

**FACTORS INFLUENCING PERFORMANCE OF COMMERCIAL
BANKS IN KENYA: A CASE OF THE KENYA COMMERCIAL BANK,
BUNGOMA COUNTY.**

BY

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DECLARATION

I declare that this Research Project is my original work and has not been submitted to any other University or institution of higher learning for examination Purpose.

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DEDICATION

I dedicate this research project to my children- Sharleen, Bradly and Bryton Barasa and my brothers and sisters.

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LIST OF ABBREVIATIONS AND ACRONYMS

ATMS	-	Automated Teller Machines
CBK	-	Central bank of Kenya
GDP	-	Gross Domestic Product
CEO	-	Chief Executive officer
IMF	-	International Monetary Fund
KCB	-	Kenya commercial Bank
NBK	-	National Bank of Kenya
NSE	-	Nairobi Stock Exchange
ROAA	-	Return on Average Asset
ROAE	-	Return on Average Equity
ROI	-	Return on investment
SMS	-	Short text Message service
Spss	-	Statistical package for social sciences
MFIs	-	Micro finance institutions
SACCOs	-	Savings and credit cooperative societies

ABSTRACT

The study was meant to investigate factors influencing performance of commercial Banks in Kenya a case of the Kenya commercial Bank, Bungoma county .The study aimed at finding out how clientele, competition, sources of funds, leadership and promotional strategies influenced the performance of Kenya commercial in Bungoma county. The study adapted a descriptive research design as a major method of research where questionnaires were used to collect data from a sample of Kenya commercial bank employees drawn from the three branches in the county..Data collection was both primary and secondary data. Primary data was collected using questionnaires distributed to the banks employees. They were designed to obtain broad range of answers from respondents which were used to answer the research questions. They comprised of close ended questions and secondary data was gathered from CMA, Stock exchange publication, NSE, CBK and annual reports of banks. Descriptive statistics was used to analyze data and the statistical package for social sciences (SPSS 17.0) and advanced excel were used. Reports were tabulated using frequency tables for clarity. The results established the relationship between Performance as a dependent variable and the independent variables like clientele, competition, sources of funds, promotional strategies and leadership. The study findings showed a great influence of clientele on the performance of commercial banks, followed by competition and sources of funds. Leadership and promotional strategies were found to have less influence on performance of the bank. The study suggests to the financial sector players to maintain a sufficient clientele base and embrace healthy competition in order to excel. The findings should draw the attention of scholars, the government and the private sector to help in ensuring economic stability of this country as bankig is a major sector of the economy.

CHAPTER ONE

INTRODUCTION

1.1 Background of the study

The management theories of the firm emerged from a long period of criticism and controversy over the “traditional” theory of the firm, the essence of which, derived from neo-classical theory, was entrepreneur profit-maximization. They started from the discretion allowed to management by the divorce of ownership and control and the dispersal of share ownership. Both economic theory and practical experience suggests that performance is an essential prerequisite of a competitive banking institution and the cheapest source of funds which necessity for successful banking and can stimulate economic development. Therefore, management has to achieve profit as the essential requirement for conducting any business (Bobakova, 2003). A sound and profitable banking sector is better able to withstand negative shocks and contribute to the stability of the financial system.

According to La Porta et al(2001) and also Dinx I (2005) Findings from various studies on the poor performance of government-owned banks, especially in developing countries,Which would result into privatization to improve performance by boosting efficiency of financial intermediation are Mixed across the globe(cull, Clarke, Shirley and megginson,2005).

According to Harber (2005) countries like Mexico, Czech Republic and to a lesser extent Poland privatization outcomes were bad enough to prompt re-nationalization of the banking sector in the wake of the Tequila crisis (Bonin, Hasan, and Watchtel, 2005) .Banking sector performance eventually improved, but only after a second round of privatization in the late 1990s in which foreign ownership participation was encouraged. Though privatized banks but with a large state shareholding in privatized banks and discouraged ownership by foreign investors were not fully successful (Bonin, Hasan, and Watchtel, 2005). The assessment of the effect of privatization on bank performance in Nigeria over the period 1990s divested a total of 14 banks, constituting more than 50 percent of total banking system assets. The period was also characterized by other major changes in the financial system like liberalization of interest rates and the loosening of credit allocation quotas. At the same time, a multi-tiered exchange rate market offered plenty of arbitrage and rent opportunities for licensed banks.

Efficiency is a key concept for financial institutions (Cinca et al, 2002). In general efficiency can be seen to have a direct relationship with the performance. Measurement of profitability of banking institutions serves important purpose as it helps to bench mark the relative performance of an individual bank against the industry as the "best practice" bank(s) and evaluate the impact on these institutions. Most studies on performance in terms of profitability of financial institutions have addressed the issue of efficiency either in terms of scale and scope or in terms of x-efficiency or both. Scale efficiency in the banking services is less than the sum of banks stand-alone operations (Kwan & Eisenbeis, 1996). According to Limam (2001) Scale efficiency addresses the Question whether a firm is operating at the minimum of its long-run average cost curve.

Scope efficiency on the other hand is measured by the difference between the cost of joint production and the sum of producing the different outputs individually. Scope efficiency in a banking context refers to the number of different types of services offered by banks and their effect on cost of operation and ability to raise revenues (Berger et al, 2001).

According to the Banking Survey, (2009) Overall the banking sector in Kenya has continued to grow, expanding its asset base from Ksh 548 billion in 1999 to Ksh 1.2 trillion in the year 2008, an increase of more than 120 percent, over the last ten years. Customer deposits have also grown in line with the growth in assets.

In 2008, the deposits stood 900 billion shillings compared to the 290 billion shillings that was recorded in 1999 which is an improvement of 130 percent. In 2008, Kenya commercial Bank (KCB) reclaimed its place as the biggest bank in the country after trailing Barclays Bank since 2001. KCB is now the leading bank in assets with the largest branch net work in the country. It also has the largest customer deposits in the sector. The bulk of KCB's growth has been witnessed mostly over the past five years and the bank's CEO (Martin O Oduor) believes that they have only just set the base for future growth. Many banks that were previously making losses due to their huge non-performing loans portfolio have turned around and performance in the banking sector has tremendously increased over the past ten years from just Ksh 5 billion in 1999 to over Kshs 44 billion in 2008. The results were that all 43 banks in the country reported

profits except for three. Barclays recorded a profit of Kshs 8 billion in 2008 leading the rest in terms of profitability. The CEO (Adan Mohammed) attributes the growth in profitability to the banks bold expansion strategy over past two years as 45 new branches were opened.

Early commercial banks were limited to accepting deposits of money or valuables for safekeeping and verifying coinage or exchanging one jurisdiction's coins for another's. By the 17th century most of the essentials of modern banking, including foreign exchange, the payment of interest, and the granting of loans, were in place. It became common for individuals and firms to exchange funds through bankers with a written draft, the precursor to the modern cheque.

The importance of bank performance can be appraised at the micro and macro levels of the economy. At the micro level, profit is the essential prerequisite of a competitive banking institution and the cheapest source of funds. It is not merely a result, but also a necessity for successful banking in a period of growing competition on financial markets. Management has to achieve profit, as the essential requirement for conducting any business (Bobáková, 2003). At the macro level, a sound and profitable banking sector is better able to withstand negative shocks and contribute to the stability of the financial system. Profitability at both micro and macro levels has made researchers, academicians, bank managements and bank regulatory authorities develop considerable interest on factors that determine bank performance (Athanasoglou et al., 2005).

The group of Bank specific determinants of performance involves clientele, competition, sources of funds, product differentiation and leadership. The second group of determinants relates performance to the macroeconomic environment within which the banking system operates which will include real GDP growth, effective tax rates and yearly change of population.. But this study will attempt to identify the relationship between highlighted variables and bank performance.

1.2 Statement of the problem.

The 2011/2012 budget may not have injected cash into commercial banks, but it has induced a feel-good factor in the economy that is expected to give them a new lease of life. Keeping with a slowing economy, growth in banks' profits is slowing as the main sources of revenues-interest income and transaction fees-dry up. Income from currency trading has also oozed out as stable shilling and low export-import trade volumes take a toll on the forex market. Worse is the fact

that the bank's unfettered discretion to raise interest rates fees and commissions, the desperate measure they use to keep profitability up in a slowdown, has been curtailed by regulation that requires central Bank of Kenya's nod leading to customer loyalty switching from one bank to the other which is a big challenge to commercial Banks in Kenya.

Several factors affects bank performance which have received a lot of attention recently. These include the base lending rates, inflation, external factors etc. The consequences of resulting changes in bank clientele structure on capital allocation efficiency in developing countries have yet to be explored since this has been associated with economic growth (Beck, Levine and Loayza, 2000; Goldsmith, 1969; Greenwood and Jovanovic, 1990; McKinnon, and Shaw, 1973).

Research in developed countries has gained ground while developing countries like Kenya are yet to carry out research by analyzing factors influencing performance of Commercial Banks. The study is to find out the relative importance of the factors that influence performance of commercial Banks in Kenya. Therefore, the problem under investigation is to find out the factors that influence performance of commercial banks in Kenya, a case of Bungoma county.

1.3 Purpose of the study

The purpose of this study was to determine the factors that influence performance of commercial Banks in Kenya, Bungoma county.

1.4 Research objectives

The study was guided by the following objectives;

1. To investigate how clientele influences the performance of commercial Banks.
2. To investigate how competition influences performance of commercial Banks.
3. To determine the extent to which source of funds influence performance of commercial Banks.
4. To determine the extent to which leadership influence performance of commercial Banks
5. To investigate how promotional strategies influence performance of commercial banks.

1.5 Research questions

The research was guided by the following research questions;

1. How does clientele influence the performance of Kenya commercial Bank?
2. How does competition influence performance of Kenya commercial Bank?
3. To what extent does the source of funds influence performance of Kenya commercial Bank?
4. To what extent does Leadership influence the performance of Kenya commercial Bank?
5. How does promotional strategies influence performance of Kenya commercial bank?

1.6 Significance of the study

The study will act as a guide to policy makers in analyzing the impact of different strategies and initiatives that are undertaken by banking firms to achieve success. Policy makers can gain from this study by using the findings to make appropriate policies regarding establishment and expansion of financial institutions and developing a regulatory framework that will enhance competition and thus efficient allocation of resources.

Kenyan banking industry does not only play a significant role for the Kenyan economy, but Kenya is one of the most important banking centers among the East Africa Countries. In addition, also consider region- specific factors which heavily differ between the East African countries. Therefore the study fills an important gap in the existing literature and improves the understanding of bank performance in Kenyan.

By providing recent evidence through analyzing the years from 2002 to 2012 and given the change that has occurred in the banking sector over the last ten years an updated consideration of these issues is necessary and may provide additional insights to Bank Managers.

Extension of earlier work can be done by adding new bank as well as market specific determinants of performance, such as growth of a banks loan relative to the growth rate of the market, the share of interest income relative to total income, bank age, bank Capital, competition, leadership, regional population growth, the real GDP and the effective tax rate. The

inclusion of these additional determinants improves academicians understanding of bank performance in significant ways.

1.7 Basic assumptions.

This study was based on the following basic assumptions:

- a) All respondents would honestly give information regarding clientele, competition, sources of funds, leadership and promotional strategies regarding their bank without fear or prejudice
- b) Data collected from Bungoma, Webuye and Kimilili branches represent all branches of Commercial Banks in Kenya.

1.8 Limitations of the study

The study was undertaken in corporate organizations where employees are quite busy and high levels of secrecy is required making it very difficult to obtain some very important information required for the study. The study however created time convenient to the managers' i.e. before working hours or late in the evening after working hours.

The study was affected by manager's judgmental values and prejudice towards the research problem. To mitigate this, the researcher explained to the managers the objectives and importance of the study.

1.9 Delimitation of the study

This study focused on factors that influence performance of commercial banks in Kenya with an emphasis on Kenya commercial bank Bungoma county. The study targeted the branches located at the Bungoma county, specifically Bungoma town, Webuye town and Kimilili town. The study targeted bank managers in selected branches, supervisors and the clerical staffs who were believed to have the relevant information regarding the research problem.

1.10 Definition of key terms as used in the study

Government policies Refers to the plan or course of action organized by the government in the running of Banks.

Clientele refers to the customer base of the bank.

Commercial Banks Refer to financial institutions that accept money deposits from the public for safe keeping, issue cheques and clear such cheques and are members of the clearing house.

Competition aggressiveness towards the available market share.

Source of funds specific origins for the banks' funds

Promotional strategy refers to ways and means through which the bank reaches out to the potential customers.

Product differentiation are different services offered by bank.

Performance means profitability of the bank based on its returns

1.11 Organization of the study

Chapter one discussed the aims of the study as well as why the research was very important to be done in a relative urgent manner. It also showed the population which was targeted as well as the area of research and the major problems that were being anticipated to be experienced during research. The literature related to the topic under study was covered in chapter two while research design, target population, sample size and sampling procedures, data collection instruments, validity and reliability of data collection instruments and data analysis were discussed in chapter three. Chapter four dealt with data presentation, analysis and interpretation while chapter five covered discussion, conclusions and recommendations.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

The chapter explored Theoretical and empirical literature in the area of factors influencing performance of commercial banks in Kenya in relation to factors afore mentioned and the choice of some theories analyzed in an analytical framework will be explained in details. The literature covers both independent and dependent variables under the study and tends to bring to the fore the nature of the relationship among these variables as established by theory and empirical research. The relationship drawn from pertinent literature is then used to develop a conceptual framework.

2.2 Theoretical Literature

There are various Theories for analyzing relationship and inter-linkage between dependent variable and independent variables, among them is the Theory of Risk return which has been discussed in details as follows.

Theory of Risk Return

A first consideration relating to bank performance concerns the concepts of risk and diversification. Shareholders balance their appetite for maximizing expected profits and minimizing costs with the amount of risk they are willing to take. Abstracting from speculative motives, shareholders are generally assumed to be indifferent to the distribution of profits, receiving a return on their investment in the bank either through an increase in the bank's share price or through dividends received. If all banks share the same risk-return preferences, or if the risk-return relationship can be described by some relatively simple homothetic continuous function, then there is no serious problem with the fact that we do not know how to control for a bank's risk preferences.

This is different, however, in a situation where some banks are highly risk-averse and not well diversified. Such banks have different preferences, forego high-risk, high-return opportunities and optimize towards an altogether different maximum performance. Although control variables aimed at proxying for this risk attitude are frequently used in the literature, comparatively little

work has been done on modeling banks' risk-return tradeoff. Recent work by Hughes et al., (2000) and De Young et al., (2001) has tried to incorporate risk into a bank benchmarking exercise and however, Koetter (2004) applied their model to German banks.

According to Calmen and Rob,(1996) a bank approaching the regulatory minimum capital ratio may have an incentive to boost capital and reduce risk in order to avoid the regulatory costs triggered by a breach of the capital requirements. However, poorly capitalized banks may be tempted to take more risk in the hope that higher expected returns will help them to increase their capital ("gambling for resurrection"). Hence, regulatory pressure can be evaluated in several ways.

However, Ediz et al. (1998) adopts a relatively refined approach that reflects the impact of the capital ratio's volatility on the probability of failing to meet the legal requirements. But, Aggarwal and Jacques (1998) measure regulatory pressure in the US using the aforementioned Prompt Corrective Action (PCA) classification between adequately capitalized and undercapitalized institutions.

New products come about due to new innovations, which are driven by the urge to realize more profits. This leads to the innovation of personal loans that were a fairly new phenomenon in Kenyan Banking industry. A review of the latter day innovations on development and improvements of the personal loan products would lead to determination of the factors influencing performance in the banking industry.

Attitude towards success and profit making intentions is to try what used to be very difficult to obtain (Bagozzi et al 1992) such that even the banking industry is being offered in the streets through personal selling by bank employees to accelerate growth. The literature available and reviewed was based on research carried out in Europe and Asia. The purpose of this study is to find out whether it would come up with similar findings based on Kenyan market context.

The "persistence of profits" theory takes its formal name from Mueller's (1990) compilation of several studies from different countries. The process of competition involves the need to study the dynamics of companies' profits, since profits are generated in the process of competition. When thinking about profits above norm, it usually leads to think about monopolies. Monopolies

are viewed as the antithesis of competition because of the malfunctions and misallocation often attributed to the existence of few buyers or sellers. So, the ideas of monopoly and competition do not match well. But, and according to the theory of “persistence of profits” monopolistic attributes are present in many firms and industries not meaning that they are not in perfect competition.

Competition takes the form not of lower prices for an existing set of products but of new improved ideas, and these in turn are property of the individual’s who created them and his/her/their employers” (Muller, 1990).competition for a new product is competition for a newly created monopoly. With time, the monopoly disappears as other firms imitate and improve upon the new product.

2.3 EMPIRICAL REVIEW

2.3.1 clientele and performance

Study by Ramlall (2009) contended that a sound and profitable banking sector is prerequisite for financial stability under a bank – based financial system. Whereas analysis of determinants of performance for the Taiwanese banking system using bank-specific, industry – specific and macro-economic factors, was based on the period 2002 to 2007.

Results show that while credit risk triggers a negative impact on performance, clientele tends to consolidate profits. In general, results suggest that Taiwanese banking system is well – diversified. The main implication of the findings is that it may be difficult to mitigate the procyclicality of banks performance in Taiwan subject to a non-concentrated banking system.

In the study of Demirguc-Kunt and Huizinga (1997) found that better contract enforcement, efficiency of the legal system and lack of corruption are associated with lower realized interest margins. This is because of the reduced risk premium attached to the bank lending rate.

Also Fry (1995) explains liberalization in the presence of inadequate prudential supervision and regulation which magnifies the impact of exogenous shocks by accommodating distress borrowing. Notable is that in developing countries, regulations exist on paper but in practice they are not enforced consistently and effectively.

A deposit insurance scheme is instituted to protect the depositors and maintain the stability of the financial sector. However, insurance (explicit or implicit) promotes moral hazard and adverse selection problems. Fry (1995) argues that adverse selection arises with deposit insurance schemes, especially if they are accompanied with high macro instability. On the other hand, banks never seek to reduce adverse selection in credit rationing, especially if there is a positive relationship between instability and returns on alternative banking financed projects. With protection for depositors provided, banks choose riskier lending strategies especially if macro instability produces strongly correlated outcomes. Thus, in setting up explicit insurance schemes, the banking system must be fairly stable, prudential regulation and bank supervision effective, and funding for the depository fund adequate. Also, the fund should have the necessary backup support that may be required to get the system through a period of stress.

Study by Goodhart et al. (1998), reveals a rapid structural change in financial markets spurred by the acceleration in financial innovation and further questions the capacity of existing specialized regulators because: The financial activities have become increasingly complex, as evidenced by the emergence of financial conglomerates. The question is whether a series of agencies supervising parts of a complex financial institution can have a good grasp of developments taking place in the institution as a whole.

The actual financial regulatory and supervisory structure is the result of a series of ad hoc policy measures put in place, at times, in the wake of financial crises. The question is whether, after the crises, a more coherent structure should be put in place.

There is an increased demand for enhanced regulation and supervision of financial products like insurance and pension schemes, which raises two concerns. First, it might not be clear which regulator should oversee a particular issue and, as a result, more than one specialized regulator, or none at all, might be doing it.

The increasing internationalization of banking and other financial services has implications for the institutional structure of agencies at national and international levels. Again, the capacity of existing specialized regulators to adapt to these changes is in question.

Indeed, factors above were found to be crucial in the adoption of the integrated approach in the Scandinavian countries (Taylor and Fleming, 1999), and were of particular importance in the British reform . All these factors are relevant for Kenya.

According to Abraham and Taylor (2000) an effective financial Regulation should be based on the following seven key principles: **Clear Objectives** – The regulator should have a clear mandate set out in its enabling legislation. **Independence and Accountability** - Decisions by the regulator within its sub-sector should not be subject to undue influence from the Minister or any

other parties. The principal officer and top management should have an element of security of tenure or at least clear rules governing their removal. Similarly, their recruitment should be done transparently and competitively and their remuneration should not be significantly discordant with that of senior officials in the regulated entities. In addition, there must be a mechanism for the regulator to be held accountable by the regulated industry while avoiding regulatory capture by the industry. **Adequate Resources** - The regulator must have adequate funding. Adequate resources are a prerequisite to enable the regulator recruit, train and retain a cadre of experienced professional staff. In addition, the regulator requires resources for timely and effective data collection and processing. **Effective Enforcement Powers** – The regulator must be able to take enforcement measures against all the players that it is required to regulate. These powers should include, powers to: (a) Require information to be provided; (b) Assess probity of owners and managers of regulated entities; (c) Inspect the operations of regulated entities; (d) Intervene in operations of regulated entities including removal of managers; (e) Revoke licenses or registration; and, (f) Sanction entities or individuals **Comprehensiveness of Regulation** – Regulation should clearly be comprehensive and not leave any unregulated areas, so called regulatory gaps. Also, this requires regulators to have some flexibility to respond to innovations which may result in new products which were not envisaged at the time of establishment of the regulatory structure. **Cost-Efficient Regulation** – The direct cost of regulation in terms of levies and fees should clearly be reasonable and not an undue burden on the regulated institutions.

Market Developments and Industry Structure - Regulatory structure should mirror the sectors being regulated. Different countries have different industry structures and each country should seek to have a regulatory structure tailored to this other than attempting a one-size-fits-all structure or borrowing those in other countries.

2.3.2 competition and performance

Recent years have been marked by a shift in theory and empirical evidence on the effect of competition on bank soundness. While the earlier literature points predominately towards a negative trade-off between competition and bank soundness (e.g., Keeley, 1990; Hellmann, Murdock, and Stiglitz, 2000; Hauswald and Marquez, 2006), recent theory and evidence suggest a positive link between the two (Koskela and Stenbacka, 2000)

Industrial organization literature indicates that competition increases efficiency of firms (e.g., Tirole, 1998). At the same time, the banking literature suggests that more efficient banks have better screening and monitoring procedures in place, and are consequently less likely to suffer from non-performing loans (e.g., Petersen and Rajan, 1995; Berger and DeYoung, 1997; Williams, 2004). Based on these arguments, we see that efficiency could be the conduit through which competition makes banks more financially sound. The correct identification of the underlying transmission mechanism by which competition translates into bank soundness has important bearing for safety and soundness regulation. First, uncovering the primary transmission channel allows focusing regulatory and supervisory actions more precisely. Second, policymakers will obtain feedback on i) how changes in the regulatory environment affect bank efficiency, and ii) on how efficiency affects bank soundness. Third, the findings from our analyses may indicate possible directions for future policymaking regarding competition in banking.

2.3.3 sources of funds

In 1912, Joseph Schumpeter described how the granting of credit was central to entrepreneurship and innovation: “while granting credit is not essential in the normal circular flow...it is certain that there is such a gap to bridge in the carrying out of new combinations. To bridge it is the function of the lender, and he fulfils it by placing purchasing power created ad hoc at the disposal of the entrepreneur”. Thorstein Veblen saw the process of judging firms as being a matter of “standardized bureaucratic routine” undertaken by the intermediaries which he dubbed “the lieutenants of finance” while “the captaincy has been taken over by the syndicated bankers” (Veblen (1919), p.81). However, others, most notably Robert Lucas, argue that economists “badly over-stress” the significance of financial considerations in economic performance (Lucas (1988), p.6). Study by Howorth and Westhead (2003) suggests that all companies came to focus on some areas of working capital management where they can expect to improve marginal returns. For small and growing capital management where they can expect to improve marginal returns. For small and growing businesses, an efficient working capital management is a vital component of success and survival; i.e. both profitability and liquidity. They further assert that small firms should adopt formal working capital management routines in order to reduce the profitability of business closure, as well as to enhance business performance. The study of Grabowsky (1976) and others have showed a significant relationship between various success measures and the employment of formal working capital policies and procedures.

Study by Peel and Wilson (1996) stressed the efficient management of working capital, and good credit management practice as being pivotal to the health and performance of the small firm sector.

Study by Akhavein et al (1997) on capital, shows higher capital level implies that banks are easily able to meet their regulatory capitals so that they can have additional funds for lending and thereby increase their profits level. But according to Havrylchyk et al, (2006) finds a positive relationship between capital and profits of banks. Technically speaking, a more efficient bank should have higher profits since it is able to maximize on its net interest income.

2.3.4 Leadership

Study by Tejeda, Scandura & Pillai (2001) shows that transformational leaders are extensive and are considered by many as the “most comprehensive theory of the dimensionality of the transformational and transactional leadership”. But Bass more clearly differentiated between transactional and transformational leadership; whereby findings are that leaders will exhibit a variety of patterns of transformational and transactional leadership.

Studies by Farkes & Wetlaufer (1998); Heifetz & Laurie (1998); Yukl (2002) suggest an aspect of multifaceted approach to leadership that executive through their leadership behavior have considerable influence on organizational outcome.

According to Greenberg and Baron (2003, 2000) definition of motivation could be divided into three main parts. The first part looks at arousal that deals with the drive or energy behind individual (s) action.

Study conducted by Deci and Ryan (2000) showed the negative impact of monetary rewards on monetary rewards on intrinsic motivation and performance. They also conducted a study to examine the effects of performance contingent rewards on an employee intrinsic motivation.

Study by Woods (2006) on time management is critical for the success of any organization and this directly affects employees’ performance and the company’s bottom line. Achieving balanced time management in life and reducing stress are part of the keys to becoming successful and fulfilled time management in life and reducing stress are part of the keys to becoming successful and fulfilled.

A study by Uwake (2002) asserted that good time management can improve job performance, personal life and mental health. He added that a person who performs efficiently and effectively in the job has more time for personal life.

2.3.5 Promotional strategies

Promotion is the direct way an organization attempts to reach its public and is performed through the five elements of promotion mix including advertising, sales promotion, personal selling, public relations, and direct marketing (Czinkota & Ronkainen, 2004). With the growing importance of the financial sector, pressures are escalating for more effective marketing management of the financial services. American banking industry introduced in the 1980s and early 1990s a vast array of new technology hardware, software and telecommunications equipment spending \$60,000 per employee on information technology over the 1980s (Keltner, 1995). The introduction of Automatic Teller Machines (ATMs) and new back office processing technologies dramatically decreased the costs associated with handling and processing individual transactions. With economies in Africa liberating, the banking industry has concurrently improved. Governments have licensed many privately owned banks and many barriers have been lifted and regulations improved. The banks are incorporating micro-finance as a strategy to engage the huge numbers of Africans, majority who fall under the dollar bracket (Kimeu, 2008). Despite the sudden upsurge to lure potential clients, banks in Africa have been doing rather well. In Zambia, banks achieved an overall return on assets approximately 2.50% in 2007 and Ghana 3.0% as compared to American banks with 1.40 % (Kimeu, 2008). The banking industry in Kenya is governed by the Companies' Act (CAP 486), the Banking Act, (Chapter 488), the Central Bank of Kenya Act and the various prudential guidelines issued by the Central Bank of Kenya (CBK, 2010). During the quarter ended September 30, 2010, the banking sector comprised 43 commercial banks, 1 mortgage finance company, 2 deposit taking microfinance institutions, 2 representative offices of foreign banks and 126 foreign exchange bureaus in Kenya. The Kenyan Banking sector registered improved performance as indicated by the size of assets which stood at Ksh. 1.6 trillion, loans & advances worth Ksh. 879 billion, deposits of Ksh. 1.3 trillion and profit before tax of Ksh. 53.2 billion as at 30th September 2010. Similarly, the number of bank customer deposit accounts stood at Ksh. 11.14 million with a branch network of 1, 030 (CBK, 2010). Banks in the industry are using different promotional strategies in order to remain competitive in the industry which has been very competitive.

Kenya commercial bank uses regular press advertisements in print and electronic media, telemarketing and direct marketing to promote its products (KCB, 2010). Kenya Commercial Bank (KCB) media publicity index (MPI) had a positive change of 13.24% up from 364.80 in

2008 to 413.10 while in terms of its Advertising Value Equivalent (AVE) there was a total increase of 55.34% in 2009 from a total of Ksh.254,918,000 in 2008 to Ksh.396 million in 2009 (KCB, 2009). The expenditure on promotional strategies by KCB Ltd currently is Ksh.300 Million but there are concerns if they influence the banks' performance. KCB commenced aggressive promotional strategy in 2006 with an approximate annual expenditure of Ksh.80 million. The budget has since been increased annual expenditure on promotion of Ksh.300 million (KCB, 2007). Effective promotion of financial services is crucial since services are intangible products. Additionally, many people cannot make a distinction between different banks' services, and they are often not aware of the wide range of different financial services available (Meidan,1996). Despite the expenditure on promotional strategies by the KCB, there is no tangible evidence of improved performance as influenced by these strategies and at the same time sufficient information on contribution of promotional strategies on the banks performance is lacking.

2.4 Conceptual Framework

The study was guided by the following conceptual framework whose variables are shown.

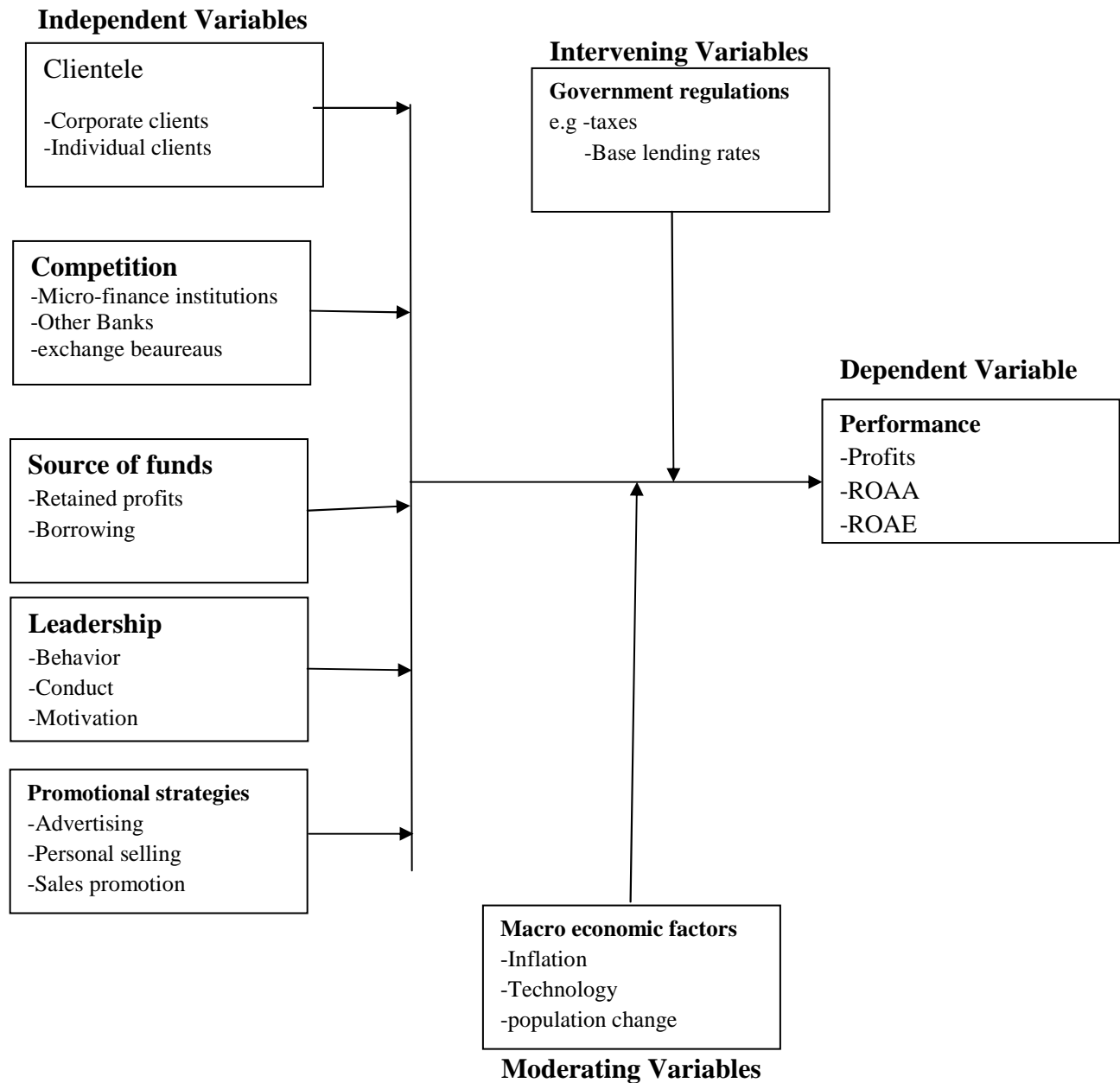


Figure 1: conceptual framework

From fig 1, the performance of kenya commercial Bank being the dependent variable was affected by clientele, competition, sources of funds, leadership and product differentiation being independent variables.

The government regulations through taxes and base lending rates intervened in this study by indirectly influencing performance of Kenya commercial Bank.

Macro economic factors like inflation, Technology and changes in population moderated performance of Kenya commercial Bank, Bungoma county.

2.5 Knowledge gaps

Various bodies of literature dealing with theory research and practices have been cited. A great deal has been known about factors influencing performance of commercial Banks. The following deficiencies have been analyzed to be addressed by this study or future research.

The first deficiency, as supported by various scholars, is that most existing theories concerning factors that influence performance of commercial Banks in developed countries are in the context of developed economies and they do not fully suit developing countries because of the unique social, political, and economic contexts and firm specific characteristics of emerging markets. Early studies provide the foundation of extant economic knowledge in area of Multinational Banks and model the location preferences and location-specific. Most of the research in central and Eastern Europe are incomplete and unsatisfactory which poses challenge of incorporating unique contextual influences into theoretical reasoning.

The second deficiency is that research has been uneven in terms of industrial sectors within emerging economies and little distinction has been made between manufacturing and service sectors. A very serious shortcoming because as increasingly recognized in internationalization research, there are material differences between manufacturing and services in terms of their influence on crucial strategies and firm behavior.

The third deficiency is the particular dynamics of emerging markets. Asymmetric information in emerging economies when compared with developed markets. Hence reconsideration of the strategy because of new foreign entrants

2.6 summary

This chapter focused on the various authors' opinion researched and the general treatise on the area of study highlighting factors influencing performance of commercial banks. Those factors discussed included clientele, competition, sources of funds, leadership and promotional strategies. The relationship of the variables was discussed in the conceptual framework as dependent, independent, intervening and moderating variables.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter presented the research methodology that was used as well as where the study was carried out. It put forward the research design, study population, sample size and sampling procedures, data collection instruments, validity and reliability of research instruments and data analysis procedures.

3.2 Research Design

This is the overall plan of conducting the study in order to answer the research questions and achieve the objectives of the study. The study used descriptive survey research design. Mugenda and Mugenda (1999) describes descriptive research design as a systematic empirical enquiry into which the researcher did not have a direct control of independent variables as their manifestations have already occurred or because they inherently cannot be manipulated.

Inferences about relationships between variables were made from concomitant variables. The current research design was chosen because the study was not only confined to the collection of and description of data, but also sought to determine the existence of certain relationships among the research variables.

3.3 Target population

The target Population consisted of all the two hundred and forty employees of Kenya commercial bank spread across the three branches of Bungoma county. These were Bungoma, Kimilili and Webuye Branch. Top managers were chosen because they were policy makers and provided leadership. The human resource, finance and marketing managers were interviewed for the purpose of the study. The supervisors, heads of sections and the operation staff were also targeted for the study. In total 240 respondents were targeted.

3.4 Sample size and sampling procedure

In this study, the sample size was determined using Yamane's formula as outlined by Yamane (1967). Simple random sampling technique was used to obtain a sample of 150 respondents as indicated below:

$$n = \frac{N}{1 + N(e)^2}$$

Where:

n was the sample size

N was the target population which in this case was 240

e was a standard error which was a standard value of 0.05

$$n = \frac{240}{1 + 240(0.05)^2}$$

$$n = 150$$

Based on these figures, a sample size of 150 was arrived at. This was used for the study

3.4.1 Sampling procedure

The study adapted a systematic random sampling technique to select the sample population by picking on odd numbered members in their branches.

After getting a sample size of 150 employees, simple random sampling technique was used to obtain the said sample size. To select a representative sample, the study had to first have a sampling frame (Mugenda & Mugenda, 2003). A sampling frame is a list, directory or index of cases from which a sample could be selected for observation in a study. In this study therefore the sampling frame was a list of Kenya Commercial employees from the three branches

of Bungoma county. This method of sampling involved giving a number to every employee in all the three branches, placing the numbers in a container and then picking any number at random. The employee corresponding to the odd numbers were then issued with the questionnaires

Table 3.3 Sample size of the respondents

Branch	Target Population	Sample size
Bungoma	100	70
Webuye	80	60
Kimilili	60	30
Total	240	150

3.5 Data collection methods and instruments

Both primary and secondary data was collected. Secondary data was obtained from published financial statements and journals while Primary data was collected using Structured questionnaires distributed to all staffs of the Kenya commercial Bank. The questionnaires were designed to obtain a broad range of answers from respondents, which sought to answer the research questions. The questionnaires comprised mainly of closed ended questions to seek specific answers on the variables in question.

3.5.1 Pilot Testing

A minor study called pilot testing was conducted to standardise the instruments before being used for data collection. This was carried out at the Kitale branch of Kenya commercial bank. The items in the research instruments were revised according to the results of the pilot study.

3.5.2 Validity of instruments

Validity is the ability of an instrument to measure what it is intended to measure (Gay, 1987). The instruments were evaluated in both content and face validity by using lecturers from University of Nairobi. The instruments were given to two lecturers and two peers who were undertaking a similar study in different areas. The two lecturers had a wide range in supervising graduate students while the two peers were used to validate each instrument. They were asked to evaluate the instruments in both content and face validity. They helped to ensure that the items in each questionnaire captured the intended information accurately according to the objectives of the study.

3.5.3 Reliability of instruments

Reliability is the degree to which instruments give similar results for the same respondents over a common issue at different times. The study used Spearman Brown's prophecy formula to calculate reliability coefficient. To ensure reliability of instruments, the split-half technique was used. It involved administering only one testing session and taking the results obtained from one half of the scale items and checking them against the other of items to determine their correlation coefficient. The formula for this test was as follows:

$$\text{Reliability on scores on total test} = \frac{2 \times \text{reliability for } \frac{1}{2} \text{ test}}{1 + \text{reliability for } \frac{1}{2} \text{ test}}$$

Mugenda and Mugenda (1999) suggests a correlation coefficient of 0.6 for such studies.

3.6 Data collection procedure

Data collection exercise using questionnaires was undertaken by the research assistants through interviews on 150 staffs of Kenya commercial Bank, Bungoma county, under the supervision of the researcher. The data collection exercise took a total of five continuous working days during which the instruments were administered. Document analysis was carried out on the bank's published financial statements, Journals and reports. Before the study was undertaken, a project proposal on factors influencing the performance of commercial banks was developed, presented to a panel of experts at the University of Nairobi for approval. All the comments and recommendations of the panel of experts during the defence were incorporated in the research

project proposal. On approval, research instruments were developed with the help of the supervisor. Permission to undertake research was sought from the National Council of Science and Technology. A letter of introduction to each branch of Kenya commercial Bank was presented to warrant the research. A total of 3 research assistants were recruited and trained on how to administer the questionnaire in the study area.

The questionnaires were used to collect data from all the three branches of Kenya commercial Bank, Bungoma county.

3.7 Data analysis procedures.

The data collected from the respondents was coded, entered into the computer and analyzed using Statistical package for Social sciences (SPSS). The techniques that were used in data analysis included correlation analysis to the relationships among the variables, percentages and cross tabulation.

3.8 Operational definition of variables

Objectives	Variables	Indicators	Measurement scale
To find out how clientele influences performance of commercial banks	Independent variable clientele Dependent variable Performance of commercial banks	-number of customers -types of customers	Ordinal Nominal Ordinal
To find out how competition influences performance of commercial banks	Independent variable competition Dependent variable Performance of commercial banks	-number of branches -Return on equity	Nominal Ordinal
To determine the extend to which sources of funds influence performance of commercial banks	Independent variable Sources of funds Dependent variable Performance of commercial banks	- shareholding structure -Leverage level	Nominal Ordinal Ordinal
To find out the extend to which leadership influences performance of commercial banks	Independent variable Leadership Dependent Variable Performance of commercial banks	-Behaviour -Conduct -Motivation	Ordinal NominalS
To determine the extend to which promotional strategies influences performance of commercial banks	Independent variable Promotional strategies Dependent variable Performance of commercial banks	-Advertising -Personal selling -sales promotion -public relations -Direct marketing	Nominal Ordinal

CHAPTER FOUR

DATA ANALYSIS, PRESENTATION, INTERPRETATION AND DISCUSSION

4.1 Introduction

This chapter presents data analysis, presentation, interpretation and discussion in the following subtitles: Respondents return rate, Factors influencing performance of the Kenya commercial Bank. Data was coded, entered, cleaned and analyzed to produce the results presented in this section. Data was collected from Bungoma town, Webuye town and Kimilili. Data analysis was guided by the research objectives presented in chapter one. The body of the report only contains analysis directly related to the objectives. Questionnaires were cross-analyzed where possible for ease of comparison of the study's results. The Data is presented in form of narratives, tables, and charts. Care has been taken to ensure flow of thoughts and ideas from the findings. The findings have been interpreted in line with other literature and research work.

4.2 Respondents Return rate

A total of 150 questionnaires were distributed to the sampled population. Respondents were reached through their Departmental Heads. 120 questionnaires were filled and returned in good time. The Questionnaires were edited and coded after they were filled in. 120 questionnaires were returned for the sampled population and the research deemed the response rate adequate and sufficient for the study and for the purpose of data analysis Mugenda(1999)

Primary data was collected on Clientele, Competition and leadership. The study carried out Cronbach's alpha reliability test which gave a value of 0.5. This was acceptable as far as consistency and reliability of data used was concerned.

Table 4.1 Response on questionnaire return rate

Branch	Frequency	Percentage
Bungoma	60	50.0
Webuye	35	29.2
Kimilili	25	20.8
Total	120	100.0

According to the questionnaires distributed,80% return rate was realized giving a total of 120 questionnaires which was taken as 100% of the sampled population.The distribution per branch was as follows: Kimilili 20.80%,Webuye 29.2% and Bungoma 50.0%. 20% of the questionnaires were not returned in good time.

4.2.1 Bio-data

The respondents were asked to indicate the Date,name of their Bank, Name of the branch, the respondent's name was optional. The findings were that most of the respondents chose to indicate the name of their bank without filling other details. This was not considered important by the research.

4.2.2 Demographic

The research sort to know the length of service, position in organization, educational level and the professional Qualifications of the respondents. The summary of the number of years respondents have worked, position, educational level and their professional qualifications were summarized in table 4.2

Table 4.2 Length of service

	Frequency	Percentage	Cumulative Frequency
Valid 1-5 Years	38	31.7	31.7
6 – 10 Years	26	21.7	53.3
11 – 15 Years	12	10.0	63.3
16 – 20 Years	20	16.7	80.0
21 – 25 Years	6	5.0	85.0
26 – 30 Years	18	15.0	100.0
Total	120	100.0	100.0

In the table 4.2, 63.3% of respondents had worked in the banking industry for less than 16 years.21.7% had worked between 16 to 25 years while 15% had offered service for 26 to 30 years for their respective jobs.

Table 4.3 Position

Position	Frequency	Percentage	Cumulative Percentage
Senior Management	14	11.7	11.7
Middle Level Management	12	10.0	21.7
Supervisor	22	18.3	40.0
Head of Section	14	11.7	51.7
Operation Staff	58	48.3	100.0
Total	120	100.0	100.0

In the table 4.3 those who were interviewed showed that 11.7% were senior managers, 10% middle level management, 18.3%supervisors, 11.7% head of section, and 48.3% operational staff.

Table 4.4 Education level

	Frequency	Percentage	Cumulative Percentage
Valid 'O' Level	10	8.3	8.3
'A'Level	38	31.7	40.0
University	70	58.3	98.3
Others	2	1.7	100.0
Total	120	100.0	100.0

In table 4.4, those who were interviewed showed had the following qualifications 8.3% ‘o’level, 31.7% ‘A’level, 58.3% University, 1.7% others.

Table 4.5 Professional qualification

		Frequency	Percentage	Cumulative Percentage
Valid	None	12	10.0	10.0
	Certificate	32	26.7	36.7
	Diploma	30	25.0	61.7
	Post-Graduate Diploma	6	5.0	66.7
	Masters	40	33.3	100
Total		120	100.0	100.0

In table 4.5, the respondents who were interviewed showed had the following professional qualifications 10% had none, 26.7% certificate, 25% Diploma, 5% post graduate diploma and 33.3 masters.

4.3.1 Performance due to Clientele

The Study sought to establish the bank’s clients/customers and how they influenced the bank’s performance. The types of clients and their frequency in the bank were the aspects used to measure the influence of clientele on performance of the Kenya Commercial Bank. The following results were obtained

Table 4.6 type of clients

Type of Clients	Frequency	Percentage
Individuals	72	60.0
Corporate	34	28.3
Government	14	11.7
Total	120	100.0

The findings were that 60% of the bank clients are individuals, 28.3% are corporate bodies and 11.7% are Governmental departments.

The study sought to find out the attribute that the bank had enough clients. The results were that 78% said yes and 22% said No.

On the proportion of clients in Bungoma county in relation to other Banks, the following results were obtained: 38% very big, 26% big, 18% small, 12% very small and 6% Not sure.

Consequently the study sought to know if it attributes performance to improved customer care and the responses were strongly agree 55%, agree 26.7%, undecided 10%, disagree 3.3% and strongly disagree 5%. On the other hand the research wanted to know if majority would attribute performance to good service delivery and the responses were strongly agree 46.7%, agree 21.7%, undecided 15%, disagree 6.7% and strongly disagree 10%. In this case the research had in mind customer sensitivity in order to satisfy them, and the responses were strongly agree 58.3%, agree 28.3%, undecided 5%, disagree 1.7% and strongly disagree 6.7%.

In meeting its entire objective the bank officers in discharging their duties must have proper plans being formulated which is attributed to Customer confidentiality and the following responses were recorded, strongly agree 66.7%, agree 23.3%, undecided 3.3%, and strongly disagree 6.7%. In the running of their daily work there are different clients associated with each kind of transaction and hence the research attributed it to broad range of clients and the responses were ,strongly agree 1.7%, agree 15%, undecided 20%, disagree 18.3% and strongly disagree 45%.

The respondents were also asked to indicate whether the interest charged on loans cover the cost and make good profit. The analysis was that 100% of the respondents strongly agreed that the interest charge completely cover the cost of the loan and enables them to make good profit.

The other finding from the respondents in the study was that 100% of the respondents indicated that they periodically review their lending rates to conform to the changing conditions. They added that credit policy is very sensitive since there is a very strong competition for customers. Further the study also established that only 20% of the respondent indicated strong agreement with the decentralization of lending authority for loan approval. Also 10% of the respondents indicated that they were neutral while 70% completely disagreed with the decentralization of the lending authority.

The respondents were asked to indicate whether they obtained information about their clients from Credit Reporting Reference Bureau and use the same while appraising credit. The result is as shown in the table 4.7

Table 4.7 Information from credit bureau

<u>Category</u>	<u>frequency</u>	<u>percentage</u>
Strongly disagree	0	0.0
Disagree	14	11.0
Neutral	27	20.0
Agree	14	11.0
<u>Strongly agree</u>	<u>64</u>	<u>58.0</u>
<u>Total</u>	<u>120</u>	<u>100.0</u>

The results show that 58% of the respondents a firm that they share information with credit bureaus while 20% is neutral, meaning they sometimes share the information and sometimes not. Only 10% of the respondents disagree with the information sharing.

The respondents were also asked to indicate whether credit reference information sharing adds value with regard to the quality of customers being granted credit. The study established that 70% of the respondents strongly agreed, meaning that financial institutions now believe that through credit reference information sharing they have better information regarding their clients and this therefore improves the quality of their clients. Of the respondents, 20% agreed while 6% and 4% indicated neutral and disagreed respectively.

However, 80% of the respondents indicated that they were neutral when asked if default rate has been minimized with regard to the use of credit reference information sharing while, 14% indicated agree and 6% had said they disagree.

The respondents were also asked if they inform their clients about the information obtained through credit reference reporting bureaus. The results showed that about 29% agree that they inform their customers that they indeed do seek information regarding their past loan servicing. A whopping 66% of respondents are neutral, meaning they may share or no

4.3.2 Competition and performance of kenya commercial bank

To establish how competition influenced the bank's performance, the research sought to establish whether there were other financial institutions offering similar banking services within the locality.

Table 4.8 financial institutions

Name of the financial institution	frequency	percentage
MFIs	22	18.3
Banks	35	29.2
Saccos	48	40.0
Others	15	12.5
Total	120	100.0

The results show that 18.3% are MFIs, 29.2% are Banks, 40.0% saccos and 12.5% are others. It was established that most customers preferred seeking for credit services from SACCOs where the interest rates are comparatively lower than those of the banks.

However, majority who did not have enough savings with the SACCOs preferred Banks and other micro financial institutions depending on their base lending rates and other terms of credit. The Kenya commercial bank established differentiated products to ensure that it maintains a reasonable market share.

On a scale of five, the research sought to establish whether there had been a stiff competition among banks and whether the Kenya commercial bank had lost customers to other banks because of competition. The results were tabulated and summarised as follows.

Table 4.9 stiff competition

competition	Frequency	Percentage	C.frequency
Strongly agree	8	6.7	6.7
Agree	12	10.0	16.7
Neutral	40	33.3	50.0
Disagree	28	23.3	73.3
<i>Strongly disagree</i>	32	26.7	100.0
Total	120	100.0	100.0

From the results, 16.7% agreed that there was stiff competition among the banks. 50% disagreed while 33.3 remained neutral.

4.3.3 Sources of funds and the performance Kenya commercial Bank

In order to establish how the sources of funds influence performance of Kenya commercial bank, the study sought to establish various ways through which the bank gets funds. The results were indicated in table 4.10 below

Table 4.10 sources of bank's funds

Source	frequency	percentage
Checkable deposits	12	10
Non transaction deposits	72	60
Borrowings	30	25
Bank capital	6	5
Total	120	100

The results showed that 10% of the funds were from checkable deposits, 60% Non transaction deposits,25% borrowings and 5% bank capital.

The study therefore indicated that the primary source of the bank’s funds were from non transaction deposits(60%).These included savings accounts(passbook savings),small denomination Time Deposits(CDs,certificate of deposits),fixed maturity from several months to 10years,penalties for earlier withdrawal and Large-denomination time deposits bought by corporations,money market funds and other banks.Others include T-bond and T-bills.

The study also indicated that the second largest source of funds for kenya commercial bank was borrowings.It stood at 25%.The various borrowings were fom the Central Bank at discounted rates to meet reserve requirements, From the parent bank,from other banks and from corporations and foreign banks.

Checkable deposits accounted for only 10% of the bank’s funds.These were non interest bearing cheques, interest bearing cheques andmoney market deposit accounts(MMDAs)

Bank capital accounted for the smallest source of the bank’s funds.The study showed that banks are usually highly leveraged (debt-asset ratio) and thinly capitalized.

4.3.5 Bank Leadership and performance

The study sought to establish the influence of bank leadership on performance.The respondents were asked to indicate their gender and positions in the bank under the categories:top level management,Middle level management,supervisor,head of section or operation staff.The results were summarised in the table 4.1

Table 4.11 position in bank

Branch	Top Level Management		Middle-Level Management		Supervisor		Head of Section		Operational Level	
	male	Female	Male	Female	Male	Female	Male	Female	Male	Female
Bungoma	5	3	4	2	6	4	3	3	18	12
Webuye	2	2	1	2	3	4	3	2	10	6
Kimilili	1	1	2	1	3	2	1	2	5	7
Total	8	6	7	5	12	10	7	7	33	25
Percentage	6.7	5.0	5.8	4.2	10.0	8.3	5.8	5.8	27.5	20.8

The results indicated that out of the 14 top level management, 6 were females. The males constituted 6.7% while the females constituted 5.0% of the employees who were in the top level management.

The middle level management consisted of 5.8% males and 4.2 females while the supervision role consisted of 10.0% males and 8.3% females. The heads of section had 5.8% males and 5.8% females.

The number of females in the operation staff was 25 making up 20.8% of those interviewed. The males stood at 27.5% of those interviewed.

Generally the number of male employees in the bank across the levels in Bungoma county stood at 55.8% while that of the females across the levels stood at 54.2%. It can therefore be observed that the Kenya commercial bank has more male employees than the females.

4.3.6 promotional strategies and performance

The study sought to find out the various ways that the bank uses to reach out to its customers. The respondents were asked to indicate a tick against the various ways listed. The results were summarised and tabulated as follows.

Table 4.12 ways of reaching customers

Method	Frequency	Percentage
Advertising	36	30.0
Personal selling	30	25.0
Public relations	24	20.0
Sales promotion	20	16.7
Direct marketing	10	8.3
Total	120	100.0

The results showed that 36 employees indicated advertising. This represented 30% of those who were interviewed. 30 employees indicated personal selling, which translated into 25% of those

who were interviewed.24 employees chose public relations which represented 20%.Sales promotion was chosen by 20 employees representing 16.7% while direct marketing was chosen by 10 employees and this represented 8.3 of those who were interviewed.

From the results,the kenya commercial bank reaches its customers mainly through advertisements.

The study therefore sought to know the main forms of advertisement that the bank uses.The results were summarised and tabulated in table 4.13

Table 4.13 form of advertising

Means	Frequency	Percentage
Radio	21	17.5
Newspapers	24	20.0
Television	30	25.0
Roadshows	10	8.3
Posters& billboards	20	16.7
Sms	12	10.0
Internet	3	2.5
Total	120	100.0

The results showed that the bank mainly carries out advertising through Television.This provided both visual and audio effects to the customers and therefore it was preferred by the majority.It accounted for 25% of the respondents.20% of the respondents indicated newspapers while 17.5% indicated Radio.16.7% indicated posters and billboards while 10% indicated short text messages(sms).The internet accounted for the smallest percentage of the respondents.2.5% of the respondents indicated the internet.This was due to the fact that many customers do not have access to the computers and majority of them were not computer literate and lacked electricity.

CHAPTER FIVE:

SUMMARY OF FINDINGS, DISCUSSIONS, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

This chapter presents the findings of the study, conclusions and recommendations. It also provides suggestions for further research and contribution to the body of knowledge. The overall goal of the study was to determine factors influencing performance of banks, a case of Kenya commercial bank in Bungoma county. The results of the study are presented and discussed in the proceeding sections.

5.2 Summary of Findings

About how clientele influences performance of Kenya commercial Bank in Bungoma county, The results are consistent with the findings of the literature indicating that a bank with sound clientele is bound to perform well and succeed. Majority of those interviewed agreed with the fact that a good customer base influences positively the bank's performance therefore there is need to treat customers properly. Customer confidentiality and sensitivity were found to be key elements in maintaining the clients besides good service delivery. 46.7% concurred that customer care is necessary as far as stable clientele is concerned.

On the influence of competition on the performance of Kenya commercial bank in Bungoma county, it was noticed from the results that other financial institutions are present in the county that give stiff competition to Kenya commercial bank. 40% of those interviewed pointed out competition from the SACCOs, 29.2% mentioned other banks as their competitors while 18.3% pointed out micro financial institutions. Others comprised 12.5% of the competitors. These others included M-pesa agencies, other banks agencies, money lenders and pyramid schemes.

16.7% of those interviewed agreed that there was stiff competition among the banks. This has made the Kenya commercial bank to differentiate and diversify its products to suit the specific needs of the customers. Mobile banking was one of such products.

It was also noticed that the bank had established agencies in areas where branches had not been established. These agencies offered limited but vital banking services like account opening, deposits of small amounts and cash withdrawals not exceeding kshs 20,000.

The study revealed that the bank obtains its funds from various sources including borrowing which accounted for 25% of the bank's funds. The study therefore indicated that the primary source of the bank's funds were from non transaction deposits (60%). These included savings accounts (passbook savings), small denomination Time Deposits (CDs, certificate of deposits), fixed maturity from several months to 10 years, penalties for earlier withdrawal and Large-denomination time deposits bought by corporations, money market funds and other banks. Others include T-bond and T-bills. The study also indicated that the second largest source of funds for Kenya Commercial Bank was borrowings. It stood at 25%. The various borrowings were from the Central Bank at discounted rates to meet reserve requirements, from the parent bank, from other banks and from corporations and foreign banks. Checkable deposits accounted for only 10% of the bank's funds. These were non interest bearing cheques, interest bearing cheques and money market deposit accounts (MMDAs). Bank capital accounted for the smallest source of the bank's funds. The study showed that banks are usually highly leveraged (debt-asset ratio) and thinly capitalized.

On the influence of leadership on performance of Kenya Commercial Bank in Bungoma county good leaders will always increase profitability indirectly as shown in the literature of Tejada, Scandura & Pillai (2001) where transformational leaders are extensive and are considered by many as the "most comprehensive". For banks to attain profitability then the study conducted by Deci and Ryan (2000) is relevant for this research as it reveals that monetary rewards on intrinsic motivation and performance has great impact. Leadership also shows that time management is critical for the success of any organization and this directly affects employees' performance and the company's bottom line. Achieving balanced time management in life and reducing stress are part of the keys to becoming successful and fulfilled. Time management in life and reducing stress are part of the keys to becoming successful and fulfilled.

Advertising through television, newspapers, posters and billboards was the most favourable promotional strategy adopted by the bank. Advertising accounted for 30% of those

interviewed. Others were personal selling(25%), public relations(20%), sales promotion(16.7%) and Direct marketing(8.3%).

5.3 Discussion of the findings

The findings on clientele were that 60% of the bank clients are individuals, 28.3% are corporate bodies and 11.7% are Governmental departments. 78% of the respondents indicated that the bank had enough clients while 22% said No. On the proportion of clients in Bungoma county in relation to other Banks, the following results were obtained: 38% very big, 26% big, 18% small, 12% very small and 6% Not sure. Consequently the research wanted to know if it attributes performance to improved customer care and the responses were strongly agree 55%, agree 26.7%, undecided 10%, disagree 3.3% and strongly disagree 5%. On the other hand the research wanted to know if majority would attribute performance to good service delivery and the responses were strongly agree 46.7%, agree 21.7%, undecided 15%, disagree 6.7% and strongly disagree 10%. In this case the research had in mind customer sensitivity in order to satisfy them, and the responses were strongly agree 58.3%, agree 28.3%, undecided 5%, disagree 1.7% and strongly disagree 6.7%. In meeting its entire objective the bank officers in discharging their duties must have proper plans being formulated which is attributed to Customer confidentiality and the following responses was recorded, strongly agree 66.7%, agree 23.3%, undecided 3.3%, and strongly disagree 6.7%. In the running of their daily work there are different clients associated with each kind of transaction and hence the research attributed it to broad range of clients and the responses were ,strongly agree 1.7%, agree 15%, undecided 20%, disagree 18.3% and strongly disagree 45%. The respondents were also asked to indicate whether the interest charged on loans cover the cost and make good profit. The analysis was that 100% of the respondents strongly agreed that the interest charge completely cover the cost of the loan and enables them to make good profit. The other finding from the respondents in the study was that 100% of the respondents indicated that they periodically review their lending rates to conform to the changing conditions. They added that credit policy is very sensitive since there is a very strong competition for customers. Further the study also established that only 20% of the respondent indicated strong agreement with the decentralization of lending authority for loan approval. Also 10% of the respondents indicated that they were neutral while 70% completely disagreed with the decentralization of the lending authority. The respondents were asked to

indicate whether they obtained information about their clients from Credit Reporting Reference Bureau and use the same while appraising credit. The results show that 58% of the respondents a firm that they share information with credit bureaus while 20% is neutral, meaning they sometimes share the information and sometimes not. Only 10% of the respondents disagree with the information sharing. The respondents were also asked to indicate whether credit reference information sharing adds value with regard to the quality of customers being granted credit. The study established that 70% of the respondents strongly agreed, meaning that financial institutions now believe that through credit reference information sharing they have better information regarding their clients and this therefore improves the quality of their clients. Of the respondents, 20% agreed while 6% and 4% indicated neutral and disagreed respectively. However, 80% of the respondents indicated that they were neutral when asked if default rate has been minimized with regard to the use of credit reference information sharing while, 14% indicated agree and 6% had said they disagree. The respondents were also asked if they inform their clients about the information obtained through credit reference reporting bureaus. The results showed that about 29% agree that they inform their customers that they indeed do seek information regarding their past loan servicing. A whopping 66% of respondents are neutral, meaning they may share or no

To establish how competition influenced the bank's performance, the research sought to establish whether there were other financial institutions offering similar banking services within the locality. The results showed that 18.3% are MFIs, 29.2% are Banks, 40.0% SACCOs and 12.5% are others. It was established that most customers preferred seeking for credit services from SACCOs where the interest rates are comparatively lower than those of the banks.

However, majority who did not have enough savings with the SACCOs preferred Banks and other micro financial institutions depending on their base lending rates and other terms of credit. The Kenya commercial bank established differentiated products to ensure that it maintains a reasonable market share. On a scale of five, the research sought to establish whether there had been a stiff competition among banks and whether the Kenya commercial bank had lost customers to other banks because of competition. 16.7% agreed that there was stiff competition among the banks. 50% disagreed while 33.3 remained neutral.

In order to establish how the sources of funds influence performance of Kenya commercial bank, the study sought to establish various ways through which the bank gets funds. The results showed that 10% of the funds were from checkable deposits, 60% Non transaction deposits, 25% borrowings and 5% bank capital. The study therefore indicated that the primary source of the bank's funds were from non transaction deposits (60%). These included savings accounts (passbook savings), small denomination Time Deposits (CDs, certificate of deposits), fixed maturity from several months to 10 years, penalties for earlier withdrawal and Large-denomination time deposits bought by corporations, money market funds and other banks. Others include T-bond and T-bills. The study also indicated that the second largest source of funds for Kenya commercial bank was borrowings. It stood at 25%. The various borrowings were from the Central Bank at discounted rates to meet reserve requirements, From the parent bank, from other banks and from corporations and foreign banks. Checkable deposits accounted for only 10% of the bank's funds. These were non interest bearing cheques, interest bearing cheques and money market deposit accounts (MMDAs). Bank capital accounted for the smallest source of the bank's funds. The study showed that banks are usually highly leveraged (debt-asset ratio) and thinly capitalized.

With regard to the influence of bank leadership on performance, The respondents were asked to indicate their gender and positions in the bank under the categories: top level management, Middle level management, supervisor, head of section or operation staff. The results indicated that out of the 14 top level management, 6 were females. The males constituted 6.7% while the females constituted 5.0% of the employees who were in the top level management.

The middle level management consisted of 5.8% males and 4.2 females while the supervision role consisted of 10.0% males and 8.3% females. The heads of section had 5.8% males and 5.8% females. The number of females in the operation staff was 25 making up 20.8% of those interviewed. The males stood at 27.5% of those interviewed. Generally the number of male employees in the bank across the levels in Bungoma county stood at 55.8% while that of the females across the levels stood at 54.2%. It can therefore be observed that the Kenya commercial bank has more male employees than the females.

With regard to the promotional strategies, the respondents were asked to indicate a tick against the various ways of promotion listed. The results showed that 36 employees indicated advertising. This represented 30% of those who were interviewed. 30 employees indicated personal selling, which translated into 25% of those who were interviewed. 24 employees chose public relations which represented 20%. Sales promotion was chosen by 20 employees representing 16.7% while direct marketing was chosen by 10 employees and this represented 8.3% of those who were interviewed. The study therefore sought to know the main forms of advertisement that the bank uses. The results showed that the bank mainly carries out advertising through Television. This provided both visual and audio effects to the customers and therefore it was preferred by the majority. It accounted for 25% of the respondents. 20% of the respondents indicated newspapers while 17.5% indicated Radio. 16.7% indicated posters and billboards while 10% indicated short text messages (SMS). The internet accounted for the smallest percentage of the respondents. 2.5% of the respondents indicated the internet. This was due to the fact that many customers do not have access to the computers and majority of them were not computer literate and lacked electricity.

5.4 Conclusions

The study established that the performance of Kenya commercial bank is influenced by the five factors namely; Clientele, Competition, Sources of funds, Leadership and Promotional strategies. The study further established that among these factors, Clientele significantly influenced performance, followed by competition, Sources of funds and then leadership and promotional strategies in that order. More importantly the study established that Banks will formulate their policies bearing in mind the need to increase revenue to their institutions. It therefore follows that if clients can be made aware of these factors that affect them, then they would service their loans so as to conform to the credit requirements and this will improve their credit rating. Improved credit rating will result in more credit being allocated to clients. The clients would be economically empowered and this would result in increased commercial operations necessary to stimulate economic growth. The study also established that although financial institutions use information obtained from credit reference reporting bureaus in assessing clients' loan applications, they are unwilling to inform the clients about such information. It is important that

financial institutions inform their clients whenever they are seeking information relating to their past loan serving from the credit reference reporting Bureaus. This will encourage their customers to seek for more credit allocation and the necessary awareness thereby lowering the default rate.

The study additionally established that Kenya commercial bank do incorporate reference to financial statements, the character, capacity of the customer and reference to credit bureaus in their credit standards as requirements to be evaluated before credit allocation is granted. This lays a solid foundation of the requisite credit standards.

The study further established that Kenya commercial bank rarely prefer to take their clients to court on loan repayment default, preferring to re-negotiate with the customer to enable repayment according to the client's prevailing repayment ability. Financial institutions should therefore have systematic documented procedures to address the collections from defaulting customers and minimize taking them to court.

5.5 Recommendations

There exists no short-cut or single action move that assist in eliminating the current problems either in the real sector or in the financial sector itself in Kenya. As it was pointed out earlier that the current problem facing the financial sector in Kenya, as it is the case with many of the developing countries, is but an interlay of several factors. The fact that the two sectors are interdependent entails that measures in one of the sectors can bear fruits only when such measures take into account the real situation in the other sector. That is to say corrective measures taken in the financial sector are unlikely to be effective unless the real sector is adjusted to respond or/and correspond to such measures and vice versa.

The proposed measures and recommendations cover two levels; the firm's level and the level of the commercial banking system.

The problems faced by commercial banks and other financial institutions are many and multidimensional. Although the government has virtually provided relative autonomy to the banks that did not by it self guarantee efficiency in the banks.

The existing commercial banks need financial, managerial and operational restructuring if they are to sustain in the new competitive environment.

The commercial bank needs to be financially sound. This needs among other things the redefinition of its lending policy. The accumulation of debts by the commercial banks borrowers may signify one or both of the following things:

That the borrowers are facing financial difficulties as a result of many factors including corruption, mismanagement, irresponsibility and the like.

Another reason may be that the interest rate charged is relatively high than the return from their business activities. Repayment of the principal and the interest rate may therefore prove to be difficult taking into account the very short lending period.

Financial resources from the commercial banks should be provided only to proven economically sound commercial enterprises.

The commercial Banks should adjust and adapt themselves to the environment in which they are now operating if they are to avoid difficulties in increasing savings deposits and the volume and quality of the financial resources to be allocated. Some of the immediate measures to be taken may include:

Commercial banks have to simplify their deposit and lending procedures. Reducing and simplifying the amount of paperwork involved in savings mobilization and loans requesting, developing simple systems for collecting small-scale savings deposits, reducing delays, introducing greater flexibility in repayment schedules etc. all these measures may contribute toward making the institution more accessible to potential savers and investors.

Transparency of management procedures in the commercial banks is also essential to reinforcing client confidence. Through increased understanding of how the commercial banks are managed, clients can contribute more towards their development and targets. Indeed involving clients in management activities is likely to increase the efficiency of the commercial banks and the number of potential clients.

In addition to their intermediation function, commercial banks could offer guidance and assistance services to their clients. In this way they serve as efficient channels distributing information on production and marketing techniques and procedures, prices, markets etc. This is to say an economic role would be added to their financial ones.

Of great importance is the central question of how the commercial banks may influence the level of saving and promote viable investments to be financed by the mobilized savings. On one hand this calls for a reconsideration of the factors that influence that are responsible for changes in the level of savings. Among the multitude of factors that influence the level of domestic savings, interest rates for deposits has been found in many studies to have a very weak influence on the level of domestic savings. In times of severe inflation the level of savings may even drastically drop. This is due to the fact that returns in savings become negative in real terms, prompting potential savers to opt for other ways of using their funds. Deposit rates appear therefore not to be a principal stimulant of savings.

On the other hand the method of funds provision to investment projects needs to be redefined. The commercial banks have been financing losses and deficits of borrowers and in some cases borrowers (in particular those in the private sector) were simply reluctant to service their debts. As a result the commercial banks could not make the expected profits and become over time virtually insolvent.

This study recommends strongly profit sharing with respect to savings mobilization and equity finance with respect to financial resources allocation.

The research recommends that the findings of this research be used to inform training on the non-financial institutions or small micro enterprises in Kenya. Further recommendations is that the government, banks and other financial institutions offering support to SMES consider preparing to deal with the blue print of vision 2030 to ensure success and sustainability.

A full data base of how the banks are faring and how they affect business in the event of making losses and hence strategies used by other SMEs in the same field ought to be prepared and shared to act as information source for those who do not know, would probably see their business grow to large corporations if they knew how to overcome these cultural challenges. The research will

be touching base with the small and medium financial institutions for the official of treasury to explore any possibility

5.6 Suggestions for further Research

This study had in no way exhaustively investigated factors that influence performance of commercial Banks in kenya. It is therefore suggested that further similar studies be carried out in other Banks, SACCOs, Micro finance institutions and other related financial sectors to fill the knowledge gap left. The following recommendations were made following this study:

1. A study be done elsewhere covering a wider area other than the one covered in this study, probably covering the entire nation.
2. Further research be carried out covering the extend to which sources of bank funds influence their performance.
3. A study be carried out on the factors influencing performance of commercial Banks in kenya.

5.7 Contribution to the body of knowledge

This section highlights the gains to be realized from the study which will add knowledge to the present situation.

Table5.7 contribution to the body of knowledge.

No.	Objective	Contribution to knowledge
1	To find out how clientele influenced the performance kenya commercial bank in Bungoma county	Clientele positively influences the performance of kenya commercial bank.The bank needs to maintain sufficient client base for it to succeed.
2	To find out how competition influenced the performance of kenya commercial Bank in Bungoma county	Competition was found out to be key to the performance of banks.For the bank to perform, it needs to be an edge over others competitively.
3	To determine the extent to which the sources of funds influenced the performance of Kenya commercial Bank in Bungoma county	Various sources of funds make the lending rates of the bank to be reasonably affordable to the borrowers.The major source of the bank's money is borrowings.
4	To determine the extent to which leadership influenced the performance of kenya commercial Bank in Bungoma county	The positions in the bank are filled depending on the relevant qualifications and experience.This motivates the employees and hence make them work hard to move to the next level of seniority.
5	To find out how promotional strategies	The Bank uses various promotional

influenced performance Kenya commercial Bank in Bungoma county.	strategies to reach out to the customers.
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APPENDIX I

UNIVERSITY OF NAIROBI

BUNGOMA CAMPUS

Tel: 020-248172/248160/247987

Fax: 020-248160

TO WHOM IT MAY CONCERN

Monday 8th Nov, 2012

Dear Sir/Madam,

RE: INTRODUCTORY LETTER – WAFUBWA, MBERE ANDREW

Andrew Mberere Wafubwa is a Masters student in Project planning and Management at the University of Nairobi. In partial fulfillment of the requirements of the Master of arts degree, he is conducting a study and has selected your institution as part of his study.

I am therefore appealing to you to allow him to collect data in your organization. This data is needed for academic purposes only and will be treated as strictly confidential. Any additional information you feel is necessary for this study is highly welcome.

Thank you for your cooperation

APPENDIX II

UNIVERSITY OF NAIROBI

QUESTIONNAIRE FOR THE EMPLOYEES OF KENYA COMMERCIAL BANK.

Thank you for volunteering to complete this questionnaire. Your responses are important and your thoughtful participation is highly appreciated. The purpose is to facilitate a study on **FACTORS THAT INFLUENCE PERFORMANCE OF COMMERCIAL BANKS IN KENYA: A CASE OF KENYA COMMERCIAL BANK, BUNGOMA BRANCH.** By WAFUBWA M ANDREW pursuing Masters Degree in Project Planning and Management. The study is purely academic, therefore, all answers will be treated with strict confidence and there is no way to link your response to you.

SECTION I (BIO-DATA)

1. Name of the Bank.....
2. Name of the Branch.....
3. Date of incorporation.....
4. Name of Respondent (optional).....

SECTION II (DEMOGRAPHIC)

1. Length of Service (Tick where applicable)

1-5 Yrs

6-10 Yrs

11-15 Yrs

16-20 Yrs

21-25 Yrs

26-30 Yrs

31 and above

2. Your position in the organization.

Senior. Management

Middle level Management

Supervisor

Head of Section/Unit

Operations staff

3. Indicate your education level

None Primary 'O' Level 'A' level University Others

4. Professional Qualifications

None

Professional certificate

Professional Diploma

Professional Post Graduate Diploma

Professional Masters Degree

Registered/Licensed Practitioner

SECTION III (CLIENTELE)

1. Does your Bank have enough clients/customers?

Yes

No

2. If yes, what kind of customers

i) Individuals

ii) corporate

iii) government

3. What is the proportion of your clients in Bungoma county to other Banks?

Very big

Big

Small

Very small

Not sure

4. How big is the effect of clientele on the performance of Kenya Commercial Bank?

Very big

Big

Small

Very small

Not sure

1. The Following attributes can be said to be as a result of strong clientele. Please tick alongside each attribute below.

Attribute	S. A	A.	N.	D.	S. D.
	5	4	3	2	1
a) Improved customer care					
b) Good service delivery					
c) Customer service sensitivity					
d) Customer confidentiality					
e) Broad range of clients					

SECTION IV (COMPETITION)

1. Are there other financial institutions offering similar banking services within the locality

Yes No

2. If Yes, which ones are they?

Micro-finance institutions banks Saccos others

3. You can rate this statement as follows.

1.) Strongly Disagree (S.D), 2.) Disagree (D), 3.) Neutral (N),

4.) Agree (A) 5.) Strongly Agree (S.A)

a). There has been stiff competition among banks of late	S.A	A	N	D	S.D
	5	4	3	2	1

b). If so, do you loose customers to other banks because of competition?	S.A	A	N	D	S.D
	5	4	3	2	1

c). Does your bank have qualified personnel trained in handling customers?	S.A	A	N	D	S.D
	5	4	3	2	1

SECTION V (SOURCE OF FUNDS).

You can rate this statement as follows.

- 1.) Strongly Disagree (S.D), 2.) Disagree (D), 3.) Neutral (N),
 4.) Agree (A) 5.) Strongly Agree (S.A)

1. Do you agree with this statement, “There are many sources of funds for the bank?”	S.A	A	N	D	S.D
	5	4	3	2	1

You can rate this statement as follows.

- 1.) Low extent (LOE), 2.) Less extent (LEE), 3.) Neutral (N), 4.) Moderate extent (ME), 5.) Great extent (GE)

2. To what extent does the source funds reflect in the bank’s performance?	GE	ME	N	LEE	LOE
	5	4	3	2	1

Answer the questions that follow, using the following criteria,

- 1.) Very low (V.LO), 2.) Low (L), 3.) Moderate (M), 4.) High (H) 5.) Very High (V.H)

3. We can measure factors that lead to performance with consistent results. These indirect influences of sources of funds will include factors listed below. To what extent does the above statement elaborate on the following measures?	V.H	H	M	L	V.LO
	5	4	3	2	1

(a) Employee satisfaction/commitment					
(b) Employer turn over					
(c) Percentage of employees who “think about quitting”					
(d) Dissatisfaction with pay					
(e) High commitment					

You can rate them as follows.

1.) Strongly Disagree (S.D), 2.) Disagree (D),3.) Neutral (N), 4.) Agree (A) 5.) Strongly Agree (S.A)

4.Indicate the extent for which the following characterize promotional strategies in your bank	S.A	A	N	D	S.D
	5	4	3	2	1
(a) Focus on results					
(b) leading change					
(c) Good character					
(d) Good interpersonal skills					

(e) Excellent Personal capability					
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You can rate them as follows.

- 1.) Very low extent (VLA.E), 2.) Low extent (LO.E), 3.) Neutral (N), 4.) Large extent (LA.E.)
5.) Very Large extent (VLOE)

5. To what extent do you agree with each of the following statements about your bank?	VLA.E	LA.E	N	LO.E	VLO.E
	5	4	3	2	1
(a) Setting stretch goals for employees					
(b) Establishing a clear vision and direction for the organization					
(c) Being more innovative and risk taking					
(d) Practicing greater teamwork and collaboration					
(e) Demonstrating greater initiative.					
(f) Being a role model					

SECTION VI (LEADERSHIP)

1. What is your gender?

Male

female

2. What is your position in the bank?

i) Top level management ii) middle level management iii) supervisor

iv) Head of section v) operational level

3. Does the bank reward you when you meet the set targets or when you surpass them?

Yes

No

4. How is the behaviour of your manager?

Very Good Good very bad Bad not aware

5. Do you agree with each of the following statements

i) There is great teamwork in my bank Yes No

ii) There is established clear vision and direction for the bank Yes No

iii) The bank has set clear goals for employees Yes No

6. We are a role model to other banks Yes No

Thank you all for your cooperation!