EFFECT OF STRATEGIC ORIENTATION ON PERFORMANCE OF BANKING INSTITUTIONS IN KISUMU CITY-KENYA

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ABSTRACT

This study sought to determine the effect of strategic orientation on performance of banking institutions in Kisumu City. Performance of these banks varies greatly in terms of return on total assets (ROTA) yet they operate in the same macro-economic environment. No study has been carried out to establish this. This was achieved by obtaining and analyzing both primary and secondary data. The primary data was obtained by way of questionnaires and the respondents drawn from the senior management level of the surveyed banks. Secondary data comprised of published financial accounts of the surveyed banks as a whole for the financial year ended 31st Dec. 2010. The purpose of this study was to determine the effect of strategic orientation on the performance of banking institutions in Kisumu City. To achieve this, the researcher was guided by the following objectives: 1) To identify strategic practices adopted by these banks. 2) To establish the relationship between these strategic practices and performance of these banks. 3) To determine the strength of the relationship between strategic orientation and performance of these banks. The research design used in this study was descriptive survey. The study employed saturated and purposive sampling technique because the researcher was convinced that this method would enable him to collect focused information. There are twenty one (21) banks in Kisumu City and from each of them, the branch manager, operations manager and customer

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service officers were requested to complete a set of questionnaires. Face to face interviews was also conducted to ensure all areas of interest were captured. This made a sample size of sixty three (63). Data analysis was carried out using both descriptive and inferential statistics. The descriptive statistical tools used were totals, mean, standard deviation, and percentages. The inferential statistical tools used were product-moment correlation, coefficient of determination (r^2), student t-test and regression analysis. The results of the findings were then presented in the form of Tables, charts and figures. The survey revealed that firms adopting prospector strategy perform better than firms with other forms of strategies. The study also showed that there is good correlation between strategic orientation and performance. This conforms to earlier studies by other scholars. The study also revealed that privately owned banks tend to adopt defender strategy. The study concludes by recommending that further studies need to be carried out to establish why most privately owned banks in Kisumu City tend to adopt defender strategy.

Keywords: Strategic orientation, Performance, Banks, Kisumu City, defender strategy.

Introduction

Business Strategy has been discussed from many differing perspectives; (Porter, 1980; Katobe, 1990). One common and useful conceptualization put forward by Miles and Snow (1978) focuses on firm's strategic environmental adaptation or aggressiveness towards the market. Much research over the years has investigated differences among the four strategic types: Prospector, Defender, Analyzer and Reactor. These strategies are suggested to be distinct in their actions with each group enacting consistent decisions and activities across a variety of organizational areas. (Aragon – Sanchez, *et al.*, 2005; Slater& Narver; 1993; Doty, *et al.*, 1993; Conant, *et al.*, 1990; Shortell & Zajac, 1990). Recent studies have supported and extended the findings of earlier works regarding Miles and Snow's typology (Auh & Menjuc, 2005; Bednall & Valos, 2005; Freel, 2005; Moore, 2005). In particular, one main proposal of Miles and Snow (1978) is that four strategic types vary according to their efforts at innovations and related activities with Prospectors the most aggressive followed in order by Analyzers, Defenders and Reactors (Slater & Narver 1993). Firms choose one type rather than another, according to the perception they have of their environment. The first three types can be considered along a continuum, expected to enhance organizational performance. The prospector strategy is at one end of the continuum, and the

defender one at the other. The analyzer strategy is a combination of the two. The reactor strategy is excluded from the continuum since it represents an organization having no specific strategy identified. This last type is expected to impede organizational performance. Organizations opting for the prospector strategy wish to have access to the largest possible market. They are characterized by their repeated efforts to innovate and bring about possible changes in their industry. Organizations selecting the defender strategy have a restricted market and stress production efficiency. They emphasize the excellence of their products, the quality of their services, and their lower prices. Organizations choosing the analyzer strategy do the entire above, but in moderation. (Shortell & Zajac, 1990). Finally, organizations having a reactor strategy ignore new opportunities, neither can they maintain markets already acquired or take true risks. While numerous studies have investigated performance and strategic orientation, research on these two variables in relation to banking institutions is sparse (Guilding & McManus, 2002). Scholars have attempted to verify the reliability and validity of the Miles and Snow typology. Such a study by Shortell and Zajac (1990) indicated that this typology of strategic orientations and its predictions generally were accurate. They found that prospectors are likely to be the first organizations to adopt new products and services, analyzers are likely to be the first organizations to adopt new managerial procedures and systems, and defenders are usually the first organizations to adopt new production-related technology. Moore (2005) carried Miles and Snow's framework to the retail environment, and concluded that the typology is generally applicable to retail contexts. Other researchers further broadened the scope and applicability of Miles and Snow's typology, relating the strategic approaches, strategic decision processes, international strategies, and functional areas within organizations. Subramanian, *et al.*, (1993) found that strategic types differed in terms of how managers perform environmental scanning. Prospectors tended to be more proactive in their scanning, followed by analyzers; defenders tended to be less proactive or "ad hoc."

As an example of the effect of functional expertise in an international context, Naranjo-Gil (2004) explored the impact of sophisticated accounting information systems on strategic performance among hospitals in Spain. Findings indicated that performance was enhanced primarily through sophisticated accounting information systems' role in implementing the prospector strategy. Clearly, the Miles and Snow typology has contributed to our understanding of organizational behavior in a variety of settings. As demonstration for its further applicability, Peng, *et al.*, (2004) studied firms in the emerging Chinese economy. These authors concluded that the type of firm ownership can help predict strategic group membership. Specifically, state-owned enterprises tended to adopt defender strategies, and privately-owned enterprises tended to adopt prospector strategies. The analyzer orientation was also represented, most commonly under collective and foreign ownership. No studies have been done in Kisumu City in this subject concerning banking institutions. Further research efforts aimed at the extension of Miles and Snow's typology to banking industry appears warranted. Organizational performance has become an important component of empirical research in the field of strategic performance (Gregory & Robinson,

2004). Researchers frequently take the performance of organization into account when investigating such organizational phenomena as structure, strategy and planning. The literature has shown that both quantitative and qualitative measures of performance have certain limitations and it has been recommended that they be used in combination (Drury, 2001). Prior to the 1980's, management control system tended to focus mainly on financial measures of performance.

Statement of the Problem

Banking institutions operate in the same industry and therefore are likely to have more or less the same corporate strategies. Difference in their performance will depend on difference in their business strategies. If a strategy is to achieve set objectives, it must match the firm's strength to its competitive environment (Sagimo, 2002). Banking institutions act as financial intermediaries by accepting money on deposit from one group of people who may want it back on demand or at short notice, and lend it to other people for sometime (Palfreman & Ford, 1985). The bank's objective in providing services to borrowers and depositors is the generation of profit, like any other commercial organization. The more money they can lend, the more profits banks can earn. A bank cannot lend out all the funds which it obtains on deposit because it must retain enough money in liquid form to be able to meet depositors' request for payment. However, the more liquid the form in which funds are held, the less the rate of return. Cash holdings, being the most liquid form of assets, generate no profit at all. The shareholders jointly own the bank and look to it to provide a return on their capital. The depositors have provided the vast bulk of the funds used by the banks and require safety and ability to get their money back at short notice (Hutchinson, 1995). A successful bank has to reconcile the interest of these two groups or it would lose either its shareholders or its depositors. This calls for the choice of the right business strategy. There is a glaring difference in performance for these institutions in terms of return on assets (ROTA) despite that they operate more or else in the same environment and industry. For example a quick glance at the published financial statements for the year ended 31st December 2010 shows that the industry average for ROTA was 2.51% with a standard deviation of 2.01%. This is an indication that the difference between well performing banks and those that are doing poorly is quite big. For instance Equity Bank had total assets worth Kshs 143,018,000,000 and they used this to earn profit after tax (PAT) of Kshs 7,132,000,000. This translates to ROTA of 4.99%. On the other hand CFC Stanbic had almost the same amount of assets worth Kshs 140,080,000,000 but it ended making a loss of Kshs 2,533,036,000. This gives a return on total assets of -1.81%. It means CFC Stanbic employed more assets to earn its revenue than its competitors did. This may be due to different business strategies they adopt in addressing the issue of how they compete in the market. There is no research that had been conducted to prove this or otherwise. In view of this discrepancy in performance, there is need to identify the strategies adopted by these firms, to establish the relationship between the strategic orientation and their performance and to determine the strength of this relationship.

Conceptual Framework

This study focused on the relationship between strategic orientation and performance. A more understandable model of orientation and performance paradigm can be derived by investigating variables that develop meaning of the nature of the relationship. The theory was based on Miles and Snow (1978) typology of strategic orientation. They proposed four types of paradigms by which organizations can solve administrative, entrepreneurial and engineering problems. The authors proposed that firms can be classified within one of the following four types of organizational adaptations: Prospectors, Analyzers, Defenders and Reactors. A conceptual framework suggesting relationship between the variables discussed in the foregoing section was proposed in the figure below:

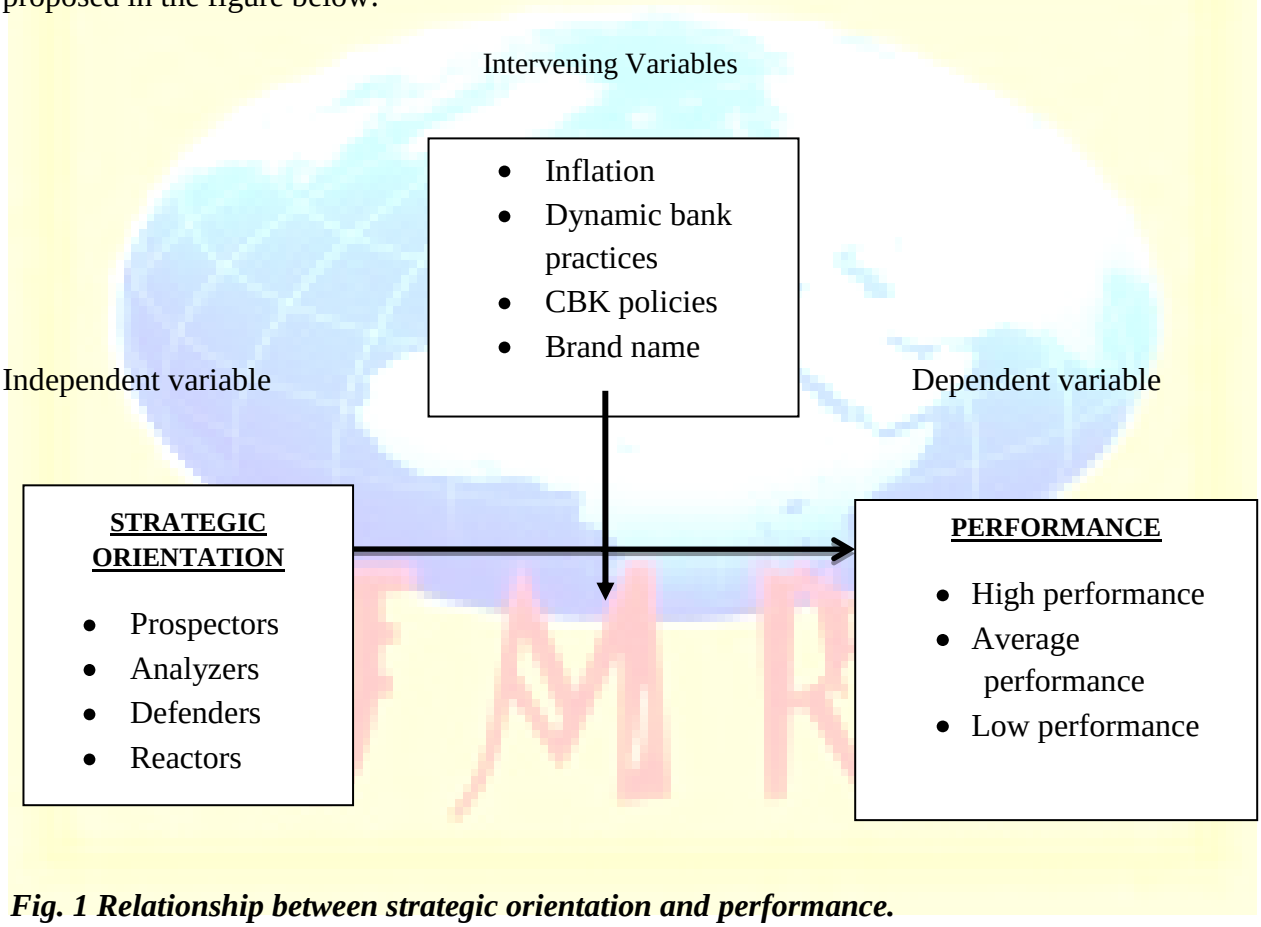

Fig. 1 Relationship between strategic orientation and performance.

(Source: Self conceptualization)

Based on the original description of the typology as well as the practices in the banking industry, four strategy types were suggested in this study. The strategic orientation was classified into prospectors, analyzers, defenders and reactors. This was treated as independent variable and was measured in terms of strength of response (STRORE). It was assumed that the choice of a strategy would have influence on quality of financial services offered by a bank. This in turn would

influence its performance. However there are also other factors that have influence on performance. These were assumed to be constant. Performance was measured in terms of return on total assets (ROTA). The ROTA industry average is 2.51%. Therefore a bank with ROTA above 2.51% was considered a high performing bank. A bank with a ROTA of about 2.5% was considered an average performing bank while those with ROTA below 2.51% were considered a low performing bank. The study therefore sought to determine how the strength of response for a particular strategic orientation related to ROTA.

The Concept of Strategic Orientation

Strategic Orientation is defined by Gatignon and Xuereb (1997) 'as strategic directions implemented by a firm to create the proper behaviors for the superior performance of the businesses'. Based on the work by Narver and Slater (1990), strategic orientation provides a foundation of guidelines upon which to continuously improve a company's performance. Strategic orientation is therefore an acceptable location for organization in the environment. Strategy becomes the mediating force between the organization and its environment. There are several generic taxonomies for strategy that have been suggested in the past. Porter (1980; 1985), argued that for a firm to compete effectively, it must derive its competitive advantage either from product differentiation, cost leadership or focus. Other taxonomies used in contingency research are build-hold-harvest (Gupta & Govindarajan, 1984), entrepreneurial-conservative (Miller & Friesen, 1986) and prospector-analyzer-defender (Miles & Snow, 1978). The quest for taxonomy of generic strategies is a characteristic of much of the literature on strategic management (Miller & Dess, 1993). A taxonomy of generic strategies that has attracted attention is that of Miles and Snow (1978). In a literature survey, over 50 papers applied Miles and Snow's model in the period between 1987 and 1994 (Fernando, 2008). Strength of this taxonomy is that it specifies relationships among strategy, structure and process in a manner that allows the identification of organizations as integrated wholes in interaction with their environments. It is a well-researched taxonomy and can be selected with less need to explore its operationalization status (Fernando, 2008). The diverse empirical studies that have applied Miles and Snow's model have contributed to identifying it as one having good codification and prediction strengths (Shortell & Zajac, 1990; James & Hatten, 1994). Organizations can be classified into one of the four theoretical categories easily, and their behavior can be predicted on basis of their classification as a defender, prospector, and analyzer or reactor organization. Therefore, Miles and Snow's model is relevant for the analysis of difference in performance of banking institutions by identifying the strategies they adopt in order to accomplish a good alignment with the perceived environmental conditions. Miles and Snow have produced a typology of business-level strategies. As opposed to corporate-level strategy, i.e., decisions related to what businesses should the firm be engaged in, business-level strategy is related to how the organization competes in a given business (Hambrick, 1983). This model is therefore relevant in a banking industry because corporate-level strategies are almost identical but a business strategy is what makes the difference. Miles and Snow proposed that firms in general develop relatively stable patterns of strategic behavior in order to accomplish

a good alignment with the perceived environmental conditions. Their typology involves four strategic types: defenders, prospectors, analyzers and reactors. In this study, Miles and Snow typology will be used as the strategic orientation because they are more measurable hence objective. The first objective of this study is therefore to identify the strategies adopted by these banking institutions. So far there are no studies showing how these institutions align themselves with the environment.

Empirical applications of Miles & Snow's generic strategies

The researcher starts by first commenting on a thorough analysis of research evidence related to Miles and Snow model made by Zahra and Pearce (1990). He then proceeds to describe in more detail the results of a number of empirical works which he judged as representative of the concerns that have attracted attention of other researchers. These works include: Hambrick (1983), Smith, *et al.*, (1986), Conant, *et al.*, (1990), Parnell and Wright (1993), Beekun and Gin (1993), and Schenk (1994). Zahra and Pearce (1990) carried out a comprehensive study aiming to evaluate the research evidence for the Miles- Snow typology based on an analysis of 17 empirical studies. According to Zahra and Pearce (1990), results from a high number of studies have strongly supported Miles & Snow's propositions that four types of different strategies exist in different environments. The hypothesis that reactors will be outperformed by the other three types seems to have been strongly supported albeit the moderate coverage it has received in the studies analyzed. Most of the studies analyzed by Zahra and Pearce (1990) have concentrated heavily on classifying the firms under analysis into different groups based solely on the entrepreneurial problem, paying little attention to the other two dimensions, i.e., the administrative and engineering problems. However, Miles & Snow (1978) have posited that the performance of the firms will be dependent on the alignment among the solutions adopted for each type of problem. Although the entrepreneurial dimension is believed to be the key dimension underlying the typology (Hambrick, 1983), this reliance on a partial measure may be leading to an incorrect classification of firms' strategies by researchers who consider only this dimension of Miles & Snow's model (Fernando, 2008). Miles and Snow's model proposes that when the solutions to the three problems are not aligned, the firm's strategy is characterized as a Reactor one. Bearing this in mind, researchers who have adopted only the entrepreneurial dimension to classify their respondents' strategies, may be getting at best an incomplete picture, and thus, their research results are open to question. Hambrick (1983) studied how industry environment affected the effectiveness of different strategies based on Miles and Snow's taxonomy. Applying an objective data approach (data of an economic and financial nature), Hambrick studied 1452 different businesses from the PRIMS database. Concentrating on defenders and prospectors, Hambrick designed a measure of strategy based on the percent of sales derived from new products for the business minus the percent of sales derived from new products for the three largest competitors. Defenders were considered those firms whose score in this measure was less than or equal to -5, and prospectors were firms whose score was more than or equal to +5. Businesses were matched

against their competitors along 4-digit SIC codes. Contrary to what Miles & Snow proposed the results indicated that defenders so defined outperformed prospectors in stable, mature and non-innovative industries, while prospectors performed better in innovative and dynamic environments. Prospectors presented higher product R&D expenses and marketing expenses as would be expected, while defenders produced high capital intensity, high employee productivity and low direct costs. Hambrick's study, in spite of bringing new light to Miles & Snow's typology, failed to address the behavior of two strategic types: analyzers and reactors. Smith, *et al.*, (1986) applied a multidimensional (cluster analysis) approach, gathering data on a number of dimensions to verify the extent to which four clusters resembling Miles & Snow's typology would emerge. Secondly, they tested the relationship between organizational performance and strategic type, as well as the relationship of these two variables with organizational size. A sample of 47 electronic manufacturing firms provided data for this study collected through structured interviews with CEOs and other top-level managers. The results indicated a support for the typology. Thus, firms identified as having prospector strategies presented the following characteristics: "an unstable customer base, a changing product mix, a competitive edge in innovation, a "creating change" approach to their customer base and an aggressive attitude toward growth. Furthermore, this group is managed primarily by research and development personnel who are relatively young, less tenured and who have been recruited from outside of the organization. On most measures this cluster of firms appears to be following a prospector strategy" (Smith, *et al.*, 1986: pp. 46) The cluster of companies identified as analyzer had traits that resemble Miles & Snow's model demonstrating a balanced blend of product variety and diversity; top level managers equally divided among marketing, research and development; and combinations of high and low scores on other dimensions. Defender firms were identified in a cluster whose characteristics involved a stable product base, an aggressive approach to maintaining their customer base, a low price competitive edge, and a product design approach that is based on production capability. Furthermore, the top management team was composed of managers with general management backgrounds. Finally, the reactors firms were identified by the majority of firms in this group indicating a lack of consistent approach to the entrepreneurial, engineering, and administrative problems. The data supported Miles and Snow's contention that analyzers, prospectors and defenders outperform reactors. An interesting result was obtained on the relationship among strategy, size and organizational performance. Small defenders outperformed analyzers and prospectors, prospectors performed better as medium to large firms, and analyzers performed better as large ones. This could indicate, according to the authors, that Miles & Snow might have captured different stages of strategy development rather than a typology of alternate strategic behaviors (Smith, *et al.*, 1986). In view of banking institutions, the researcher had posited that the performance of the banks will be dependent on the alignment among the solutions adopted for each type of problem i.e. entrepreneurial, engineering and administrative. However, the evidence suggests that the effectiveness of a specific strategy may be partially associated with organizational structures. Thus, taken together, the results (Hambrick, 1983; Smith, *et al.*, 1986) support the existence of stable patterns of strategic behaviors, and groupings of firms according to

strategies hypothesized by Miles and Snow (1978). However, the relationship between strategy and performance is less clear-cut. We have to reject any simple relationship on the evidence of these studies. Further work is required to explore the relationship between the strategic orientation and organizational performance. This formed the basis of the second objective of this study which sought to determine the relationship between strategic orientation and performance of banking institutions in Kisumu City.

Organizational performance

Organizational performance (OP) has become an important component of empirical research in the field of strategic management (Hyvonen, 2007). Researchers frequently take the performance of organization into account when investigating such organizational phenomena as structure, strategy and planning (Robbins, 1990). This emphasis accords with the need to develop a normative theory of strategic management which is based upon empirical investigation (Dent, 1990). However, research which incorporates OP must address two basic issues: 1) Selection of conceptual framework from which to define OP and 2) Identification of accurate, available measures that operationalise OP. Ford and Schellenberg (1982) examined three major frameworks frequently used to conceptualize OP; the goal approach (Etzioni, 1964) seeks definition based upon explicit goal or goals which can be implied from the behavior of organizational members. The systems resource approach (Govindarajan, 1992) provides a framework to assess OP in terms of the key internal and external factors upon which the organization depends for survival. The Constituency approach views the organization as existing to benefit numerous constituencies, both internal and external to the organization, with OP assessment focused on fulfillment of constituent needs (Govindarajan and Fisher, 1992). Regardless of the framework chosen to conceptualize OP, it is apparent that OP is a complex and multidimensional phenomena. Operationalizing such a complex concept is inherently difficult. Even when focusing on economic dimensions of OP, researchers frequently encounter difficulty in obtaining accurate measures. Two popular measures related to economic aspects of OP, return on total assets (ROTA) and fixed asset turnover (FAT), exemplify this measurement problem. Obtaining accurate economic performance data is often a problem in two salient research settings: one, banking institutions which offer more than just financial services and two the privately-owned firms. Economic measure to be used in this study is after tax return on total assets (ROTA). ROTA is commonly viewed as one measure of operational efficiency of a firm with regard to profitable use of its total asset base (Ansoff, 1965, Bourgeois, 1990, Gale, 1972). Ansoff (1965) asserts that return on total assets is a commonly and widely accepted yardstick for measuring business success. It is the ratio of net earnings to total assets. It indicates the firm's efficiency in utilizing assets to generate revenue (Jennings, 1993). Net earnings are the profit after tax (PAT) whereas total asset (TA) is the sum of fixed assets and current assets (Pandey, 1997). ROTA is therefore the ratio of PAT to TA (Van-Horne & Wachowicz, 1997). They stated that if this ratio is lower than that of the

industry, then it means the firm is employing more assets to generate revenue than does the typical firm in the industry.

Strategic Orientation and Organizational Performance

Conant, Mokwa & Varadarajan (1990) designed and tested a multi-item scale for operationalizing Miles & Snow's generic strategies. Their questionnaire addressed the eleven dimensions contained in the three different problems faced by each organisation's management team when choosing a strategy, i.e., the entrepreneurial, administrative and engineering problems as proposed in Miles & Snow's model. The instrument was originally tested in a single industry study of Health Maintenance Organisations (N = 150). The results indicated that defenders, prospectors and analyzers performed equally well in terms of profitability and outperformed reactors. The most significant contribution of Conant, *et al.,* (1990) work was in the thorough development of a multi-dimensional measure of Miles and Snow's typology of generic strategies. Their study also gave additional evidence of the existence of four generic strategies as hypothesized by Miles and Snow (1978).

Parnell and Wright (1993) addressed the relationship between strategy and performance in a volatile, dynamic and growing industry -- catalogue and mail-order houses. Their approach was based on the self-typing questionnaire developed by Conant, *et al.* The final sample included 104 respondents (CEOs) and results supported the expected relationships, i.e., reactors were outperformed by the three other types, and prospectors were the best performing companies in terms of sales growth in the sample. Analyzers, on the other hand, produced higher return on assets than the other strategic types. However, this was a one-industry study and the expected relationships may differ for other industries. Beekun and Ginn (1993) sought an extension of Miles and Snow's model. The authors tried to complement the intraorganizational configurations proposed by Miles & Snow studying how firms align themselves with the environment by developing both tight and loose interorganizational linkages. The expected relationships tried to link resource and information exchange patterns with the choice of a defender, analyzer, prospector, or reactor strategy. Data from a sample of 86 Acute Care Hospitals in America provided support for the idea that certain strategic types are dominant in environments with different levels of turbulence. By measuring the strategic orientation using the strength of response (STRORE), this study sought to determine the strength of relationship between strategic orientation and performance of banking institutions in Kisumu City. One of the main conclusions reached by Doty, Glick and Huber, (1993) was that Miles and Snows typology of strategies is a powerful predictor of business efficiency even more than previous papers had found (Hambrick, 1983). From an empirical viewpoint, banking institutions are an ideal and rare setting in which to test these ideas since funds are available but heavily scrutinized, very detailed records exist on lending and they are faced with stiff competition in a very turbulent environment that requires frequent revision of strategies. The decisions they make or do not make and outcomes of these decisions must have an impact on their performance.

Research Design

The research design used in this was a descriptive survey that involved gathering, processing and interpreting data given by all the twenty one Banking institutions currently operating in Kisumu City. According to Kinner and Taylor (1998), a study aimed at determining who, what, when, where and how of a phenomenon is a descriptive study, and this was the focus of the study. Descriptive survey design was most desirable since the study involved ascertaining and describing the strategic practices of banking institutions and how this impacts on their performance. Ndegwa (1996), Maina (2001) and Obuya (2003) used the descriptive survey research design successfully on different research areas.

Sampling Technique

This study employed saturated and purposive sampling because it targeted branch managers, operations managers and customer service officers. The researcher was convinced that this method would enable him to collect focused information. The banks are also concentrated within a specific area of the city and therefore the researcher would be able to reach all the banks. The technique used selected typical and useful information from specific financial institutions. The technique used also saved time and money.

Data Collection Techniques

This covered the sources of data, the collection procedures, and instruments for data collection as well as the reliability and validity test for data collection instruments.

Sources of Data

The study utilized both primary and secondary data. The primary data was collected by way of questionnaires and face to face interviews. Secondary data on the other hand was collected by collecting information relating to profit after tax and total assets. This was collected from the published annual financial statements for the year ended 31st December 2010 either from the local dailies or through the internet.

Data Collection Procedure

Respondents were managers at various levels of the banks; Branch Manager, Operations Manager and Customer Service officer were the respondents in this study. The branch manager is in one way or another concerned with strategic issues of the firm. Operations Manager on the other hand

deals with day to day activities of the bank, while Customer Service Officer is the interface between the bank and the customers. In one way or another each of them is concerned with issues of organizational structure and orientation of the firm hence their views played a pivotal role in this research/study.

Data Analysis

The primary data collected from the field was carefully edited and screened for errors and omissions, accuracy, uniformity and completeness. The data was then coded, tabulated and entered into a spreadsheet for analysis using both descriptive and inferential statistical methods. The strategic orientation was classified into prospectors, analyzers, defenders and reactors. This was treated as independent variable and was measured in terms of strength of response (STRORE). Data collected from the published financial statements was then matched with those obtained via questionnaires. This was profit after tax (PAT) and total assets (TA). The ratio of PAT to TA was then computed to generate return on total asset (ROTA) data. ROTA was matched with the observed STRORE for each type of identified strategy. Mean, standard deviation, frequencies, totals and percentages were computed to identify and appropriately describe the characteristics of the type of strategic orientation adopted by each bank. Correlation and coefficient of determination was computed to determine the existence of relationship between the identified strategic orientation and performance of the banks. Student t-test and regression analysis was then carried out to determine the cause-effect relationship between the variables of the study and the strength of such relationship.

RESULTS AND DISCUSSIONS

Strategic Orientation adopted by banks in Kisumu City

The first objective of this study was to identify the type of strategic orientation adopted by the various banking institutions in Kisumu City. To achieve this objective, respondents were asked to react to several statements intended to describe characteristics of the various strategic orientation. The first ten questions described the characteristics of a prospector firm and the respondents were supposed to respond on a five-point Likert Scale. Any score above 3.0 therefore represented a prospector bank. Questions 11 to 20 listed the characteristics of a defender bank while questions 21 to 30 are those for an analyzer bank. For each category, a mean score of at least 3.0 was expected. Any firm that was inconsistent from question 1 through to 30 was classified as reactor. The results obtained were summarized in Table 1 below:

Table 1: Classification of Banks by orientation adopted

BANK'S CODE	AVERAGE SCORE FOR CATEGORY			ORIENTATION
	1 TO 10	11 TO 20	21 TO 30	
001	1.68	3.42	2.01	Defender
004	2.84	3.41	2.11	Defender
007	2.76	2.36	3.47	Analyzer
010	2.61	2.84	3.41	Analyzer
013	1.94	2.98	3.35	Analyzer
016	3.71	1.56	2.16	Prospector
019	2.84	3.20	3.72	Analyzer
022	3.48	2.99	2.45	Prospector
025	1.83	3.62	2.23	Defender
028	3.90	1.54	1.15	Prospector
031	3.14	3.01	2.68	Prospector
034	2.81	2.92	2.73	Reactor
037	2.56	1.81	2.17	Reactor
400	2.61	3.25	2.36	Defender
043	2.91	3.06	2.67	Defender
049	2.57	3.98	1.56	Defender
058	2.93	3.07	1.85	Defender

The results in Table 1 suggest that 7 out of 17 banks that responded are defender firms, prospectors and analyzers are 4 each while 2 are reactors. This represents 41.18%, 23.53%, 23.53% and 11.76% for defenders, prospectors, analyzers and reactors respectively. These findings seem to conform to earlier studies which suggest that in a single industry, organizations can be categorized according to how they perceive and adapt to changes in the environment. The study therefore establishes the fact that a bank can be categorized into prospector, defender, analyzer or a reactor. These are shown in Chart 1 below:

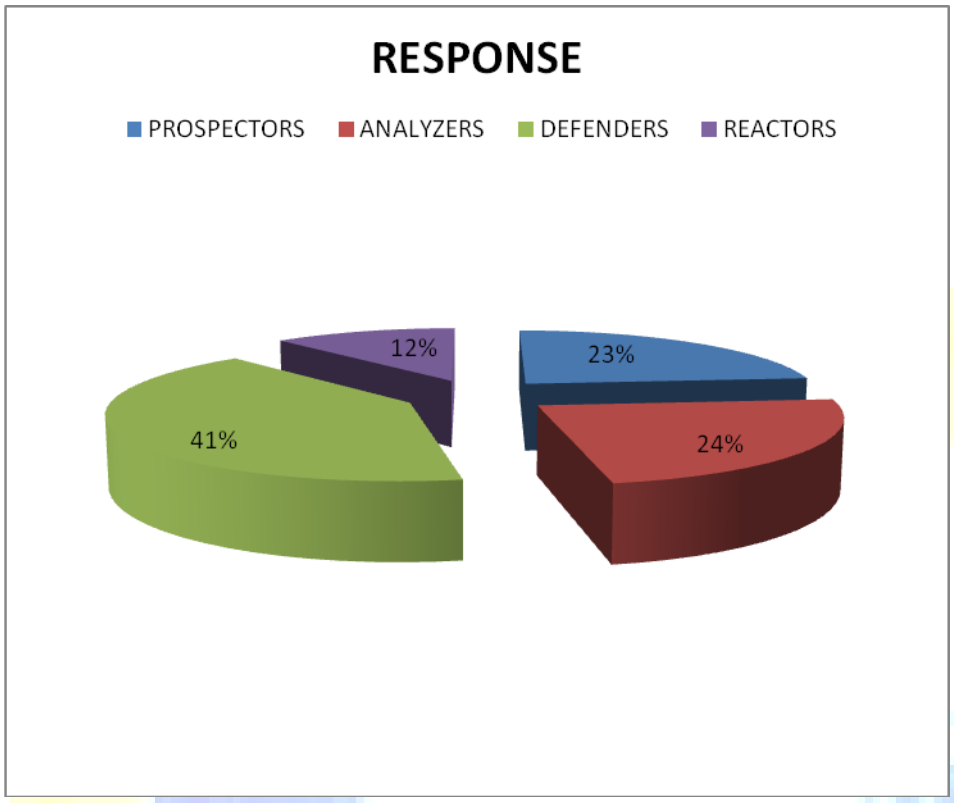

Chart 1: Classification of banks by orientation

Strategic Orientation and Performance of banks in Kisumu City

The performance of the banks was obtained from the published financial statements for the year ended 31st Dec 2010. Specifically, profit after tax and exceptional items (PAT) and the total assets (TA) were extracted. The ratio of PAT to TA was computed to give return on total assets (ROTA) for each bank. This was expressed in percentage. Having identified strategic orientations adopted by the various banks, these were then measured in terms of the strength or response (STRORE). They were then matched with the performance of the bank and the results obtained as shown in Table 2 below:

Table 2: Matching of strategic Orientation with performance

STRATEGIC ORIENTATION	STRORE (S)	ROTA (R)
PROSPECTORS	3.90	6.15
	3.71	4.97

	3.48	3.25
	3.14	3.16
ANALYZERS	3.72	3.37
	3.49	2.97
	3.41	2.86
	3.35	1.77

	STRORE (S)	**ROTA (R)**
DEFENDERS	3.98	5.02
	3.62	4.31
	3.41	2.93
	3.42	1.45
	3.25	0.84
	3.07	0.73
	3.06	-0.65
REACTORS	2.36	1.27
	2.73	-1.81

From the results of Table 2, prospector banks had mean ROTA of 4.3825% while the Product-Moment Coefficient of Correlation (r) was 0.91. The analyzer banks had a mean ROTA of 3.4925% with correlation coefficient of 0.8143. The defender banks had a mean ROTA of 1.6657% and a correlation coefficient of 0.645. There were no consistent results for reactor banks. From the values of means and correlation coefficient, it is justified to conclude that there is a good positive correlation between the strategic orientation and performance. This is in response to the second objective of this study which sought to determine the relationship between strategic orientation adopted by a bank and its performance.

Effect of strategic Orientation on Performance of Banks in Kisumu City

In order to determine the influence of strategic orientation on the performance, mean ROTA, coefficient of determination (r^2) and t-scores for each category of orientation was computed. This is shown in Table 3 below:

Table 3: Mean, Coefficient of Determination and t-scores for various orientations

ORIENTATION	**MEAN ROTA (%)**	**COEFFICIENT OF**	**t-scores**

		DETERMINATION(r^2)	
PROSPECTORS	4.3825	83.4	3.15
ANALYZERS	3.4925	66.0	1.98
DEFENDERS	1.6657	41.6	2.42
REACTORS	-0.270	1.0	-

From Table 3 above, banks that adopt prospector strategy tend to have a higher ROTA with a mean of 4.3825% which is higher than the industry average of 2.51%. This is followed by the analyzer banks with mean of 3.1492%, defender banks with 1.6655% then reactors with -0.270%. Banks adopting prospector strategy therefore have higher chances of performing better than others. They have a coefficient of determination (r^2) of 83.4%. This implies that there is a good correlation between orientation and performance and 83.4% of changes in performance can be explained by changes in strategy. Other factors can only account for 16.6% of changes in performance. Analyzer banks have r^2 of 66.0%. Even though there is a good correlation, this value shows that only 66.0% of changes in performance can explained by changes in strategy. Other factors influence performance to the extent of 34%. For defender banks the coefficient of determination is 41.6%, meaning that changes in performance can only be influenced to the extent of 41.6% by changes in strategy. The t-distribution is used to test confidence level when sample size is less than 30 (Lucey, 1996). It can be used to determine the level of evidence of the existence of real correlation. This can be calculated from the formula: $t = r\,(n\text{-}2/1\text{-}r^2)^{1/2}$ (Lucey, 1996). For prospector banks, this value was found to be 3.15. The t-score from statistical tables for 3 degrees of freedom are 3.18 at 95% level and 2.35 at 90% level. Since the calculated value is greater than the value at 90% level, there is evidence of real correlation between strategic orientation and performance at 90% level of significance. The regression equation was computed as R = -9.95 + 4.03S. This equation can thus be used to determine the ROTA of a prospector firm if the strength of response is known. The t-score for analyzer banks was 1.98 with a regression equation being R = -9.26 + 3.44S. The t-scores from statistical tables for 3 degrees of freedom are 2.35 at 90% level and 1.64 at 80% level. There is evidence at 80% level of significance that there is a good correlation between strategic orientation and performance of banks adopting analyzer strategy. It is also possible to predict the performance of such banks if the strength of response is known with 80% level of accuracy. Defender banks have a t-score of 2.42 with a regression equation being R = -9.27 + 3.22S. The t-score from statistical tables for 6 degree of freedom are 2.45 at 95% level and 1.94 at 90% level. There is evidence at 90% level of significance that there is a good correlation between strategic orientation and performance of defender banks. It is also possible to predict the performance of such banks if the strength of response is known with 90% level of accuracy.

Ownership of the surveyed banks

In the course of carrying analysis of data, it was noted that almost all privately owned banks adopt defender strategy while all banks that raise capital by selling share to public adopt either prospector, defender or analyzer strategies. Even though this was not one of the objectives of the study, it would be of interest to investigate this phenomenon. The distribution is as shown in Table 4 below:

Table 4 Classification of banks by ownership

CODE	TYPOLOGY	OWNERSHIP	ROTA
10	Analyzer	Public bank	2.86
13	Analyzer	Public bank	1.77
16	Prospector	Public bank	4.97
19	Analyzer	Public bank	3.37
22	Prospector	Public bank	3.25
28	Prospector	Public bank	6.15
31	Prospector	Public bank	3.16
34	Reactor	Public bank	-1.81
37	Reactor	Public bank	1.27
40	Defender	Public bank	0.84
1	Defender	Private bank	1.45
4	Defender	Private bank	2.93
7	Analyzer	Private bank	2.97
25	Defender	Private bank	4.31
46	Defender	Private bank	-0.65
55	Defender	Private bank	5.02
58	Defender	Private bank	0.73

Out of the seventeen banks that responded, ten are public limited companies. Of these only one of them was found to adopt defender strategy. This is only 10%. The rest are either prospectors, analyzers or reactors. Out of the seven privately owned banks, only one is not a defender. It means that of all the privately owned banks, 85.71% of them are defenders.

Conclusion

The study found established that almost all banks in Kisumu City adopt some kind of strategy with most of them (88.2%) being Defender, Prospector, or Analyzer firm. In terms of performance, it was noted that firms adopting prospector strategy outperform others followed by analyzers, defenders then reactors. There were only two firms found to have no specific strategy adopted. The study also showed that privately owned banks tend to adopt Defender strategy. In

line with one of the objectives of this study which aimed at identifying strategic orientation adopted by various banks in Kisumu City, it is justified to conclude that these banks do have specific strategic orientations that guide them in their operations. The study also showed that banks adopting Prospector strategy performs better (mean ROTA of 4.383%) followed by Analyzer (mean ROTA of 3.493%), Defenders (mean ROTA of 1.666%) then Reactors (mean ROTA of -0.270). This is in line with the findings of previous empirical studies which established that Prospector is the most aggressive followed in order by Analyzer, Defender then Reactor (Slater & Narver, 1993). Regression equations and the t-scores computed also showed that the orientation of a bank can be used to determine it performance. It is therefore justified to conclude according to the second objective of this study that there is a good correlation between strategic orientation and performance of banking institutions in Kisumu City.

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