keen on executing organization strategy in a way that yield highest performance. From the findings, the respondents agreed that organization strategy is implemented chastely founded on set objectives and expected performance. The findings also agreed that majority of the respondents agreed that there are motivational systems in place to ensure success of strategy implementation. The findings agrees with Njanja (2009) study which noted that that globalization elements and other influences external to the businesses such as incentives, regulation and policy matters, infrastructure had very great influences on the management structures, systems and other internal aspects of the organization.

C. PERFORMANCE OF COMMERCIAL BANKS

The dependent variable of the study was performance of commercial bank. The respondents were asked to indicate the aspect of bank performance. The results were as shown in Table 4.10

Bank Performance	N	Mean	Std
Quality of products or services	70	4.403	0.778
Ability to attract essential employees	70	4.307	0.738
Development of new products or services	70	4.145	0.807
Ability to retain essential employees	70	4.387	0.869
Relationship among employees	70	4.48	0.731
Satisfaction of customers	70	4.44	0.729
Retention of customers	70	4.11	0.977

Source: Survey Data (2019)

Table 4.2: Performance of Commercial Banks

From the findings majority of the participants stated that the quality of products or services is very good. In addition majority of the participantsstated that the ability to attract essential employees is very good. Furthermore majority of the participants stated that the development of new products or services is good. Also majority of the participants stated that ability to retain essential employees is good. In addition majority of the participants stated that relationship among employees is good. Furthermore majority of the participants stated that satisfaction of customers is good.Finally majority of the participants stated that Retention of customers is good. The findings are in line with Ramanathan (2008) study which noted that customer relationship management is an emerging tool which enables retail marketers to maintain their presence in the dynamic market environment so as to survive in the global market.4.9.2 ANOVA of the Regression Model

D. STRATEGY IMPLEMENTATION PRACTICES AND PERFORMANCE

a. *REGRESSION MODEL SUMMARY*

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.430[a]	.185	.171	.400

a. Predictors: (Constant) Strategy Implementation Practices

b. Dependent Variable: Performance of commercial banks

The study conducted a regression analysis to find out the strength of the relationship between independent and dependent variables as shown in Table 4.3.1. The findings show that the performance of commercial banks is 54.6% as explained by the independent variables under this study while 45.4% is the variation due to other factors which have not been covered in this study.

b. *ANOVA OF THE REGRESSION MODEL*

In the ANOVA table below, the F statistic = 6.003 as illustrated in Table 4.3. Since the f calculated is greater than f statistic, it infers that the model is statistically significant.

Model		Sum of Squares	df	Mean Square	f	sig
1	Regression	28.001	2	14.000	49.40	0.000[b]
	Residual	19.094	67	.136		
	Total	47.095	69			

Table 4.4 ANOVA of the Regression Model

Therefore, there is strong evidence that the regression results are statistically significant and the variation in the results is insignificant that cannot result to much difference in case of a change in the study units (population) and therefore the model did for the data. The findings agrees with Muogbo (2013) study which uncovered that embracing of strategic implementation practices had consequence on employee's performance and that its implementation had expressively amplified institutional productivity of manufacturing firms; also, it boosts structural development of manufacturing firms.Ngui (2018) whereby he established that senior management should empower employees and give them freedom to succeed. Also, they should balance resource allocation and allocate more funds to this practice of strategy implementation. Somi (2017) established the existence of a significant relationship between reward structure like long term incentives and performance of government entities. It also found that strategic alignment of strategy with performance objectives, organization processes and employee was significant in enhancing the performance.

V. CONCLUSIONS AND RECOMMENDATIONS

The study drew conclusions in respect of strategy implementation practices on the performance of commercial banks. The study concluded that satisfactory resources are allocated to strategy implementation. Banks are keen on executing organization strategy in a way that yields highest performance. The study inferred that banks strategies are implemented chastely founded on set objectives and expected

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performance. Banks have motivational systems in place to ensure success of strategy implementation. The study also noted that there existed a positive, moderate statistically significant relationship between strategy implementation practices and performance of commercial banks. It was concurred that banks strategy are sufficiently and broadly communicated to members of the staff. The research further indicated that banks strategies are matched to organizational structure. It was also agreed that satisfactory resources are allocated to strategy implementation. The research recommended that senior management has to ensure that the daily job descriptions of employees are set so that they all contribute to the overall objective of the bank. Management in other financial institutions should therefore ensure that the roles and responsibilities of their staff all contribute towards the overall objective of their institutions. Senior management in other banks should also introduce this performance measurement tool as it ensures that all employees play their role and achieve their targets towards the overall objective of the bank.

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