

MBA 131



Addis Ababa University
School of Graduate Studies
MBA Program

Project Work on

Strategic Orientation of the Commercial
Bank of Ethiopia
(A Study)



in Partial Fulfillment of the Requirements of the
Degree of Master of Business
Administration

Advisor: Professor G.K. Murthy
Prepared by: Worku Lemma Tesemma



July 2005

131

MBA
WOR

Addis Ababa University
School of Graduate Studies
MBA Program

Project Work on

Strategic Orientation of the Commercial
Bank of Ethiopia
(A Study)

in Partial Fulfillment of the Requirements of the Degree of Master of
Business Administration

Advisor: Professor G.K. Murthy

Prepared by: Worku Lemma Tesemma

Addis Ababa University
School of Graduate Studies
MBA Program

Strategic Orientation of the Commercial Bank of Ethiopia
(A study)

By Worku Lemma Tesemma

Approved by Board of Examiners:

Dr. G. K. Murthy

Advisor

[Signature]
Signature

Examiner

Signature

Examiner

Signature

Examiner

Signature

Acknowledgments

My first acknowledgement goes to my advisor Professor G.K. Murthy who without any reservation extended his support to lead me through out the process of preparing this project paper. It is not only a matter of choice to work with a person of long years' of experience, top qualification and kindness like you, but also it requires luck. Thank you.

I express my gratitude to Ato Deribe Abie and Ato Ashenafi Feyissa, the Ex-Manager of the Bahir District and the Ex-Assistant Vice President of the Northern Regional Office of the Commercial Bank of Ethiopia respectively; without their special assistance my participation in this program was unimaginable. The Labor Union of the Commercial Bank of Ethiopia has also played unforgettable role for my success in this program; thank you Ato Teshome and members of the management of the Labor Union of the Commercial Bank of Ethiopia!

Ato Mokonnen Gebeyehu, Ato Maschalu Demissie, Ato Tefera Mamo, Ato Seifu Agenda and, my classmate and friend Ato Sime G/Silassie deserve thanks for their assistance in different forms.

My final acknowledgment goes to my family. My wife, Gadissie Regassa, has great contribution to my success in this program. The kids: Tigist Worku, Tamrat Worku and Seble Worku were inspiring me to work hard in the program. You all deserve thanks; thank you!!

Worku Lemma
July 03, 2005

Table of Contents

ACKNOWLEDGMENTS	III
TABLE OF CONTENTS	IV
ACRONYMS AND ABBREVIATION.....	VI
LIST OF TABLES	VII
LIST OF ANNEXES	VII
ABSTRACTS	VIII
CHAPTER I.....	1
INTRODUCTION AND METHODOLOGY.....	1
1.1. <i>The importance of Strategic Orientation for Banks</i>	1
1.2. <i>Banking Industry in Ethiopia</i>	2
1.3. <i>Commercial Bank of Ethiopia</i>	5
1.3.1. Formation and Current Status.....	5
1.3.2. Strategic Management in the Commercial Bank of Ethiopia	6
1.4. <i>Statement of the Problem</i>	9
1.5. <i>Objective of the Study</i>	11
1.6. <i>Significance of the Study</i>	12
1.7. <i>Scope and Limitation of the Study</i>	13
1.8. <i>Measurement</i>	13
1.9. <i>Methodology and Data Collection</i>	16
1.10. <i>Data Analysis</i>	17
CHAPTER II	18
LITERATURE REVIEW	18
2.1. <i>Strategic Management</i>	18
2.2. <i>Conceptualization of Strategy</i>	23
2.3. <i>Approaches to Strategy Formulation</i>	28
2.4. <i>Strategic Orientation</i>	33
CHAPTER III	41
<i>Strategic Dimensions of CBE</i>	41
a. Aggressiveness Dimension	41
b. Analysis Dimension	42
c. Defensiveness Dimension	43
d. Futurity Dimension	44
e. Proactiveness Dimension	44
f. Riskiness Dimension.....	45
Findings	54
CHAPTER IV	56

CONCLUSION AND RECOMMENDATION	56
ANNEXURE I.....	61
ANNEXURE II	63
ANNEXURE III.....	67
BIBLIOGRAPHY.....	69
DECLARATION	73

Acronyms and Abbreviation

CBB = Construction and Business Bank

CBE = Commercial Bank of Ethiopia

DBE = Development Bank of Ethiopia

ROA = Rate of return on assets

NIM = Net income margin

COE = Chief Executive Officer

SME = Small and medium enterprise

M = Mean

STD= Standard deviation

Var. = Variance

List of Tables

- Table 1: Domestic Banks Branch Network: page 3
- Table 2: Outstanding Deposits, and Loan and Advances: page 4
- Table 3: Categorizing the Strategy- Making Process Typologies: 29
- Table 4: An Integrative Framework for Strategy-Making Processes: page 30
- Table 5: Frequencies- aggressiveness: page 41
- Table 6: Frequencies- analysis: page 42
- Table 7: Frequencies- Defensiveness: page 43
- Table 8: Frequencies futurity: page 44
- Table 9: Frequencies – proactiveness: page 45
- Table 10: Frequencies- Riskiness: page 46
- Table 11: Correlations of dimensions: page 46
- Table 12: Summary Report: page 47
- Table 13: Regression (I -VI): page 48-52
- Table 14: Reliability: page 53
- Table 15: Factor Analysis (I -III): page 53-54

List of Annexes

- Annexure 1: page 61
- Annexure 2: page 63
- Annexure 3: page 67

Abstracts

The Commercial Bank of Ethiopia is the leader in the Ethiopian banking industry. It has wide branch network, and major market share in both deposits and outstanding loans and advances. CBE has obtained this position due to historical reasons rather than operational competency.

Those factors contributing to the bank's dominance are not at their place these days. The liberalization of the domestic banking sector has opened the door for small private commercial banks. The globalization of the world economy has posed the threat of entrance of foreign banks to the local market.

Untested competency of CBE on one hand and the stiffening competition and potential threat of foreign banks from the other side arouse the need to look at the bank diagnostically. The researcher by using the strategic construct: strategic orientation has described the strategic trait of the Commercial Bank of Ethiopia.

Six dimensions with twenty-seven indicators were used to measure the strategic orientation of CBE. The dimensions are aggressiveness, analysis, defensiveness, futurity, proactiveness and riskiness. This measurement was adopted from thorough literature review. Modification has made on the measurement to make it fit to the Ethiopian banking industry. The measurement was tested for construct validity and reliable using statistical techniques. The tests are acceptable with implications for future improvement.

The findings of this research show:

- a. The bank doesn't allocate resources aggressively to improve its market position compared to its competitors.

- b. The problem solving behaviors of the bank indicates that it is on average with regard to making thorough analysis before decision.
- c. The decisions and activities of the bank so far don't reflect emphasis on cost reduction and efficiency improvement methods.
- d. The bank's decisions in most of the cases reflect short-term considerations. It doesn't emphasis long-term consequences of current decisions.
- e. Although the business environment is dynamic, the bank is not proactive to take advantages of the opportunities or to mitigate unforeseen threats.
- f. The bank's operational activities in general reflect low risk.

Chapter I

Introduction and Methodology

1.1. The importance of Strategic Orientation for Banks

Strategic orientation can be of two types. The first one is what is called the realized strategic orientation, which can be described as a pattern of strategic behavior actually exhibited by organizations. They are mostly expressed by the pattern of their decisions and activities. The other type is intended strategic orientation. It refers to intention of the management of the organization how to handle organizational affairs to achieve common goals and objects. Difference can exist between these two as Minitzberg, Ahlstrand and Lampel (1998) explained strategies might not be fully deliberate.

The study of realized strategies are very important because these are the determinants of performance than intentions. Moreover, what has realized can include both intended and emergent strategies. That is why the focus of this research is on realized strategies instead of intended ones.

On the other hand, strategies are advantageous to banks than operating in haphazard and discontinuous manner. This is true as far as both the process and content of strategy are properly handled. Each step of strategic management should get due emphasis for the success of the organization.

With increasing turbulence of the environment the need for strategies increases. The changes in environmental factors, like the macro- environment, industry and competition bring opportunities and challenges with them. Banks should be ready to take advantage of opportunities and mitigate threats. Also banks need

strategies to win intensified competition in the industry. It is through strategic management this could be possible.

Banks in the third world countries should prepare strategies to handle negative and positive effects of the following issues:

- Privatization in the host country
- Globalization of world economy
- Liberalization of local market
- Increasing competition
- Technological change
- Customer satisfaction and etc

Strategies establish direction, promote coordination of resources, define the purpose of the organization, and provide consistency.

1.2. Banking Industry in Ethiopia

Prior to liberalization of the financial sector in 1994, the Ethiopian financial market had been monopolized by the three publicly owned banks namely Commercial Bank of Ethiopia (CBE), Development Bank of Ethiopia (DBE) and Construction and Business Bank of Ethiopia (the then called Housing and Saving Bank) (CBB). The later two were specialized banks with insignificant market share. DBE has the main objective of financing development projects while CBB has been involving in the financing of real state development projects. CBE provides a number of banking services including short term commercial financing and medium and long term project financing.

After liberalization, a number of small private banks have started operation. They are steadily snatching market share from Commercial Bank of Ethiopia. The new

comers are excelling in service delivery and automation. Currently there are six private banks in the market, including:

- Awash International Bank
- Dashen Bank
- Abssinia Bank
- Wegagen Bank
- Hibret Bank
- NIB International Bank

A number of micro-finance institutions and one cooperative bank have started operation. Currently, there are above 20 micro- finance institutions providing small loans to the public while Oromia Cooperative Bank has been established very recently.

The competition in the domestic banking market is increasing. The private banks are gaining high market share and their branch network is expanding. The following data with regard to branch network, outstanding loan and advances, and deposits confirm stiffening competition in the domestic banking industry.

Table 1: Domestic Banks' Branch Network

Banks	Year		
	2001/02	2002/03	2003/04
CBE	169	169	170
Other Banks	153	162	184
Share of CBE	52.5	51.1	48.0

Source: CBE, Strategic Plan for 2004/05- 2006/07

During the last three years, CBE has opened only one additional branch. But, in the same period private banks have opened 31 additional branches in different parts of the country. This shows how aggressively these newly emerged private banks are expanding. It took only about eleven years for private banks to reach their current status in terms of branch network.

Currently, in the big towns and cities where CBE exists there are private banks. It is only in remote part of the country, in small towns and villages that CBE operates alone. The profitability of those places is questionable. The existence of CBE in those small towns and villages is more of national responsibility than profit. Being public bank, CBE is expected to give services to the rural part of the country. It should assist government organs by keeping deposit and effecting payments.

Table 2: Outstanding Deposits and Loans and Advances
(amount in millions Br.)

Year	Outstanding Deposits			Outstanding Credit		
	CBE	Other Banks	Share of CBE	CBE	Other Banks	Share of CBE
June-93	6,226.7	521.3	92.3	5,008.9	2,985.9	62.7
June-94	7,436.9	556.1	93.0	5,596.5	1,428.8	79.7
June-95	9,597.4	477.6	95.3	7,450.9	1,626.8	82.1
June-96	11,193.9	811.1	93.2	9,669.3	2,516.3	79.4
June-97	12,701.6	1,175.0	91.5	10,037.9	3,334.8	75.1
June-98	15,518.1	2,187.0	87.6	10,983.6	4,451.5	71.2
June-99	15,016.9	2,855.8	84.0	11,751.1	5,336.3	68.8
June-00	16,917.0	3,385.7	83.3	12,774.8	3,846.3	76.9
June-01	18,822.5	4,325.6	81.3	17,184.8	7,581.3	69.4
June-02	19,588.8	5,442.1	78.3	17,338.8	8,576.5	66.9
June-03	21,133.9	6,843.5	75.5	17,943.2	9,935.7	64.4

Source: CBE, Strategic Plan for 2004/05- 2006/07

In terms of outstanding deposit CBE's market share had declined from 92.3% in 1993 to 75.5% in 2003. This is about 16.8% decline within a period of ten years. Concerning loans and advances the decline in market share of CBE is only 1.7% during the same period. However, there is a continuous decline in CBE's share from 2000 to 2003.

The data show that CBE is losing market share in branch network, deposits and outstanding loans and advances. It is continuously losing market to private banks since liberalization of the financial market.

1.3. Commercial Bank of Ethiopia

1.3.1. Formation and Current Status

The bank's establishment dates back to August 1942 when State Bank of Ethiopia was formed with dual responsibilities of commercial and central banking. In 1963 the central banking function has transferred to National Bank of Ethiopia and CBE was given duty to handle commercial banking functions. In 1974, the Socialist Government confiscated Addis Ababa Bank and merged it with CBE. (CBE: <http://www.combanketh.com>).

Currently, the bank is fully owned by the Government of Ethiopia and operates as public enterprise under proclamation number 202/94 of the council of ministers. Based on the 2003/2004 annual report of the bank issued on September 30, 2004 the following factors show CBE's current status:

- Number of employees 7,682
- Number of branches 171
- Capital and reserve Br. 1.45 Billion
- Total asset Br. 28 Billion

CBE currently provides a number of banking services to all sector of the economy including the following:

- Deposit services
 - Current account
 - Saving account
 - Time deposit
- Money transfer services
 - Local transfer
 - Foreign transfer
- Import and export finance
 - Letter of credit
 - Foreign guarantee
 - Documentary collection
- Safe custody
- Loan and advances- Types
 - Short- term loan
 - Medium- term loan
 - Long- term loan
- Others

1.3.2. Strategic Management in the Commercial Bank of Ethiopia

The changing environment in the domestic banking industry has pressurized the bank to strengthen its strategic management. The bank had sponsored renowned consultant Ernst and Young to undertake comprehensive operational audit of its activities. Currently, CBE is implementing the recommendations of Ernst and young with the help of Bank of Scotland as a consultant (CBE, Strategic Plan for 2004/05- 2006/07).

It has started participative strategic planning in which all stakeholders have a say. Previously, it was the bank's Corporate Planning Division that prepares and distributes plans.

The bank has stipulated its vision; mission, values, goals and strategies in its currently approved three years strategic plan (CBE, strategic plan 2004/05 - 2006/07). As these factors are very important parts in strategic management process they are reproduced as follows.

CBE's Vision

In its vision statement the bank indicates that it endeavors *to be the world- class Commercial Bank.*

CBE's Mission

CBE's mission statement reads as follows:

We are committed to maximizing shareholders value through enhanced financial intermediation and unparalleled customer satisfaction. We deploy highly motivated, skilled and disciplined employees capable of providing banking products and services that meet international best practices and standards. We strongly believe that reliability and public confidence are the bases of our success.

CBE's Values

Values that CBE stands for include:

- Quality service
- Commitment for unparalleled customer satisfaction
- CBE is a learning organization

- Regard employees as valuable assets
- Commitment to maximize shareholder value
- Uphold transparency, accountability and professionalism
- Equal opportunity employer
- CBE is a corporate citizen

The bank has also identified critical success factors in two categories as primary and other factors. The primary factors include service delivery, assets quality, credit volume and financial soundness. The secondary factors are organizational structure and empowerment, human resource development and utilization and systems and technology.

Corporate Objectives of CBE

The bank has listed the following as corporate objectives:

- Reduce service delivery time by 50% by June 2007
- Improve the level of customer satisfaction to 95% by June 2007
- Reduce the non- performing loans to loans ratio to 20% by June 2007
- Reduce the ratio of long outstanding suspense accounts to 5% of the total amount of suspense by June 2007
- Increase the loans balance by 15% by June 2007
- Introduce a flatter and responsive organizational structure and ensure empowerment of the appropriate units by June 2005
- Realign the overlapping and fragmented functional units of the bank
- Raise ROA to 8.5% by June 2005
- Achieve NIM of 3% by June 2007
- Upgrade management and leadership capabilities by June 2005
- Upgrade the technical capabilities of the whole staff by June 2007
- Install a network computer system in all major town and city branches by June 2007 and

- Introduce improved systems (policies and procedures) in all operational areas including control, by June 2005.

CBE's Corporate Strategies

To fulfill its objectives the bank has also enumerated strategies that can help. These are:

- Process re-engineering on credit and other operational areas tuned towards responding to markets needs
- Efficient and effective human resource utilization
- Product/ service differentiation and diversification
- Set product prices commensurate with the quality of the services
- Cost containment and rationalization
- Provide service through people friendly technological support
- Prudent credit expansion and recovery

1.4. Statement of the Problem

The Commercial Bank of Ethiopia (CBE) is the largest and oldest bank in the country. The bank had been operating in the monopoly environment as the only commercial bank prior to liberalization of Ethiopian financial sector. After liberalization of the financial sector in 1994 many small private banks have started operation. They have already snatched significant percentage of the market share from CBE. There is also possibility for entrance of big foreign banks in the local banking industry as the government is under pressure from different partners and organs to open the financial market.

The banking service is one of areas where we witness rapid changes. The development of information technology and the globalization of world economy

are among the factors that contribute for rapid changes. Therefore, the bank should realign itself to these changes.

The bank's vision as indicated previously is to become world-class bank. It requires a lot of effort and well-designed strategy for the bank like CBE to become 'world- class bank'.

However, the consultant sponsored by the bank, Ernst & Young, has noted the following points during the comprehensive audit of the bank's operations (Ernst & Young, 2000).

- *Key market opportunities aren't fully used to influence the strategic direction to be taken by the bank.*
- *Identification of key threats doesn't result in counter strategies to offset the effects of these threats.*
- *The bank has not fully identified its core competencies, or what the bank does best.*

These statements by the consultant show that the bank doesn't have well developed strategic management process. As a result CBE doesn't have the best strategies that can help to fulfill its objectives.

Therefore, at this juncture it is the question of the employees, the customers and the general public to know the strategic behavior of CBE. The basic questions to be addressed in the research include:

- What does the strategic trait or posture of CBE looks like?
- Is CBE short sighted or has long-term orientation?
- How does the bank's problem solving behavior can be described?
- How does CBE allocate resources to increase market share and etc?

1.5. Objective of the Study

This is descriptive research intended to assess and describe CBE in terms of one strategic construct: strategic orientation. It will express CBE in terms of strategic behavior or traits. Dimensions of strategic orientation: aggressiveness, analysis, defensiveness, proactiveness, futurity and riskiness will be used to describe the strategic trait or property of CBE.

The bank's management in their daily routine makes different managerial decisions. The decisions can be of many types. It can be about credit, deposit mobilization, branch opening and human resource issues. The nature, trends and processes of these decisions can express the strategic trait/ posture of CBE along acceptable dimensions.

After measuring the strategic orientation of CBE along the above six dimensions, we will be able to know the following facts:

- The posture adopted by the bank in allocating resources for improving market positions
- Overall problem solving behavior of the bank
- Emphasis of the bank on cost reduction and efficiency
- Relative emphasis on short term versus long term considerations
- Behavior of the bank in participating in emerging markets, continuous search for opportunities and experimentation with potential response with changing conditions.
- Extent of risk reflected in the bank's operations

Strategic orientation measured along these dimensions with indicators that have sufficient validity and reliability show actual behavior. The researcher has an

intention to measure performance instead of intention. The strategic intention can vary from actual performance because of different reasons including low implementation capacity, misinterpretation and etc. Therefore, the objective is to illicit actual strategic characteristics of CBE rather than intension.

1.6. Significance of the Study

The basic assumption beyond this research is that strategic orientation and organizational performance have strong relation (Venkatraman et al, 1989). Strategic orientation is one of the determinants of organizational performance. The research assesses those traits that are beyond the bank's performance. It can be considered as a part of strategic diagnosis that shows CBE's current strategic posture. This can be a feedback to the bank's management about the strategic implication of its daily activities.

There is no sufficient local literature on strategic management discipline in general and strategic orientation in particular. But strategic thinking is the determining factor for success in this turbulent environment. Organizations must predict the future and align themselves with the environment to survive. Inter functional coordination of the organization is also important factor for efficient utilization of resources and to focus on corporate objectives.

The current study will help to enrich local literature on the subject matter. Future researchers will be familiarized with the conceptualization of strategy and its measurement.

1.7. Scope and Limitation of the Study

This research is limited to describing the strategic orientation of CBE. No effort is made to relate the dimensions of strategic orientation to performance of the bank. That is to mean the research isn't about the relation of the bank's performance and strategic dimension. It only describes the bank's strategic behavior in terms of the dimensions of strategic orientation.

Moreover, I will not try to discern why the bank has endowed with any type of strategic orientation. There should be reasons for the bank to exhibit certain types of strategic traits. Some of these can be attitude of management, competition, organizational culture and etc. But the researcher will not try to trace out these factors in CBE. That part is left for future research.

The limitation of this research is that the measurement adopted for strategic orientation was developed in different environment. The measurement is biased to manufacturing firm instead of the service sector. However, the researcher has modified the indicators to make it suitable to Ethiopian banking industry.

1.8. Measurement

From extensive review of relevant literature, the researcher has identified different variables that can measure the strategy construct: strategic orientation with acceptable validity and reliability. Among these the researcher has adopted measurement for strategic orientation from Venkatraman (1989). Venkatraman's measurement consists of six dimensions and 29 variables (refer annex I). Two indicators are reduced for the sake of relevancy. The modified measurement is the following:

Dimensions and Revised Indicators for Strategic Orientation

Aggressiveness Dimension

1. The bank often sacrifices profitability to gain market share
2. The bank often cuts prices or commissions to increase market share
3. The bank often sets interest rate on loans and commissions below competitors

Analysis Dimension

4. Emphasizes effective coordination among different functional areas
5. Information systems provide support for decision-making
6. When confronted with a major decision, the bank usually tries to develop thorough analysis (major decisions include branch network expansion, major automation project, large scale financing & etc)
7. The bank prepares both long-term and short- term plans using the best approaches and techniques.
8. Uses the output of management information and control systems
9. Commonly uses manpower planning and performance appraisal of senior managers for management development, management succession, promotion, recruitment and etc

Defensiveness Dimension

10. Occasionally makes significant modification to the operation technology (includes modification of working methods and procedures, use of information technology & etc)
11. The bank often uses cost control systems for monitoring performance

12. The bank often uses operation management techniques (Examples can be use of various models and techniques in operation management such as transportation (assignment) models, linear programming models, facility layout techniques, networking models & etc)
13. Often emphasizes on service quality through the use of quality circles

Futurity dimension

14. Criteria for resource allocation generally reflect long-term considerations
15. Emphasizes basic research to provide for future competitive edge
16. Forecasting key indicators of operations is common
17. Formal tracking of significant general trends is common
18. Often conducts "what-if" analysis of critical issues (Example: what the banks operations will look like given entry of foreign banks to local market and what- if analysis in major credit approval and branch expansion decisions & etc)

Proactiveness Dimension

19. Constantly seeking new opportunities related to the present operations
20. Usually the first ones to introduce new services in the market
21. As CBE expands its branch network other banks follow
22. CBE eliminates branches that aren't strategically profitable

Riskiness Dimension

23. The bank's operation can be generally characterized as higher risk (this is to mean the bank is high risk taker by aggressively lending, high rate of branch expansion, low control and monitoring and etc)

24. The bank seems to adopt a rather non-conservative view when making major decisions
25. New projects are approved on "blanket" approval rather than a "stage-by-stage" (implies approval of more than projects at the same time, absence of pilot projects & etc)
26. It has a tendency to accept projects where the expected returns are uncertain (Projects can be task forces, reform projects, automation projects, consultancy projects, large scale financing requests & etc)
27. Usually the banks operations are based on untried (untested) path (It is to mean the bank indulges itself to new and untested practices, new ventures and investments which weren't proven to be the best alternatives & mechanisms)

1.9. Methodology and Data Collection

Primary data will be collected using questionnaire prepared based on variables adopted and modified from Venkatraman (1989). The questionnaire is prepared on five scales Likert system (refer to annexure II). The respondents are members of top management, division managers, section managers and senior staff working in the bank. Because of the theoretical nature of the questionnaire the respondents were selected with two preconditions. These are:

- a. The respondent must have a minimum of first degree in business are (Management, Accounting, Finance, Economics and related).
- b. The respondents must have at least five years of working experience in the bank.

Accordingly a list of employees qualifying for the above criteria is obtained from the bank's human resource record office. There 302 employees who fulfill the criteria. This comprises the target population. 70 employees were randomly selected from the above list and the researcher through hand delivery and the

bank's communication flow system distributed questionnaires. Out of the questionnaires 50 are properly filled and responded; two wrongly filled and responded while the remaining where left were not responded for various reasons.

Secondary data from directives, previous studies by different consulting firms and internal experts, policy manuals, strategic plans, and annual reports were utilized.

1.10. Data Analysis

With the help of SPSS software, the researcher we will employee different statistical tools to analyze the data collected on five scale Likert system. Through the analysis the relation among the six dimensions will be assessed, and the reliability of the measurement has to be tested.

The relation among the dimensions can be analyzed using regression and correlation analysis. The reliability test can be made using the half split method. Factor analysis may help to know the significance of each dimension and to see if reduction of variables may be justified for future research.

Frequency distribution and different statistical reports will be generated for analysis. With the help of these tools analysis and interpretation of the data can be performed.

Chapter II

Literature Review

Literature on strategic management addresses a number of issues. Among these we can identify (1) Meaning of strategic management, (2) conceptualization of strategy (3) Approaches to formulation of strategy, (4) strategic orientation and organizational performance and etc.

There is reasonable agreement on the processes of strategic management. We find variations in the meaning of strategic management and details of the components.

2.1. Strategic Management

Pearce and Robinson (2000: page3) conceptualized strategic management as the set of decisions and actions that result in the formulation and implementation of plans designed to achieve a company's objectives. They have listed activities that can be categorized as the strategic management process. The summary of the activities comprises:

- ◆ Formulation of mission
- ◆ Analysis of both internal and external environment
- ◆ Analysis of company's options
- ◆ Selection of the best option
- ◆ Selection of long-term objectives and grand strategies
- ◆ Implementation of strategies and evaluation of the success

Although they gave simple definition of strategic management, as a set of actions and decisions that will result in plans to accomplish objectives, the list is exhaustive. The process of strategic management as indicated by them includes short-term plans.

An organization should first of all clearly stipulate why it exists in the society. This is some thing more than profitability. This purpose of existence is what is called the mission. Basic components of well-developed mission statement include the following (David, 1997):

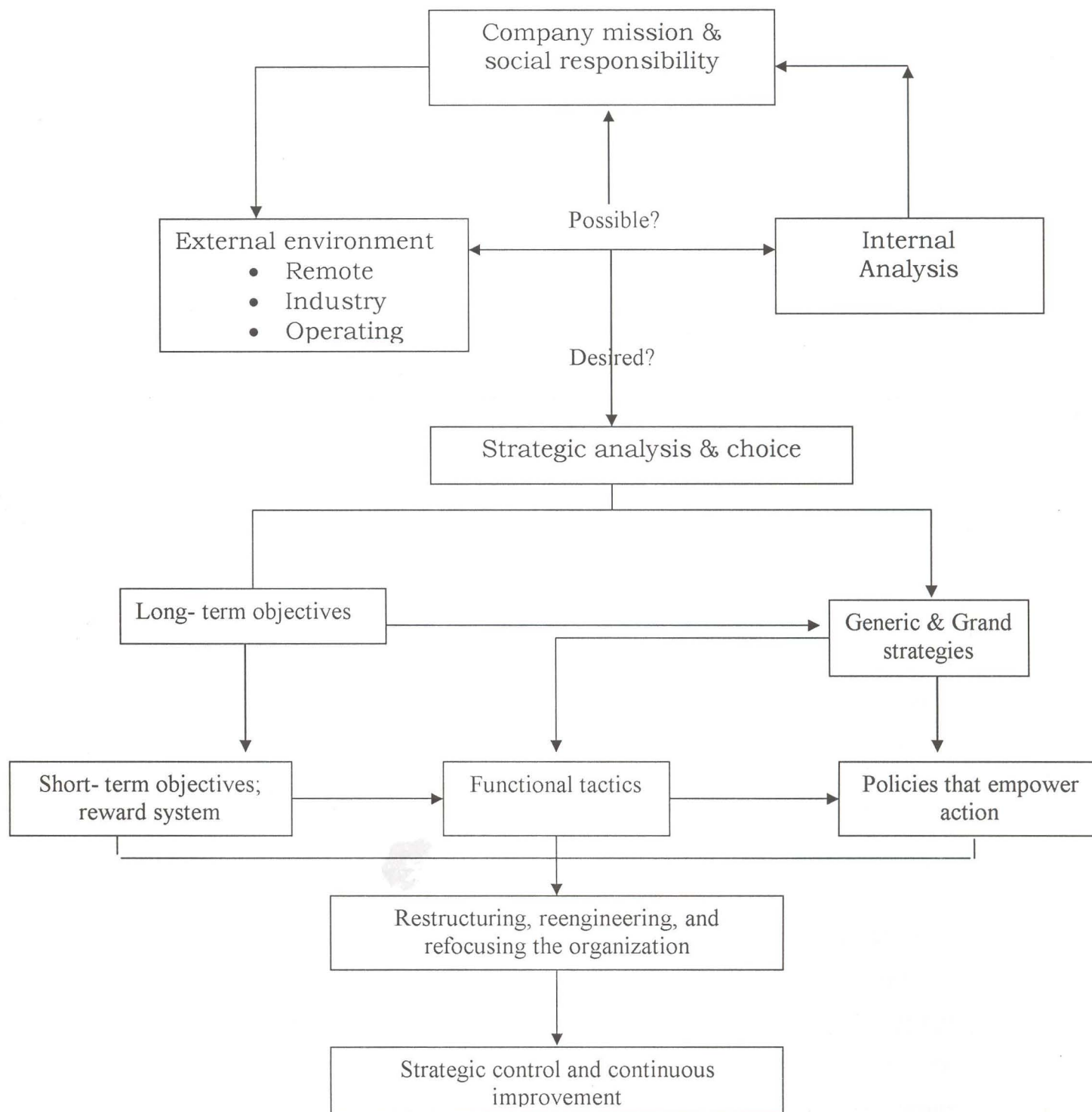
- The products/ services of the organization
- Customer service
- Caring for employees
- Technology utilization
- Social responsibility and etc.

Apart from the purpose of existence organizations should clearly communicated to its stakeholders where it should intend to reach in the long term. This is what is referred as the vision of the organization. Therefore, vision is what the organization wants to be in the future. For example CBE wants to be 'world class bank.'

The next step is logically to assess how the external environmental factors are changing. The reason is because organizations have little control on those factors while they can determine organizational survival. They should follow trends in the general environmental factors such as the economic, social, political and technological. The analysis also includes the industrial factors and competitors.

Figure 1

The framework of strategic management by Pearce and Robinson



Source: Pearce II, John A. and Robinson, Richard .B. (2000). Business Week: Strategic Management, 7th ed. (Boston: IRWIN MCG raw-Hill), 2000: Page 2.

David (1997) defined strategic management as the art and science of formulating, implementing and evaluating cross-functional decisions that enable an organization to achieve its objective. He emphasized the important aspect of strategic management. That is strategic management plays the role of integrating functional areas like finance, marketing, manufacturing and human resource management. David has listed three stages of strategic management.

- i. **Strategy formulation:** developing a business mission, identifying an organization's external opportunities and threats, determining internal strengths and weaknesses, establishing long-term objectives, generating alternative strategies, and choosing particular strategies to pursue.
- ii. **Strategy implementation:** requires establishing annual objectives, devising policies, motivating employees, and allocating resources to execute formulated strategy. It includes developing a strategy supportive culture, creating an effective organizational structure, redirecting marketing efforts, preparing budgets, developing and utilizing information systems, and linking employee compensation to organizational performance.
- iii. **Strategy evaluation:** fundamental activities include revision of internal and external factors, measurement of performance and taking corrective actions.

Thompson (1995) conceptualized strategic management as the process by which organizations determine their purpose, objectives and desired levels of attainment; decide upon actions for achieving these objectives in an appropriate timescale, and frequently in a changing environment; implement the actions; and assess progress and results. Thompson depicted the framework of strategic management as follows:

Figure 2: Framework of Strategic Management



Source: Thompson, John L. (1995). *Strategy in Action*. (London: Chapman and Hall).

Hussey (1998) has tried to show the difference between strategic management and planning. He explained that strategic management is about managing strategically and planning is one part of the whole process. He quoted arguments of Johnson and Scholes as follows.

Strategic management is concerned with deciding on strategy and planning how that strategy is to be put into effect. It can be thought of, as having three main elements within it there is strategic analysis, in which the strategist seeks to understand the strategic position of the organization. There is a strategic choice stage, which is to do with formulation of possible courses of action, their evaluation, and the choice between them. Finally, there is a strategic implementation stage, which is to do with planning how the choice of strategy can be put into effect. Hussey (1998: page 12).

Bringing together, how the above writers conceptualized strategic management, we can find in some cases clear differences. For Pearce and Robinson strategic management is similar to strategic planning, but for Hussey this does not work. Hussey claims that they are different. David and Thompson, on the other side understand strategic management in similar fashion. Basically strategic

management deals with cross- functional decisions; that are to mean decisions that cannot fall under any single department or division. This is to emphasize the integration and alignment role of strategic management. With out strategic management each division or department pursues its own goals and objectives. Interaction with external environment becomes difficult and unorganized.

There is reasonable convergence on processes of strategic management by the writers. We can extract the following for conceptualization of strategic management in this research:

- a) Strategic management indicates decisions and actions about organizational strategy.*
- b) It is a process composed of certain stages.*
- c) We can't replace strategic management by planning.*
- d) In strategic management in most of the cases we deal with cross-functional issues.*
- e) We try to align the organization with the external environment in strategic management.*
- f) We analyze the internal strengths and weaknesses of the organization.*
- g) We develop alternative strategies.*
- h) We select ad implement the best strategy from the alternatives.*
- i) It also requires monitoring the success of the strategy.*

2.2. Conceptualization of Strategy

The core concept in strategic management is the term strategy itself. We can find much variation in conceptualization and operationalization of the construct- strategy.

Literatures address different issues with regard to the meaning of strategy, how to measure strategy, strategy and performance. It is better to look at and understand the meaning of strategy before discussing related aspects.

Porter (1987) is the most quoted author on the topic of strategic management. Porter conceptualized strategy for a diversified company at two levels: business unit (or competitive) strategy and corporate (or company wide) strategy. The competitive strategy deals with how to create competitive advantage in each of the business in which a company competes. According to Porter, corporate strategy concerns with the question: what business the corporation should be in and how the corporate office should manage the array of business units. It is what makes the corporate whole add up to more than the sum of its business unit parts.

Porter (1996; page 86) defined strategy as the creation of a unique and valuable position, involving a different set of activities. He emphasized doing something different from rivals.

Porter also explained that strategies allow organizations to gain competitive advantage from three different bases, which he calls generic strategies (David, 1997: page 60-63). These generic strategies are:

- a) **Cost leadership:** producing standardized products at very low per unit cost for consumers who are price-sensitive.
- b) **Differentiation:** producing products and service considered unique industry wide and directed at consumers who are relatively price -in - sensitive.
- c) **Focus:** producing products and services that fulfill the needs of small groups of consumers.

Therefore, strategy, according to Porter is a means to gain sustainable competitive advantage over competitors. It is a weapon to win competition.

Lawrence and William [1988] defined strategy as a unified, comprehensive, and integrated plan that relates the strategic advantage of the firm to challenges of the environment. They emphasized that strategy is not any type of plan but is unified plan that integrates all the parts of the organization.

However, both Mintzberg (1994) and Hamel (1996) emphasized the difference between strategy and strategic planning. Mintzberg (1994; page 107) indicated the following:

... Strategic planning is not strategic thinking. Indeed, strategic planning often spoils strategic thinking, causing managers to confuse real vision with the manipulation of numbers. And this confusion lies at the heart of the issue: the most successful strategies are visions, not plans.

Hamel (1996: page 41), in his conceptualization of strategy as a revolution indicated the following:

The essential problem in organizations today is a failure to distinguish planning from strategizing. Planning is about programming, not discovering. Planning is for technocrats, not dreamers. Giving planners responsibility for creating strategy is like asking a bricklayer to create Michelangelo's pieta. ... Strategizing is not a rote procedure it is a quest. Any company that believes that planning can yield strategy will find itself under the curse of incrementalism while freething newcomers lead successful insurrections.

Therefore, conceptualization of strategy and strategic planning as synonyms undermines the importance of strategy. David (1997) provided clear definition of strategy. Strategies are means to achieve long-term objectives. Moreover, David

(1997: page 50-59) enumerated 13 types of strategies that a business can adopt based on its internal and external environment. These are called grand strategies (Pearce & Robinson, 2000). David gave guidelines for pursuing the strategies. His list includes the following strategy alternatives:

Forward integration

Backward integration

Horizontal integration

Market penetration

Market development

Product development

Concentric diversity

Conglomerate diversification

Horizontal diversification

Joint venture

Retrenchment

Divestiture

Liquidation

Some literatures view strategy as a means [David, 1997, Thompson, 1995 et.al]. Others indicated that we have to consider strategy both as a means and an end [Macmillan and Tampoe, 2000 et.al].

Baetz and Beamish (1993: page 4-13) compared the meaning of strategy to its root word- 'strategos' in Greek, which means "the art of the general". They defined strategy in business as implementable management scheme for achieving corporate ends. They also listed major components of strategy as goals and objectives, product /market emphasis and basis of competition.

Mintzberg, Ahlstran and Lampel (1998) conceptualized strategy around five dimensions, which they called ' Five Ps' of strategy. These are:

Strategy is a plan: a direction, a guide or course of action into the future, a path to get from here to there (intended strategy).

Strategy is a pattern: consistency in behavior over time (realized strategy).

Strategy is a position: the locating of particular products in particular markets.

Strategy is a perspective: an organization's fundamental way of doing things.

Strategy is a ploy: a specific "maneuver" intended to outwit an opponent or competitor.

Although there are variations in conceptualization of strategy, Mintzberg, Ahlstran and Lampel (1998: page 16) adapted areas of agreement from Chaffee, (1985: 89 - 90). These includes:

- *Strategy concerns both organization and environment.* "A basic premise of thinking about strategy concerns the inseparability of organization and environment.... The organization uses strategy to deal with changing environments."
- *The substance of strategy is complex.* "Because change brings novel combinations of circumstances to the organization, the substance of strategy remains unstructured, unprogrammed, nonroutine, and non-repetitive..."
- *Strategy affects overall welfare of the organization.* "... Strategic decisions ... are considered important enough to affect the overall welfare of the organization..."
- *Strategy involves issues of both content and process.* "... The study of strategy includes both the action taken, or content of strategy, and the processes by which actions are decided and implemented."
- *Strategies are not purely deliberate.* "Theorists ... agree that intended, emergent, and realized strategies may differ from one another."
- *Strategies exist on different levels.* "... Firms have ... corporate strategy (What businesses shall be in?) and business strategy (How shall we compete in each business?)"

- *Strategy involves various thought processes.* "... Strategy involves conceptual as well as analytical exercises. Some authors stress the analytical dimension more than others, but most affirm that the heart of strategy making is the conceptual work done by leaders of the organization.

In summary, strategy is considered by Porter as some unique and valuable position to win Competition. Lawrence and Williams said that it is a special type of plan that helps to relate strategic advantage of the firm to the environment. David expressed strategy as means to achieve ends while Macmillan and Tampoe described it as both means and an end. The definition of Baetz and Beamish can be included in one of the above.

The integrative approach suggested by Mintzberg, Ahlstrand and Lampel is the most comprehensive and convincing. Therefore, synthesizing the literatures on conceptualization of strategy so far we can conclude:

- a) Strategy is action, decision or idea that helps to achieve organizational objective.
- b) An organization can have strategy at three hierarchies: corporate level, business unit (SBU) level and functional level strategies.
- c) Plan is part of strategy.
- d) Strategy influences both structure and performance

2.3. Approaches to Strategy Formulation

The other area of emphasis in the literature is on the process of formation of strategy. Hart (1992: page 33) has summarized the strategy making process typologies before his research as follows:

Table 3: Categorizing the Strategy- Making Process Typologies**Themes from the Literature**

	<i>Rationality</i>			
<i>Citation</i>	<i>Comprehensive</i>	<i>Bounded</i>	<i>Vision</i>	<i>Involvement</i>
Allison(1971)	Rational	Organizational; Bureaucratic		
Nutt(1981,1984)	Normative; Bureaucratic	Behavioral; Group; adaptive		
Mintzberg (1973, 1978)	Entrepreneurial; planning	Adaptive		
Chaffee (1985)	Linear	Adaptive	Interpretive	
Mintzberg (1987a)	Plan; Ploy; Position	Pattern	Perspective	
Bourgeois and Brodwin (1984)	Commander; Change	Collaborative	Cultural	Crescive
Nonaka (1988)	Deductive			Inductive; Compressive
Ansoff (1987)	Systematic	Ad Hoc; Reactive		Organic
Gerandori (1984)	Optimizing	Satisfying; Incremental	Cybernetic	Random
Shrivastava and Grant (1985)	Managerial Autocracy; Systematic Bureaucracy	Adaptive Planning		Political Expediency
Mintzberg and Waters (1985)	Entrepreneurial; Planned	Process; Consensus	Ideological; Umbrella	Unconnected; Imposed

Source: Hart, Stuart L. (1992). "An Integrative Framework for strategy making processes", Academy of Management Review, Vol.17, No.33, page 331.

Hart has explained the strategy making typologies as follows:

- a) **Rational model:** it calls for comprehensive and exhaustive analysis prior to decision.

- b) **Bounded rationality:** individuals and organizations due to cognitive limits, heuristics and biases can achieve only bounded rationality.
- c) **Vision:** executives may be able to predict the broad direction and allows the details to emerge overtime.
- d) **Involvement:** commitment through involvement of organizational members.

Based on the complementary roles that top managers and organizational members play; Hart proposed an integrative framework for strategy making process. He identified five modes of strategy making: command, symbolic, rational, transactive and generative.

Table 4: An Integrative Framework for Strategy-Making Processes

Description	Command	Symbolic	Rational	Transactive	Generative
Style	(Imperial) <i>Strategy driven by Leader or small top team</i>	(Cultural) <i>Strategy driven by mission and a vision Of the future</i>	(Analytical) <i>Strategy driven By formal Structure and Planning systems</i>	(Procedural) <i>Strategy driven By internal Process and Mutual adjustment</i>	(Organic) <i>Strategy driven by organizational actor's initiative</i>
Role of Top Management	(Commander) <i>Provide direction</i>	(Coach) <i>Motivate and inspire</i>	(Boss) <i>Evaluate and control</i>	(Facilitator) <i>Empower and enable</i>	(Sponsor) <i>Endorse and support</i>
Role of organizational members	(Soldier) <i>Obey orders</i>	(Player) <i>Respond to challenge</i>	(Subordinate) <i>Follow the system</i>	(Participant) <i>Learn and improve</i>	(Entrepreneur) <i>Experiment and take risks</i>

Source: Hart, Stuart L. (1992). "An Integrative Framework for strategy making processes", Academy of Management Review, Vol.17, No.33, 334.

Hart left the operationalization of the five modes and studies of linkage of the modes- performance to future research. However, he conceptualized strategy-making process as organization wide phenomenon. Hamel (1996) conceptualized strategy as a revolution. He forwarded 10 principles that help to revolutionize strategy. Similar to Hart, Hamel emphasized that any organizational member can be strategist.

Jacobson (1992) wrote about the "Austrian" school of strategy. The idea was that in dynamic environment, there are opportunities (strategic windows). Therefore, investment activities should coincide with these strategic windows. Strategy is conceived as the hunt for opportunity in the dynamic environment. Bowman and Hurry et.al (1993) conceptualized strategy as option lens that help to identify organizational resource investment choices, or options.

Mintzberg (1987: page 66) proposed crafting strategy rather than planning strategy. The idea is that strategy formulation should not be considered as something mechanical.

Parthasarthy and Sethi (1992: page 189) categorized perspectives on strategy formulation into two. A synoptic perspective describes strategy formulation as deliberate and sequential. Its origin is at the top of the organization (out side in and top down).

The other approach is called an incremental approach. According to this approach, strategy formulation is a "bottom-up and inside-out", and evolutionary process.

Mintzberg, Ahlstrand and Lampel (1998) in their book entitled "Strategy Safari" have done an exceptional job by bringing together the views of ten schools of strategic thought. They metaphorical described strategy formation as an elephant

where each school is considered as the parts of the beast. The writers exhaustively elaborated each school. The schools with brief explanation are the following (for details please refer to (annexure III):

The Design School: Strategy formation as a process of *conception*

The Planning School: Strategy formation as a *formal* process

The Positioning School: Strategy formation as an *analytical* process

The Entrepreneurial School: Strategy formation as a *visionary* process

The Cognitive School: Strategy formation as a *mental* process

The Power School: Strategy formation as a process of *negotiation*

The Cultural School: Strategy formation as a *collective* process

The Environmental School: Strategy formation as a *reactive* process

The Configuration School: strategy formation as a process of *transformation*

The general direction of the literature on strategy formulation is towards more involvement of organizational members. The traditional approach that strategy formulation is the duty of top management is not accepted by large number of researchers. (Hamel et al 1996).

The synthesis made by Mintzberg, Ahlstrand and Lampel is very important among such different types of schools with regard to a single field. They strongly substantiated that strategy is a complex concept. No single school is sufficiently capable of describing strategy formation. I prefer this view. Let us use their words to end this topic:(Mintzberg, Ahlstrand and Lampel, 1998: page 372:373)

***Strategy formation is judgmental designing, intuitive
visioning, and emergent learning; it is about***

transformation as well as perpetuation; it must involve individual cognition and social interaction, cooperation as well as conflict; it has to include analyzing before and programming after as well as negotiating during; and all of this must be in response to what can be a demanding environment.

2.4. Strategic Orientation

Research on operationalization and measurement of strategy is dominated by two researches: Miles and Snow's (1978) and Venkatraman (1989).

Shortell and Zajac (1990) made comprehensive assessment of reliability and validity of Miles and Snow's strategic types. They examined dimensions of the typology using perceptual self-typing and archival data.

According to Shortell and Zajac (1990: page 818-819), Miles and Snow suggested three domains of organization's strategies.

- a. **The entrepreneurial:** relating to how the organization orients itself to the market place.
- b. **The administrative:** deals with how the organization attempts to coordinate and implement its strategies.
- c. **The technical:** relating to the technology and processes used to produce the organization's products and services.

The Miles and Snow's typology of strategies divide organizations into four:

- a. **Prospector strategy:** the orientation of the firm to be first in the market; frequently adds and changes its products and services. Such type of firms emphasizes innovation and flexibility.
- b. **Analyzer's strategy:** The firm maintains relative stability of products and services while it moves to selective markets. They adhere to formal planning and try to balance cost containment and efficiency with risk and innovation.
- c. **Defender's strategy:** The firm offers a relatively stable set of services to defined markets. It tries to do the best job possible at its area of operation. Tight cost control and continuous search for operating efficiency are the natures of such type of firms.
- d. **Reactor strategy:** such type of firm doesn't have constant strategy. Predication of properties for a reactor firm is very difficult.

Shortell and Zajac (1990) ignored the reactor strategy as they thought that there are no indicators for this strategic behavior. Moreover, they left out the technological dimension of the typologies in their reliability and validity tests.

Their research was based on data collected twice from 174 hospitals. The perceptual data included a questionnaire on strategic planning self-administered by each hospital's chief executive officer (CEO). They also conducted interviews with top management of some of the institutions. Archival data utilized by the researchers was an inventory of services provided by each hospital and they collected data for additional services from the American Hospital Association.

They used multiple indicators of strategic orientation both at overall and business levels. The conceptual measures used includes CEO'S assessments of:

- a. Their organizations' strategic orientation on scale of 1 (defender) to 7 (prospector) and certain scales collapsed.
- b. The degree of emphasis given to new market and new service development for each activity.
- c. Assessment of the market growth potential of each service line.
- d. Perceived quality of strategic planning process.

The first three of these indicators were meant to measure entrepreneurial dimension of the typologies while the fourth was for administrative dimension.

The findings of shorttell and Zajac (1990) were:

- a) In general, the data indicate moderate reliability for the strategic orientation and new-service-new market development measures and strong reliability for the market-growth measures.
- b) The findings supported the validity of CEO'S self-typing of organizations'.

Venkatraman (1989) developed comprehensive measurement and validation of the strategy construct-strategic orientation. He developed indicators of strategic orientation and tested for various tests including unidimensionality, convergent, discriminate, and predictive validity.

Venkatraman adopted comparative approach of strategy measurement in which he identified the key traits (dimensions) of the strategy construct. The six dimensions of strategic orientation identified by Venkatraman (1989: page 948-949) with short explanations are the following:

Aggressiveness: refers to the posture adopted by a business in its allocation of resources for improving market positions at a relatively faster rate than the competitors in its chosen market.

Analysis: refers to the trait of overall problem solving posture. It is the extent of tendency to search deeper for the roots of problems, and to generate the best possible solution alternatives.

Defensiveness: it reflects defensive behavior (Miles and Snow 1978) and is manifested in terms of emphasis on cost reduction and efficiency seeking methods.

Futurity: it reflects temporal considerations reflected in key strategic decisions, in terms of the relative emphasis of effectiveness (longer-term) considerations versus efficiency (shorter term) consideration.

Proactiveness: reflects proactive behavior in relation to participation in emerging industries, continuous search for market opportunities and experimentation with potential responses to changing environmental trends.

Riskiness: it captures the extent of riskiness reflected in various resource allocation decisions as well as choice of products and markets.

Venkatraman followed a priori approach while identifying these dimensions. The approach helps to drive dimensions based on the theoretical perspectives that guided the construct definition. The dimensions are pre-specified and then tested (Venkatraman 1989 page: 178).

He conceptualized strategic orientation by circumscribing it by four questions with regard to scope, hierarchical level, domain and intentions versus realizations. He bounded the definition of the construct based on these topics as follows:

- a) **Scope:** he considered strategy as a means excluding the ends (purpose and goals).
- b) **Hierarchical level:** he considered strategy at business level than corporate and functional levels.
- c) **Domain:** he focused on a broader (holistic) perspective of strategy rather than considering it as parts (e.g. marketing, manufacturing, and etc).

- d) **Intention versus realization:** he focused on realized strategies instead of measuring intentions (perceptions).

Therefore, Venkatraman conceptualized strategy as a pattern of critical decisions, along a holistic perspective, and focused on realized strategies. He developed a compressive list of indicators for the six dimensions which where evaluated by the principal researcher and 16 others engaged in strategy research (Refer to annex-I). The measures satisfied the criteria for validity and reliability. The relation with performance indicators (growth and profitability) and strategy dimensions are in the expected direction (Venkatraman: page 957).

Other literatures on strategy measurement research are adoption or little modification of Venkatraman measurements. Wood and Robertson (1997) used proactive and reactive dimensions in their research on strategic orientation and export success. Morgan and Strong (1997) adopted Venkatraman's dimensions of strategic orientation in their research on market orientation and dimensions of strategic orientation. O'Regan and Ghobadian relied on Miles and Snow's typology in their research on innovation in Small and Medium Enterprises (SMEs): the impact of strategic orientation and environmental perceptions.

Let us look at other literature on conceptualization of the strategy construct-strategic orientation. Tushman and Romanelli (1985: page 176) described strategic orientation as follows:

Strategic orientation answers the question what is it that is being converged upon? It may or may not be explicit; it can be described by (five facets)

- *Core beliefs and values regarding the organization, its employees and its environment,*
- *Products, markets, technology and competitive timing*
- *The distribution of power*

- *The organization's structure: and*
- *The nature, type and pervasiveness of control systems.*

Wood and Robertson (1997: page 425-427) conceptualized strategic orientation as one specific set of the determinant of strategic development process. They identified plethora of terms used to conceptualize the construct including the following:

- *Frame of mind, or mental "orientation", that managers bring to the strategic development process*
- *Buffering orientation that some managers often display when faced with volatile or hostile environments*
- *Managers lacking itself assurance as a 'coping' orientation*
- *"adaptation" and "innovation" for profiling managers with more aggressive orientations*
- *"neurotic organization" in modeling managers with particularly unstable orientations*

They defined strategic orientation as the specific managerial perceptions, predispositions, tendencies, motivations and desires that precede and guide the strategic planning and development process, and ultimately, the direction of the organization (Gabarro 1973 as quoted by Wood and Robertson).

Wood and Robertson (1997: page 426) indicated that

- *Strategic orientation has a powerful influence on both management expectations and organizational performance.*
- *It encompasses a host of latent traits including the manager's personal inclination toward risk taking, entrepreneurship, objectivity assertiveness, and information use.*
- *A manager's strategic orientation affects which specific strategies are germinated, nurtured, and brought to fruition.*
- *Strategic orientation ultimately determines future strategies.*
- *Strategic orientation can be both an antecedent to outcomes and a consequence of outcomes.*
- *Strategic orientation influences the degree to which strategies within an organization are coherent, stable, and assertive.*

Morgan and strong (1998) understood competitive strategy as synonymous with the construct strategic orientation. They viewed strategic orientation as how an organization uses strategy to adopt and /or change aspects of its environment for a more favorable alignment. They quoted Chaffee (1985) using terminologies: strategic fit, strategic predisposition, strategic thrust and strategic choice to represent the same concept.

O'Regan and Ghobadian (2005: page 83) quoted Manu and Sriram (1996) defining strategic orientation as how an organization uses strategy to adapt/or change aspects of its environment for a more favorable alignment. Hambrick as quoted by

O'Regan and Ghobadian (2005: page 83) stated that strategic orientation has a high degree of consistency, as it is "a pattern in a stream of decisions (past or intended) that guides the organization's on going alignment with its environment and shapes internal policies and procedures.

Therefore, among all these definitions, I shall put forward my own conceptualization of strategic orientation for the ease of communication. One obvious thing is that it is a construct derived from the word strategy. Strategic orientation describes the strategic behavior / traits of organization. Types of strategies are not synonymous with strategic orientation. Types of strategies may include generic or grand strategies.

Moreover, I conceptualized strategic orientation as organization wide phenomena rather than managerial or functional aspects. I also refer to actual orientation instead of intention of the management of the organization.

I adopted (with modification) measures of strategic orientation from Venkatraman for the following reasons:

- a) They are compressive compared to Miles and Snow's taxonomy.
- b) They comprised some of Miles and Snow's dimensions of strategic orientation.
- c) The measurements are well tested for reliability and validity.

Chapter III

Strategic Dimensions of CBE

a. Aggressiveness Dimension

The responses obtained with regard to the indicators of the aggressiveness dimension are summarized as indicated in the table 5 below. The majority of respondents (62%) have indicated that the Commercial Bank of Ethiopia lay on or below 2 on the scale showing degree of the bank's aggressiveness on five point Likert Scale. They expressed that the bank's activities don't show aggressiveness of the bank. It is only 8% of the respondents that who considered the bank having aggressive characteristics while 30% of the respondents have disagreed strongly to such proposition.

Table 5: Frequencies- aggressiveness

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	1.00 Strongly disagree	15	30.0	30.0	30.0
	2.00 Disagree	16	32.0	32.0	62.0
	3.00 I can't say	15	30.0	30.0	92.0
	4.00 Agree	4	8.0	8.0	100.0
	Total	50	100.0	100.0	

The implication of this dimension is that the bank doesn't show much effort to expand its market share compared to its competitors. It doesn't use its resources aggressively for expanding its market share. There is no significant activity by the

bank that leads to sacrifice profitability for the sake of market share. The bank doesn't charge lower prices (interest rate and commission) compared to competitors to attract customers to its side.

The bank does not want to aggressively set prices at lower level compared to competitors to snatch customers of other banks'. At least the activities the bank has been performing these days don't show such intention.

The responses on this dimension showed high variability with mean (M) of 2.16, standard deviation of (STD) .96, variance (Var.) of .91, skewness of .25, minimum and maximum values of 1 and 4 respectively among respondents (refer table 10).

b. Analysis Dimension

The responses with the dimension of analysis as tabulated in the table 6 shows a situation where equal percentage of the respondents replied that they disagree or agree with regard to the indicators (28% each). Large Percentage of the respondents (44%) falls in the middle of the scale. M 3, minimum value 2, maximum value 4, STD .76, Var .57 and skewness of 0 indicate the dispersion of the responses with regard to the dimension. Although there is no skewness the variability is high as indicated by STD and Var.

Table 6: Frequencies- analysis

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	2.00 Disagree	14	28.0	28.0	28.0
	3.00 I can't say	22	44.0	44.0	72.0
	4.00 Agree	14	28.0	28.0	100.0
	Total	50	100.0	100.0	

The implication with the analysis dimension is that the respondents are not sure in majority of the cases to agree or disagree. In fact there is a split between disagreement and agreement on response to the indicators. Therefore, it is logical to fix in the middle of the scale. This means the bank sometimes make thorough analysis while making important decisions.

The bank is almost half way in its effort to search deep into the roots of the problem before looking for alternative solutions to problems. It is average player in this area.

c. Defensiveness Dimension

Half of the respondents fall in the middle of the scale for various reasons. The rest, 32% and 18% responded with disagreement and agreement respectively. The dispersion measures show M 2.8, minimum value of 1, maximum value of 4, STD .81. Var. 65 and skewness -.34. There is high variability and skewed to the left of the mean.

Therefore, the bank has low defensive behavior or trait according to the above facts. It doesn't emphasis cost reduction and efficiency seeking methods.

Table 7: Frequencies- Defensiveness

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	1.00 Strongly disagree	3	6.0	6.0	6.0
	2.00 Disagree	13	26.0	26.0	32.0
	3.00 I can't say	25	50.0	50.0	82.0
	4.00 Agree	9	18.0	18.0	100.0
	Total	50	100.0	100.0	

d. Futurity Dimension

Similar to the defensiveness dimension, large percentage of respondents (46%) falls in the middle. A significant proportion (40%) responded that they disagree that the bank focuses on long term consequences while deciding on certain issues. Only 14% of the respondents agree on the proposition that the bank is long sighted. The indication is that the bank is relatively short sighted in its decisions.

Table 8: Frequencies futurity

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	1.00 Strongly disagree	2	4.0	4.0	4.0
	2.00 Disagree	18	36.0	36.0	40.0
	3.00 I can't say	23	46.0	46.0	86.0
	4.00 Agree	7	14.0	14.0	100.0
	Total	50	100.0	100.0	

M 2.7, minimum value 1, and maximum value 4, STD .76, Var.,.58 and skewness of 0 can explain the dispersion of the responses.

e. Proactiveness Dimension

The largest proportion of the respondents (52%) preferred to have the average position of the scale while 34% responded that the bank is not proactive. It is only 14% those who are with the opinion that the bank is proactive.

In terms of dispersion of the responses M is 2.74, minimum value 1, maximum value 4, STD .78, Var. .60 and skewness is .32. It shows high variability of responses.

Table 9: Frequencies – proactiveness

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	1.00 Strongly disagree	3	6.0	6.0	6.0
	2.00 Disagree	14	28.0	28.0	34.0
	3.00 I can't say	26	52.0	52.0	86.0
	4.00 Agree	7	14.0	14.0	100.0
	Total	50	100.0	100.0	

The implication is that the bank is not proactive in taking and assessing business opportunities. It is not also capable of predicting the future threats and establishes strategy to mitigate its negative effects. Its performance in predicting the environmental changes and action to adapt is rated average or below average.

f. Riskiness Dimension

The indicators of this dimension are arranged in such a way that lower values show lesser risk while the higher values indicate high risk.

With regard to the extent of risk perceived by the respondents about the bank's usual operation 60% responded that it is average risk that the bank faces. Significant number of respondents (32%) responded that they don't consider the bank's operation as risky.

Table 10: Frequencies- Riskiness

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	1.00 Strongly disagree	1	2.0	2.0	2.0
	2.00 Disagree	15	30.0	30.0	32.0
	3.00 I can't say	30	60.0	60.0	92.0
	4.00 Agree	4	8.0	8.0	100.0
	Total	50	100.0	100.0	

The implication is that the bank faces average or less than average risk in its operation activities. This in fact in line with the previous dimensions as it is low both in aggressiveness and proactiveness, which may lead to high risk.

Table 11: Correlations of dimensions

		AGGRES	ANALYSI	DEFENSI	FUTURIT	PROACTI	RISKINE
AGGRES	Pearson	1	.198	.333	.235	.442	.138
	Sig. (2-	.	.168	.018	.100	.001	.340
	N	50	50	50	50	50	50
ANALYSI	Pearson	.198	1	.601	.389	.313	-.085
	Sig. (2-	.168	.	.000	.005	.027	.556
	N	50	50	50	50	50	50
DEFENSI	Pearson	.333	.601	1	.563	.468	-.064
	Sig. (2-	.018	.000	.	.000	.001	.660
	N	50	50	50	50	50	50
FUTURIT	Pearson	.235	.389	.563	1	.348	.131
	Sig. (2-	.100	.005	.000	.	.013	.364
	N	50	50	50	50	50	50
PROACTI	Pearson	.442	.313	.468	.348	1	.275
	Sig. (2-	.001	.027	.001	.013	.	.054
	N	50	50	50	50	50	50
RISKINE	Pearson	.138	-.085	-.064	.131	.275	1
	Sig. (2-	.340	.556	.660	.364	.054	.
	N	50	50	50	50	50	50

*. Correlation is significant at the 0.05 level (2-

**. Correlation is significant at the 0.01 level (2-

The correlations among the dimensions are in the expected direction as indicated in table 11. The highest coefficient of correlation is .601 between analysis and defensiveness dimension, while the lowest negative correlation exists between riskiness and defensiveness dimensions (-.064). The dimensions are positively related in most of the cases except that of analysis and defensiveness with riskiness. These exceptional negative correlations are logically expected.

Table 12: Summary Report

	<u>Aggressiveness</u>	<u>Analysis</u>	<u>Defensive</u>	<u>Futurity</u>	<u>Proactiveness</u>	<u>Riskiness</u>
Mean	2.16	3.00	2.80	2.70	2.74	2.74
Minimum	1.00	2.00	1.00	1.00	1.00	1.00
Maximum	4.00	4.00	4.00	4.00	4.00	4.00
N	50	50	50	50	50	50
StdDev	.96	.76	.81	.76	.78	.63
Variance	.91	.57	.65	.58	.60	.40
Skewness	.25	.00	-.34	.00	-.32	-.24

The regression analysis made with data shows above average relationship among the dimensions. In most of the cases the R-value is above 0.50 except in the case of aggressiveness and riskiness where it is 0.468 and 0.399 respectively (refer to table 13: I- VI). In fact as the residual values are higher in most of the cases, it implies that there is fitness problem between the data and the model. However, the coefficients of correlation as indicated above are in the expected direction.

Table 13: Regression- I

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.468 ^a	.219	.130	.89118

a. Predictors: (Constant), RISKINES, DEFENSIV, PROACTIV, FUTURITY, ANALYSIS

ANOVA^b

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	9.775	5	1.955	2.462	.047 ^a
	Residual	34.945	44	.794		
	Total	44.720	49			

a. Predictors: (Constant), RISKINES, DEFENSIV, PROACTIV, FUTURITY, ANALYSIS

b. Dependent Variable: AGGRESS

Coefficients^a

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	.218	.820		.266	.791
	ANALYSIS	-2.32E-02	.212	-.018	-.109	.913
	DEFENSIV	.209	.236	.177	.885	.381
	FUTURITY	2.049E-02	.207	.016	.099	.922
	PROACTIV	.424	.198	.345	2.143	.038
	RISKINES	7.615E-02	.219	.050	.348	.730

a. Dependent Variable: AGGRESS

Table 13: Regression- II**Model Summary**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.610 ^a	.372	.301	.63222

a. Predictors: (Constant), AGGRESS, RISKINES, FUTURITY, PROACTIV, DEFENSIV

ANOVA^b

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	10.413	5	2.083	5.211	.001 ^a
	Residual	17.587	44	.400		
	Total	28.000	49			

a. Predictors: (Constant), AGGRESS, RISKINES, FUTURITY, PROACTIV, DEFENSIV

b. Dependent Variable: ANALYSIS

Coefficients^a

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	1.511	.536		2.820	.007
	DEFENSIV	.487	.152	.521	3.207	.002
	FUTURITY	8.600E-02	.147	.087	.587	.560
	PROACTIV	6.531E-02	.147	.067	.443	.660
	RISKINES	-9.54E-02	.155	-.080	-.615	.541
	AGGRESS	-1.17E-02	.107	-.015	-.109	.913

a. Dependent Variable: ANALYSIS

Table 13: Regression- III**Model Summary**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.749 ^a	.561	.512	.56480

a. Predictors: (Constant), ANALYSIS, RISKINES, AGGRESS, FUTURITY, PROACTIV

ANOVA^b

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	17.964	5	3.593	11.263	.000 ^a
	Residual	14.036	44	.319		
	Total	32.000	49			

a. Predictors: (Constant), ANALYSIS, RISKINES, AGGRESS, FUTURITY, PROACTIV

b. Dependent Variable: DEFENSIV

Coefficients^a

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	.362	.517		.699	.488
	FUTURITY	.356	.120	.336	2.972	.005
	PROACTIV	.245	.127	.236	1.938	.059
	RISKINES	-.198	.136	-.155	-1.461	.151
	AGGRESS	8.384E-02	.095	.099	.885	.381
	ANALYSIS	.389	.121	.364	3.207	.002

a. Dependent Variable: DEFENSIV

Table 13: Regression- IV

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.593 ^a	.352	.278	.64801

a. Predictors: (Constant), DEFENSIV, RISKINES, AGGRESS, ANALYSIS, PROACTIV

ANOVA^b

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	10.024	5	2.005	4.774	.001 ^a
	Residual	18.476	44	.420		
	Total	28.500	49			

a. Predictors: (Constant), DEFENSIV, RISKINES, AGGRESS, ANALYSIS, PROACTIV

b. Dependent Variable: FUTURITY

Coefficients^a

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	.468	.593		.790	.434
	PROACTIV	3.699E-02	.151	.038	.245	.808
	RISKINES	.191	.157	.158	1.215	.231
	AGGRESS	1.083E-02	.110	.014	.099	.922
	ANALYSIS	9.035E-02	.154	.090	.587	.560
	DEFENSIV	.469	.158	.497	2.972	.005

a. Dependent Variable: FUTURITY

Table 13: Regression- V

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.617 ^a	.381	.311	.64550

a. Predictors: (Constant), FUTURITY, RISKINES, AGGRESS, ANALYSIS, DEFENSIV

ANOVA^b

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	11.286	5	2.257	5.417	.001 ^a
	Residual	18.334	44	.417		
	Total	29.620	49			

a. Predictors: (Constant), FUTURITY, RISKINES, AGGRESS, ANALYSIS, DEFENSIV

b. Dependent Variable: PROACTIV

Coefficients^a

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	.186	.594		.313	.755
	RISKINES	.318	.152	.259	2.101	.041
	AGGRESS	.223	.104	.274	2.143	.038
	ANALYSIS	6.808E-02	.154	.066	.443	.660
	DEFENSIV	.320	.165	.333	1.938	.059
	FUTURITY	3.670E-02	.150	.036	.245	.808

a. Dependent Variable: PROACTIV

Table 13: Regression- VI**Model Summary**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.399 ^a	.159	.064	.61231

a. Predictors: (Constant), PROACTIV, ANALYSIS, AGGRESS, FUTURITY, DEFENSIV

ANOVA^b

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	3.123	5	.625	1.666	.163 ^a
	Residual	16.497	44	.375		
	Total	19.620	49			

a. Predictors: (Constant), PROACTIV, ANALYSIS, AGGRESS, FUTURITY, DEFENSIV

b. Dependent Variable: RISKINES

Coefficients^a

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	2.339	.440		5.315	.000
	AGGRESS	3.595E-02	.103	.054	.348	.730
	ANALYSIS	-8.95E-02	.145	-.107	-.615	.541
	DEFENSIV	-.233	.160	-.298	-1.461	.151
	FUTURITY	.170	.140	.205	1.215	.231
	PROACTIV	.286	.136	.352	2.101	.041

a. Dependent Variable: RISKINES

The model reliability analysis (table 14) using half split method shows above average reliability values. The values being closer to 0.50 implies that the measurement requires further refinement in the future research with this topic.

Table 14: Reliability

RELIABILITY ANALYSIS - SCALE (SPLIT)

Reliability Coefficients

N of Cases = 50.0

N of Items = 6

Correlation between forms = .5254 Equal-length Spearman-Brown = .6889

Guttman Split-half = .6787 Unequal-length Spearman-Brown = .6889

3 Items in part 1

3 Items in part 2

Alpha for part 1 = .6269 Alpha for part 2 = .5066

The factor analysis (table 15) indicates the dimension of aggressiveness has low fit in the model with estimate variance accounted of 0.451 in the solution model. It implies requirement for improvement of the dimension in the future.

Table 15: Factor Analysis- I

Communalities

	Initial	Extraction
AGGRESS	1.000	.451
ANALYSIS	1.000	.665
DEFENSIV	1.000	.795
FUTURITY	1.000	.525
PROACTIV	1.000	.660
RISKINES	1.000	.734

Extraction Method: Principal Component Analysis.

Table 15: Factor Analysis- II**Total Variance Explained**

Component	Initial Eigenvalues			Extraction Sums of Squared Loadings		
	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %
1	2.602	43.361	43.361	2.602	43.361	43.361
2	1.229	20.476	63.837	1.229	20.476	63.837
3	.802	13.358	77.195			
4	.576	9.606	86.802			
5	.485	8.078	94.880			
6	.307	5.120	100.000			

Extraction Method: Principal Component Analysis.

Table 15: Factor Analysis- III**Component Matrix^a**

	Component	
	1	2
AGGRESS	.581	.337
ANALYSIS	.696	-.426
DEFENSIV	.841	-.296
FUTURITY	.721	-7.18E-02
PROACTIV	.726	.364
RISKINES	.163	.841

Extraction Method: Principal Component Analysis.

a. 2 components extracted.

Findings

Based on the analysis made so far, we can identify major findings with regard to the strategic orientation of the Commercial Bank of Ethiopia. Accordingly, the strategic behavior (traits) of CBE can be described as follows:

- g. The bank doesn't allocate resources aggressively to improve its market position compared to its competitors.
- h. The problem solving behaviors of the bank indicates that it is on average with regard to making thorough analysis before decision.

- i. The decisions and activities of the bank so far don't reflect emphasis on cost reduction and efficiency improvement methods.
- j. The bank's decisions in most of the cases reflect short-term considerations. It doesn't emphasis long-term consequences of current decisions.
- k. Although the business environment is dynamic, the bank is not proactive to take advantages of future opportunities or to mitigate unforeseen threats.
- l. The bank's operational activities in general reflect low risk.

Chapter IV

Conclusion and Recommendation

CBE is the dominant bank in Ethiopian banking industry. It has wide branch network and strong capital base. The bank has occupied large market share both in credits and deposit mobilization. However, emerging competitors are snatching CBE's customers.

The factors led to CBE's dominance are historical factors than competence. Those factors are not at their place these days. Due to liberalization of domestic banking, sector, new small aggressive banks are in operation. They have already started to snatch some customers from CBE. They are posing competitive threats to the bank.

Moreover, the implication of globalization is immense for CBE. It looks no far for foreign banks to get access to the local market. There are pressures on government from different side to open local market for foreign banks.

CBE with untested competence but a big competition waiting ahead deserves diagnosis at this time. This research tried to make diagnosis of CBE with help of a strategy construct: strategic orientation.

To accomplish the diagnosis strategic orientation was measured along six dimensions of aggressiveness, analysis, defensiveness, futurity, proactiveness and riskiness. Twenty-seven indicators were used to measure the six dimensions.

The reliability of the measurement was tested using the split half test. Correlation and regression analysis were made to see how much the dimensions go together.

The implication is that the measurement developed is reliable above average. There is a need to refine the measurement to obtain high reliability in the future research.

The result of the research indicated that CBE doesn't have strategic orientation that makes it "world class bank" as stated in its vision statement. The finding shows that it requires number of improvements in its decisions and activities to overcome the stiffening competition from newly emerging private banks and threat of possible entry of foreign banks in the local banking industry.

The bank is found less aggressive in its activities for expanding market share. It doesn't use pricing of its products as weapon to attack competitors. Aggressive banks forego temporary profit to increase market share.

CBE may have sufficient reasons for not to be aggressive at this time. Although I leave causes for such type of strategic orientation for future research, one basic reason I feel is as a public bank CBE has a responsibility to create conducive environment for mushrooming small banks. We can reasonably guess that at this earlier stage they can't withstand competitive attack from CBE. It looks the war between elephants and rabbits.

However, why CBE limits its operation to the ^{local}~~local~~ market is another question that we can ask at this juncture. Why couldn't it learn something from Ethiopian Airlines? With such senior age in Ethiopian banking industry and accumulated experience, it is reasonable to ask why it couldn't operate in foreign markets at least in Eastern African Region to generate some foreign currency that supports the nation's development endeavor. How will it become world class without doing this?

The bank's trait of problem solving is average as found from the analysis. Also the performance with this regard is not bad, to win competition it requires more than average performance.

The other dimension of strategic orientation analyzed was the defensiveness nature of the bank. The bank doesn't emphasized mechanisms that helps to reduce costs or tries to increase efficiency. Cost minimization can help to set cheap prices or to offer service at lower price compared to competitors.

With regard to consequences of decisions, the bank was rated as short sighted. This may lead to failures as the also lives in the future. Some benefits that any business can generate in future are those, which are nurtured today.

The bank lacks proactive decisions to take opportunities that will happen in the future. In fact opportunities are happening know and then. That who is ready and takes the advantage turns it into benefit. Lost opportunities may turn to be threats as other competitors may take the advantage.

Future brings not only opportunities. Unavoidably we have to expect for threats. To mitigate the negative effect of threats it requires proactiveness.

The riskiness dimension of strategic orientation is found low in line with other dimensions discussed above. Low aggressiveness, short sightedness, and less proactiveness are justifiable sources of low risk. In fact low risk may not be the indication of good business practice. It rather reflects the risk averse behavior of the management.

Therefore, I forward the following recommendation to future researchers in the area of strategic orientation and to the management of CBE.

Future researchers on strategic orientation should try to develop measurement, which is more reliable than the current one. Such measurement should consider the working environment in Ethiopia. Both macro- environmental and industry factors should be well addressed in establishing the measurements. Special emphasis should be given to the legal environment, as it is the basic determinant of the premises of the bank's operation.

CBE's management on the other hand should consider the following recommendations:

1. Although aggressive competition is not justifiable with emerging small banks, the bank has to try to expand its market beyond the national boundary. To be world class is not achievable by sitting at home while globalization is at the door.
2. The bank should try to strength its research and development activities to enable it making through analysis before deciding.
3. Cost efficiency should be the strategy of any for profit organization. It is the root to establish low prices on services and products. Accordingly, CBE should strive to use cost reduction and efficiency enhancing mechanisms. Improvement of the bank's operational techniques can be sighted as an example. Branch networking is one of the mechanisms that help to reduce operational costs.
4. The bank should think about the long-term consequences of its current decisions. The effect of decisions such as reducing deposit mobilization efforts may negatively affect the bank in the future although it is liquid for the time being.
5. CBE should systematically assess business opportunities and threats that can emerge in the future. Due to changes in the external environmental factors opportunities and threats emerge consistently. With its large

deposit money on which it pays interest the bank should find alternative ways of extending credit.

6. The bank has to start new services and try to improve its operation. It has to take reasonable risk in these areas.

Annexure I

Indicators for the Six- Dimensions of Strategic Orientation as Developed by Venkatraman

Aggressiveness Dimension

1. Sacrificing profitability to gain market share
2. Cutting prices to increase market share
3. Setting prices below competition
4. Seeking market share position at the expense of cash flow and profitability

Analysis Dimension

1. Emphasize effective coordination among different functional areas
2. Information systems provide support for decision making
3. When we confronted with a major decision, we usually try to develop thorough analysis
4. Use of planning techniques
5. Use of the outputs of management information and control systems
6. Manpower planning and performance appraisal of senior managers

Defensiveness

1. Significant modification to manufacturing technology
2. Use of cost control systems for monitoring performance
3. Use of production management techniques
4. Emphasis on product quality through the use of quality circles

Futurity dimension

1. Our criteria for resources allocation generally reflect short term considerations (rev.)^b
2. We emphasize basic research to provide us with future competitive edge
3. Forecasting key indicators of operations
4. Formal tracking of significant general trends
5. "What- if " analysis of critical issues

Proactiveness Dimension

1. Constantly seeking new opportunities related to present operations
2. Usually the first once to introduce new brands or products in the market
3. Constantly on the look out for business that can be acquired
4. Competitors generally preempt us by expanding capacity ahead of them (rev).
5. Operations in large stages of life cycle are strategically eliminated

Riskiness Dimension

1. Our operations can be generally characterized as high- risk.
2. We seem to adopt a rather conservative view when making major decisions (rev)
3. New projects are approved on a " stage- by- stage" basis rather than with " blanket" approval (rev)
4. A tendency to support projects where the expected returns are certain (rev)
5. Operations have generally followed the "tried and true" paths (rev)

Annexure II
Addis Ababa University
Faculty of Business and Economics
MBA program
Questionnaire

Dear Respondent! My name is Worku Lemma. I am the staff of CBE and currently studying for Master of Business Administration at Addis Ababa University. As partial fulfillment of the program, I am undertaking a research project entitled Strategic Orientation. Therefore, this questionnaire is intended only for academic purpose. The target respondents are members of the management and senior bankers at the head office of CBE. I convey my thanks for your diligence, objectivity and concern while responding to the questions.

Part I: Personal

1. Service years in the Commercial Bank of Ethiopia (CBE)

- 0- 10 years ☐
- 11-20 years ☐
- Above 20 years ☐

2. Age range in years

- Below 30 ☐
- 31-40 ☐
- Above 40 ☐

3. Sex

- Male ☐
- Female ☐

Part II.

How much do you think the following statements reflect the situation in the Commercial Bank of Ethiopia? The statements are about some business management activities supposed to be practiced by organizations. Do you think CBE perform these activities? Indicate your degree of agreement/ disagreement on the five-point scale below. Tick the scale number corresponding to each indicator you think appropriate for CBE.

Key to the scale

1= strongly disagree

4= agree

2= disagree

5= strongly agree

3= I can't say

Ser. No.	Indicators	Scale				
		1	2	3	4	5
1	The bank often sacrifices profitability to gain market share					
2	The bank often cuts prices or commissions to increase market share					
3	The bank often sets interest rate on loans and commissions below competitors					
4	Emphasizes effective coordination among different functional areas					
5	Information systems provide support for decision-making					
6	When confronted with a major decision, the bank usually tries to develop thorough analysis (major decisions include branch network expansion, major automation project, large scale financing & etc)					

7	The bank prepares both long-term and short- term plans using the best approaches and techniques.					
8	Uses the output of management information and control systems					
9	Commonly uses manpower planning and performance appraisal of senior managers for management development, management succession, promotion, recruitment and etc					
10	Occasionally makes significant modification to the operation technology (includes modification of working methods and procedures, use of information technology & etc)					
11	The bank often uses cost control systems for monitoring performance					
12	The bank often uses operation management techniques (Examples can be use of various models and techniques in operation management such as transportation (assignment) models, linear programming models, facility layout techniques, networking models & etc)					
13	Often emphasizes on service quality through the use of quality circles					
14	Criteria for resource allocation generally reflect long-term considerations					
15	Emphasizes basic research to provide for future competitive edge					
16	Forecasting key indicators of operations is common					
17	Formal tracking of significant general trends is common					
18	Often conducts "what-if" analysis of critical issues (Example: what the banks operations will look like given entry of foreign banks to local market and what- if analysis in major credit approval and branch expansion decisions & etc)					

19	Constantly seeking new opportunities related to the present operations					
20	Usually the first ones to introduce new services in the market					
21	As CBE expands its branch network other banks follow					
22	CBE eliminates branches that aren't strategically profitable					
23	The bank's operation can be generally characterized as higher risk (this is to mean the bank is high risk taker by aggressively lending, high rate of branch expansion, low control and monitoring and etc)					
24	The bank seems to adopt a rather non-conservative view when making major decisions					
25	New projects are approved on "blanket" approval rather than a "stage-by-stage" (implies approval of more than projects at the same time, absence of pilot projects & etc)					
26	It has a tendency to accept projects where the expected returns are uncertain (Projects can be task forces, reform projects, automation projects, consultancy projects, large scale financing requests & etc)					
27	Usually the banks operations are based on untried (untested) path (It is to mean the bank indulges itself to new and untested practices, new ventures and investments which weren't proven to be the best alternatives & mechanisms)					

Annexure III

Dimensions of the Ten Schools of Strategy

	Design	Planning	Positioning	Entrepreneurial	Cognitive
A Metaphorical Beast for Each School	Spider	Squirrel	Water Buffalo	Wolf	Owl
ROOT DIMENSIONS OF THE SCHOOLS					
Sources	Selznick 1957 (and perhaps earlier work, for example, by Newman), then Andrews 1965	Ansoff 1965	Purdue work (Schendel, Hatten) mid 1970s; then notably Porter 1980 and 1985	Schumpete 1950, Cole 1959, others in economics	Simon 1947, 1957, March and Simon 1958
Base Discipline	none (architecture as metaphor)	(Some links to engineering, urban planning, systems theory, cybernetics)	Economics (industrial organization), military history	none(although early writings come from economics)	Psychology (cognitive)
Champions	case study teachers (especially at or from Harvard), leadership aficionados, especially in America	"professional" managers, MBAs, staff experts (especially in finance), consultants and government controllers; especially in France and America	as in planning school, especially analytical staff people, consulting "boutiques," and military writers; most notably in America	popular business press, romantic individuals, small business people everywhere, but most decidedly in Latin America and among overseas Chinese	apostles of information systems, philosophical purists, those with a psychological bent, pessimists in one wing, optimists in the other
Intended Message	fit	formalize	analyze	envision	frame
Realized Message	think (strategy making as case study)	program (rather than formulate)	calculate (rather than create or commit)	centralize (then hope)	worry or imagine (being unable to cope in either case)
Homilies	"Look before you leap."	"A stitch in time saves nine."	"Nothin' but the facts, ma'am."	"Take us to your leader."	"I'll see it when I believe it."
Strategy	planned perspective, unique	plans decomposed into substrategies and programs	planned generic positions (economic and competitive), also ploys	personal, unique perspective (vision), as niche	mental perspective (individual concept)
Basic process	cerebral, simple, and informal, judgmental, deliberate (prescriptive)	formal, decomposed, deliberate (prescriptive)	analytical, systematic, deliberate (prescriptive)	visionary, intuitive, largely deliberate (as umbrella, although emergent specifics) (descriptive)	mental, emergent (overwhelming or constrained) (descriptive)

Cont'd

	LEARNING	POWER	CULTURAL	ENVIRONMENTAL	CONFIGURATION
A Metaphorical Beast for Each School	Monkey	Lion	Peacock	Ostrich	Chameleon
ROOT DIMENSIONS OF THE SCHOOLS					
Sources	Lindblom 1959, 1968; Cyert and March 1963; Weick 1969; Quinn 1980; Prahalad and Hamel, early 1990s	Allison 1971 (micro); Pfeffer and Salancik 1978; Astley, 1984 ((macro)	Rhenman and Normann late 1960s in Sweden; no obvious source elsewhere	Hannan and Freeman 1977; contingency theorists (eg. Pugh et al., late 1960s)	Chandler 1962, McGill group (Mintzberg, Miller, etc. late 1970s; Miles and Snow 1978)
Base Discipline	None (perhaps some peripheral links to learning theory in psychology and education); chaos theory in mathematics	Political science	Anthropology	Biology, political sociology	History
Champions	People inclined to experimentation, ambiguity, adaptability, especially in Japan and Scandinavia	people who like power, politics, and conspiracy; especially in France	people inclined to the social, the spiritual, the collective; especially in Scandinavia and Japan	population ecologists, some organization theorists, splitters and positivists in general; especially in the Anglo-Saxon countries	lumpers and integrators in general, as well as change agents; configuration perhaps most popular in Holland, maybe Germany, transformation in the USA
Intended Message	learn	grab	coalesce	cope	integrate, transform
Realized Message	play (rather than pursue)	hoard (rather than share)	perpetuate (rather than change)	capitulate (rather than confront)	lump, revolutionize (rather than nuance, adapt)
Homilies	"If at first you don't succeed, try, try again."	"Look out for number one."	"An apple never falls far from the tree."	"It all depends."	"To everything there is a season..."
Strategy	patterns, unique	political and cooperative patterns and positions, as well as ploys, overt and covert	collective perspective, unique	specific positions (called niches in pop. ecol.), generic	any to the left, in context
Basic process	emergent, informal, messy (descriptive)	conflictive, aggressive, messy; emergent (micro), deliberate (macro) (descriptive)	ideological, constrained, collective, deliberate (descriptive)	passive, imposed, hence emergent (descriptive)	integrative, episodic, sequenced, plus all of those to the left, in context (descriptive for transformations)

Source: Mintzberg, Ahlstrand and Lampel. *Strategy Safari*. (London: Prentice Hall), 1998, Page, 354- 357.

Bibliography

1. Baetz Mark.C. and Beamsh Paul W. Strategic Management: Text, Readings and Canadian Cases. (Boston: IRWIN), 1993.
2. Boar, Bernard. "Sun Tzu and Machiavelli on Strategy", Readings in Strategic Management, (Boston: Irwin MCG raw-Hill), 1995.
3. Boeker, Warren. "Strategic Change: The effect of Founding and History", Academy of Management Journal, vol.32, No.3, 1989.
4. Bowman Edward.H. and Hurry Dileep. "Strategy Through the option Lens: An integrated view of Resource investments and the incremental choice process", Academy of Management Review, Vol.18, No.4, 1993.
5. Cannon, Derek F. Strategic Management: and Marketing. (New York: John Wiley and sons), 1998.
6. CBE, "Annual Report 2003/ 2004", September 30, 2004.
7. CBE, "Strategic Plan for 2004/05 - 2006/07"
8. Charles W. L. Hill, Gareth R. Jones. Strategic Management, 4th ed. (Boston: Houghton Mifflin company), 2000.
9. Cliff Bowman. The Essence of strategic Management. (New Delhi: Prentice Hall of India), 1998.
10. Crane Dwight B. and Eccles Robert G." Commercial Banks: taking shape for turbulent times", Harvard Business Review, No.6, (November, December 1987).
11. David, Fred R. Strategic Management, 16th ed. (New Jersey. Prentice Hall), (1997).
12. Dhruba, Duttachowdhury. Strategic Management: Theory and practice. (Kolkata: New Central Book Agency (p) Ltd.), 2002.
13. Eisenhardt, Kathleen M. and Bourgeois III L.J. "Politics of strategic decision making in high velocity Environment: toward a mid range Theory", Academy of Management Journal, Vol.31, No.4. 1988.

14. Ernst & Young. "Comprehensive Audit Project Final Report", Volume 2, Module, 1, (28 April 2002).
15. Goold Michael and Campbell Andrew. "Many Best ways to make strategy", Harvard Business Review, No.6. (Nov-Dec, 1987).
16. Hamel, Gary "Strategy as Revolution", Readings in Strategic Management, (Boston: Irwin MCG raw-Hill), 1996.
17. Hart, Stuart L. "An Integrative Framework for strategy making processes", Academy of Management Review, Vol.17, No.2. 1992.
18. Hussain, Mostaque Md. "Organizational strategic Orientation and its Impact on Non-Financial performance Measurement in the Financial services industry", Management Research News, Vol. 27, No. 11/12, 2004.
19. Hussey, David. Strategic Management: From Theory to Implementation, 4th ed. (Oxford: Butterworth-Heinemann), (1998).
20. Jacobson, Robert. "The 'Austrian school of strategy'", Academy of management Review, Vol. 17, No.4, (1992).
21. Jauch Lawrence R. and Glueck William F. Business policy and strategic Management, 5th ed., 1988.
22. Kim Linsu and Lim Yooncheol Lim. "Environment, Generic strategies, and performance in a rapidly developing country: A taxonomic Approach", Academy of Management Journal, vol.31, No.4, 1988.
23. Luffman George, Lea Edward, Sanderson Stuart and Kenny Brian. Strategic Management: An Analytical Introduction (Blackwell publishers Ltd)., 1996.
24. Macmillan Hugh and Tampoe Mahen. Strategic Management: Process, content, and Implementation. (Oxford University press), 2000.
25. Marco Lansiti and Roy Levien. "Strategy as Ecology", Harvard Business Review, March 2004.
26. Miller, Danny. "Relating porter's Business strategies to Environment and structure: Analysis and performance implications", Academy of Management Journal, vol.31 No.2, June 1988.

27. Mintzberg, Henry. "The Fall and Rise of Strategic planning", Harvard Business Review, (January-February, 1994).
28. Mintzberg, Henry. "(Crafting strategy", Harvard Business Review, No.4, (1987).
29. Mintzberg Henry, Ahlstrand Bruce, and Lampel Joseph. Strategy Safari: The Complete Guide through the Wilds of Strategic Management.(London: Prentice Hall), 1998.
30. Morgan Robert E. and Strong Carolyn A. "Market Orientation and Dimensions of Strategic Orientation", European Journal of Marketing, Vol.32, No.11/12, 1997.
31. O'Regan Nicholas and Ghobadian Abby. "Innovation in SMEs: the impact of strategic orientation and environmental perceptions", International Journal of Productivity and Performance Management, Vol.54, No.2, 2005.
32. Parthasarthy Raghavan and Sethi S. Prakash. "The impact of Flexible Automation on Business Strategy and Organizational Structure", Academy of Management Review, Vol.17, No.1, 1992.
33. Paul, A. Argenti. The portable MBA: Pocket Reference. (New York: John Wiley and Sons, Inc.), 1997.
34. Pearce II, John A. and Robinson, Richard .B. Business Week: Strategic Management, 7th ed. (Boston: IRWIN MCG raw-Hill), (2000).
35. Porter, Michael E. "From competitive Advantage to Corporate Strategy", Harvard Business Review, No.2, (May-June 1987).
36. Robert S. Kaplan and David P. Norton. "Measuring the strategic Readiness of Intangible Assets", Harvard Business Review, (Feb. 2004).
37. Shortell Stephen M. and Zajac Edward J. "Perceptual and Archival Measures of Miles and Snow's strategic Types: A Comprehensive Assessment of Reliability and validity", Academy of Management Journal, Vol.33, No.4, 1990.
38. Thompson, John L. Strategy in Action. (London: Chapman and Hall), 1995.

39. Tushman M. and Romanelli, E. "Organizational Evolution: A Metamorphosis Model of Convergence and reorientation", Research in Organizational Behavior, Vol.7, 1985.
40. Venkatraman N. "Strategic Orientation of Business Enterprises: The Construct, Dimensionality, and Measurement," management science, Vol.35, No.8, 1989.
41. Wood Van R. and Robertson Kim R. "Strategic Orientation and export success: an empirical study", International Marketing Review, Vol.14, No. 6, 1997.
42. <http://www.combanketh.com>

Declaration

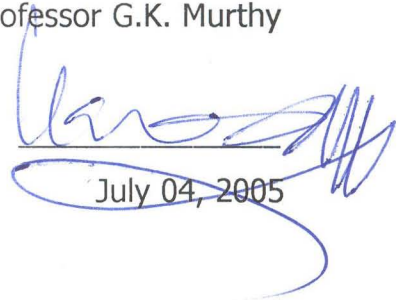
This project is my own original work, has not been presented for a degree in any other University and that all sources of material used for the project have been duly acknowledged.

Declared by
Worku Lemma



July 04, 2005

Confirmed by
Professor G.K. Murthy



July 04, 2005