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Effect of Strategy Implementation on Performance of Commercial Banks in Kenya

Linet Njagi* ,Henry Kombo
Department of Business Administration, Egerton University, PO box 536, Egerton
* E-mail of the corresponding author: linetrish@gmail.com

Abstract
The Banking Industry has experienced a rapid growth in terms of profits, deposits and revenues in the recent past (Central Bank of Kenya, 2012). This trend has triggered a lot of competition among commercial banks. To weather this competition and to stand out as successful Kenyan businesses, commercial banks, just like other public and private organizations have adopted strategic management. Successful implementation of strategies is vital to any organization. However transforming strategies into action is a far more complex and daunting task to most firms' managements which has led to a high rate of failure in strategy implementation. The purpose of this study was to determine the effect of strategy implementation on performance of commercial banks in Kenya. The specific objectives of the study were to determine the effect of operationalization of strategy on performance of the banks and to determine the effect of institutionalization of strategy on performance of the banks. To achieve these objectives, the study adopted correlational research design. The target population was the forty three commercial banks in Kenya. Given the small number of commercial banks, a census study was conducted. The data gathered was analyzed using descriptive statistics such as percentages to summarize the data. Pearson's correlation coefficient was used to determine the nature and strength of the relationship between strategy implementation and organizational performance. To determine the effect of strategy implementation on organizational performance, a multiple regression model was developed. The results reveal that there is a moderately strong relationship between strategy implementation and organizational performance. The researcher therefore recommends that for institutions to thrive and compete they must implement strategies effectively.
Keywords: Strategic management, strategy implementation, organizational, performance

1. Introduction
Organizations operate in a very competitive environment. To develop and sustain competitive advantage, firms practice strategic management. Strategic management consists of the analysis, decisions, and actions an organization undertakes in order to create and sustain competitive advantage (Gregory, Lumpkin & Taylor, 2005). It involves decision-making about an organization's objectives (Gregory, 2007). According to Davenport (2007) creating a brilliant strategy is nothing compared to executing it successfully. Execution is critical to success, without a carefully and well planned approach to execution, strategic goals cannot be attained. Therefore, in striving to achieve intended results, good strategies should be properly implemented. Strategy implementation entails converting the strategic plan into action and then into results. This strategic process is geared towards improving a firm's performance. Organizational performance involves the recurring activities to establish organizational goals, monitor progress toward the goals, and make adjustments to achieve those goals more effectively and efficiently. In order for an organization to remain viable over time, it must be both financially viable and relevant to its stakeholders and their changing needs. The Kenyan banking sector continues to exhibit resilience in the face of various local and global turbulences (Ndung'u, 2009). It has grown in terms of assets, deposits, employment and branch network. In addition, it exceeded the statutory minimum requirement in terms of Capital Adequacy Ratio and sector average liquidity. Banks increasingly need to have cost effective and innovative products, as well as improved access to financial services. This stiff competition has necessitated banking institutions to implement appropriately formulated strategies to survive and gain profits.

1.1. Statement of the Problem
Strategic management is important for organizational performance. For strategic management to result to superior performance, all the steps in the process need to be effectively managed. A brilliant strategy may put a company on the competitive map and increase its performance. Unfortunately, most companies struggle with implementation and therefore fail in performance enhancement (Blahová & Knápková, 2010). However, little empirical work has been done to investigate the effect of strategy implementation on organizational performance. This study therefore sought to investigate the effect of strategy implementation on organizational performance.

1.3 Objective of the Study
The general objective of the study was to determine the effect of strategy implementation on performance of commercial banks in Kenya. The specific objectives of the study were:

1.4 Hypothesis of the study
This study tested the hypotheses that there is a positive relationship between strategy implementation on the performance of commercial banks in Kenya.

1.5 Limitations of the Study

A limitation of this study is that the scope is confined to the banking industry. Institutions in this industry are service providers who may have slight difference in strategy implementation compared to businesses involving non-financial services or goods. The researcher however notes that firms implement strategy the same irrespective of their business.

2.0 Literature Review

2.1 Strategy Implementation

Implementing strategy is a tough and time consuming challenge. Practitioners emphatically agree that it is a whole lot easier to develop a sound strategic plan than it is to "make it happen." Putting strategy into effect and getting the organization moving in the chosen direction calls for a different set of managerial skills. Successful strategy implementation depends on working through others, organizing, motivating, culture-building and creating strong fits between strategy and how the organization does things. Ingrained behavior does not change just because a new strategy has been announced (Thompson & Strickland, 1993).

Although formulating a consistent strategy is a difficult task for any management team, making that strategy work by implementing it throughout the organization is even more difficult (Hrebiniak, 2006). A myriad of factors can potentially affect the process by which strategic plans are turned into organizational action. Unlike strategy formulation, strategy implementation is often seen as something of a craft, rather than a science, and its research history has previously been described as fragmented and eclectic (Noble, 1999b). It is thus not surprising that, after a comprehensive strategy or single strategic decision has been formulated, significant difficulties usually arise during the subsequent implementation process. Noble further notes that even the best-formulated strategies may fail to produce superior performance for the firm if they are not successfully implemented. Results from several surveys have confirmed this view: An Economist survey found that a discouraging 57 percent of firms were unsuccessful at executing strategic initiatives over a period of three years, according to a survey of 276 senior operating executives in 2004 (Allio, 2005). According to the White Paper of Strategy Implementation of Chinese Corporations (2006) strategy implementation has become "the most significant management challenge which all kinds of corporations face at the moment". The survey reported in that white paper indicates that 83 percent of the surveyed companies failed to implement their strategy smoothly, and only 17 percent felt that they had a consistent strategy implementation process.

Great strategies are worth nothing if they cannot be implemented (Okumus & Roper 1999). It can be extended to say that better to implement effectively a second grade strategy than to ruin a first class strategy by ineffective implementation. Less than 50% of formulated strategies get implemented (Mintzberg, 1994; Miller, 2002; Hambrick & Canella, 1989). Every failure of implementation is a failure of formulation. It is thus obvious that strategy implementation is a key challenge for today's organizations. There are many soft, hard and mixed factors that influence the success of strategy implementation, ranging from the people who communicate or implement the strategy to the systems or mechanisms in place for co-ordination and control.

Strategy implementation entails converting the strategic plan into action and then into results (Thompson & Strickland, 1993). It is considered successful if the company achieves its strategic objectives and targeted level of financial performance. In deciding how to implement strategies, managers must have to determine what internal conditions are needed to execute the strategic plan successfully. This involves creating a series of tight fits between how things are managed internally and what is required for first rate strategy execution between strategy and: organization structure, organization's skills and competencies, budget allocations, internal policies, procedures and support systems, reward structure, strategy and the corporate structure. The tighter the fits the more likely targeted organizational performance can actually be achieved.

While the details of strategy implementation are specific to every situation, certain operational and administrative bases have to be covered no matter what the organization's situation is (Thompson & Strickland, 1993). These principal tasks crop up repeatedly in the strategy implementation process. Depending on the organization's circumstances, some of the tasks will prove more significant and time-consuming than others. To devise an action agenda, managers have to determine what internal conditions are necessary to execute the strategy successfully and then create these conditions as rapidly as practical. The keys to successful implementation are to unite the total organization behind the strategy and see that every relevant activity and administrative task is done in a manner that tightly matches the requirements for first-rate strategy execution.

The motivational and inspirational challenge is to build such determined commitment up and down the ranks that an enthusiastic organization wide crusade emerges to carry out the strategy and meet performance targets as well as a concerted managerial effort to create a series of strategy- supportive "fits". The stronger the strategy-supportive fits created internally, the greater the chances of successful implementation. The process of strategy implementation therefore involves two major steps namely operationalization of strategy or tactical issues and institutionalization or administration of strategy.

During strategy implementation, the strategy must be made operational or ready for action thus making it ready for eventual implementation. This operationalization of strategy involves breaking long-term corporate objectives to operational short-term objectives and developing specific functional, unit or departmental strategies and drawing action plans to achieve the objectives (Pearce & Robinson, 1996). Policies to guide decision making must also be established, programs developed and procedures on how things will be done determined. In addition responsibility should be assigned to specific people, human resource aligned to strategy and strategy-supportive budgets established.

The implementation phase also requires institutionalization of strategy, that is, developing organizational capability to a point where it is fully supportive of the new strategy. The reality of strategy resides in its strategic actions rather than its strategic statements (Burgelman, Grove & Meza, 2006). This involves action-oriented activities such as communicating strategic intentions throughout the organization, matching strategy with organizational structure, matching strategy with culture, selecting effective leadership and designing effective reward systems. These two phases of strategy implementation are geared towards improving organizational performance. Organizational performance comprises the actual output or results of an organization as measured against its intended outputs (or goals and objectives).

2.2 Strategy Implementation and Organizational Performance

The job of strategy implementation is to translate plans into actions and the intended results. The test of successful strategy implementation is whether actual organization performance matches or exceeds the targets spelled out in the strategic plan. Shortfalls in performance signify weak strategy, weak implementation or both. The effectiveness with which a particular strategy is implemented should strongly affect performance on dimensions on which the strategy is expected to affect. Empirically, most strategy research studies employ the construct of business performance to examine a variety of strategy content and process issues. For example, an article concerning the use of financial and operational performance; through the summarization of two seminal papers written by Venkatraman and Ramanujam (1986) and Kaplan and Norton (1992).

The study by Venkatraman and Ramanujam (1986) discusses evaluation of the measurement of business performance by delineating the performance concept. Their study found out that business performance, which reflects the perspective of strategic management, is a subset of the overall concept of organizational effectiveness. According to Venkatraman and Ramanujam financial performance improvement is central to strategy research, their research shows that on average just 63% of the potential return of a strategy is realized through the implementation. This is the Strategy-to-Performance gap which as applied to business strategy indicates that the problem is not the strategy, but the implementation

Despite enormous time and energy that goes into strategy development, many companies have little to show for the effort. On average they deliver only 63 percent of the financial performance promised by their strategies (Mankins & Steele 2005). Companies rarely track performance against long-term plans and their multiyear expectations rarely meet projections as much value is lost in translation (Kahneman, Slovic & Tversky, 1982). Mankins and Steele break out the relative contributions of various factors to the performance gap. On average, 7.5 percent of the value leaks away due to failing to have the right resources available at the right time; 5.2 percent is lost due to poor communications; 4.5 percent to poor action planning; and 4.1 percent to unclear accountability. However, they say a company can close this gap and reap an increase in performance anywhere from 60% to 100% through proper planning and implementation. A cultural multiplier effect is experienced when companies create tight links between their strategies, plans, and performance, leading eventually to a culture of over performance.

2.3 Conceptual framework of the relationship between strategy implementation and organizational performance

The framework for this study examined strategy implementation as being a key factor in improving organizational performance in strategic management as illustrated in figure one.

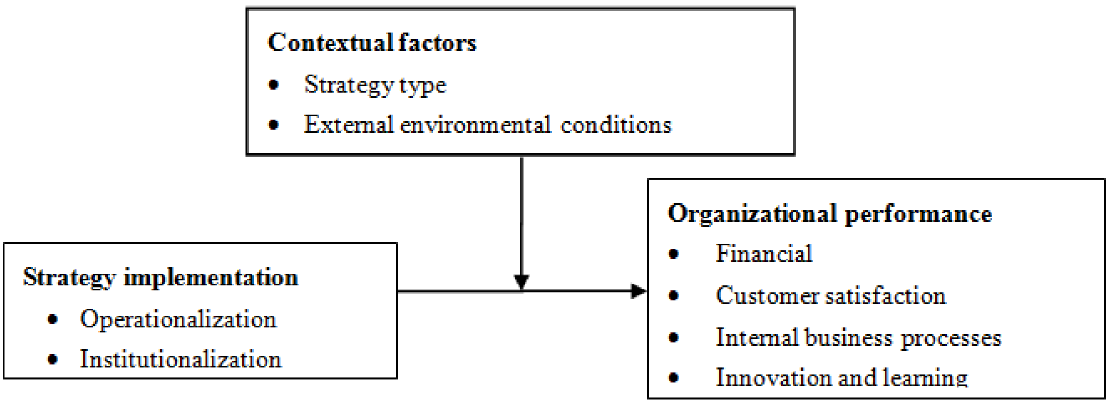

Figure 1: Relationship Between Strategy Implementation, Strategy Type and Organizational Performance

According to the framework in figure 1, strategy implementation constitutes the independent variable while organizational performance is the dependent variable. Strategy implementation will be assessed through the specific activities of operationalization and institutionalization of strategy. Strategy implementation is expected to result to improved organizational performance. This will be assessed in terms of financial, customer satisfaction, internal business processes, and innovation and learning.

Contextual factors, that is, strategy type and external environment conditions will have an effect on the relationship between strategy implementation and performance. Strategy type will determine the outcome of the implementation process, if the wrong strategy type is used, not even good strategy implementation will lead to the required improvement in performance. On the other hand, environmental conditions or the totality of external factors that influence the behavior of the institutions will affect the outcome of the strategy implementation. These contextual factors can therefore encourage or hinder performance during and after strategy implementation.

According to Pleshko and Nickerson (2008) business strategy has been discussed from many differing perspectives (as cited in Porter 1980, Miller 1987, Katobe 1990). They further state that one common and useful conceptualization was that put forward by Miles and Snow (1978) which focuses on a firm's strategic environmental adaptation or aggressiveness towards the market. Much research over the years has investigated differences among the four strategic types regarding a variety of internal factors, including innovation, management characteristics, organizational performance, and organizational design. The outlined defender, analyzer, reactor and prospector strategies are suggested to be distinct in their actions, with each group enacting consistent decisions and activities across a variety of organizational.

Pleshko and Nickerson (2008) further state that the strategic groups are found to differ amongst each other on a variety of factors, including implementation and usage of market research, organizational performance, and environmental perceptions (as cited by Auh and Menjuc 2005, Bednall and Valos 2005, Freel 2005, Moore 2005). In particular, Pleshko and Nickerson discuss one main proposal (as cited by Miles and Snow, 1978) that the four strategic types vary according to their efforts at innovation and related activities, with prospectors the most aggressive followed in order by analyzers, defenders, and reactors (as cited by Slater and Narver 1993, McDaniel and Kolari 1987). However, the level of innovation does not always translate into profitability or better performance, due to cost factors or market factors.

Strategies are not and should not be developed in a vacuum. They must be responsive to the external business environment (Dess, Lumpkin & Taylor, 2005). An organization’s external environment consists of competitors and other forces outside its industry that are not under the direct control of the organization and its industry (Byars, Rue & Zahra 1996). This environment should be scanned so as to comprehend the opportunities and threats awaiting the organization to enhance strategy formulation and implementation. The degree of complexity and change in the environmental factors will determine uncertainty. When uncertainty is high it means times are turbulent and leaders should be more involved in strategy implementation.

A firm is faced with numerous external environments that surround and influence a its production such as the industry and sector, markets and competitors and finally the general environment. A dynamic analysis of the external environment reveals drivers for change in an industry to help organizations identify and understand the external environment in which they operate and how it will operate in the future. Porter (1980) identified five competitive forces that shape every industry and every market. These forces determine the intensity of competition and hence the profitability and attractiveness of an industry. The five forces analysis looks at five fundamental competitive forces of the threat of new entry, the power of buyers, the power of suppliers, the threat of substitutes and rivalry among the existing players. According to Dean, Brown and Bamford (1998) the general environment is composed of factors that can have dramatic effects on a firm’s strategy and a firm has little ability to control them. Dess et al. divide the general environment into six segment namely; demographic, sociocultural, political/legal, technological, economic and global.

3.0 Research Methodology

3.1 Research Design

The study used correlational research design to determine if there is a relationship and the strength of the relationship between strategy implementation and performance of commercial banks in Kenya (Sekaran, 2004). This study was a census survey in that data was collected by asking questions from the entire population.

3.2 Population of the Study

This is a census study of all the forty three (43) registered commercial banks in Kenya over a three year period from 2010.

3.3 Data Collection

The study used primary data collected through the use of questionnaires administered by the researcher to designated managers who were conversant with the institution’s strategy implementation and performance levels.

3.4 Data Analysis and Presentation

Descriptive statistics such as percentages were used to summarize the data using Statistical Package for Social Sciences (SPSS) version 21. Pearson's product-moment correlation coefficient was also calculated to establish the direction and strength of the relationship that exists between strategy implementation and organizational performance. To determine the effect of strategy implementation on organizational performance, a multiple regression model was developed.

$Y = a + b_1 x_1 + b_2 x_2 + \epsilon$

Where: Y = Organizational performance; a = Constant, $b_1 - b_2$ = Regression coefficients

x_1 = Strategy operationalization, x_2 = Strategy institutionalization, ϵ = Error term

4.0 Results

4.1 Effect of Strategy Implementation on Organizational Performance

Table 1: Regression Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.693[a]	.480	.448	3.689

a. Predictors: (Constant), Institutionalization of Strategy, Operationalization of Strategy

The results in table 1 show the model summary of the multiple regression analysis. R value on the table shows the regression coefficient (r = 0.693) of the analysis, which shows that there is a strong and positive relationship between strategy implementation and organizational performance. Coefficient of determination (Adjusted R Square) is 44.8%. This shows that 44.8% variation in the dependent variable (organizational performance) is explained by the independent variable (strategy implementation).

From the full regression model in table 2, the regression equation is therefore expressed as:

$Y = 5.086 + 0.442 x_1 + 0.409 x_2$

The regression equation shows that, an improvement in strategy implementation positively affects organizational performance. This means that the results support the main hypothesis of the study that there is a positive relationship between strategy implementation on the performance commercial banks in Kenya.

Table 2: Full Regression Model

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	5.086	4.116		1.236	.225
Operationalization of Strategy	.442	.247	.344	1.788	.083
Institutionalization of Strategy	.409	.199	.395	2.055	.048

a. Dependent Variable: Performance

5.0 Conclusions

From the findings, there is a moderately strong relationship between strategy implementation and organizational performance. This view suggests that the two aspects of strategy implementation (operationalization and institutionalization) are complementary and either is ineffective in the total absence of the other. Therefore, considering the importance of strategy implementation to stakeholder value addition, it would not be an overstatement to say, "Strategy is implementation". However, for strategic management to improve organizational performance, all steps in the process need to be effectively designed and carried out. The required actions in each step of should be carefully thought out, tailored to the organization and made part of an overall implementation plan.

Institutions that want to thrive and compete effectively must implement strategy effectively. One of the most disappointing outcomes of a strategy project is failure. The cause of such disappointing outcomes usually wasn't that the strategy was poorly done or missed a key theme, but rather that the implementation process failed. Winners on the field of business will be those firms, who not only have a good, solid strategy, but more importantly, implement it well.

The study focused on the effect of strategy implementation on performance of commercial banks. However, only 44.8% variation in performance is explained by strategy implementation. This indicates that there are other factors which influence performance. Introduction of one or more of these factors can provide base for further research. As far as the findings are concerned, possible enlargement of the sample to include other financial players would be highly desirable. Institutions can also perform detailed studies into their strategic management styles so that relevant improvements can be made in areas of weakness.

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