

Organizational Strategy, Culture, and Performance of Commercial Banks in Kenya

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Abstract

This paper examines the relationship between strategy, culture, and performance of commercial banks in Kenya. The population of study are all the commercial banks operating in Kenya while Return on investment (ROI) is the measure of performance. Likert-type questionnaires with questions framed on the basis of pre-designed operational definitions of Miles and Snow's strategy types of defender, prospector, analyzer and reactor; as well as Schneider's culture types of control, collaboration, cultivation and competence were designed, and used, in collecting primary data from the bank managers. Secondary data on bank performance were collected consisting of returns on investment. The primary data was analyzed using correlation and regression analysis to test the relationship between strategy types, culture types and performance. The results indicate that analyzer, defender and prospector strategies are positively correlated to performance while reactor strategy is negatively correlated to performance. Similarly, control, cultivation and competence cultures are positively correlated to performance while collaboration culture is negatively correlated to performance. Regression estimates show that commercial banks which perform well are those combining control culture and prospector strategy as well as those combining competence culture and defender strategies. Banks stand to lose if they combine control culture and defender strategy, competence culture and reactor strategy, and cultivation culture and prospector strategy. Consequently, the choice of strategy and culture determines the performance of commercial banks in Kenya.

Keywords: strategy, culture, organizational performance

1. Introduction

As the business environment becomes highly competitive, the key preoccupation of most top managers in organizations is how to develop a strategy that will give the organization a competitive edge in the market. Grant (1991) defines a strategy as the overall game plan for deploying resources to establish a favorable position in the market that will lead to superior returns. However, superior returns can only be realized when the organization develops and maintains the appropriate culture required to implement strategy (Schneider B. & Schneider K. 2005). Culture refers to the set of values, beliefs, and behavior patterns espoused by an organization (Denison, 1990). Culture is important because it limits or enables strategy (Schneider B. & Schneider K. 2005). Culture determines conditions for internal effectiveness and drives performance. The wrong culture can hold strategy hostage.

Mankins and Steele (2005) report most strategies deliver only 63% of their potential financial performance. Kaplan and Norton (2005) attribute this strategy-to-performance gap in most companies to disconnect between strategy formulation and strategy execution. Further, 95% of a company's employees are not aware of or do not understand their company's strategy. According to Johnson (2004), however, 66% of corporate strategy is never implemented. This suggests that the problem lies somewhere in the middle of this strategy-to-performance gap, with a more likely source being a lack of alignment between the strategy and the culture within the organization.

However, the influence both strategy and culture have on performance have largely been ignored or studied separately. For example, many researchers have examined the relationship between strategy and performance (Oyedijo and RO, 2012; Hambrick, 1983; Smith, Guthrie and Chen, 1986; Conant et al., 1990), and also between organizational culture and performance (Denison, 1984; Denison and Mishra, 1995; Byles et al., 1991; Kotter and Heskett, 1992). However, the author did not find any study that has been devoted to understanding the joint effect of strategy and culture on performance. This is despite culture being critical in strategy formulation and execution. Therefore, the aim of this paper is to provide empirical evidence on the joint effect of strategy and culture on performance. This is achieved through the presentation of the results of a cross-sectional survey of Miles and Snow's strategy types of prospector, defender, analyzer, reactor; Schneider's culture types of control, collaboration, competence, cultivation; and performance across commercial banks in Kenya.

The rest of the paper is organized as follows: Section 2 presents the literature review, section 3 explains the research methodology, section 4 presents the data analysis and interpretation, while section 5 gives the

conclusion of the study.

2. Literature Review

2.1 Miles and Snow's Strategy Types and Performance

A few studies have examined the relationship between miles and snow's strategy types and performance. Oyedijo and RO (2012) tested miles and snow's model using 34 paint manufacturing SMEs in south-western Nigeria. The findings support miles and snow's model that prospectors and anxious analyzers perform better than domain defenders and reluctant reactors. Hambrick (1983) explored the effectiveness of miles and snow's strategic types in different environments. The findings indicate that defenders outperform prospectors in terms of cash flow and profitability in all environments except in mature-innovative environments. Smith, Guthrie and Chen (1986) examined Miles and Snow's strategy types and their relationship with organizational size and performance. The results indicate that prospectors, defenders and analyzers perform equally well and outperform reactors. Conant et al. (1990) analyzed the relationship between strategic types, distinctive marketing competencies, and organizational performance. They found that profitability is significantly greater in prospector, defender, and analyzer organizations than in reactor organizations. However, Snow and Hrebiniak (1980) found that reactors outperformed prospectors and defenders in highly regulated industries.

2.2 Organizational Culture and Performance

Denison (1984) examined culture in 34 American organizations over a five year period. The results indicate that organizations with a participative culture achieve a better performance than those that do not. Denison's conclusion was that cultural and behavioral characteristics of organizations have a positive effect on a company's performance. Marcoulides and Heck (1993) studied the relationship between organizational culture and performance among 26 randomly selected American organizations on the basis of type, size, earnings and growth over a multi-year period. Organizational culture was operationalized by several latent variables namely organizational structure and purpose, organizational values, task organization, climate, and individual values and beliefs. They concluded that all the latent variables associated with organizational culture are predictive of organizational performance.

Denison and Mishra (1995) explored the relationship between organizational culture and effectiveness. They studied the four cultural traits of involvement, consistency, adaptability, and mission. The results indicate that the four cultural traits are positively related to performance. On the other hand, Byles et al. (1991) examined the role of culture in influencing organizational performance. They concluded that strong cultures are associated with higher performance levels as they provide pathways and integration, and support and identification at the micro level, and broad undergirding values at the macro level to support competitive strategies. Sorensen (2002) analyzed the effect of strong corporate cultures on the variability of firm performance. The results show that in relatively stable environments, strong-culture firms have more reliable performance. In volatile environments, however, the reliability benefits of strong cultures disappear. Some studies have equally found that organizational culture has no relationship with performance. For instance, Yesil and Kaya (2013) investigated the role of organizational culture on firm financial performance. The results indicate that organizational culture (clan, adhocracy, market, hierarchy) has no relationship with financial performance.

3. Research Methodology

This study relied on a questionnaire instrument. Questionnaires with Likert-type scales were used to collect primary data and capture questions on strategy types, culture types, and performance. To increase the response rate of the questionnaire, respondents were two managers- the head of planning and that of human resources or the head of finance as were applicable. This was to ensure that the questionnaires are answered by people who are knowledgeable on culture and / or planning. The population of the study consisted of all the 44 (CBK list, 2008) commercial banking institutions operating in Kenya. Since their number was not high, a census study was conducted.

Data collected were analyzed using descriptive statistics such as mode, mean and frequencies. Tabular analysis using averages were used to identify the dominant cultures and strategy types. Return on investment was used to measure performance. Correlation analysis was used to establish the relationship between culture and performance and between strategy and performance. The moderating effect of culture on the relationship

between strategy and performance was analyzed using tabular and regression analysis.

The analysis examined the relationship between strategy types and performance; that is, effect of prospector, defender, analyzer, and reactor strategy types on performance. To get moderating effects of culture types of control, collaboration, competence, and cultivation; each strategy type was interacted with each culture type, and the results checked for significance. This involved doing several regressions but the basic equation is as follows:

$$Performance = f(Reactor, Prospector, Analyzer, Defender)$$

To interact with one culture type (control culture type), the following equations were estimated:

$$Performance = f(Reactor, Prospector * Control, Analyzer, Defender)$$

$$Performance = f(Reactor, Prospector * Control, Analyzer, Defender)$$

$$Performance = f(Reactor, Prospector, Analyzer * Control, Defender)$$

$$Performance = f(Reactor, Prospector, Analyzer, Defender * Control)$$

Similar regressions were done with the remaining three culture types which implies estimating twelve equations overall.

4. Data Analysis

4.1 Correlation Analysis

The effect of the various culture and strategy types on performance were established using correlation analysis (Table 4.1). From the correlation results, it is evident that prospector, analyzer and defender strategies have positive correlation to performance. However, the correlation of reactor strategy to performance is negative. The strategy type with the strongest positive relationship to performance is prospector strategy followed by defender and then analyzer strategy. Similarly, Table 4.1 shows that the three culture types of competence, cultivation, and control have positive correlation with performance. However, collaboration culture has negative correlation with performance.

Table 4.1: Correlation Analysis Results

| | Control | Collabo- Ration | Competence | Culti- Vation | Pros- Pector | Defender | Analyzer | Reactor | Perfor- Mance |
|---------------|---------|--------------------|------------|------------------|-----------------|----------|----------|---------|------------------|
| Control | 1 | | | | | | | | |
| Collaboration | 0.26 | 1 | | | | | | | |
| Competence | 0.14 | 0.27 | 1 | | | | | | |
| Cultivation | 0.3 | 0.55 | 0.49 | 1 | | | | | |
| Prospector | 0.25 | 0.25 | 0.56 | 0.46 | 1 | | | | |
| Defender | 0.15 | 0.27 | 0.47 | 0.4 | 0.44 | 1 | | | |
| Analyzer | 0.12 | 0.41 | 0.42 | 0.45 | 0.62 | 0.46 | 1 | | |
| Reactor | 0.01 | 0.2 | -0.17 | -0.11 | 0.12 | 0.04 | 0.3 | 1 | |
| Performance | 0.23 | -0.06 | 0.34 | 0.26 | 0.34 | 0.23 | 0.13 | -0.37 | 1 |

4.2 Strategy-Culture Types Combinations and their Effect on Performance

In order to establish the role of culture in the Strategy-Performance relationship, strategy and culture types are interacted (Table 4.2). Looking at the strategy-culture combinations, it is observed that the most dominant combination by commercial banks is defender-collaboration as evidenced by the high frequency of occurrence. This is followed by analyzer-collaboration, analyzer-cultivation and prospector-cultivation. Out of these dominant combinations, the highest return is associated with prospector-cultivation combinations. The banks which adopt Prospector-Cultivation combinations, also register a smaller spread in returns.

With respect to returns, the second best combination after Prospector-Cultivation is Analyzer-Competence.

However, only one bank has adopted this kind of strategy. The third highest average return is associated with Defender-Control, followed by Analyzer-Collaboration. In the same light, with respect to spread, or variability of returns, the best performing banks are those which have adopted Defender-Control, followed by Defender-Competence, then Prospector-Collaboration, and finally Prospector-Control. It is evident from Table 4.2 that the worst performing banks are those which practice Analyzer-Control, Defender-Collaboration, Prospector-Collaboration and Defender-Cultivation. Banks which practice these combinations also happen to have the highest spread in returns except for Prospector-Collaboration.

Table 4.2: Strategy-Culture Combinations, average returns, Spread and Frequency

| STRATEGY-CULTURE INTERACTIONS | AVERAGE RETURN ON INVESTMENT | SPREAD (HIGHEST, LOWEST RETURNS) | FREQUENCY |
|-------------------------------|------------------------------|----------------------------------|-----------|
| Prospector-Cultivation | 5.44 | 3.96 (7.05, 3.09) | 3 |
| Prospector-Control | 2.78 | 2.40(3.98, 1.58) | 2 |
| Prospector-Collaboration | 1.62 | 1.57 (2.40, 0.83) | 2 |
| Prospector-Competence | - | - | Nil |
| Analyzer-Cultivation | 2.08 | 4.46 (5.10,0.64) | 4 |
| Analyzer-Control | -3.14 | 13.04 (3.38,-9.66) | 2 |
| Analyzer –Collaboration | 2.81 | 4.64 (5.05,0.41) | 4 |
| Analyzer -Competence | 4.75 | 4.75 | 1 |
| Defender-Cultivation | -0.05 | 9.22 (3.45, -5.77) | 3 |
| Defender-Control | 3.83 | 0.76 (4.21,3.45) | 2 |
| Defender-Collaboration | 1.61 | 12.4 (4.75, -7.65) | 6 |
| Defender-Competence | 2.55 | 0.86 (2.98, 2.12) | 2 |

4.3 Multiple Regression Analysis

Multiple regression is applied to display the effects of the interaction of strategy and culture types on performance (Table 4.3). First, strategy and culture types are inserted in the regression equation separately. The outcome is that except for reactor strategy type and collaboration culture type, all the strategy and culture types have positive effects on performance. This is similar to the result gotten from the correlation analysis. Importance of strategy and culture types in improving performance is therefore implied by the results.

Table 4.3: Multiple Regression of Performance on Strategy and Culture Types

| Dependent Variable: PERFORMANCE | | | | |
|---------------------------------|-------------|--------------------|-------------|----------|
| Variable | Coefficient | Std. Error | t-Statistic | Prob. |
| C | 13.31739 | 4.972260 | 2.678338 | 0.0137 |
| Control | 0.165446 | 0.187698 | 0.881448 | 0.3876 |
| Collaboration | -0.191176 | 0.220585 | -0.866680 | 0.3955 |
| Competence | 0.075882 | 0.236089 | 0.321412 | 0.7509 |
| Cultivation | 0.086619 | 0.251507 | 0.344401 | 0.7338 |
| Prospector | 0.250017 | 0.248868 | 1.004618 | 0.3260 |
| Defender | 0.078703 | 0.212168 | 0.370946 | 0.7142 |
| Analyzer | 0.021886 | 0.262079 | 0.083509 | 0.9342 |
| Reactor | -0.350452 | 0.207516 | -1.688794 | 0.1054 |
| R-squared | 0.333408 | Mean dependent var | | 15.93548 |

| | | | |
|--------------------|-----------|-----------------------|----------|
| Adjusted R-squared | 0.091010 | S.D. dependent var | 9.150357 |
| S.E. of regression | 8.724037 | Akaike info criterion | 7.407742 |
| Sum squared resid | 1674.394 | Schwarz criterion | 7.824061 |
| Log likelihood | -105.8200 | F-statistic | 1.375459 |
| Durbin-Watson stat | 2.086307 | Prob(F-statistic) | 0.261003 |

Secondly, strategy and culture types were interacted in pairs and the regression is run to see the effects of the chosen combinations on performance. Some combinations lead to negative effects on performance. These are control*defender, control*analyzer, control*reactor, collaboration*analyzer, collaboration*reactor, competence*prospector, competence*reactor, cultivation*prospector, and cultivation* defender. Of these, control*defender and competence*reactor combinations are significant. This is to say that they lead to poor performance if combined by banks. Some combinations of strategy and culture however lead to good performance. These are control*prospector, competence*defender, collaboration*defender, collaboration*prospector, competence*analyzer, cultivation*analyzer and cultivation*reactor. Of these, control*prospector and competence*defender interactions have strong effects on performance considering that they are significant in the regression.

Table 4.4: Multiple regression of performance on strategy and culture type combinations (interactions)

Dependent Variable: PERFORMANCE

| Variable | Coefficient | Std. Error | t-Statistic | Prob. |
|--------------------------|-------------|-----------------------|-------------|--------|
| C | 15.21261 | 2.631125 | 5.781788 | 0.0000 |
| Control*Defender | -0.032813 | 0.016275 | -2.016119 | 0.0634 |
| Control*Analyzer | -0.035997 | 0.033203 | -1.084165 | 0.2966 |
| Control*Reactor | -0.004425 | 0.017215 | -0.257027 | 0.8009 |
| Control*Prospector | 0.068896 | 0.024856 | 2.771817 | 0.0150 |
| Competence*Defender | 0.036093 | 0.019689 | 1.833204 | 0.0881 |
| Collaboration*Prospector | 0.004467 | 0.028790 | 0.155155 | 0.8789 |
| Collaboration*Defender | 0.022502 | 0.033763 | 0.666460 | 0.5160 |
| Collaboration*Analyzer | -0.008737 | 0.037436 | -0.233382 | 0.8188 |
| Collaboration*Reactor | -0.018464 | 0.022325 | -0.827045 | 0.4221 |
| Competence*Prospector | -0.013616 | 0.023584 | -0.577351 | 0.5729 |
| Competence*Analyzer | 0.007987 | 0.031725 | 0.251767 | 0.8049 |
| Competence*Reactor | -0.032699 | 0.018361 | -1.780919 | 0.0966 |
| Cultivation*Prospector | -0.043170 | 0.031144 | -1.386164 | 0.1874 |
| Cultivation*Defender | -0.013552 | 0.029923 | -0.452897 | 0.6576 |
| Cultivation*Analyzer | 0.028749 | 0.040778 | 0.704999 | 0.4924 |
| Cultivation*Reactor | 0.031713 | 0.023990 | 1.321904 | 0.2074 |
| R-squared | 0.713300 | Mean dependent var | 15.93548 | |
| Adjusted R-squared | 0.385643 | S.D. dependent var | 9.150357 | |
| S.E. of regression | 7.172132 | Akaike info criterion | 7.080127 | |
| Sum squared resid | 720.1528 | Schwarz criterion | 7.866507 | |
| Log likelihood | -92.74197 | F-statistic | 2.176973 | |
| Durbin-Watson stat | 2.589033 | Prob(F-statistic) | 0.075362 | |

The insignificant combinations of strategy and culture types are then removed from the multiple regressions giving the results in Table 4.5. It leads the researcher to conclude that banks which perform well are those

combining control*prospector and competence*defender strategy and culture types. These combinations are each significant at 1% level. Banks lose if they combine control*defender, competence*reactor and cultivation*prospector strategy and culture types. These three combinations have negative, significant effects on performance. The first two combinations are significant at 1% level. The cultivation*prospector combination is significant at 10% level.

Table 4.5: Multiple Regression with significant variables only

Dependent Variable: PERFORMANCE

| Variable | Coefficient | Std. Error | t-Statistic | Prob. |
|------------------------|-------------|-----------------------|-------------|----------|
| C | 14.68219 | 1.964030 | 7.475539 | 0.0000 |
| Control*Defender | -0.028321 | 0.010049 | -2.818261 | 0.0093 |
| Control*Prospector | 0.035409 | 0.009011 | 3.929339 | 0.0006 |
| Competence*Defender | 0.032135 | 0.007937 | 4.048542 | 0.0004 |
| Competence*Reactor | -0.030845 | 0.007766 | -3.971721 | 0.0005 |
| Cultivation*Prospector | -0.012557 | 0.006943 | -1.808688 | 0.0825 |
| R-squared | 0.575247 | Mean dependent var | | 15.93548 |
| Adjusted R-squared | 0.490296 | S.D. dependent var | | 9.150357 |
| S.E. of regression | 6.532767 | Akaike info criterion | | 6.763524 |
| Sum squared resid | 1066.926 | Schwarz criterion | | 7.041069 |
| Log likelihood | -98.83461 | F-statistic | | 6.771533 |
| Durbin-Watson stat | 2.393172 | Prob(F-statistic) | | 0.000408 |

Residual Tests

Normality Test- Jargue-Bera Statistic: 2.36(0.31)

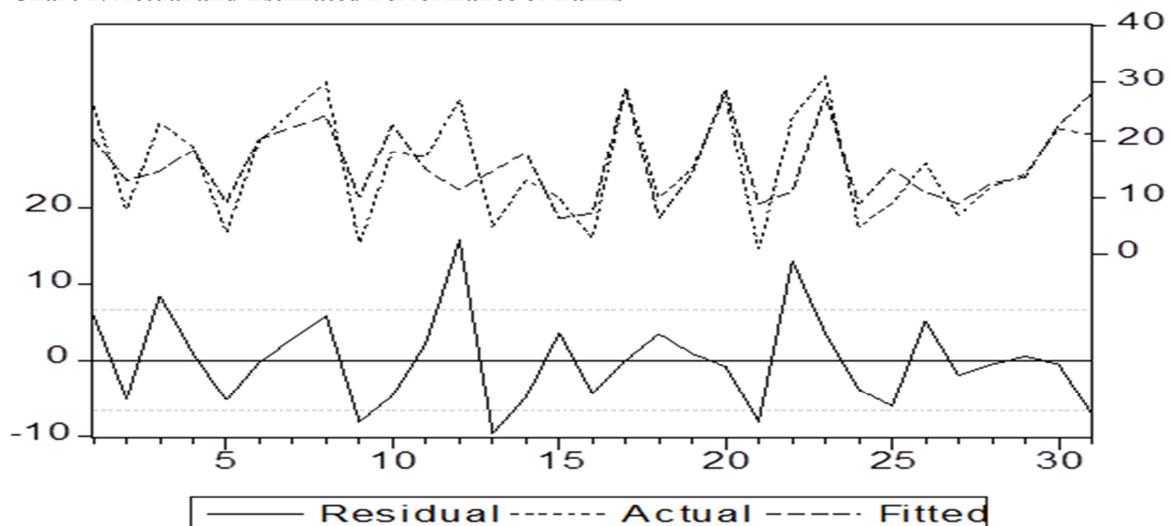
Serial correlation Test- F Statistic: 0.61 (0.44)

White Heteroskedasticity Test- F statistic: 0.44(0.90)

Ramsey Reset Test- F-statistic: 0.16 (0.69)

The bank performance predicted by the multiple regression is very close to actual performance. This is shown in chart 1 which compares actual and fitted values and the residual (difference between actual and fitted). This means that performance is explained to a great extent by combinations of strategy and culture types. The results are better when strategy and culture interact.

Chart 1: Actual and Estimated Performance of Banks



5. Conclusion

Analyzer, defender and prospector strategies are positively correlated to performance while a reactor strategy is negatively correlated to performance in Kenya's commercial banks. Similarly, control, cultivation and competence cultures are positively correlated to performance while collaboration culture is negatively correlated to performance. In a similar note, commercial banks which perform well are those combining control culture and prospector strategy as well as those combining competence culture and defender strategies. Banks stand to lose if they combine control culture and defender strategy, competence culture and reactor strategy, and cultivation culture and prospector strategy. Therefore, the choice of strategy and culture plays a significant role in influencing the performance of commercial banks in Kenya.

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