DETERMINANTS OF ORGANISATIONAL PERFORMANCE BY TIER THREE COMMERCIAL BANKS IN KENYA

BY

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DECLARATION

This is my original work and has not been presented for award of any degree in any other university or institution of higher learning for a degree, diploma or certificate award or anywhere else for academic purposes.

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SUPERVISOR'S APPROVAL

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DEDICATION

This research is dedicated to my parents, who made me be whom I am today and more so, to my late father who never got tired of talking to me on the value of education, sacrificed our family comfort to invest in our education and endured a lot to make me whom I am today. Lastly I would also like to thank my Wife and Son for their support during the project.

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ABSTRACT

The Banking sector has undergone significant transformation and continues to improve with new regulations and guidelines seeking to maintain stability. The objective of the study was to establish determinants of organization performance in Kenya banking sector with special focus on tier three Commercial Banks. The research adopted a descriptive survey design on a population of the 43 commercial banks in Kenya. The study utilized both primary and secondary sources of data. Data analysis was done using the facilities for descriptive methods on the Statistical Packages for Social Sciences (SPSS). Based on the findings in relation to specific objective, the study concluded that majority of the organization perceive that alleged that corporate governance affects organization performance. Also the study concluded that companies had put in place effective corporate governance systems that shown to implement solid and integrated performance approaches more easily than others and that management in their organization are committed in ensuring the performance of the bank is improved. Likewise, the study concluded that management most organization consider merit and previous performance of the individual to be mandated in the management position and that bank shares more democratic ownership structures, more balanced and broader governance systems, and a more comprehensive view of organizational goals and performance have also better chances to increase shareholders' loyalty. Finally the study found that management is committed hence influencing bank performance to a great extent. To technologies advancement, the study concluded that technologies advancement enhancement bank performance where it eases the process and procedure of banking. On bank size, the study concluded that most of the banks had 16-30 branches where number of branches that bank have determines its profitability. Loans from us hence low interest income. Inclusively, the study established that bank size determines bank profitability to very great extent. To financial strategies adopted by the banks, the study concluded that investment management strategy and cash flow management strategy were the main financial strategies adopted by most of tier three banks in Kenya.

Keywords: Corporate governance, firm size, financial strategy, technology advancement

CHAPTER ONE: INTRODUCTION

1.1 Background of the Study

Global competition, reengineered product life cycles, mass customization and the increased need to respond quickly to customers' needs are some of the pronounced trends currently driving organizational change. Successful companies in this environment use Information Technology as a primary enabler and are organized as dynamic networks with globally distributed operations which allow them to adapt more quickly to ever-changing competitive landscapes and customer requirements (Edwards & Sridhar, 2005). These organizations often adopt models of global virtual teams to collaboratively work, often exemplified in global software development (Edwards & Sridhar, 2006).

Over the past decades, organizations have constantly trying to adapt, survive, perform and influence. However, they are not always successful. To better understand what they can or should change to improve their ability to perform, organizations can conduct organizational assessments (Edwards & Sridhar, 2005). This diagnostic tool helps organizations obtain useful data on their performance, identify important factors that aid or impede their achievement of results, and situate themselves with respect to competitors. Interestingly, the demand for such evaluations is gaining ground. Donors are increasingly trying to deepen their understanding of the performance of organizations which they fund (government ministries, International Financial Institutions and other multilateral organizations, as well as research institutions) not only to determine the contributions of these organizations to development results, but also to better grasp the capacities these organizations have in place to support the achievement of results.

Banking industry play an important role in mobilizing financial resources for investment by mobilizing investors and boosting businesses as well as offering financial services to the public with the aim of making profit. As per the central bank of Kenya, bank supervision annual report (2010), at the end of December 2010, the banking sector comprised of 45 institutions, 41 of which were commercial banks, two mortgage finance companies, one non-bank financial institution and one building society. Despite their number being high their total assets account for only 48.2% of the sectors total assets. However, the industry has also involved itself in automation, moving from the traditional banking to better meet the growing complex needs of their customer and globalization challenges.

1.1.1 Organizational Performance

Organizations today grapple with revolutionary trends; accelerating product and technological change, international competition, deregulation, demographic changes, and a shift towards a service society. These trends have increases dramatically the degree of competition in virtually all industries. Either companies in such an environment become competitive high-performers or they vanish (Dessler, 2000). However, organization performance can be classified into financial performance and non-financial performance (Mahoney & Roberts, 2007). The financial performance approach examines indicators such as sales growth, profit rate, return on investment, return on sales, return on equity, and earnings per share, whereas the non-financial performance approach focuses on market share, new product introduction, product quality, marketing effectiveness and technological efficiency.

Traditionally, organizations have measured success against a financial standard through the profits, the greater the success and other identical measures. In fact, noted economist Milton Friedman believed the only social responsibility of business was to increase profits and to serve as the instrument of the stockholders who owned the corporation and the community surrounding (clients) (Hoyt, 2003). Hartman (2005) summarizes Friedman's view by stating that the difficulty of exercising social responsibility illustrates the great virtue of private competitive enterprise to it forces people to be responsible for their own actions and makes it difficult for them to "exploit" other people for either selfish or unselfish purposes. They can do well, but only at their own expense.

Organizations are investing ever-increasing amounts of resources into Performance Management Systems, but it is still not clear what they can expect in return, or how they might influence the likelihood of positive system outcomes. Performance Measurement Systems (PMS) enable organizations to plan, measure and control their performance, so that decisions, resources and activities can be better aligned with business strategies to achieve desired results and create shareholder value.

1.1.2 Determinants of Bank Performance

The banking industry in general has experienced some profound changes in recent decades, as innovations in technology and the inexorable forces driving globalization continue to create both opportunities for growth and challenges for banking managers to remain profitable in this increasingly competitive environment (Molyneux & Wilson, 2004). The importance of bank profitability 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. Hence, the basic aim of a bank's management is to achieve a profit, as the essential requirement for conducting any business (Bobáková, 2009).

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. The importance of bank profitability at both the micro and macro levels has made researchers, academics, bank managements and bank regulatory authorities to develop considerable interest on the factors that determine bank profitability (Athanasoglou *et al*., 2005). Determinants of bank profitability comprise characteristics of individual bank companies that affect their profitability. Shareholder and managerial decisions and activities can directly influence these characteristics which also differ from company to company.

Across the globe, the banking industry today enjoys a number of advantages compared to past years that would appear to contribute to their ability to generate profits. Molyneux and Thornton (1992) were the first to explore thoroughly the determinants of bank profitability on a set of countries using a sample of 18 European countries during the 1986-1989 periods. They found a significant positive association between the return on equity and the level of interest rates in each country, bank concentration and government ownership. Abreu and Mendes (2001) investigate the determinants of banks interest margins and profitability for some European countries in the last decade. They report that well capitalized banks face lower expected bankruptcy costs and this advantage translates into better profitability. Bashir (2009) examines the determinants of Islamic banks

performance across eight Middle Eastern countries for 1993-1998 periods. A number of internal and external factor were used to predict profitability and efficiencies. Controlling for macroeconomic environment, financial market situation and taxation, the results show that higher leverage and large loans to asset ratios, lead to higher profitability.

1.1.3 Banking Industry in Kenya

The Banking industry in Kenya is governed by the Companies Act, the Banking Act, the Central Bank of Kenya Act and the various prudential guidelines issued by the Central Bank of Kenya (CBK, 2009). The banking sector was liberalized in 1995 and exchange controls lifted. The CBK, which falls under the Minister for Finance docket, is responsible for formulating and implementing monetary policy and fostering the liquidity, solvency and proper functioning of the financial system.

In Kenya, commercial banks play an important role in mobilizing financial resources for investment by mobilizing investors and boosting businesses as well as offering financial services to the public with the aim of making profit. Lending represents the heart of the banking industry and loans are the dominant assets as they generate the largest share of operating income. As per the central bank of Kenya, bank supervision annual report (2010), at the end of December 2010, the banking sector comprised of 45 institutions, 41 of which were commercial banks, two mortgage finance companies, one non-bank financial institution and one building society. Despite their number being high their total assets account for only 48.2% of the sectors total assets.

Over the last few years, Kenyan Banks have realized tremendous grow in the last five years and have expanded to the East African region. The growth has been mainly

underpinned by, the industry's wide branch network expansion strategy both in Kenya and in the East African community region, and automation of a large number of services and a move towards emphasis on the complex customer needs rather than traditional 'off-the-shelf' banking products. Players in this sector have experienced increased competition over the last few years resulting from increased innovations among the players and new entrants into the market (PWC, 2008).

The banking industry in Kenya has also involved itself in automation, moving from the traditional banking to better meet the growing complex needs of their customer and globalization challenges. There has been increased competition from local banks as well as international banks, some of which are new players in the country. This has served the Kenyan economy well as the customers and shareholder are the ones who have benefited the most. According to Omuodo (2008) as pressure mounts on the banking industry's profitability resulting from over reliance on interest income by banks, it is strategically imperative that banks focus on other revenue streams.

1.1.4 Tier Three Commercial Banks in Kenya

In the banking sector, tier three commercial banks are considered to be among the few banks whose assets happen to be below 10 billion. This means that their performance may not be compared to other banks that have assets that are more than 10 billion. Reasons as to why banks such as Transnational bank, Habib Bank, Oriental commercial bank, First community bank, Middle East Bank and Paramount Universal Bank among many other banks have been classified to be among the tier three group is basically because, over some period their performance have remained to be stagnant. This has also

resulted to minimized expansions of these banks. The operations in these banks have also been quite shaky and have some elements of instability in service provision in these current times. As such there is need for this study to examine in detail what is really main cause of unpleasant performance among these banks.

1.2 Research Problem

The banking sector is the backbone of any economy and plays an important financial intermediary role. Therefore, its health is very critical to the health of the general economy at large. Given the relation between the well-being of the banking sector and the growth of the economy (Rajan & Zingales, 2008) knowledge of the underlying challenges facing financial sector's performance is therefore essential not only for the managers of the banks, but also for numerous stakeholders such as the central banks, bankers associations, governments, and other financial authorities. Knowledge of these challenges would be useful in helping the regulatory authorities and bank managers formulate future policies aimed at improving the profitability of the banking sector. The importance of bank performance can be appraised at the micro and macro levels of the economy (Athanasoglou *et al*., 2008).

Over the last few years, Kenyan Banks have realized tremendous grow in the last five years and have expanded to the east African region. The growth has been mainly underpinned by, the industry’s wide branch network expansion strategy both in Kenya and in the East African community region and automation of a large number of services and a move towards emphasis on the complex customer needs rather than traditional ‘off-the-shelf’ banking products. Players in this sector have experienced increased

competition over the last few years resulting from increased innovations among the players and new entrants into the market (PWC, 2008). However, some banks are unable to compete with bigger bank due to their financial capacity to adopt current IT environment, employee retention, poor governance and stiff competition from bigger banks. This has resulted to minimized expansions of these banks. The operations in these banks have also been quite shaky and have some elements of instability in service provision in these current times. As such there is need for this study to examine in detail what is really main cause of unpleasant performance among these banks.

Notwithstanding the enormously complex and dynamic nature of the environment in which the banks compete, there is a growing body of evidence that suggests it is possible to discern relevant indicators of banking industry performance today. Local studies done include; Serem, (2002) did a survey on the effect of human resource practices on banks profit in Nairobi, Nyangweso (2009) did a survey on the practice and challenges of strategy implementation at Cooperative Bank of Kenya, Kinuthia (2010) conducted a study on the Effect of competitive strategies on the performance of Equity Bank of Kenya while Wandate (2011) conducted a survey on management perception of the influence of corporate social responsibility on performance of Equity Bank Limited. However no local studies that have been done on challenges facing the organization performance in financial sector. It's against this realization that the current study aims to bridge this gap by investigating the determinants of the organization performance in Kenya banking sector with special focus on tier three Commercial Banks. The study aims to answer the following research questions, that is, how does corporate governance affect performance of commercial banks in Kenya?, Does technology advancement affect performance of

commercial banks in Kenya? Does firm size affect performance of commercial banks in Kenya? How do financial strategies affect performance of commercial banks in Kenya?

1.3 Research Objective

This study sought to establish determinants of organization performance in Kenya banking sector with special focus on tier three Commercial Banks.

1.4 Value of the Study

The findings of this study will be useful to financial institutions in Kenya. The study will provide useful information that will help the management of financial institutions in addressing the challenges facing financial institutions and devise strategies to ensure the institutions remain competitive.

The study will also be of great significance to banking sectors in Kenya. This study will be invaluable to banking sector as a whole as its findings would appraise challenges they face and link the same to the corporate performance. The study will offer an opportunity for review of strategies adopted with aim of improving organization performance as it will try to unearth how it has been effective leading to effective performance.

The study findings are expected to be of great importance to various researchers involved in policy making. The study will further make a myriad contribution to the literature on challenges facing organization performance that will be helpful to researchers who want to further on their study in the area.

CHAPTER TWO: LITERATURE REVIEW

2.1 Introduction

This chapter presents past studies done on challenges facing the organizational performance and the link between the two. The chapter also presents literature and previous studies that have been conducted on the link between challenges and organization performance.

2.2 Theoretical Foundation

This study is guided by innovator's solution theory. The theory is relevant in the study as it explains the process of innovation. According to Christensen and Raynor's (2003) theory of the innovator's solution is a brilliant analysis of why companies fail to innovate. It explains convincingly why corporate managements don't learn about good ideas, and why managers succumb to inherent pressures to run away from the challenge of disruptive competition rather than stand and fight. The decisions made as a result of these pressures make sense in the short run to the individuals involved, but in due course they send the organization into an inexorable death spiral.

But while their analysis of the causes of failure to undertake disruptive innovation is effective, their proposal for solving the dilemma of disruptive innovation is less helpful. The central premise of their thesis the innovator's solution – is to accept the grim reality that big companies are inherently and constitutionally disinclined to tackle disruptive innovation. A modern organization will crush disruptive new ideas, because they represent a threat to management, to careers, to power structures, to customary ways of

things, to client bases, to brands, to corporate culture. The author's solution is to protect genuine innovators and their disruptive change ideas from these hostile forces.

Corporate leaders should put up a wall between the innovation and the existing hierarchy. Leadership should create an independent business unit, which will provide a safe and protected environment for innovation. These innovations can flourish without having to fight off the interferences and intrusions and anti-innovation attitudes of the hierarchy.

Allowing a different culture to flourish in a separate organization eventually leads to repeated power struggles and culture clashes, which members of the mainstream organization invariably win. Interest in the new ventures tends to be cyclical. Brief surges of enthusiasm, triggered by abundant resources and the desire to diversify, are followed by sharp declines. The life spans of both internal venture units and corporate venture capital funds, therefore, tend to be short on average, only four to five years. Oke and Goffin (2001) innovator's solution theory rests on the hope that if one can build enough commercial success in the marketplace, he/she has a better chance of eventually winning that battle of persuasion. Surely, their argument goes, the hard numbers will win the war. Unfortunately the track record shows that even with strong commercial success, numbers and reason are not enough to dislodge the forces of stasis and inertia.

2.3 Organization performance

Performance is the outcome of all of the organization's operations and strategies (Wheelen & Hunger, 2002). Performance measurement systems provide the foundation to develop strategic plans, assess an organization's completion of objectives, and remunerate managers (Ittner & Larcker, 1998). While consensual measurement of

performance promotes scholarly investigations and can clarify managerial decisions, marketers have not been able to find clear, current and reliable measures of performance on which marketing merit could be judged. Performance is optimal result done by somebody or group or company. Traditional performance measurement is oriented to financial and profitability. A good company's performances are looked by the profit it's achieved compared to amount specified before (Mulyadi, 2001).

According to Kaplan & Norton (1996) there are 4(four) perspectives of company's performance, that are: Financial Perspective, consist of income growth, productivity growth, cost efficiency and as-set utilizing; Internal business process perspective, consist of improving innovation, operation process, service of post sell; Client perspective, consist of: client satisfaction, client acquisition (how far the company can draw client), client retention, potential market, client profitability and Learning growth perspective, consist of: improving personnel capability, improving information system capability and also motivation, development and compatibility (Kaplan & Norton, 1996).

Organization performance is very essential to management as it is an outcome which has been achieved by an individual or a group of individuals in an organization related to its authority and responsibility in achieving the goal legally, not against the law, and conforming to the morale and ethic. Performance is the function of the ability of an organization to gain and manage the resources in several different ways to develop competitive advantage (Iswatia & Anshoria, 2007). There are two kinds of performance, financial performance and non-financial performance. Financial performance emphasizes on variables related directly to financial report. Company's performance is evaluated in

three dimensions. The first dimension is company's productivity, or processing inputs into outputs efficiently. The second is profitability dimension, or the level of which company's earnings are bigger than its costs. The third dimension is market premium, or the level of which company's market value is exceeding its book value (Walker, 2001).

2.3.1 Corporate Governance

Corporate governance has been an issue of global concern long before now. Many countries that suffered during the recent economic crises in Asia and other emerging markets had weak legal environments and poor governance systems. Christopher (2009) stated that proper governance of companies would become as crucial to the world economy as the proper governance of countries and will converge in associated issues of competitiveness, corporate citizenship, social and environmental responsibility. The governance of banks becomes even more pronounced considering their role of financial intermediation in developing economies. Commercial banks are the main providers of funds to enterprise and where there is a thin or absent capital market, their failure becomes the failure of the system. According to Simpson (2004) the impact of failure of the banking system can have immense cost, as it has repeatedly been seen that bank failure cost developing countries up to 15% of their GDP and losses that far outstripped aids received.

Love and Rachinsky (2008) opined that corporate governance aims at promoting competition, while allowing customers the option of making a choice. This concerns deregulation as reform measures that guarantees lower rates, provide customer choice and offer reliable services so that no one is literally left in the dark (Kajola, 2008). However,

corporate governance arrangement and institutions vary from place to place, though the focus is always to promote corporate fairness, transparency and accountability. Christopher (2009) pointed that the financial sector being at the center stage of efficient capital allocation needs to be visited more consciously with the subject of corporate governance. However, the fundamental issue of corporate governance and banks performance cannot be complete without proper understanding of the functions of shareholders and directors; the creation of an efficient and reliable board from among the shareholders to checkmate director's excesses if any becomes a sine qua non.

Sanda, Mikailu and Garba (2005) examined the relationship between banks ownership and several governance aspects and found out that increasing ownership stakes for hired managers and boards improves banks performance. However, for banks to perform its intermediating functions, certain issues like their objectives for being in existence must be considered. Berger, *et al.* (2004) identified these three objectives– to protect depositors, to promote stable money supply by preventing financial panic, and foster and efficient and competitive banking system that facilitate financial intermediation**.** Fundamentally corporate governance issue is more about leadership, as the public is now demanding accountability and responsibility in corporate behavior more than ever before. It also involves effective government action in the form of reformed regulatory systems; improve quality of service delivery and stepped-up in law enforcement by regulatory agencies (Kajola, 2008).

2.3.2 Technology advancement

Today's business environment is very dynamic and experiences rapid changes as a result of creativity, innovation, technological changes, increased awareness and demands from customers (Woherem, 2006). Business organizations, especially the banking industry of the 21st century operates in a complex and competitive environment characterized by these changing conditions and highly unpredictable economic climate with Information and Communication Technology (ICT) is at the centre of this global change curve. The banking business is becoming highly ICT based due to its inter-sectoral link; it appears to be reaping most of the benefits of revolution in technology, as can be seen by its application to almost all areas of its activities (Akinuli, 2009). It has broadened the scope of banking practices and changed the nature of banking as well as the competitive environment in which they operate. A broad opening has been experienced around the world for banks and they are currently taking due advantage of these innovations to provide improved customer services in the face of competition and faster services that enhance productivity (Ovia,2005).

Technological advancement facilitates payments and creates convenient alternatives to cash and cheque for making transactions. Such new practices have led to the development of a truly global, seamless and Internet enabled 24-hour business of banking. Technological advance in payments are important due to the fact that it will be feasible to outsource quite a number of the banks' role in the payments system. Also banks' regulation can be more technologically dependent and better focused rather than focusing on conceptual guidelines. ICT revolution both in terms of innovation rate, speedy operation, and cost per unit (portraying reduction in average total and marginal costs) has

made a good number of banks embrace the use of ICT infrastructure in their operations (Akinuli, 2009). However there may be little interruptions at times due to network failures, which may make customers unable to carry out transactions at a particular point in time. This little shortcoming is not in any way comparable to the days when banking halls were characterized by long queues mainly as a result of delays in the traditional banking operations.

Irechukwu (2006) itemized some bank services that have been revolutionized through the use of ICT as including account opening, customer account mandate, and transaction processing and recording. Information and Communication Technology has provided self-service facilities (automated customer service machines) from where prospective customers can complete their account opening documents direct online. It assists customers to validate their account numbers and receive instruction on when and how to receive their cheque books, credit and debit cards. ICT products in use in the banking industry include Automated Teller Machine, Smart Cards, Telephone Banking, Electronic Funds Transfer, Electronic Data Interchange, Electronic Home and Office Banking. Ovia (2005) opined that the revolution in ICT has made the banking sector changed from the traditional mode of operations to presumably better ways with technological innovation that improves efficiency. ICT can enhance efficiency via its use and in recent times banks have been encouraged by the rapid decline in the price of ICT gadgets. This has perhaps increased the bank level of ICT usage. The increase might have also been attributable to business environment that became relatively flexible to accommodate new forms of technological change as a result of reforms in the country.

2.3.3 Firm Size

If the relative size of a firm expands, its market power and profits increases. This is the Market-Power (MP) hypothesis. The hypothesis is also referred to as the Structure-Conduct-Performance (SCP) hypothesis (Athanasoglou *et al*., 2008). It has been argued that the effect of a growing size on bank profitability is significantly positive to a large extent (Smirlock, 2005). Smirlock (2005) further suggested that the difference in profitability among large and small banks is due to production technologies and outputs, which vary across them. The relative efficiency hypothesis (Clarke *et al*., 2004) presupposes that larger banks (where size is measured by assets) are more efficient than smaller ones, and are more profitable as a result of this superior efficiency.

The preceding arguments on the effect of size on bank profitability overlap with the idea that large banks can benefit from economies of scale (Bashir, 2009). However, some researchers suggest that little cost saving can be achieved by increasing the size of a banking firm (Berger *et al.*, 2006). They suggest that eventually very large banks could face scale inefficiencies, perhaps due to bureaucratic reasons (Athanasoglou *et al.*, 2008). Newly established banks are not particularly profitable (if at all profitable) in their first years of operation, as they place greater emphasis on increasing their market share and enlarging their firm, rather than on improving profitability (Athanasoglou et al., 2008).

Empirical evidence from Athanasoglou *et al.* (2008) shows that labour productivity growth, which can only be achieved if the bank is large in its size, has a positive and significant effect on bank profitability. This suggests that higher productivity growth generates income that is partly channeled to bank profits. Banks target high levels of

labour productivity growth through various strategies that include keeping the labor force steady, ensuring higher quality of newly hired labor, reducing the total number of employees, and increasing overall output via increased investment in fixed assets which incorporate new technology.

2.3.4 Financial Strategy

Financial strategy is a plan that spells out the actions that a company or business will undertake in order to be profitable and successful. It includes the use of value based performance measures and standardization of business processes, maintenance of financial flexibility to support growth and keeping the capital structure efficient. Financial strategies are very important for the survival of any institution, because without good financial strategies, organizations will run bankrupt and can be closed down. There are various forms of financial strategies that may affect the performance of banks to a certain extent. The key types of financial strategies that come in handy include cash flow management, purchase management, collection management, investment management and consideration management among many others (Leigh, 2013).

In terms of cash flow management, the income statement and balance sheet of a business may look great on paper, but if the cash is not properly managed, financial institutions can quickly go under. Part of the financial strategy of the business is to deal with how cash will be used in the institution (Pindado, 2004). This includes identifying an amount that will always be in reserves as well as how major expenses will be paid. By laying out the financial cash strategy ahead of time, it will make financial decisions easier about when to write a check and when to access a line of credit during normal business

practice. However, poor training among the support staff on cash flow management may pose a challenge on the overall performance of financial banks especially with relation to the flow of cash in and out of the organization.

Mauchi et al., (2011) carried out a study entitled “The effectiveness of cash management policies: a case study of Hunyani flexible products”. The study sought to evaluate the effectiveness of cash management policies at Hunyani Flexible Products (HFP) using data from 2000-2010. Other objectives of the study were to identify the key processes and models in cash management; examine the impact of poor cash management on the overall company performance and come up with strategies that can lead to an effective cash management system. The descriptive survey method was used to solicit information from the respondents and a case study approach was used. The research study was confined to respondents at Hunyani Flexible Products where a sample of forty (40) respondents was drawn. Data was obtained through interviews, administering questionnaires and by observations. From the research findings, it was established that there is a high deficiency of an effective cash management policy although some attributes of an effective management system were present. The study found that there is a positive relationship between the level of cash flow and the profitability of the company. The research concluded that, cash management is a culture that forms part of the strategy of companies and depends more on managers themselves than the characteristics of companies.

Bort (2004) noted that, cash flow management being one of the key financial strategies is of importance for both new and growing institutions. Companies may suffer from cash

flow problems because of lack of margin of safety in case of anticipated expenses such that they experience problems in finding the funds for innovation or expansion. Weak cash flow makes it difficult to hire and retain good employees (Beranek, 2000). Additionally, cash collection is also another financial strategy that may have an influence on the overall performance of financial institutions. Ross (2000) defines cash collection as a function of accounts receivable, it is the recovery of cash from a business or individual with which the company is issued an invoice. In the banking institution, collection of cash is of critical importance especially for its survival. This is whereby if the institutions do not apply the right techniques or put the appropriate follow up in the collect of cash, the institutions may end up having no cash in circulation and hence putting it into a critical situation.

According to Gitman (2008), there are four cash collection techniques namely letters, telephone calls, personal visits and legal action. Letters are written communication of expressions, opinions and communication recorder for later reference (Palom, 2001). The use of letters in the collection of cash comes into operation in that after a certain number of days, the firm sends a polite letter reminding the customer of the overdue accounts. If the account is not paid within a certain period after this letter has been sent a second more demanding letter is sent. A telephone call is a connection established over a telephone network between two parties (Chastain, 2008). As such, if the support staff members in a financial institution are not adequately prepared in terms of training skills on how to be effective while using these financial strategies, organizations may not be able to retrieve the finances that customers owe the company. This will automatically, influence the overall performance of the institution in that there will be more debts that the outside and

the institution may be running on a low budget. As such, this study intends to examine how financial strategies affect the performance of tier commercial banks.

2.4 Critical Review

Boateny (2004) pointed that good institutional and corporate governance had long been a development issue; the connection to the corporate governance agenda has not always been explicit. In fact, prior to this time bank governance has had a lower profile than corporate governance. Effective bank governance is the one that actually raises all the good governance questions. For instance, instability in banks would lead to financial instability and by extension a significant impact on the entire economy. It is in this vein that Blide (2004) purported that there is a direct link between improved bank governance, financial stability and sustainable economic development, particularly in developing and emerging market.

Charkam (2004) pointed that banking is littered with failure-cause by ignorance, fraud, misjudgment political and societal pressures, that he is unsure if better governance would saved them. However, bank failures convince government of the necessity to establish minimum capital requirement for insured banks. Oluyemi (2007) assert that sound capital creates reasonable assurance of protection to depositors as well as creditors. Yung (2009), using panel regression methods, indicated that board size has a great impact on bank performance. While Love and Rachinsky (2009) using a sample of 107 banks in Russia and 50 banks in Ukraine found some significant, but economically unimportant relationship between governance and contemporaneous operating performance and a

weaker link with subsequent performance. They also ascertained that banks with more concentrated ownership have lower ranking on corporate governance.

Harold and Jeff (2005) contend that financial service providers should modify their traditional operating practice to remain viable in the 1990'ss and the decade beyond. Thus, ICT has emerged as a catalyst in the various industries of the world to aid the process and procedure required to ensure the realization of various organizational goals. The role of ICT in the banking sector became of interest to this study due to the significant role it plays in the economy by stimulating economic growth through the intermediation of funds to economic agents that need them for productive activities. This function is very vital for any economy that intends to experience meaningful growth because it makes arrangements that bring borrowers and lenders of financial resource together and more efficiently too than if they had to relate directly with one another (Ojo, 2007).

The banking industry in general has experienced some profound changes in recent decades, as innovations in technology and the inexorable forces driving globalization continue to create both opportunities for growth and challenges for banking managers to remain profitable in this increasingly competitive environment. Most of the studies concerning bank profitability to date, including Short (1979), Bourke (1989), Molyneux and Thornton (1992), Demirguc-Kunt and Huizinga (1999) and Goddard, Molyneux, and Wilson (2004), have employed different linear models to estimate the impact of various factors that could be significant in terms of explaining profits.

The importance of bank profitability 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. Hence, the basic aim of a bank's management is to achieve a profit, as the essential requirement for conducting any business (Bobáková, 2009). 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. The importance of bank profitability at both the micro and macro levels has made researchers, academics, bank managements and bank regulatory authorities to develop considerable interest on the factors that determine bank profitability (Athanasoglou *et al*., 2005). Determinants of bank profitability comprise characteristics of individual bank companies that affect their profitability. Shareholder and managerial decisions and activities can directly influence these characteristics which also differ from company to company.

Guru et al. (2009) attempt to identify the determinants of successful deposit banks in order to provide practical guides for improved profitability performance of these institutions. The findings of this study revealed that efficient expenses management was one of the most significant in explaining high bank profitability. Among the macro indicators, high interest ratio was associated with low bank profitability and inflation was found to have a positive effect on bank performance. In Kenya, commercial banks play an important role in mobilizing financial resources for investment by mobilizing investors and boosting businesses as well as offering financial services to the public with the aim of making profit. However globalization and unpredictable change in the

environment they operate, such as IT advancement, poor corporate governance, size of the firm in terms of assets, challenges their performance. The current study aims to investigate the challenges faced by commercial banks in Kenya in their performance particularly on tier three Commercial Banks.

CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Introduction

This chapter presents the methodology, which was used to carry out the study. It further describes the type and source of data, the target population and sampling methods and the techniques that was used to select the sample size. It also describes how data was collected and analyzed. The suitable methodology in this study gives the guidelines for information gathering and processing.

3.2 Research Design

This study employed a descriptive research design. A descriptive research design attempts to describe or define a subject, often by creating a profile of a group of problems, people, or events, through the collection of data and tabulation of the frequencies on research variables or their interaction, (Cooper and Schindler, 2006). It is concerned with describing the characteristics of a particular individual, or of a group. In this case, the research problem was to investigate determinant of organization performance in the Kenya banking sector with focus to banks in tiers three. A descriptive research defines questions, people surveyed, and the method of analysis prior to beginning of data collection. Thus, this approach is appropriate for this study, since the researcher intends to collect detailed information through descriptions and the method is also useful for identification of variables and hypothetical constructs.

3.3 Population of Study

Target population as described by Borg and Grall (2009) is a universal set of study of all members of real or hypothetical set of people, events or objects to which an investigator wishes to generalize the result. The population of this study comprised of the banks in categorized in tier three. There are twenty one banks in tier three in Kenya as at may 2013 (CBK Report, 2013). Thus the study conducted a census survey owing to the small number of banks in the said tier. These banks were chosen since they perform minimal compared to other banks in tier one and two. Mugenda and Mugenda (2003) explained that the target population should have observable characteristics to which the study intents to generalize the result of the study. This definition assumes that the population is not homogeneous.

3.4 Data Collection

The researcher collected primary where the questionnaire was used to collect the data from the respondents from each bank. The questionnaire was structured to include both closed, open-ended and matrix questions to allow variety. The structured questions are normally close ended with alternatives from which the respondent is expected to choose the most appropriate answer (Mugenda & Mugenda, 2003). Unstructured questions are open-ended and present the respondent with the opportunity to provide their own answers. These types of questions are easy to formulate and allow the respondent to present their feelings on the subject matter enabling a greater depth of response (Mugenda & Mugenda, 2003). Matrix questions were also utilized. This type of questions present the respondent with a range of questions against which they are expected to

respond based on a predetermined rating scale. The most commonly used is the likert scale. These types of scales are used to measure perceptions, attitudes, values and behaviour (Cooper & Schinder, 2007). These types of questions are popular with the respondents and researchers as they are easy to fill in, economical and provide easy comparability. The respondents of this study were senior, middle low level managers while two respondents in each bank were targeted contributing to 42 respondents.

3.5 Data Analysis

The study generated both qualitative and quantitative data. Quantitative data were coded and entered into Statistical Packages for Social Scientists (SPSS Version 17.0) and analyzed using descriptive statistics. Qualitative data was analyzed based on the content matter of the responses. Responses with common themes or patterns will be grouped together into coherent categories. Descriptive statistics was also used of absolute and relative (percentages) frequencies, measures of central tendency and dispersion (mean and standard deviation respectively). Quantitative data was presented in tables and graphs and explanation was presented in prose.

CHAPTER FOUR: DATA ANALYSIS, RESULTS AND DISCUSSION

4.1 Introduction

This chapter presents analysis of the data on determinants of organizational performance in the Kenyan banking sector with specific focus on tier three commercial banks. This chapter presents the findings of the study and discussions on the findings. The finding intended on answering the study's research questions. Data collected was collated and reports were produced in form of tables and figures and qualitative analysis done in prose.

4.2 Response Rate

Table 4.1 illustrates the response rate of the respondents that participated in the survey. The study targeted 42 respondents working in the said banks in collecting data on determinants of organizational performance in the Kenyan banking sector. However, out of 42 questionnaires distributed 33 respondents completely filled in and returned the questionnaires contributing to 79%. This response rate was reached due to the data collection procedure, where the researcher personally administered questionnaires and waited for respondents to fill in, kept reminding the respondents to fill in the questionnaires through frequent phone call and picked the questionnaires once fully filled. The 21% questionnaires that were not returned were due to reasons like, the respondent were not available to fill them in at that time and with persistence follow-ups there were no positive responses from them. The response rate demonstrates a willingness of the respondents to participate in the survey that the study sought.

Table 4.1 Response Rate

Response	Frequency	Percentage
Filled in questionnaires	33	79
Un returned questionnaires	7	21
Total	**40**	**100**

Source: Research data (2013)

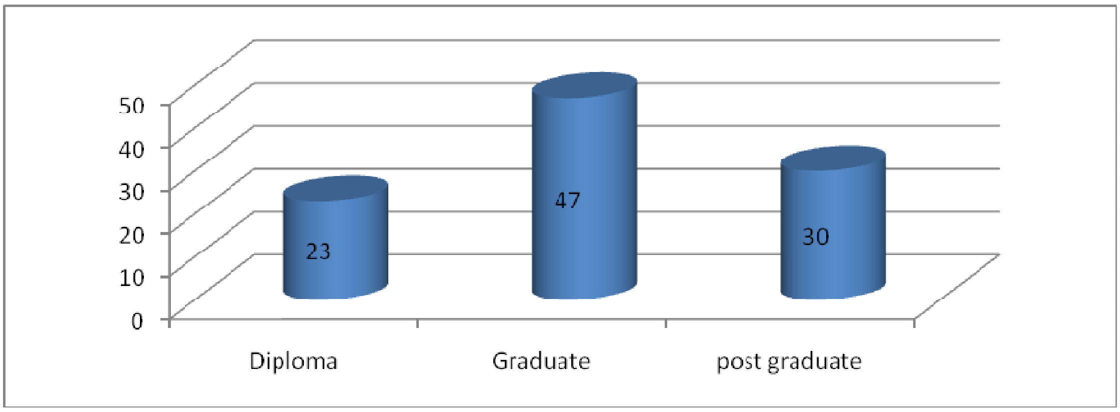
4.3 Demographic Characterization of the Respondents

The study found it crucial to ascertain the broad information of the respondents since it structures the charity under which the study can fairly entrance the pertinent information. The analysis relied on this information of the respondents so as to classify the different results according to their knowledge and responses.

4.3.1 Highest Education Level of the Respondents

The study was also inquisitive to determine the highest level of the academic qualification that the respondent held. Figure 4.1 shows the findings of the result, most (47%) of the respondents were graduate, 30% were post graduate (masters holder) while the rest (23%) had diploma as their highest level of education. This depicted that most of the respondents interviewed were well knowledgeable to understand and able to respond to the questionnaire in the manner intended.

Figure 4.1 Education Level of the Respondents



Source: Research data (2013)

4.3.2 Respondents Working Duration in Years

Table 4.4 illustrates working period in years of the respondents in their respective organization. From the findings majority (53%) of the respondents had worked in the organization for a period of 6-10 years, 36% had worked for a period of 1-5 years, 7% had worked for a more than 16 years while the rest (5%) had served in the organization for a period of 10-15 years. This implies that most of the respondents of this study had worked for a longer period within the organization thus conversant enough of the information that the study sought pertaining to the bank profitability.

Table 4.2 Working Duration

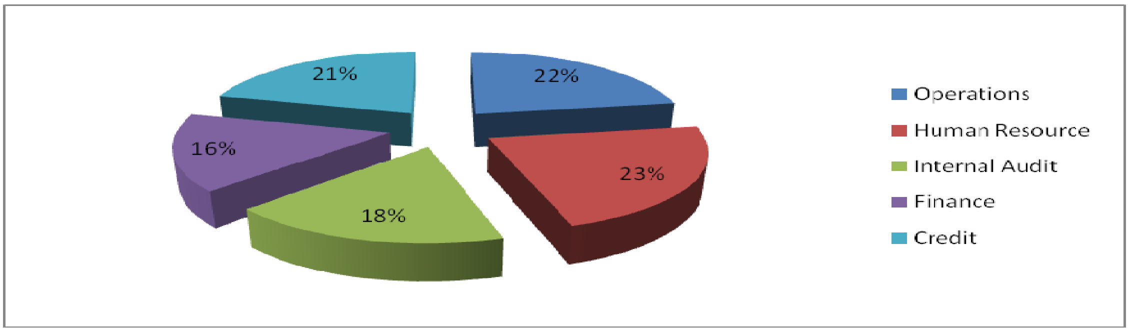
Period of Service	Frequency	Percentage
1- 5 Years	12	36
6 – 10 Years	18	53
10 – 15 Years	2	5
Above 16 Years	2	7
Total	**33**	**100**

Source: Research data (2013)

4.3.3 Respondents Department of Work

Figure 4.2 indicates departments in which respondents were working in their organization. From the findings most (22.6%) of the respondents were working at operations and human resource departments as shown in each case, 21% were serving at credit department, 18% were working at internal audit while 16% of the respondents were serving at finance department. This implies that all departments that were targeted by the study were involved and that the findings are not biased.

Figure 4.2 Respondents Department of Work



Source: Research data (2013)

4.3.4 Position held by the Respondents in their Respective Banks

The study aimed to investigate position held by the respondents in their organization. From the findings (33%) of the respondents were unit heads, 21% as assistance manager and directors, 18% were technical personnel, 15% were departmental heads while 3% were supervisors. Position held in the workplace leads to easier application and strategic practices that leads to better performance of the organization towards achieving

organizational goals and objectives. This depicts that all participant of the study were under the level to which the study targeted as stipulated in previous chapter.

Table 4.3 Position Held by the Respondents in their Respective Banks

Position Held	**Frequency**	**Percentage**
Supervisor	1	3
Technical personnel	6	18
Departmental Head	5	15
Unit Head	11	33
Director	7	21
Manager	7	21
Total	**33**	**100**

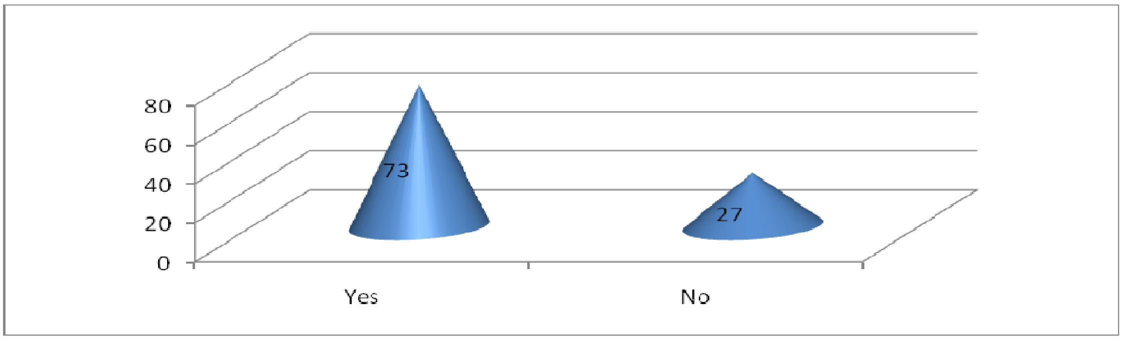
Source: Research data (2013)

4.4 Good Governance

4.4.1 Effect of Corporate Governance on Organization Performance

Figure 4.3 illustrates the summary of the findings on whether corporate governance affects organization performance. According to the findings, majority (73%) of the respondents alleged that corporate governance affects organization performance while the rest (27%) opposed the opinion of majority. This implies that majority of financial institution, banks not exempted; consider effectiveness of corporate governance as a key performance indicator in the organization performance.

Figure 4.3 Effect of Corporate Governance on Organization Performance



Source: Research data (2013)

4.4.2 Corporate Governance and its Influence on Organization Performance

Table 4.4 indicates respondents' level of agreement on the statements regarding to corporate governance and its influence on organization performance. According to the findings, respondents agreed that their companies had put in place effective corporate governance systems that shown to implement solid and integrated performance approaches more easily than others and that management in their organization are committed in ensuring the performance of the bank is improved as shown by mean score of 3.96 in each case, almost the same number of respondents agreed that management in their organization consider merit and previous performance of the individual to be mandated in the management position and that bank shares more democratic ownership structures, more balanced and broader governance systems, and a more comprehensive view of organizational goals and performance have also better chances to increase shareholders' loyalty as depicted by mean score of 3.79 and 3.75 respectively. Few of the respondents were neutral that their companies had put in place effective corporate governance systems that shown to implement solid and integrated performance approaches more easily than others as illustrated by mean score of 3.33.

Table 4.4 Corporate Governance and its Influence on Organization Performance

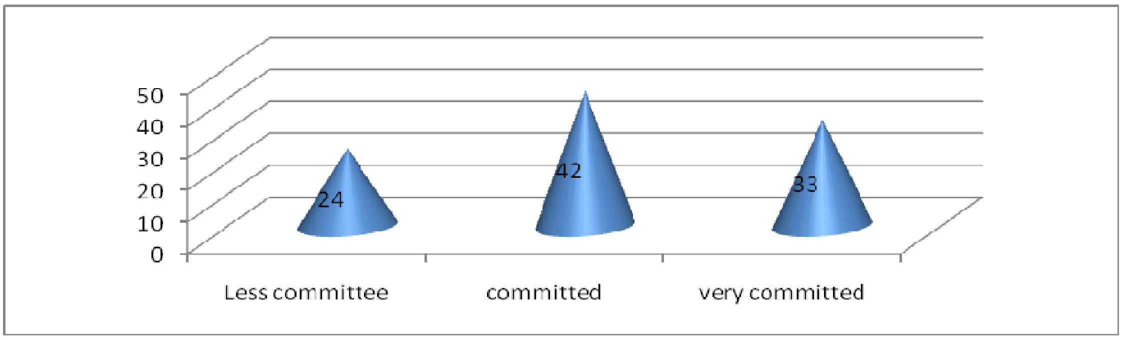
	Mean	**STDev**
Under the umbrella of corporate governance, our organization is encouraged to promote ethics, fairness and transparency in order to improve its performance	3.33	0.816
Our companies had put in place effective corporate governance systems that shown to implement solid and integrated performance approaches more easily than others	3.96	0.69
Our bank shares more democratic ownership structures, more balanced and broader governance systems, and a more comprehensive view of organizational goals and performance have also better chances to increase shareholders' loyalty	3.75	0.676
Management in our organization are committed in ensuring the performance of the bank is improved	3.96	0.55
Management in our organization consider merit and previous performance of the individual to be mandated in the management position	3.79	0.658

Source: Research data (2013)

4.4.3 Commitment of Corporate Governance

The researcher was also inquisitive in determining commitment of corporate governance in determining organization performance. From the findings, most (42%) of the respondent were of the opinion that corporate governance are committed, 33% were of the opinion that corporate governance are very committed while the rest (24%) opined that they are less committed.

Figure 4.4 Commitment of Corporate Governance



Source: Research data (2013)

4.4.5 Extent that Corporate Governance Determine Organization Performance

Table 4.5 represents the study finding on the extent to corporate governance determine organization performance. From the findings, majority (62.5%) of the respondents' indicated that corporate governance determine organization performance at a great extent, 29.2% perceived that corporate governance determine organization performance to a moderate extent while 8.3% were of the opinion that corporate governance determine organization performance to a very great extent.

Table 4.5 Extent that Corporate Governance Determine Organization Performance

	Frequency	Percentage
Moderate Extent	10	29
Great Extent	21	65
Very Great Extent	3	8
Total	**33**	**100**

Source: Research data (2013)

4.5 Technologies Advancement

4.5.1 Effectiveness of Technologies Advancement on Bank Performance

The study requested the respondent to indicate whether technology advancement enhance bank performance. Majority (90%) of the interviewed respondents' indicted that the banks technologies advancement enhancement bank performance while 10% indicated that technologies advancement does not in any way enhance bank performance. On whether application of IT eases the process and procedure of banking, majority (90%) of the respondents indicated that application of IT eases the process and procedure of banking while the remaining pointed otherwise.

Table 4.6 Effectiveness of Technologies Advancement on Bank Performance

	Frequency	**Percent**
Yes	30	90
No	3	10
Total	**33**	**100**

Source: Research data (2013)

4.5.2 Technology Advancement and its Influence on Organization Performance

Table 4.7 illustrates the finding of the study on respondent level of agreement on state of IT to its influence on bank performance. From the findings, most of the respondents strongly agreed that interviewed banks are not more profitable due to economies of scale on adoption of IT on their production as indicated by the mean score of 4.95, also respondent strongly agreed that most of banks are trying to modified its operation with relation to technological advancement in order to remain viable in the market as shown

by mean score of 4.01. Further, respondents strongly agreed that ICT revolution in terms of innovation increases speedy operation and therefore reduce cost per unit in production, and this has led a good number of banks to embrace the use of ICT infrastructure in their operations that improves efficiency as shown by mean score of 3.77. Respondents have also agreed that Banks that have adopted IT has broadened the scope of banking practices and changed the nature of banking as well as the competitive environment in which they operate and that Banks that have adopted ICT revolution in terms of innovation have benefited from speedy operation and reduced cost per unit hence more profits as depicted by mean score of 3.73 and 3.70 respectively. Likewise respondent agreed that IT has assisted customers to validate their account numbers and receive instruction on, when and how to receive their cheque books, credit cards and debit cards and also have agreed that accuracy of results generated by bank systems that embrace use of Smart Cards which in turn results to more profitability as depicted by mean score of 3.64 and 3.53 respectively. IT has broadened the scope of banking practices and changed the nature of banking as well as the competitive environment in which they operate as illustrated by mean score of 3.41. Finally, respondents disagreed that cost of acquiring better IT infrastructure for our bank is the major cause of low profits thereby decrease profitability as illustrated by mean score of 2.29.

Table 4.7 Technology Advancement and its Influence on Organization Performance

	Mean	STDev
Accuracy of results generated by bank systems that embrace use of Smart Cards which in turn results to more profitability	3.52	1.168
ICT revolution in terms of innovation increases speedy operation and therefore reduce cost per unit in production	3.77	1.297
IT has broadened the scope of banking practices and changed the nature of banking as well as the competitive environment	3.41	0.312
The market share that we have results to minimal performance	3.47	0.899
Our banks are not more profitable due to economies of scale on adoption of IT on their production	4.15	1.009
Cost of acquiring better IT infrastructure for our bank is the major cause of low profits	2.29	1.464
Banks that have adopted IT has broadened the scope of banking practices as the competitive environment in which they operate	3.73	0.87
Technological advancement in the banking industry has facilitated payments and creates convenient and non-risky alternatives	3.44	0.943
Banks that have adopted ICT revolution in terms of innovation have benefited from speedy operation and reduced cost per unit	3.7	1.198
Our banks is trying to modified its operation with relation to technological advancement in order to remain viable in the market	4.01	1.196
IT has assisted customers to validate their account numbers, receive instruction on, when and how to receive their cheque books, credit and debit cards	3.64	1.284

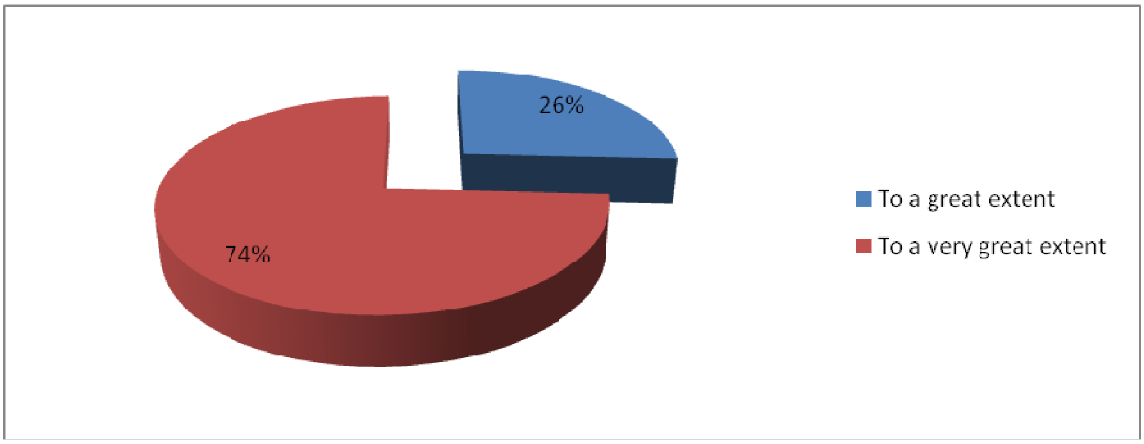
Source: Research data (2013)

4.5.3 Extent that Technological Advancement affect Bank Performance

Figure 4.5 illustrates the findings of the study on the influence of state of IT on bank profitability. Majority (74%) of the respondents purported that state of IT influences bank

profitability to a very great extent while the rest 26% were of the opinion that IT influences bank profitability to a great extent.

Figure 4.5 Extent that Technological Advancement affect Bank Performance



Source: Research data (2013)

4.6 Bank Size

4.6.1 Number of Branches

The study further requested the respondents to indicate the number of branches their bank have. According to the findings, majority (64%) of the respondents indicated that their bank have 16-30 branches, 24% indicated that their bank have between 1-15 branches, while 12% indicated that their bank have between 31-45 branches respectively.

Table 4.8 Number of Branches

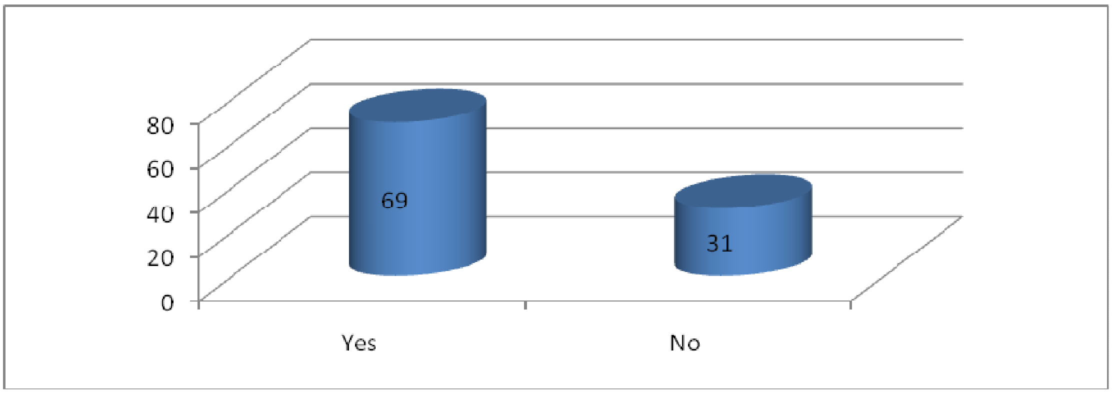
	Frequency	Percentage
1 to 15	8	24
16-30	21	64
31-45	4	12
Total	**33**	**100**

Source: Research data (2013)

4.6.2 Determination of Bank Profitability by Number of Branches

Figure 4.6 summarizes the study findings, on whether numbers of branches for a bank determines its profitability. From the findings, 69% of the respondents indicated that numbers of bank branches determines its profitability while the rest (31%) opined that number of bank profitability does not determine bank profitability.

Figure 4.6 Determination of Bank Profitability by Number of Branches



Source: Research data (2013)

4.6.3 Aspect of Bank Size on bank Performance

Table 4.9 illustrates the finding of the study on the respondent level of agreement. From the findings, most of the respondents agreed that total asset of their bank result minimal performance hence we face stiff competition from our competitors due to lack of fund in financing marketing program and that organization have less number of loyal customers who take loans from us hence low interest income as depicted by mean score of 4.26 and 412 respectively. Also respondents agreed that performance of our bank is in relation to the number of branches that we have and that fewer number of ATM point contribute to more profit to the banks that have adopted it while we have less number of ATM point hence less profitability as illustrated by mean score of 3.89 and 3.54 respectively. On the other hand, respondents were neutral that banks with many managers and few operators creates power confusion resulting to less profitability as depicted by mean score of 3.19.

Table 4.9 Aspect of Bank Size on bank Performance

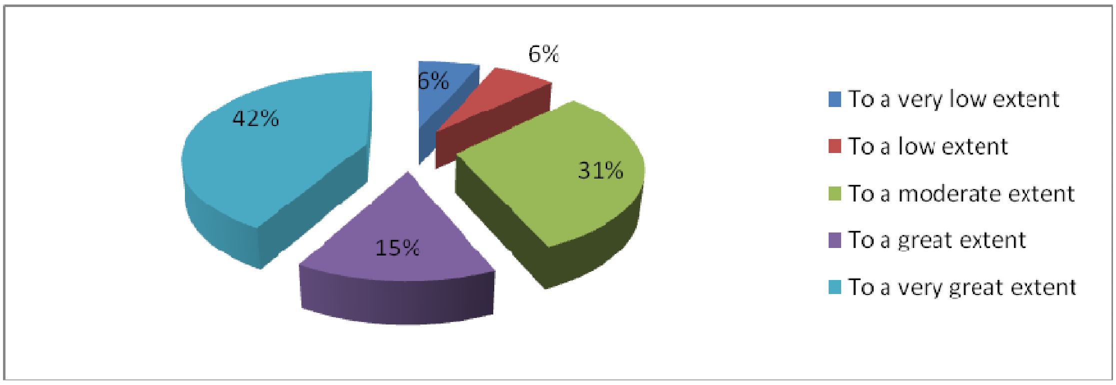
	Mean	**STDev**
Performance of our bank is in relation to the number of branches that we have	3.89	1.01
Total asset of our bank result minimal performance hence we face stiff competition from our competitors due to lack of fund in financing marketing program	4.26	0.723
Fewer number of ATM point contribute to more profit to the banks that have adopted it while we have less number of ATM point hence less profitability	3.54	1.498
We have less number of loyal customers who take loans from us hence low interest income	4.12	0.882
Banks with many managers and few operators creates power confusion resulting to less profitability	3.19	1.321

Source: Research data (2013)

4.6.4 Extent to which Bank Size Determines its Profitability

Further the study requested the respondents to indicate the extent to which bank size determines its profitability. From the findings, 42% of the respondents opined that bank size determines bank profitability to very great extent, 31% were of the opinion that bank size influence bank profitability to a moderate extent, 15% to a great extent, 7% to a low extent while a similar numbers purported that bank size influence bank profitability to a very low extent as indicated by the figure 4.13.

Figure 4.7 Extent to which Bank Size Determines its Profitability



Source: Research data (2013)

4.7 Financial Strategies

4.7.1 Financial Strategies adopted

Table 4.10 summarizes the study findings on the financial strategies adopted by the banks. From the findings, 79% of the respondent indicated that their banks have adopted investment management strategy, 67% had adopted cash flow management strategy, 55% had adopted purchase management strategy, 52% had adopted consideration management strategy while 52% had adopted collection management strategy.

Table 4.10 Financial Strategies adopted

Financial Strategies adopted	Frequency		percentage	
	Yes	**No**	**Yes**	**No**
Cash flow management strategy	22	11	67	33
Purchase management strategy	18	15	55	45
Collection management strategy	14	19	42	58
Investment management strategy	26	7	79	21
Consideration management strategy	17	16	52	48

Source: Research data (2013)

4.7.2 Monetary Policy and their Influence to Performance of Banks

The study requested the respondents to indicate their level of agreement on the statement relating to monetary policy and their influence to performance of banks. From the findings most of the respondents disagreed that they aren't adequately trained to use effectively the financial strategies available especially in the control of cash flow in the bank as depicted by mean score of 2.92, also respondent disagreed that cash collection techniques are not being utilized effectively and this contributes to the poor performance of our bank as illustrated by mean score of 2.56, on the other hand, respondent strongly disagree that Poor financial strategy application in our bank has resulted to weak cash flow. This makes it difficult for the management to hire and retain good employees as shown by mean score of 2.39 while also respondent strongly disagreed the bank suffer from cash flow problems because of lack of margin of safety in case of anticipated

expenses such that we experience problems in finding the funds for innovation or expansion as depicted by mean score of 2.24.

Table 4.11 Monetary Policy and their Influence to Performance of Banks

	Mean	**STDev**
Our bank suffer from cash flow problems because of lack of margin of safety in case of anticipated expenses such that we experience problems in finding the funds for innovation or expansion	2.24	0.862
Poor financial strategy application in our bank has resulted to weak cash flow. This makes it difficult for the management to hire and retain good employees	2.39	1.046
The cash collection techniques are not being utilized effectively and this contributes to the poor performance of our bank.	2.56	1.236
We aren't adequately trained to use effectively the financial strategies available especially in the control of cash flow in the bank.	2.92	0.874

Source: Research data (2013)

4.7.3 Extent that Financial Strategies Applied Enhance Bank Performance

Table 4.12 shows results of the findings on the extent to which financial strategies applied by bank enhance its performance. From the findings, (65%) of the respondents were of the opinion that financial strategies applied by bank enhance its performance to a great extent, 32% very great extent while the rest (3%) alleged that financial strategies applied by bank enhance its performance to a moderate extent.

Table 12 Extent that Financial Strategies Applied Enhance Bank Performance

	Frequency	**Percentage**
To a moderate extent	1	3
To a great extent	21	65
To a very great extent	11	32
Total	**33**	**100**

Source: Research data (2013)

4.8 Discussion of the Findings

The study sought to establish the extent to which corporate governance determines organization performance in the Kenyan banking sector, to examine the extent to technology advancement determines organization performance in the Kenyan banking sector, to assess the extent to which firm size determines organization performance in the Kenyan banking sector and to establish the extent to which financial strategies determines organization performance in the Kenyan banking sector.

On corporate governance, the study established that majority (73%) of the respondents alleged that corporate governance affects organization performance. According to Christopher (2009) the governance of banks becomes even more pronounced considering their role of financial intermediation in developing economies, thus banks should consider corporate governance. Further, respondents agreed that their companies had put in place effective corporate governance systems that shown to implement solid and integrated performance approaches more easily than others while management in their organization are committed in ensuring the performance of the bank is improved.

The finding of the study complied with Love and Rachinsky (2008) findings that that corporate governance aims at promoting competition, while allowing customers the option of making a choice. Finally, on the same the study found that corporate governance determine organization performance at a great extent. Christopher (2009) pointed that the financial sector being at the center stage of efficient capital allocation needs to be visited more consciously with the subject of corporate governance.

To technology advancement, majority (90%) of the interviewed respondents' indicted that the banks technologies advancement enhancement bank performance. The findings of the study did not show any relationship with Ovia (2005) finding that broad opening has been experienced around the world for banks and they are currently taking due advantage of these innovations to provide improved customer services in the face of competition and faster services that enhance productivity. Likewise, the study found that most of the respondents strongly agreed that interviewed banks are not more profitable due to economies of scale on adoption of IT on their production and that of banks are trying to modified its operation with relation to technological advancement in order to remain viable in the market. The finding of the study was contrary to Akinuli, (2009) that the banking business is becoming highly ICT based due to its inter-sectoral link; it appears to be reaping most of the benefits of revolution in technology, as can be seen by its application to almost all areas of its activities. Finally, majority (74%) of the respondents purported that state of IT influences bank profitability to a very great extent. The finding of the study was similar to Akinuli (2009) finding that ICT revolution both in terms of innovation rate, speedy operation, and cost per unit (portraying reduction in average total and marginal costs) has made a good number of banks embrace the use of

ICT infrastructure in their operations due to benefits they accrues in terms of bank performance. The increase might have attributable to business environment that became relatively flexible to accommodate new forms of technological change as a result of reforms in the country.

On bank size, majority (64%) of the respondents indicated that their bank have 16-30 branches. According to Bashir (2009) the preceding arguments on the effect of size on bank profitability overlap with the idea that large banks can benefit from economies of scale. From the findings, 69% of the respondents indicated that numbers of bank branches determines its profitability. Smirlock (2005) further suggested that the difference in profitability among large and small banks is due to production technologies and outputs, which vary across them. The relative efficiency hypothesis (Clarke et al., 2004) presupposes that larger banks (where size is measured by assets) are more efficient than smaller ones, and are more profitable as a result of this superior efficiency. Additionally, the study found that total asset of banks in tiers three result to minimal performance due to stiff competition from their competitors due to lack of fund in financing marketing program and that organization have less number of loyal customers who take loans from them hence low interest income. Athanasoglou *et al.* (2008) shows that labour productivity growth, which can only be achieved if the bank is large in its size, has a positive and significant effect on bank profitability. This suggests that higher productivity growth generates income that is partly channeled to bank profits. Finally, the study established that bank size determines bank profitability to very great extent. The finding of the study complied with Smirlock (2005) that it has been argued that the effect of a growing size on bank profitability is significantly positive to a large extent.

To financial strategies, the study found that majority (79%) of the respondent indicated that their banks have adopted investment management strategy. Leigh (2013) pointed that financial strategies are very important for the survival of any institution, because without good financial strategies, organizations will run bankrupt and can be closed down. Meanwhile, respondents disagreed that they aren't adequately trained to use effectively the financial strategies available especially in the control of cash flow in the bank. Pindado (2004) purported that poor training among the support staff on cash flow management may pose a challenge on the overall performance of financial banks especially with relation to the flow of cash in and out of the organization. Inclusively, the study found that financial strategies applied by bank enhance its performance to a great extent. Pindado (2004) laying out the financial cash strategy ahead of time, it will make financial decisions easier about when to write a check and when to access a line of credit during normal business practice contributing significant organization financial performance.

CHAPTER FIVE: SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

This chapter presents the summary of the findings on determinants of organizational performance in the Kenyan banking sector with specific focus on tier three commercial banks, the conclusions and recommendations are drawn there to. The chapter is therefore structured into summary of findings, conclusions, recommendations and area for further research.

5.2 Summary of the Findings

The objectives of this study were to ascertain how corporate governance affect performance of commercial banks in Kenya, to establish the influence of technology advancement on performance of commercial banks in Kenya, to examine how firm size affect performance of commercial banks in Kenya and to determine the influence of financial strategies on performance of commercial banks in Kenya.

From the study findings it was clear that majority of the organization perceive that alleged that corporate governance affects organization performance. Also the study found that companies had put in place effective corporate governance systems that shown to implement solid and integrated performance approaches more easily than others and that management in their organization are committed in ensuring the performance of the bank is improved. Likewise, the study found that management most organization consider merit and previous performance of the individual to be mandated in the management

position and that bank shares more democratic ownership structures, more balanced and broader governance systems, and a more comprehensive view of organizational goals and performance have also better chances to increase shareholders' loyalty. Finally the study found that management is committed hence influencing bank performance to a great extent.

To technologies advancement, the study found that technologies advancement enhancement bank performance where it eases the process and procedure of banking. However, the study found that banks are not more profitable due to economies of scale on adoption of IT on their production although most of banks are trying to modified its operation with relation to technological advancement in order to remain viable in the market. Despites indicated challenges ICT revolution in terms of innovation increases speedy operation and therefore reduce cost per unit in production, and this has led a good number of banks to embrace the use of ICT infrastructure in their operations that improves efficiency which influences bank profitability to a very great extent.

On bank size, the study found that most of the banks had 16-30 branches where number of branches that bank have determines its profitability. Additionally, the study found that total asset of most banks in tier three result minimal performance hence they face stiff competition from their competitors due to lack of fund in financing marketing program and that organization have less number of loyal customers who take loans from us hence low interest income. Inclusively, the study established that bank size determines bank profitability to very great extent.

To financial strategies adopted by the banks, the study found that investment management strategy and cash flow management strategy were the main financial

strategies adopted by most of tier three banks in Kenya. Furthermore, the study found that respondent were trained on effectively use of financial strategies available especially in the control of cash flow in the bank and that cash collection techniques are utilized effectively contributing to the better performance of most bank in the category studied.

5.3 Conclusions

The study sought to find out determinants of organizational performance in the Kenyan banking sector with specific focus on tier three commercial banks. Based on the findings in relation to specific objective, the study concluded that majority of the organization perceive that alleged that corporate governance affects organization performance. Also the study concluded that companies had put in place effective corporate governance systems that shown to implement solid and integrated performance approaches more easily than others and that management in their organization are committed in ensuring the performance of the bank is improved. Likewise, the study concluded that management most organization consider merit and previous performance of the individual to be mandated in the management position and that bank shares more democratic ownership structures, more balanced and broader governance systems, and a more comprehensive view of organizational goals and performance have also better chances to increase shareholders' loyalty. Finally the study found that management is committed hence influencing bank performance to a great extent.

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on adoption of IT on their production although most of banks are trying to modified its operation with relation to technological advancement in order to remain viable in the market. Despites indicated challenges ICT revolution in terms of innovation increases speedy operation and therefore reduce cost per unit in production, and this has led a good number of banks to embrace the use of ICT infrastructure in their operations that improves efficiency which influences bank profitability to a very great extent.

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5.4 Recommendations

The study recommended that for performance of bank to be precise, management staffs in the entire organization should be involved either in implementation or formulation of

strategies that are intended on improving organization performance so that they can understand them well and act in a manner that results to the realization of the common goal of the bank. On the same the study recommended that effective performance can only be achieved when all staffs admits accountability of the organization involvement to it operation hence the need to be accountable of risk mitigation which can lead to good reputation of an effective management team.

On Technology advancement, the study recommended that due to globalization and technological innovation that the modern businesses are operating in, banks should not be exempted from this innovation since its one of the major drivers of profitability within organizations. Likewise the study recommended that organization and management should embrace IT and accept their operation to be done through technological adoption in order to improve their service delivery through a quality and quick process.

To the influence of bank size on bank performance, the study recommended that banks should consider opening new branches on the untapped potential areas for them to make high profits by increasing their customer base, opening of more branches and ATM centers as such will enhance their profitability capacity. Banks with more branches and interior access to the unbanked or marginalized areas will realize high profits hence banks should not ignore the concept of enlarging their market size thereby boosting their profitability.

On strategies adopted by the organization, the study recommended that strategies adopted by organization should be communicated to enhance financial management and handling so as to develop trust among the shareholder hence attracting more customers which in

turn improves organization performance. Additionally, the study recommended that staffs to be training on technical strategies such as fraud risk management to eradicate fraud any frauds.

5.5 Suggestion for Further Studies

The study has explored determinants of organizational performance in the Kenyan banking sector with specific focus on tier three commercial banks. The banking sector in Kenya however is comprised of various other financial institutions which differ in their way of management and have different settings all together. This warrants the need for other studies which would ensure generalization of the study findings for all the financial institutions in Kenya and hence pave way for new policies. The study therefore recommends other studies be done with an aim to investigate determinants of profitability in other financial institution other than banks such as DTMs in order to give a general result that depict real situation in the financial institutions.

5.6 Limitations of the Study

The researcher encountered various limitations that hindered access to information that the study sought. The main limitation of study was its inability to include more organizations. This was a case focusing on the selected banks. The study could cover more institutions across all banking sectors so as to provide a more broad based analysis. However, time and resource placed this limitation. The researcher also experienced other challenges such as none-cooperation by banks employees since it was not easy to convince employees to fill questionnaires hence not reaching the targeted sample size. This was attributed by the staffs perceiving that they will be victimized by giving out

information. However, the researcher assured respondents of proprietary measures that the findings would be accorded and used only for academic purpose.

5.7 Implication for Theory, Policy and Practices

Since the study was focusing on determinants of organization performance in the banking sectors in Kenya. The study recommended that management to ensure that corporate governance in their organization encourages staffs performance and that ensures operation of the organization are in accordance to the organization objectives so that to ensure its performance met the organization goals. Further the study recommended that management to ensure that operation of the organization are streamlined to the technological changes since application of IT in banking services results to significant performance of the banks. The study recommended that since there is a potential unbanked individuals who lack banks services, banks should reach try to reach customers through having a wide network of branches in rural and remotes areas. Finally, the study recommends that for the organization to improve on their performance they must ensure they adopt financial strategies that ensures customer retention in their organization and that terms applied in financial transactions are not stiff.

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APPENDICES

Appendix I: Introduction Letter

UNIVERSITY OF NAIROBI
SCHOOL OF BUSINESS
MBA PROGRAMME

Telephone: 020-2059162
Telegrams: "Varsity", Nairobi
Telex: 22095 Varsity

P.O. Box 30197
Nairobi, Kenya

DATE 26/08/2013

TO WHOM IT MAY CONCERN

The bearer of this letter Joseph Murithi Gikunda

Registration No. D61/70145/2009

is a bona fide continuing student in the Master of Business Administration (MBA) degree program in this University.

He/she is required to submit as part of his/her coursework assessment a research project report on a management problem. We would like the students to do their projects on real problems affecting firms in Kenya. We would, therefore, appreciate your assistance to enable him/her collect data in your organization.

The results of the report will be used solely for academic purposes and a copy of the same will be availed to the interviewed organizations on request.

Thank you.

PATRICK NYABUTO
MBA ADMINISTRATOR
SCHOOL OF BUSINESS

UNIVERSITY OF NAIROBI
SCHOOL OF BUSINESS
18 NOV 2013
MBA OFFICE
P.O. Box 30197 – 00100, NAIROBI

Appendix II: Questionnaire

Kindly answer all the questions by ticking or by providing the answers in the spaces provided.

Section 1: Background Information

1. Indicate the name of your bank (optional)…………………………………………
2. What is your highest level of academic qualification?

   Post graduate [ ] degree [ ]

   Diploma [ ] certificate [ ]

   Any other (specify)…………………………………………………………………..

3. How long have you worked in this organization?

   1 – 5 years [ ] 11- 15 years [ ] More than 20 years [ ]

   6- 10 years [ ] 16 – 20 years [ ]

4. Kindly, indicate the department you are working in.

   ………………………………………………………………………………………

5. Indicate position that you hold in the department?

   Manager [ ] Unit Head officer [ ]

   Supervisor [ ] Departmental Head [ ]

   Assistant Manager[ ] Technical personnel [ ]

   Other(specify) ……………………………………………………

Section B: Good Governance

6. Does the corporate governance adopted in your organization affect its performance?

   Yes [ ] No [ ]

7. Does the following aspect of corporate governance affect its performance?

	Yes	**No**
Misconduct		
Carelessness		
Insensitivity		

8. Indicate your level of agreement with the following statements relating to corporate governance and its influence to organization performance? Use a scale of 1-5, where 1- strongly disagree, 2- disagree, 3- neutral, 4- agree, 5- strongly agree.

Statement	**1**	**2**	**3**	**4**	**5**
Under the umbrella of corporate governance, our organization is encouraged to promote ethics, fairness and transparency in order to improve its performance					
Our companies had put in place effective corporate governance systems that shown to implement solid and integrated performance approaches more easily than others					
Our bank shares more democratic ownership structures, more balanced and broader governance systems, and a more comprehensive view of organizational goals and performance have also better chances to increase shareholders' loyalty					
Management in our organization are committed in ensuring the performance of the bank is improved					
Management in our organization consider merit and previous performance of the individual to be mandated in the management position					

9. How would you rate corporate governance in your organization?
   Less committee [ ] committed [ ] very committed [ ]
10. In your own opinion, indicate the extent to which corporate governance affect performance of you bank?
   To a very low extent [ ] To a great extent [ ] To a low extent [ ]

   To a very great extent [ ] To a moderate extent [ ]

Section C: Technologies Advancement

11. Is the technology available effective in the enhancement of your bank performance?

Yes [ ] No [ ]

12. If yes, does your bank IT ease the process and procedure of banking such as (Account opening, Card or cheque book processing , Transaction execution speed etc)

Yes [ ] No [ ]

13. Indicate your level of agreement to the statement below relating to bank size and its influence to organization performance. Use a scale of 1-5, where 1- strongly disagree, 2- disagree, 3- neutral, 4- agree, 5- strongly agree.

We accrue less profits due to small customer base					
Banks with high value of assets accrue more profits					
The market share that we have results to minimal performance					
Large banks are more profitable due to economies of scale on their production					
Banks that have adopted IT has broadened the scope of banking practices and changed the nature of banking as well as the competitive environment in which they operate					
Technological advancement in the banking industry has facilitated payments and creates convenient and non-risky alternatives to cash and cheque for making transactions					
Banks that have adopted ICT revolution in terms of innovation have benefited from speedy operation and reduced cost per unit hence more profits					
Our banks has modified it operation with relation to					

technological advancement in order to remain viable in the market					
IT has assisted customers to validate their account numbers, receive instruction on, when and how to receive their cheque books, credit and debit cards					

14. To what extent has lack of appropriate technological infrastructure affected the overall performance of your organization?

    To a very low extent [ ] To a low extent [ ]

    To a moderate extent [ ] To a great extent [ ]

    To a very great extent [ ]

Section D: Bank Size

15. How many branches does your bank have?

    1-15 [ ] 16-30 [ ]

    31-45 [ ] 46-60 [ ] 61 and Above [ ]

16. Does the number of branches determine your bank's profitability?

    Yes [ ] No [ ]

17. Indicate your level of agreement to the statement below relating to bank size and its influence to the bank performance. Use a scale of 1-5, where 1- strongly disagree, 2- disagree, 3- neutral, 4- agree, 5- strongly agree.

statement	**1**	**2**	**3**	**4**	**5**
Performance of our bank is in relation to the number of branches that we have					
Total asset of our bank result minimal performance hence we face stiff competition from our competitors due to lack of fund in financing marketing program					

Fewer number of ATM point contribute to more profit to the banks that have adopted it while we have less number of ATM point hence less profitability					
We have less number of loyal customers who take loans from us hence low interest income					
Labour productivity growth, has a positive and significant effect on bank profitability					

18. To what extent do you think bank size influence your bank performance?

To a very low extent [ ] To a low extent [ ]
To a moderate extent [ ] To a great extent [ ]
To a very great extent [ ]

Section E: Financial Strategies

19. What are the financial strategies commonly used in your bank to enhance performance?

	Yes	No
Cash flow management strategy		
Purchase management strategy		
Collection management strategy		
Investment management strategy		
Consideration management strategy		

20. Please indicate your response ((SA): Strongly agree (A); Agree, (UD); Undecided, (D); Disagree, (SD); Strongly Disagree) to the following statements regarding how monetary policy influence the performance of banks.

Statements	SA	A	UD	D	SD
Our bank suffer from cash flow problems because of lack of margin of safety in case of anticipated expenses such that we experience problems in finding the funds for innovation or expansion					
Poor financial strategy application in our bank has resulted to weak cash flow. This makes it difficult for the management to hire and retain good employees					
The cash collection techniques are not being utilized effectively and this contributes to the poor performance of our bank.					
We aren't adequately trained to use effectively the financial strategies available especially in the control of cash flow in the bank.					

21. To what extent are the financial strategies applied in your bank to enhance its performance?

To a very low extent [ ] To a low extent [ ]
To a moderate extent [ ] To a great extent [ ]
To a very great extent [ ]

22. In general, what would you suggest to be done in your organization to improve its performance?

……………………………………………………………………………………………
……………………………………………………………………………………………
……………………………………………………………………………………………
…………………………………………………………………………………………..

THANK YOU FOR YOUR PARTICIPATION!![i]!!!!!!!!!!!!!!!!!!!!!!!!!!!!!!!!!!

Appendix III: List of Banks in Tier Three

Tier III	Comprises of banks with a balance sheet of less than Kenya Shillings 10 billion	1. Habib A.G. Zurich 2. Victoria Commercial Bank 3. Credit Bank 4. Habib Bank (K) Ltd 5. Oriental Commercial Bank 6. K-Rep Bank 7. ABC Bank 8. Development Bank of Kenya 9. Middle East Bank 10. Equatorial Commercial Bank 11. Trans-National Bank 12. Dubai Bank 13. Fidelity Commercial Bank 14. City Finance Bank 15. Paramount Universal Bank 16. Giro Commercial Bank 17. Imperial Bank 18. Guardian Bank 19. Southern Credit Bank 20. Gulf African Bank 21. First Community Bank

Source: The Banking Survey 2011, pp. 191

DETERMINANTS OF ORGANISATIONAL PERFORMANCE BY TIER THREE COMMERCIAL BANKS IN KENYA

BY

JOSEPH MURIITHI GIKUNDA

A MANAGEMENT RESEARCH PROJECT SUBMITTED IN PARTIAL FULFILLMENT OF THE REQUIREMENT FOR THE AWARD OF THE DEGREE OF MASTER OF BUSINESS ADMINISTRATION (MBA), SCHOOL OF BUSINESS, UNIVERSITY OF NAIROBI

NOVEMBER, 2013

DECLARATION

This is my original work and has not been presented for award of any degree in any other university or institution of higher learning for a degree, diploma or certificate award or anywhere else for academic purposes.

Signature: ______________________ Date: _____________________

JOSEPH MURIITHI GIKUNDA

REG NO. D61/70145/2009

SUPERVISOR'S APPROVAL

This Management research project has been submitted for examination with my approval as the University of Nairobi Supervisor.

Signature: ______________________ Date: _____________________

DR. JAMES GATHUNGU

DEPARTMENT OF BUSINESS AND ADMINISTRATION

SCHOOL OF BUSINESS

UNIVERSITY OF NAIROBI

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I thank God for providing me with an opportunity, strength, health, knowledge and favour to complete this research project. I am heartily thankful and appreciate my supervisor Dr. James Gathungu, without whose guidance and supervision, this project would not have been accomplished. Lastly and not least, am also indebted to my MBA colleagues and friends and all those who assisted me in one way or another throughout this period of study and though I may not name each one of you individually, your contribution is recognized and appreciated immensely. I owe you my gratitude. To you all, God bless.

DEDICATION

This research is dedicated to my parents, who made me be whom I am today and more so, to my late father who never got tired of talking to me on the value of education, sacrificed our family comfort to invest in our education and endured a lot to make me whom I am today. Lastly I would also like to thank my Wife and Son for their support during the project.

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ABSTRACT

The Banking sector has undergone significant transformation and continues to improve with new regulations and guidelines seeking to maintain stability. The objective of the study was to establish determinants of organization performance in Kenya banking sector with special focus on tier three Commercial Banks. The research adopted a descriptive survey design on a population of the 43 commercial banks in Kenya. The study utilized both primary and secondary sources of data. Data analysis was done using the facilities for descriptive methods on the Statistical Packages for Social Sciences (SPSS). Based on the findings in relation to specific objective, the study concluded that majority of the organization perceive that alleged that corporate governance affects organization performance. Also the study concluded that companies had put in place effective corporate governance systems that shown to implement solid and integrated performance approaches more easily than others and that management in their organization are committed in ensuring the performance of the bank is improved. Likewise, the study concluded that management most organization consider merit and previous performance of the individual to be mandated in the management position and that bank shares more democratic ownership structures, more balanced and broader governance systems, and a more comprehensive view of organizational goals and performance have also better chances to increase shareholders' loyalty. Finally the study found that management is committed hence influencing bank performance to a great extent. To technologies advancement, the study concluded that technologies advancement enhancement bank performance where it eases the process and procedure of banking. On bank size, the study concluded that most of the banks had 16-30 branches where number of branches that bank have determines its profitability. Loans from us hence low interest income. Inclusively, the study established that bank size determines bank profitability to very great extent. To financial strategies adopted by the banks, the study concluded that investment management strategy and cash flow management strategy were the main financial strategies adopted by most of tier three banks in Kenya.

Keywords: Corporate governance, firm size, financial strategy, technology advancement

CHAPTER ONE: INTRODUCTION

1.1 Background of the Study

Global competition, reengineered product life cycles, mass customization and the increased need to respond quickly to customers' needs are some of the pronounced trends currently driving organizational change. Successful companies in this environment use Information Technology as a primary enabler and are organized as dynamic networks with globally distributed operations which allow them to adapt more quickly to ever-changing competitive landscapes and customer requirements (Edwards & Sridhar, 2005). These organizations often adopt models of global virtual teams to collaboratively work, often exemplified in global software development (Edwards & Sridhar, 2006).

Over the past decades, organizations have constantly trying to adapt, survive, perform and influence. However, they are not always successful. To better understand what they can or should change to improve their ability to perform, organizations can conduct organizational assessments (Edwards & Sridhar, 2005). This diagnostic tool helps organizations obtain useful data on their performance, identify important factors that aid or impede their achievement of results, and situate themselves with respect to competitors. Interestingly, the demand for such evaluations is gaining ground. Donors are increasingly trying to deepen their understanding of the performance of organizations which they fund (government ministries, International Financial Institutions and other multilateral organizations, as well as research institutions) not only to determine the contributions of these organizations to development results, but also to better grasp the capacities these organizations have in place to support the achievement of results.

Banking industry play an important role in mobilizing financial resources for investment by mobilizing investors and boosting businesses as well as offering financial services to the public with the aim of making profit. As per the central bank of Kenya, bank supervision annual report (2010), at the end of December 2010, the banking sector comprised of 45 institutions, 41 of which were commercial banks, two mortgage finance companies, one non-bank financial institution and one building society. Despite their number being high their total assets account for only 48.2% of the sectors total assets. However, the industry has also involved itself in automation, moving from the traditional banking to better meet the growing complex needs of their customer and globalization challenges.

1.1.1 Organizational Performance

Organizations today grapple with revolutionary trends; accelerating product and technological change, international competition, deregulation, demographic changes, and a shift towards a service society. These trends have increases dramatically the degree of competition in virtually all industries. Either companies in such an environment become competitive high-performers or they vanish (Dessler, 2000). However, organization performance can be classified into financial performance and non-financial performance (Mahoney & Roberts, 2007). The financial performance approach examines indicators such as sales growth, profit rate, return on investment, return on sales, return on equity, and earnings per share, whereas the non-financial performance approach focuses on market share, new product introduction, product quality, marketing effectiveness and technological efficiency.

Traditionally, organizations have measured success against a financial standard through the profits, the greater the success and other identical measures. In fact, noted economist Milton Friedman believed the only social responsibility of business was to increase profits and to serve as the instrument of the stockholders who owned the corporation and the community surrounding (clients) (Hoyt, 2003). Hartman (2005) summarizes Friedman's view by stating that the difficulty of exercising social responsibility illustrates the great virtue of private competitive enterprise to it forces people to be responsible for their own actions and makes it difficult for them to "exploit" other people for either selfish or unselfish purposes. They can do well, but only at their own expense.

Organizations are investing ever-increasing amounts of resources into Performance Management Systems, but it is still not clear what they can expect in return, or how they might influence the likelihood of positive system outcomes. Performance Measurement Systems (PMS) enable organizations to plan, measure and control their performance, so that decisions, resources and activities can be better aligned with business strategies to achieve desired results and create shareholder value.

1.1.2 Determinants of Bank Performance

The banking industry in general has experienced some profound changes in recent decades, as innovations in technology and the inexorable forces driving globalization continue to create both opportunities for growth and challenges for banking managers to remain profitable in this increasingly competitive environment (Molyneux & Wilson, 2004). The importance of bank profitability 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. Hence, the basic aim of a bank's management is to achieve a profit, as the essential requirement for conducting any business (Bobáková, 2009).

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. The importance of bank profitability at both the micro and macro levels has made researchers, academics, bank managements and bank regulatory authorities to develop considerable interest on the factors that determine bank profitability (Athanasoglou *et al*., 2005). Determinants of bank profitability comprise characteristics of individual bank companies that affect their profitability. Shareholder and managerial decisions and activities can directly influence these characteristics which also differ from company to company.

Across the globe, the banking industry today enjoys a number of advantages compared to past years that would appear to contribute to their ability to generate profits. Molyneux and Thornton (1992) were the first to explore thoroughly the determinants of bank profitability on a set of countries using a sample of 18 European countries during the 1986-1989 periods. They found a significant positive association between the return on equity and the level of interest rates in each country, bank concentration and government ownership. Abreu and Mendes (2001) investigate the determinants of banks interest margins and profitability for some European countries in the last decade. They report that well capitalized banks face lower expected bankruptcy costs and this advantage translates into better profitability. Bashir (2009) examines the determinants of Islamic banks

performance across eight Middle Eastern countries for 1993-1998 periods. A number of internal and external factor were used to predict profitability and efficiencies. Controlling for macroeconomic environment, financial market situation and taxation, the results show that higher leverage and large loans to asset ratios, lead to higher profitability.

1.1.3 Banking Industry in Kenya

The Banking industry in Kenya is governed by the Companies Act, the Banking Act, the Central Bank of Kenya Act and the various prudential guidelines issued by the Central Bank of Kenya (CBK, 2009). The banking sector was liberalized in 1995 and exchange controls lifted. The CBK, which falls under the Minister for Finance docket, is responsible for formulating and implementing monetary policy and fostering the liquidity, solvency and proper functioning of the financial system.

In Kenya, commercial banks play an important role in mobilizing financial resources for investment by mobilizing investors and boosting businesses as well as offering financial services to the public with the aim of making profit. Lending represents the heart of the banking industry and loans are the dominant assets as they generate the largest share of operating income. As per the central bank of Kenya, bank supervision annual report (2010), at the end of December 2010, the banking sector comprised of 45 institutions, 41 of which were commercial banks, two mortgage finance companies, one non-bank financial institution and one building society. Despite their number being high their total assets account for only 48.2% of the sectors total assets.

Over the last few years, Kenyan Banks have realized tremendous grow in the last five years and have expanded to the East African region. The growth has been mainly

underpinned by, the industry's wide branch network expansion strategy both in Kenya and in the East African community region, and automation of a large number of services and a move towards emphasis on the complex customer needs rather than traditional 'off-the-shelf' banking products. Players in this sector have experienced increased competition over the last few years resulting from increased innovations among the players and new entrants into the market (PWC, 2008).

The banking industry in Kenya has also involved itself in automation, moving from the traditional banking to better meet the growing complex needs of their customer and globalization challenges. There has been increased competition from local banks as well as international banks, some of which are new players in the country. This has served the Kenyan economy well as the customers and shareholder are the ones who have benefited the most. According to Omuodo (2008) as pressure mounts on the banking industry's profitability resulting from over reliance on interest income by banks, it is strategically imperative that banks focus on other revenue streams.

1.1.4 Tier Three Commercial Banks in Kenya

In the banking sector, tier three commercial banks are considered to be among the few banks whose assets happen to be below 10 billion. This means that their performance may not be compared to other banks that have assets that are more than 10 billion. Reasons as to why banks such as Transnational bank, Habib Bank, Oriental commercial bank, First community bank, Middle East Bank and Paramount Universal Bank among many other banks have been classified to be among the tier three group is basically because, over some period their performance have remained to be stagnant. This has also

resulted to minimized expansions of these banks. The operations in these banks have also been quite shaky and have some elements of instability in service provision in these current times. As such there is need for this study to examine in detail what is really main cause of unpleasant performance among these banks.

1.2 Research Problem

The banking sector is the backbone of any economy and plays an important financial intermediary role. Therefore, its health is very critical to the health of the general economy at large. Given the relation between the well-being of the banking sector and the growth of the economy (Rajan & Zingales, 2008) knowledge of the underlying challenges facing financial sector's performance is therefore essential not only for the managers of the banks, but also for numerous stakeholders such as the central banks, bankers associations, governments, and other financial authorities. Knowledge of these challenges would be useful in helping the regulatory authorities and bank managers formulate future policies aimed at improving the profitability of the banking sector. The importance of bank performance can be appraised at the micro and macro levels of the economy (Athanasoglou *et al*., 2008).

Over the last few years, Kenyan Banks have realized tremendous grow in the last five years and have expanded to the east African region. The growth has been mainly underpinned by, the industry's wide branch network expansion strategy both in Kenya and in the East African community region and automation of a large number of services and a move towards emphasis on the complex customer needs rather than traditional 'off-the-shelf' banking products. Players in this sector have experienced increased

competition over the last few years resulting from increased innovations among the players and new entrants into the market (PWC, 2008). However, some banks are unable to compete with bigger bank due to their financial capacity to adopt current IT environment, employee retention, poor governance and stiff competition from bigger banks. This has resulted to minimized expansions of these banks. The operations in these banks have also been quite shaky and have some elements of instability in service provision in these current times. As such there is need for this study to examine in detail what is really main cause of unpleasant performance among these banks.

Notwithstanding the enormously complex and dynamic nature of the environment in which the banks compete, there is a growing body of evidence that suggests it is possible to discern relevant indicators of banking industry performance today. Local studies done include; Serem, (2002) did a survey on the effect of human resource practices on banks profit in Nairobi, Nyangweso (2009) did a survey on the practice and challenges of strategy implementation at Cooperative Bank of Kenya, Kinuthia (2010) conducted a study on the Effect of competitive strategies on the performance of Equity Bank of Kenya while Wandate (2011) conducted a survey on management perception of the influence of corporate social responsibility on performance of Equity Bank Limited. However no local studies that have been done on challenges facing the organization performance in financial sector. It’s against this realization that the current study aims to bridge this gap by investigating the determinants of the organization performance in Kenya banking sector with special focus on tier three Commercial Banks. The study aims to answer the following research questions, that is, how does corporate governance affect performance of commercial banks in Kenya?, Does technology advancement affect performance of

commercial banks in Kenya? Does firm size affect performance of commercial banks in Kenya? How do financial strategies affect performance of commercial banks in Kenya?

1.3 Research Objective

This study sought to establish determinants of organization performance in Kenya banking sector with special focus on tier three Commercial Banks.

1.4 Value of the Study

The findings of this study will be useful to financial institutions in Kenya. The study will provide useful information that will help the management of financial institutions in addressing the challenges facing financial institutions and devise strategies to ensure the institutions remain competitive.

The study will also be of great significance to banking sectors in Kenya. This study will be invaluable to banking sector as a whole as its findings would appraise challenges they face and link the same to the corporate performance. The study will offer an opportunity for review of strategies adopted with aim of improving organization performance as it will try to unearth how it has been effective leading to effective performance.

The study findings are expected to be of great importance to various researchers involved in policy making. The study will further make a myriad contribution to the literature on challenges facing organization performance that will be helpful to researchers who want to further on their study in the area.

CHAPTER TWO: LITERATURE REVIEW

2.1 Introduction

This chapter presents past studies done on challenges facing the organizational performance and the link between the two. The chapter also presents literature and previous studies that have been conducted on the link between challenges and organization performance.

2.2 Theoretical Foundation

This study is guided by innovator's solution theory. The theory is relevant in the study as it explains the process of innovation. According to Christensen and Raynor's (2003) theory of the innovator's solution is a brilliant analysis of why companies fail to innovate. It explains convincingly why corporate managements don't learn about good ideas, and why managers succumb to inherent pressures to run away from the challenge of disruptive competition rather than stand and fight. The decisions made as a result of these pressures make sense in the short run to the individuals involved, but in due course they send the organization into an inexorable death spiral.

But while their analysis of the causes of failure to undertake disruptive innovation is effective, their proposal for solving the dilemma of disruptive innovation is less helpful. The central premise of their thesis the innovator's solution – is to accept the grim reality that big companies are inherently and constitutionally disinclined to tackle disruptive innovation. A modern organization will crush disruptive new ideas, because they represent a threat to management, to careers, to power structures, to customary ways of

things, to client bases, to brands, to corporate culture. The author’s solution is to protect genuine innovators and their disruptive change ideas from these hostile forces.

Corporate leaders should put up a wall between the innovation and the existing hierarchy. Leadership should create an independent business unit, which will provide a safe and protected environment for innovation. These innovations can flourish without having to fight off the interferences and intrusions and anti-innovation attitudes of the hierarchy.

Allowing a different culture to flourish in a separate organization eventually leads to repeated power struggles and culture clashes, which members of the mainstream organization invariably win. Interest in the new ventures tends to be cyclical. Brief surges of enthusiasm, triggered by abundant resources and the desire to diversify, are followed by sharp declines. The life spans of both internal venture units and corporate venture capital funds, therefore, tend to be short on average, only four to five years. Oke and Goffin (2001) innovator's solution theory rests on the hope that if one can build enough commercial success in the marketplace, he/she has a better chance of eventually winning that battle of persuasion. Surely, their argument goes, the hard numbers will win the war. Unfortunately the track record shows that even with strong commercial success, numbers and reason are not enough to dislodge the forces of stasis and inertia.

2.3 Organization performance

Performance is the outcome of all of the organization’s operations and strategies (Wheelen & Hunger, 2002). Performance measurement systems provide the foundation to develop strategic plans, assess an organization’s completion of objectives, and remunerate managers (Ittner & Larcker, 1998). While consensual measurement of

performance promotes scholarly investigations and can clarify managerial decisions, marketers have not been able to find clear, current and reliable measures of performance on which marketing merit could be judged. Performance is optimal result done by somebody or group or company. Traditional performance measurement is oriented to financial and profitability. A good company's performances are looked by the profit it's achieved compared to amount specified before (Mulyadi, 2001).

According to Kaplan & Norton (1996) there are 4(four) perspectives of company's performance, that are: Financial Perspective, consist of income growth, productivity growth, cost efficiency and as-set utilizing; Internal business process perspective, consist of improving innovation, operation process, service of post sell; Client perspective, consist of: client satisfaction, client acquisition (how far the company can draw client), client retention, potential market, client profitability and Learning growth perspective, consist of: improving personnel capability, improving information system capability and also motivation, development and compatibility (Kaplan & Norton, 1996).

Organization performance is very essential to management as it is an outcome which has been achieved by an individual or a group of individuals in an organization related to its authority and responsibility in achieving the goal legally, not against the law, and conforming to the morale and ethic. Performance is the function of the ability of an organization to gain and manage the resources in several different ways to develop competitive advantage (Iswatia & Anshoria, 2007). There are two kinds of performance, financial performance and non-financial performance. Financial performance emphasizes on variables related directly to financial report. Company's performance is evaluated in

three dimensions. The first dimension is company's productivity, or processing inputs into outputs efficiently. The second is profitability dimension, or the level of which company's earnings are bigger than its costs. The third dimension is market premium, or the level of which company's market value is exceeding its book value (Walker, 2001).

2.3.1 Corporate Governance

Corporate governance has been an issue of global concern long before now. Many countries that suffered during the recent economic crises in Asia and other emerging markets had weak legal environments and poor governance systems. Christopher (2009) stated that proper governance of companies would become as crucial to the world economy as the proper governance of countries and will converge in associated issues of competitiveness, corporate citizenship, social and environmental responsibility. The governance of banks becomes even more pronounced considering their role of financial intermediation in developing economies. Commercial banks are the main providers of funds to enterprise and where there is a thin or absent capital market, their failure becomes the failure of the system. According to Simpson (2004) the impact of failure of the banking system can have immense cost, as it has repeatedly been seen that bank failure cost developing countries up to 15% of their GDP and losses that far outstripped aids received.

Love and Rachinsky (2008) opined that corporate governance aims at promoting competition, while allowing customers the option of making a choice. This concerns deregulation as reform measures that guarantees lower rates, provide customer choice and offer reliable services so that no one is literally left in the dark (Kajola, 2008). However,

corporate governance arrangement and institutions vary from place to place, though the focus is always to promote corporate fairness, transparency and accountability. Christopher (2009) pointed that the financial sector being at the center stage of efficient capital allocation needs to be visited more consciously with the subject of corporate governance. However, the fundamental issue of corporate governance and banks performance cannot be complete without proper understanding of the functions of shareholders and directors; the creation of an efficient and reliable board from among the shareholders to checkmate director's excesses if any becomes a sine qua non.

Sanda, Mikailu and Garba (2005) examined the relationship between banks ownership and several governance aspects and found out that increasing ownership stakes for hired managers and boards improves banks performance. However, for banks to perform its intermediating functions, certain issues like their objectives for being in existence must be considered. Berger, *et al.* (2004) identified these three objectives– to protect depositors, to promote stable money supply by preventing financial panic, and foster and efficient and competitive banking system that facilitate financial intermediation**.** Fundamentally corporate governance issue is more about leadership, as the public is now demanding accountability and responsibility in corporate behavior more than ever before. It also involves effective government action in the form of reformed regulatory systems; improve quality of service delivery and stepped-up in law enforcement by regulatory agencies (Kajola, 2008).

2.3.2 Technology advancement

Today's business environment is very dynamic and experiences rapid changes as a result of creativity, innovation, technological changes, increased awareness and demands from customers (Woherem, 2006). Business organizations, especially the banking industry of the 21st century operates in a complex and competitive environment characterized by these changing conditions and highly unpredictable economic climate with Information and Communication Technology (ICT) is at the centre of this global change curve. The banking business is becoming highly ICT based due to its inter-sectoral link; it appears to be reaping most of the benefits of revolution in technology, as can be seen by its application to almost all areas of its activities (Akinuli, 2009). It has broadened the scope of banking practices and changed the nature of banking as well as the competitive environment in which they operate. A broad opening has been experienced around the world for banks and they are currently taking due advantage of these innovations to provide improved customer services in the face of competition and faster services that enhance productivity (Ovia,2005).

Technological advancement facilitates payments and creates convenient alternatives to cash and cheque for making transactions. Such new practices have led to the development of a truly global, seamless and Internet enabled 24-hour business of banking. Technological advance in payments are important due to the fact that it will be feasible to outsource quite a number of the banks' role in the payments system. Also banks' regulation can be more technologically dependent and better focused rather than focusing on conceptual guidelines. ICT revolution both in terms of innovation rate, speedy operation, and cost per unit (portraying reduction in average total and marginal costs) has

made a good number of banks embrace the use of ICT infrastructure in their operations (Akinuli, 2009). However there may be little interruptions at times due to network failures, which may make customers unable to carry out transactions at a particular point in time. This little shortcoming is not in any way comparable to the days when banking halls were characterized by long queues mainly as a result of delays in the traditional banking operations.

Irechukwu (2006) itemized some bank services that have been revolutionized through the use of ICT as including account opening, customer account mandate, and transaction processing and recording. Information and Communication Technology has provided self-service facilities (automated customer service machines) from where prospective customers can complete their account opening documents direct online. It assists customers to validate their account numbers and receive instruction on when and how to receive their cheque books, credit and debit cards. ICT products in use in the banking industry include Automated Teller Machine, Smart Cards, Telephone Banking, Electronic Funds Transfer, Electronic Data Interchange, Electronic Home and Office Banking. Ovia (2005) opined that the revolution in ICT has made the banking sector changed from the traditional mode of operations to presumably better ways with technological innovation that improves efficiency. ICT can enhance efficiency via its use and in recent times banks have been encouraged by the rapid decline in the price of ICT gadgets. This has perhaps increased the bank level of ICT usage. The increase might have also been attributable to business environment that became relatively flexible to accommodate new forms of technological change as a result of reforms in the country.

2.3.3 Firm Size

If the relative size of a firm expands, its market power and profits increases. This is the Market-Power (MP) hypothesis. The hypothesis is also referred to as the Structure-Conduct-Performance (SCP) hypothesis (Athanasoglou *et al*., 2008). It has been argued that the effect of a growing size on bank profitability is significantly positive to a large extent (Smirlock, 2005). Smirlock (2005) further suggested that the difference in profitability among large and small banks is due to production technologies and outputs, which vary across them. The relative efficiency hypothesis (Clarke *et al*., 2004) presupposes that larger banks (where size is measured by assets) are more efficient than smaller ones, and are more profitable as a result of this superior efficiency.

The preceding arguments on the effect of size on bank profitability overlap with the idea that large banks can benefit from economies of scale (Bashir, 2009). However, some researchers suggest that little cost saving can be achieved by increasing the size of a banking firm (Berger *et al.*, 2006). They suggest that eventually very large banks could face scale inefficiencies, perhaps due to bureaucratic reasons (Athanasoglou *et al.*, 2008). Newly established banks are not particularly profitable (if at all profitable) in their first years of operation, as they place greater emphasis on increasing their market share and enlarging their firm, rather than on improving profitability (Athanasoglou et al., 2008).

Empirical evidence from Athanasoglou *et al.* (2008) shows that labour productivity growth, which can only be achieved if the bank is large in its size, has a positive and significant effect on bank profitability. This suggests that higher productivity growth generates income that is partly channeled to bank profits. Banks target high levels of

labour productivity growth through various strategies that include keeping the labor force steady, ensuring higher quality of newly hired labor, reducing the total number of employees, and increasing overall output via increased investment in fixed assets which incorporate new technology.

2.3.4 Financial Strategy

Financial strategy is a plan that spells out the actions that a company or business will undertake in order to be profitable and successful. It includes the use of value based performance measures and standardization of business processes, maintenance of financial flexibility to support growth and keeping the capital structure efficient. Financial strategies are very important for the survival of any institution, because without good financial strategies, organizations will run bankrupt and can be closed down. There are various forms of financial strategies that may affect the performance of banks to a certain extent. The key types of financial strategies that come in handy include cash flow management, purchase management, collection management, investment management and consideration management among many others (Leigh, 2013).

In terms of cash flow management, the income statement and balance sheet of a business may look great on paper, but if the cash is not properly managed, financial institutions can quickly go under. Part of the financial strategy of the business is to deal with how cash will be used in the institution (Pindado, 2004). This includes identifying an amount that will always be in reserves as well as how major expenses will be paid. By laying out the financial cash strategy ahead of time, it will make financial decisions easier about when to write a check and when to access a line of credit during normal business

practice. However, poor training among the support staff on cash flow management may pose a challenge on the overall performance of financial banks especially with relation to the flow of cash in and out of the organization.

Mauchi et al., (2011) carried out a study entitled “The effectiveness of cash management policies: a case study of Hunyani flexible products”. The study sought to evaluate the effectiveness of cash management policies at Hunyani Flexible Products (HFP) using data from 2000-2010. Other objectives of the study were to identify the key processes and models in cash management; examine the impact of poor cash management on the overall company performance and come up with strategies that can lead to an effective cash management system. The descriptive survey method was used to solicit information from the respondents and a case study approach was used. The research study was confined to respondents at Hunyani Flexible Products where a sample of forty (40) respondents was drawn. Data was obtained through interviews, administering questionnaires and by observations. From the research findings, it was established that there is a high deficiency of an effective cash management policy although some attributes of an effective management system were present. The study found that there is a positive relationship between the level of cash flow and the profitability of the company. The research concluded that, cash management is a culture that forms part of the strategy of companies and depends more on managers themselves than the characteristics of companies.

Bort (2004) noted that, cash flow management being one of the key financial strategies is of importance for both new and growing institutions. Companies may suffer from cash

flow problems because of lack of margin of safety in case of anticipated expenses such that they experience problems in finding the funds for innovation or expansion. Weak cash flow makes it difficult to hire and retain good employees (Beranek, 2000). Additionally, cash collection is also another financial strategy that may have an influence on the overall performance of financial institutions. Ross (2000) defines cash collection as a function of accounts receivable, it is the recovery of cash from a business or individual with which the company is issued an invoice. In the banking institution, collection of cash is of critical importance especially for its survival. This is whereby if the institutions do not apply the right techniques or put the appropriate follow up in the collect of cash, the institutions may end up having no cash in circulation and hence putting it into a critical situation.

According to Gitman (2008), there are four cash collection techniques namely letters, telephone calls, personal visits and legal action. Letters are written communication of expressions, opinions and communication recorder for later reference (Palom, 2001). The use of letters in the collection of cash comes into operation in that after a certain number of days, the firm sends a polite letter reminding the customer of the overdue accounts. If the account is not paid within a certain period after this letter has been sent a second more demanding letter is sent. A telephone call is a connection established over a telephone network between two parties (Chastain, 2008). As such, if the support staff members in a financial institution are not adequately prepared in terms of training skills on how to be effective while using these financial strategies, organizations may not be able to retrieve the finances that customers owe the company. This will automatically, influence the overall performance of the institution in that there will be more debts that the outside and

the institution may be running on a low budget. As such, this study intends to examine how financial strategies affect the performance of tier commercial banks.

2.4 Critical Review

Boateny (2004) pointed that good institutional and corporate governance had long been a development issue; the connection to the corporate governance agenda has not always been explicit. In fact, prior to this time bank governance has had a lower profile than corporate governance. Effective bank governance is the one that actually raises all the good governance questions. For instance, instability in banks would lead to financial instability and by extension a significant impact on the entire economy. It is in this vein that Blide (2004) purported that there is a direct link between improved bank governance, financial stability and sustainable economic development, particularly in developing and emerging market.

Charkam (2004) pointed that banking is littered with failure-cause by ignorance, fraud, misjudgment political and societal pressures, that he is unsure if better governance would saved them. However, bank failures convince government of the necessity to establish minimum capital requirement for insured banks. Oluyemi (2007) assert that sound capital creates reasonable assurance of protection to depositors as well as creditors. Yung (2009), using panel regression methods, indicated that board size has a great impact on bank performance. While Love and Rachinsky (2009) using a sample of 107 banks in Russia and 50 banks in Ukraine found some significant, but economically unimportant relationship between governance and contemporaneous operating performance and a

weaker link with subsequent performance. They also ascertained that banks with more concentrated ownership have lower ranking on corporate governance.

Harold and Jeff (2005) contend that financial service providers should modify their traditional operating practice to remain viable in the 1990'ss and the decade beyond. Thus, ICT has emerged as a catalyst in the various industries of the world to aid the process and procedure required to ensure the realization of various organizational goals. The role of ICT in the banking sector became of interest to this study due to the significant role it plays in the economy by stimulating economic growth through the intermediation of funds to economic agents that need them for productive activities. This function is very vital for any economy that intends to experience meaningful growth because it makes arrangements that bring borrowers and lenders of financial resource together and more efficiently too than if they had to relate directly with one another (Ojo, 2007).

The banking industry in general has experienced some profound changes in recent decades, as innovations in technology and the inexorable forces driving globalization continue to create both opportunities for growth and challenges for banking managers to remain profitable in this increasingly competitive environment. Most of the studies concerning bank profitability to date, including Short (1979), Bourke (1989), Molyneux and Thornton (1992), Demirguc-Kunt and Huizinga (1999) and Goddard, Molyneux, and Wilson (2004), have employed different linear models to estimate the impact of various factors that could be significant in terms of explaining profits.

The importance of bank profitability 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. Hence, the basic aim of a bank's management is to achieve a profit, as the essential requirement for conducting any business (Bobáková, 2009). 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. The importance of bank profitability at both the micro and macro levels has made researchers, academics, bank managements and bank regulatory authorities to develop considerable interest on the factors that determine bank profitability (Athanasoglou *et al*., 2005). Determinants of bank profitability comprise characteristics of individual bank companies that affect their profitability. Shareholder and managerial decisions and activities can directly influence these characteristics which also differ from company to company.

Guru et al. (2009) attempt to identify the determinants of successful deposit banks in order to provide practical guides for improved profitability performance of these institutions. The findings of this study revealed that efficient expenses management was one of the most significant in explaining high bank profitability. Among the macro indicators, high interest ratio was associated with low bank profitability and inflation was found to have a positive effect on bank performance. In Kenya, commercial banks play an important role in mobilizing financial resources for investment by mobilizing investors and boosting businesses as well as offering financial services to the public with the aim of making profit. However globalization and unpredictable change in the

environment they operate, such as IT advancement, poor corporate governance, size of the firm in terms of assets, challenges their performance. The current study aims to investigate the challenges faced by commercial banks in Kenya in their performance particularly on tier three Commercial Banks.

CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Introduction

This chapter presents the methodology, which was used to carry out the study. It further describes the type and source of data, the target population and sampling methods and the techniques that was used to select the sample size. It also describes how data was collected and analyzed. The suitable methodology in this study gives the guidelines for information gathering and processing.

3.2 Research Design

This study employed a descriptive research design. A descriptive research design attempts to describe or define a subject, often by creating a profile of a group of problems, people, or events, through the collection of data and tabulation of the frequencies on research variables or their interaction, (Cooper and Schindler, 2006). It is concerned with describing the characteristics of a particular individual, or of a group. In this case, the research problem was to investigate determinant of organization performance in the Kenya banking sector with focus to banks in tiers three. A descriptive research defines questions, people surveyed, and the method of analysis prior to beginning of data collection. Thus, this approach is appropriate for this study, since the researcher intends to collect detailed information through descriptions and the method is also useful for identification of variables and hypothetical constructs.

3.3 Population of Study

Target population as described by Borg and Grall (2009) is a universal set of study of all members of real or hypothetical set of people, events or objects to which an investigator wishes to generalize the result. The population of this study comprised of the banks in categorized in tier three. There are twenty one banks in tier three in Kenya as at may 2013 (CBK Report, 2013). Thus the study conducted a census survey owing to the small number of banks in the said tier. These banks were chosen since they perform minimal compared to other banks in tier one and two. Mugenda and Mugenda (2003) explained that the target population should have observable characteristics to which the study intents to generalize the result of the study. This definition assumes that the population is not homogeneous.

3.4 Data Collection

The researcher collected primary where the questionnaire was used to collect the data from the respondents from each bank. The questionnaire was structured to include both closed, open-ended and matrix questions to allow variety. The structured questions are normally close ended with alternatives from which the respondent is expected to choose the most appropriate answer (Mugenda & Mugenda, 2003). Unstructured questions are open-ended and present the respondent with the opportunity to provide their own answers. These types of questions are easy to formulate and allow the respondent to present their feelings on the subject matter enabling a greater depth of response (Mugenda & Mugenda, 2003). Matrix questions were also utilized. This type of questions present the respondent with a range of questions against which they are expected to

respond based on a predetermined rating scale. The most commonly used is the likert scale. These types of scales are used to measure perceptions, attitudes, values and behaviour (Cooper & Schinder, 2007). These types of questions are popular with the respondents and researchers as they are easy to fill in, economical and provide easy comparability. The respondents of this study were senior, middle low level managers while two respondents in each bank were targeted contributing to 42 respondents.

3.5 Data Analysis

The study generated both qualitative and quantitative data. Quantitative data were coded and entered into Statistical Packages for Social Scientists (SPSS Version 17.0) and analyzed using descriptive statistics. Qualitative data was analyzed based on the content matter of the responses. Responses with common themes or patterns will be grouped together into coherent categories. Descriptive statistics was also used of absolute and relative (percentages) frequencies, measures of central tendency and dispersion (mean and standard deviation respectively). Quantitative data was presented in tables and graphs and explanation was presented in prose.

CHAPTER FOUR: DATA ANALYSIS, RESULTS AND DISCUSSION

4.1 Introduction

This chapter presents analysis of the data on determinants of organizational performance in the Kenyan banking sector with specific focus on tier three commercial banks. This chapter presents the findings of the study and discussions on the findings. The finding intended on answering the study's research questions. Data collected was collated and reports were produced in form of tables and figures and qualitative analysis done in prose.

4.2 Response Rate

Table 4.1 illustrates the response rate of the respondents that participated in the survey. The study targeted 42 respondents working in the said banks in collecting data on determinants of organizational performance in the Kenyan banking sector. However, out of 42 questionnaires distributed 33 respondents completely filled in and returned the questionnaires contributing to 79%. This response rate was reached due to the data collection procedure, where the researcher personally administered questionnaires and waited for respondents to fill in, kept reminding the respondents to fill in the questionnaires through frequent phone call and picked the questionnaires once fully filled. The 21% questionnaires that were not returned were due to reasons like, the respondent were not available to fill them in at that time and with persistence follow-ups there were no positive responses from them. The response rate demonstrates a willingness of the respondents to participate in the survey that the study sought.

Table 4.1 Response Rate

Response	Frequency	Percentage
Filled in questionnaires	33	79
Un returned questionnaires	7	21
Total	**40**	**100**

Source: Research data (2013)

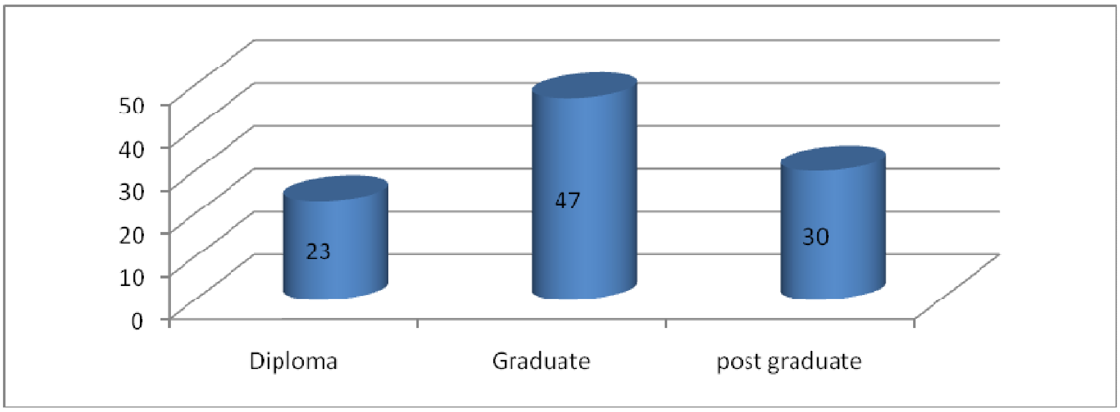
4.3 Demographic Characterization of the Respondents

The study found it crucial to ascertain the broad information of the respondents since it structures the charity under which the study can fairly entrance the pertinent information. The analysis relied on this information of the respondents so as to classify the different results according to their knowledge and responses.

4.3.1 Highest Education Level of the Respondents

The study was also inquisitive to determine the highest level of the academic qualification that the respondent held. Figure 4.1 shows the findings of the result, most (47%) of the respondents were graduate, 30% were post graduate (masters holder) while the rest (23%) had diploma as their highest level of education. This depicted that most of the respondents interviewed were well knowledgeable to understand and able to respond to the questionnaire in the manner intended.

Figure 4.1 Education Level of the Respondents



Source: Research data (2013)

4.3.2 Respondents Working Duration in Years

Table 4.4 illustrates working period in years of the respondents in their respective organization. From the findings majority (53%) of the respondents had worked in the organization for a period of 6-10 years, 36% had worked for a period of 1-5 years, 7% had worked for a more than 16 years while the rest (5%) had served in the organization for a period of 10-15 years. This implies that most of the respondents of this study had worked for a longer period within the organization thus conversant enough of the information that the study sought pertaining to the bank profitability.

Table 4.2 Working Duration

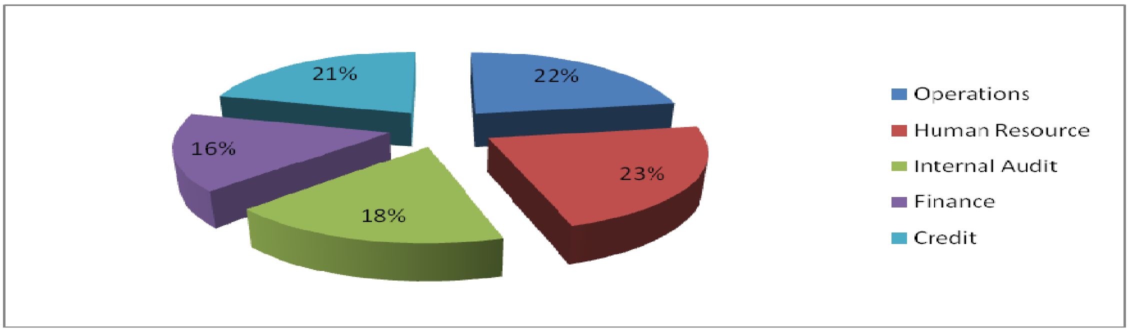
Period of Service	Frequency	Percentage
1- 5 Years	12	36
6 – 10 Years	18	53
10 – 15 Years	2	5
Above 16 Years	2	7
Total	**33**	**100**

Source: Research data (2013)

4.3.3 Respondents Department of Work

Figure 4.2 indicates departments in which respondents were working in their organization. From the findings most (22.6%) of the respondents were working at operations and human resource departments as shown in each case, 21% were serving at credit department, 18% were working at internal audit while 16% of the respondents were serving at finance department. This implies that all departments that were targeted by the study were involved and that the findings are not biased.

Figure 4.2 Respondents Department of Work



Source: Research data (2013)

4.3.4 Position held by the Respondents in their Respective Banks

The study aimed to investigate position held by the respondents in their organization. From the findings (33%) of the respondents were unit heads, 21% as assistance manager and directors, 18% were technical personnel, 15% were departmental heads while 3% were supervisors. Position held in the workplace leads to easier application and strategic practices that leads to better performance of the organization towards achieving

organizational goals and objectives. This depicts that all participant of the study were under the level to which the study targeted as stipulated in previous chapter.

Table 4.3 Position Held by the Respondents in their Respective Banks

Position Held	**Frequency**	**Percentage**
Supervisor	1	3
Technical personnel	6	18
Departmental Head	5	15
Unit Head	11	33
Director	7	21
Manager	7	21
Total	**33**	**100**

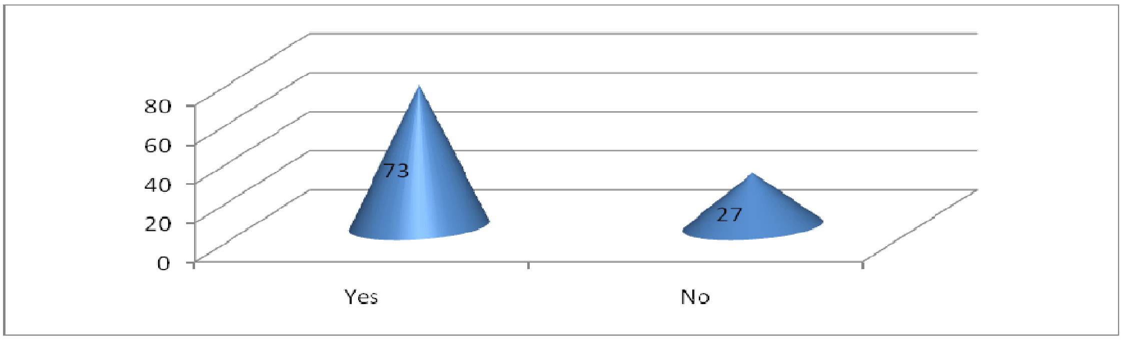
Source: Research data (2013)

4.4 Good Governance

4.4.1 Effect of Corporate Governance on Organization Performance

Figure 4.3 illustrates the summary of the findings on whether corporate governance affects organization performance. According to the findings, majority (73%) of the respondents alleged that corporate governance affects organization performance while the rest (27%) opposed the opinion of majority. This implies that majority of financial institution, banks not exempted; consider effectiveness of corporate governance as a key performance indicator in the organization performance.

Figure 4.3 Effect of Corporate Governance on Organization Performance



Source: Research data (2013)

4.4.2 Corporate Governance and its Influence on Organization Performance

Table 4.4 indicates respondents' level of agreement on the statements regarding to corporate governance and its influence on organization performance. According to the findings, respondents agreed that their companies had put in place effective corporate governance systems that shown to implement solid and integrated performance approaches more easily than others and that management in their organization are committed in ensuring the performance of the bank is improved as shown by mean score of 3.96 in each case, almost the same number of respondents agreed that management in their organization consider merit and previous performance of the individual to be mandated in the management position and that bank shares more democratic ownership structures, more balanced and broader governance systems, and a more comprehensive view of organizational goals and performance have also better chances to increase shareholders' loyalty as depicted by mean score of 3.79 and 3.75 respectively. Few of the respondents were neutral that their companies had put in place effective corporate governance systems that shown to implement solid and integrated performance approaches more easily than others as illustrated by mean score of 3.33.

Table 4.4 Corporate Governance and its Influence on Organization Performance

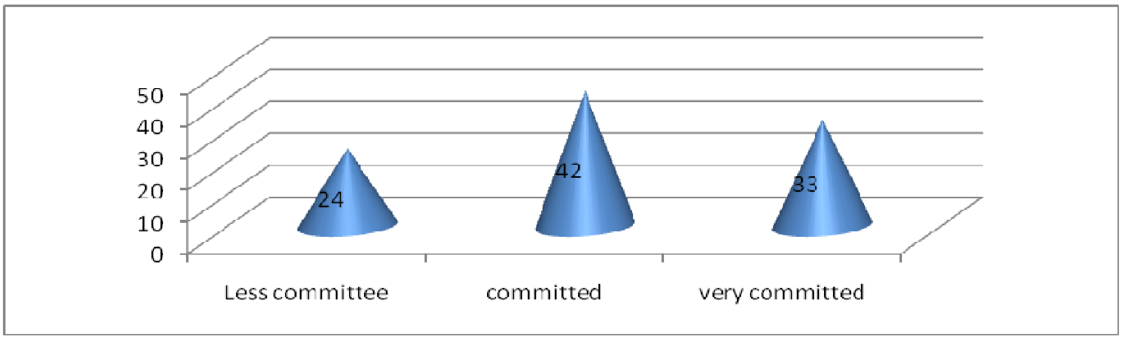
	Mean	**STDev**
Under the umbrella of corporate governance, our organization is encouraged to promote ethics, fairness and transparency in order to improve its performance	3.33	0.816
Our companies had put in place effective corporate governance systems that shown to implement solid and integrated performance approaches more easily than others	3.96	0.69
Our bank shares more democratic ownership structures, more balanced and broader governance systems, and a more comprehensive view of organizational goals and performance have also better chances to increase shareholders' loyalty	3.75	0.676
Management in our organization are committed in ensuring the performance of the bank is improved	3.96	0.55
Management in our organization consider merit and previous performance of the individual to be mandated in the management position	3.79	0.658

Source: Research data (2013)

4.4.3 Commitment of Corporate Governance

The researcher was also inquisitive in determining commitment of corporate governance in determining organization performance. From the findings, most (42%) of the respondent were of the opinion that corporate governance are committed, 33% were of the opinion that corporate governance are very committed while the rest (24%) opined that they are less committed.

Figure 4.4 Commitment of Corporate Governance



Source: Research data (2013)

4.4.5 Extent that Corporate Governance Determine Organization Performance

Table 4.5 represents the study finding on the extent to corporate governance determine organization performance. From the findings, majority (62.5%) of the respondents' indicated that corporate governance determine organization performance at a great extent, 29.2% perceived that corporate governance determine organization performance to a moderate extent while 8.3% were of the opinion that corporate governance determine organization performance to a very great extent.

Table 4.5 Extent that Corporate Governance Determine Organization Performance

	Frequency	**Percentage**
Moderate Extent	10	29
Great Extent	21	65
Very Great Extent	3	8
Total	**33**	**100**

Source: Research data (2013)

4.5 Technologies Advancement

4.5.1 Effectiveness of Technologies Advancement on Bank Performance

The study requested the respondent to indicate whether technology advancement enhance bank performance. Majority (90%) of the interviewed respondents' indicted that the banks technologies advancement enhancement bank performance while 10% indicated that technologies advancement does not in any way enhance bank performance. On whether application of IT eases the process and procedure of banking, majority (90%) of the respondents indicated that application of IT eases the process and procedure of banking while the remaining pointed otherwise.

Table 4.6 Effectiveness of Technologies Advancement on Bank Performance

	Frequency	**Percent**
Yes	30	90
No	3	10
Total	**33**	**100**

Source: Research data (2013)

4.5.2 Technology Advancement and its Influence on Organization Performance

Table 4.7 illustrates the finding of the study on respondent level of agreement on state of IT to its influence on bank performance. From the findings, most of the respondents strongly agreed that interviewed banks are not more profitable due to economies of scale on adoption of IT on their production as indicated by the mean score of 4.95, also respondent strongly agreed that most of banks are trying to modified its operation with relation to technological advancement in order to remain viable in the market as shown

by mean score of 4.01. Further, respondents strongly agreed that ICT revolution in terms of innovation increases speedy operation and therefore reduce cost per unit in production, and this has led a good number of banks to embrace the use of ICT infrastructure in their operations that improves efficiency as shown by mean score of 3.77. Respondents have also agreed that Banks that have adopted IT has broadened the scope of banking practices and changed the nature of banking as well as the competitive environment in which they operate and that Banks that have adopted ICT revolution in terms of innovation have benefited from speedy operation and reduced cost per unit hence more profits as depicted by mean score of 3.73 and 3.70 respectively. Likewise respondent agreed that IT has assisted customers to validate their account numbers and receive instruction on, when and how to receive their cheque books, credit cards and debit cards and also have agreed that accuracy of results generated by bank systems that embrace use of Smart Cards which in turn results to more profitability as depicted by mean score of 3.64 and 3.53 respectively. IT has broadened the scope of banking practices and changed the nature of banking as well as the competitive environment in which they operate as illustrated by mean score of 3.41. Finally, respondents disagreed that cost of acquiring better IT infrastructure for our bank is the major cause of low profits thereby decrease profitability as illustrated by mean score of 2.29.

Table 4.7 Technology Advancement and its Influence on Organization Performance

	Mean	STDev
Accuracy of results generated by bank systems that embrace use of Smart Cards which in turn results to more profitability	3.52	1.168
ICT revolution in terms of innovation increases speedy operation and therefore reduce cost per unit in production	3.77	1.297
IT has broadened the scope of banking practices and changed the nature of banking as well as the competitive environment	3.41	0.312
The market share that we have results to minimal performance	3.47	0.899
Our banks are not more profitable due to economies of scale on adoption of IT on their production	4.15	1.009
Cost of acquiring better IT infrastructure for our bank is the major cause of low profits	2.29	1.464
Banks that have adopted IT has broadened the scope of banking practices as the competitive environment in which they operate	3.73	0.87
Technological advancement in the banking industry has facilitated payments and creates convenient and non-risky alternatives	3.44	0.943
Banks that have adopted ICT revolution in terms of innovation have benefited from speedy operation and reduced cost per unit	3.7	1.198
Our banks is trying to modified its operation with relation to technological advancement in order to remain viable in the market	4.01	1.196
IT has assisted customers to validate their account numbers, receive instruction on, when and how to receive their cheque books, credit and debit cards	3.64	1.284

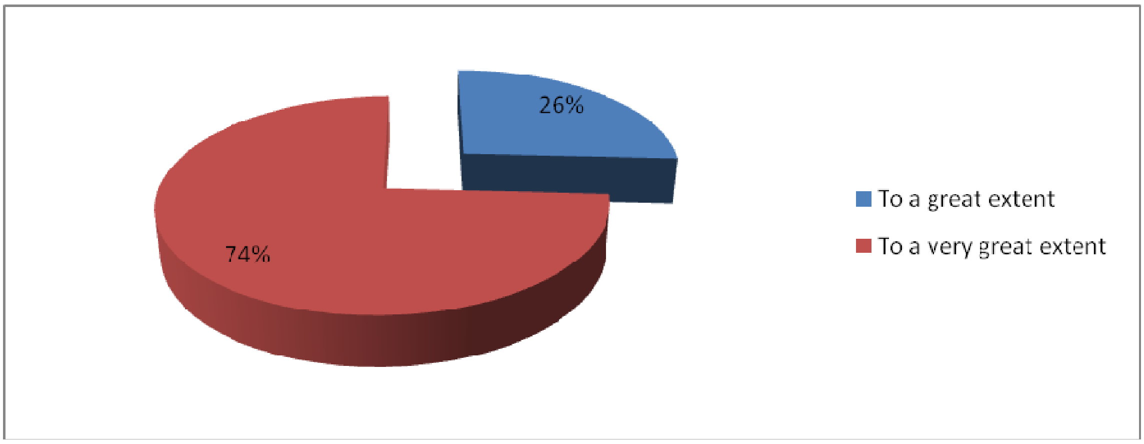
Source: Research data (2013)

4.5.3 Extent that Technological Advancement affect Bank Performance

Figure 4.5 illustrates the findings of the study on the influence of state of IT on bank profitability. Majority (74%) of the respondents purported that state of IT influences bank

profitability to a very great extent while the rest 26% were of the opinion that IT influences bank profitability to a great extent.

Figure 4.5 Extent that Technological Advancement affect Bank Performance



Source: Research data (2013)

4.6 Bank Size

4.6.1 Number of Branches

The study further requested the respondents to indicate the number of branches their bank have. According to the findings, majority (64%) of the respondents indicated that their bank have 16-30 branches, 24% indicated that their bank have between 1-15 branches, while 12% indicated that their bank have between 31-45 branches respectively.

Table 4.8 Number of Branches

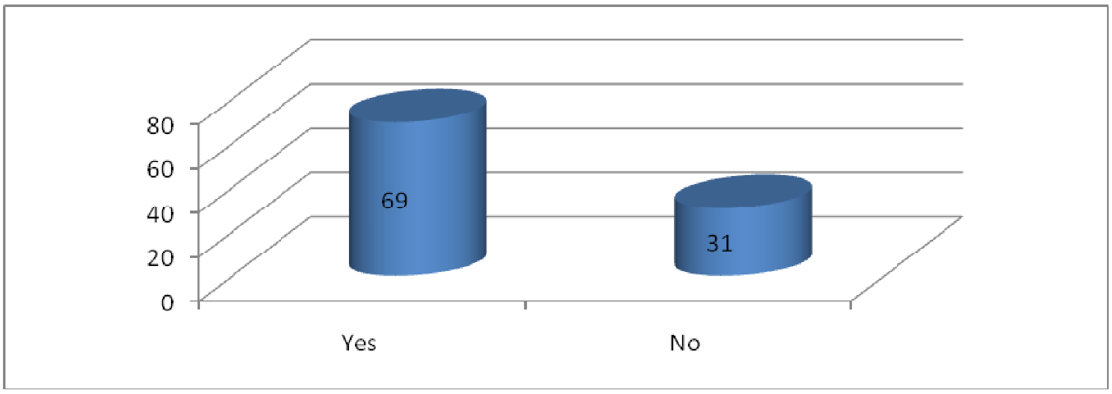
	Frequency	Percentage
1 to 15	8	24
16-30	21	64
31-45	4	12
Total	**33**	**100**

Source: Research data (2013)

4.6.2 Determination of Bank Profitability by Number of Branches

Figure 4.6 summarizes the study findings, on whether numbers of branches for a bank determines its profitability. From the findings, 69% of the respondents indicated that numbers of bank branches determines its profitability while the rest (31%) opined that number of bank profitability does not determine bank profitability.

Figure 4.6 Determination of Bank Profitability by Number of Branches



Source: Research data (2013)

4.6.3 Aspect of Bank Size on bank Performance

Table 4.9 illustrates the finding of the study on the respondent level of agreement. From the findings, most of the respondents agreed that total asset of their bank result minimal performance hence we face stiff competition from our competitors due to lack of fund in financing marketing program and that organization have less number of loyal customers who take loans from us hence low interest income as depicted by mean score of 4.26 and 412 respectively. Also respondents agreed that performance of our bank is in relation to the number of branches that we have and that fewer number of ATM point contribute to more profit to the banks that have adopted it while we have less number of ATM point hence less profitability as illustrated by mean score of 3.89 and 3.54 respectively. On the other hand, respondents were neutral that banks with many managers and few operators creates power confusion resulting to less profitability as depicted by mean score of 3.19.

Table 4.9 Aspect of Bank Size on bank Performance

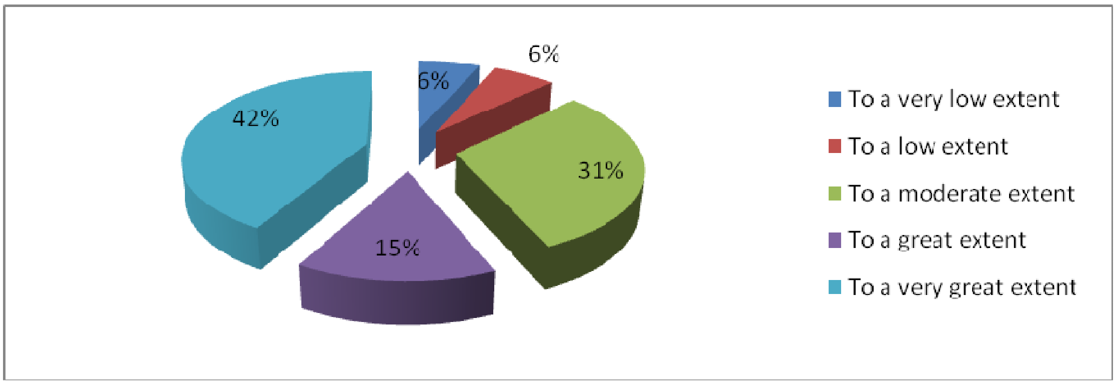
	Mean	**STDev**
Performance of our bank is in relation to the number of branches that we have	3.89	1.01
Total asset of our bank result minimal performance hence we face stiff competition from our competitors due to lack of fund in financing marketing program	4.26	0.723
Fewer number of ATM point contribute to more profit to the banks that have adopted it while we have less number of ATM point hence less profitability	3.54	1.498
We have less number of loyal customers who take loans from us hence low interest income	4.12	0.882
Banks with many managers and few operators creates power confusion resulting to less profitability	3.19	1.321

Source: Research data (2013)

4.6.4 Extent to which Bank Size Determines its Profitability

Further the study requested the respondents to indicate the extent to which bank size determines its profitability. From the findings, 42% of the respondents opined that bank size determines bank profitability to very great extent, 31% were of the opinion that bank size influence bank profitability to a moderate extent, 15% to a great extent, 7% to a low extent while a similar numbers purported that bank size influence bank profitability to a very low extent as indicated by the figure 4.13.

Figure 4.7 Extent to which Bank Size Determines its Profitability



Source: Research data (2013)

4.7 Financial Strategies

4.7.1 Financial Strategies adopted

Table 4.10 summarizes the study findings on the financial strategies adopted by the banks. From the findings, 79% of the respondent indicated that their banks have adopted investment management strategy, 67% had adopted cash flow management strategy, 55% had adopted purchase management strategy, 52% had adopted consideration management strategy while 52% had adopted collection management strategy.

Table 4.10 Financial Strategies adopted

Financial Strategies adopted	Frequency		percentage	
	Yes	No	Yes	No
Cash flow management strategy	22	11	67	33
Purchase management strategy	18	15	55	45
Collection management strategy	14	19	42	58
Investment management strategy	26	7	79	21
Consideration management strategy	17	16	52	48

Source: Research data (2013)

4.7.2 Monetary Policy and their Influence to Performance of Banks

The study requested the respondents to indicate their level of agreement on the statement relating to monetary policy and their influence to performance of banks. From the findings most of the respondents disagreed that they aren't adequately trained to use effectively the financial strategies available especially in the control of cash flow in the bank as depicted by mean score of 2.92, also respondent disagreed that cash collection techniques are not being utilized effectively and this contributes to the poor performance of our bank as illustrated by mean score of 2.56, on the other hand, respondent strongly disagree that Poor financial strategy application in our bank has resulted to weak cash flow. This makes it difficult for the management to hire and retain good employees as shown by mean score of 2.39 while also respondent strongly disagreed the bank suffer from cash flow problems because of lack of margin of safety in case of anticipated

expenses such that we experience problems in finding the funds for innovation or expansion as depicted by mean score of 2.24.

Table 4.11 Monetary Policy and their Influence to Performance of Banks

	Mean	**STDev**
Our bank suffer from cash flow problems because of lack of margin of safety in case of anticipated expenses such that we experience problems in finding the funds for innovation or expansion	2.24	0.862
Poor financial strategy application in our bank has resulted to weak cash flow. This makes it difficult for the management to hire and retain good employees	2.39	1.046
The cash collection techniques are not being utilized effectively and this contributes to the poor performance of our bank.	2.56	1.236
We aren't adequately trained to use effectively the financial strategies available especially in the control of cash flow in the bank.	2.92	0.874

Source: Research data (2013)

4.7.3 Extent that Financial Strategies Applied Enhance Bank Performance

Table 4.12 shows results of the findings on the extent to which financial strategies applied by bank enhance its performance. From the findings, (65%) of the respondents were of the opinion that financial strategies applied by bank enhance its performance to a great extent, 32% very great extent while the rest (3%) alleged that financial strategies applied by bank enhance its performance to a moderate extent.

Table 12 Extent that Financial Strategies Applied Enhance Bank Performance

	Frequency	**Percentage**
To a moderate extent	1	3
To a great extent	21	65
To a very great extent	11	32
Total	**33**	**100**

Source: Research data (2013)

4.8 Discussion of the Findings

The study sought to establish the extent to which corporate governance determines organization performance in the Kenyan banking sector, to examine the extent to technology advancement determines organization performance in the Kenyan banking sector, to assess the extent to which firm size determines organization performance in the Kenyan banking sector and to establish the extent to which financial strategies determines organization performance in the Kenyan banking sector.

On corporate governance, the study established that majority (73%) of the respondents alleged that corporate governance affects organization performance. According to Christopher (2009) the governance of banks becomes even more pronounced considering their role of financial intermediation in developing economies, thus banks should consider corporate governance. Further, respondents agreed that their companies had put in place effective corporate governance systems that shown to implement solid and integrated performance approaches more easily than others while management in their organization are committed in ensuring the performance of the bank is improved.

The finding of the study complied with Love and Rachinsky (2008) findings that that corporate governance aims at promoting competition, while allowing customers the option of making a choice. Finally, on the same the study found that corporate governance determine organization performance at a great extent. Christopher (2009) pointed that the financial sector being at the center stage of efficient capital allocation needs to be visited more consciously with the subject of corporate governance.

To technology advancement, majority (90%) of the interviewed respondents' indicted that the banks technologies advancement enhancement bank performance. The findings of the study did not show any relationship with Ovia (2005) finding that broad opening has been experienced around the world for banks and they are currently taking due advantage of these innovations to provide improved customer services in the face of competition and faster services that enhance productivity. Likewise, the study found that most of the respondents strongly agreed that interviewed banks are not more profitable due to economies of scale on adoption of IT on their production and that of banks are trying to modified its operation with relation to technological advancement in order to remain viable in the market. The finding of the study was contrary to Akinuli, (2009) that the banking business is becoming highly ICT based due to its inter-sectoral link; it appears to be reaping most of the benefits of revolution in technology, as can be seen by its application to almost all areas of its activities. Finally, majority (74%) of the respondents purported that state of IT influences bank profitability to a very great extent. The finding of the study was similar to Akinuli (2009) finding that ICT revolution both in terms of innovation rate, speedy operation, and cost per unit (portraying reduction in average total and marginal costs) has made a good number of banks embrace the use of

ICT infrastructure in their operations due to benefits they accrues in terms of bank performance. The increase might have attributable to business environment that became relatively flexible to accommodate new forms of technological change as a result of reforms in the country.

On bank size, majority (64%) of the respondents indicated that their bank have 16-30 branches. According to Bashir (2009) the preceding arguments on the effect of size on bank profitability overlap with the idea that large banks can benefit from economies of scale. From the findings, 69% of the respondents indicated that numbers of bank branches determines its profitability. Smirlock (2005) further suggested that the difference in profitability among large and small banks is due to production technologies and outputs, which vary across them. The relative efficiency hypothesis (Clarke et al., 2004) presupposes that larger banks (where size is measured by assets) are more efficient than smaller ones, and are more profitable as a result of this superior efficiency. Additionally, the study found that total asset of banks in tiers three result to minimal performance due to stiff competition from their competitors due to lack of fund in financing marketing program and that organization have less number of loyal customers who take loans from them hence low interest income. Athanasoglou *et al.* (2008) shows that labour productivity growth, which can only be achieved if the bank is large in its size, has a positive and significant effect on bank profitability. This suggests that higher productivity growth generates income that is partly channeled to bank profits. Finally, the study established that bank size determines bank profitability to very great extent. The finding of the study complied with Smirlock (2005) that it has been argued that the effect of a growing size on bank profitability is significantly positive to a large extent.

To financial strategies, the study found that majority (79%) of the respondent indicated that their banks have adopted investment management strategy. Leigh (2013) pointed that financial strategies are very important for the survival of any institution, because without good financial strategies, organizations will run bankrupt and can be closed down. Meanwhile, respondents disagreed that they aren't adequately trained to use effectively the financial strategies available especially in the control of cash flow in the bank. Pindado (2004) purported that poor training among the support staff on cash flow management may pose a challenge on the overall performance of financial banks especially with relation to the flow of cash in and out of the organization. Inclusively, the study found that financial strategies applied by bank enhance its performance to a great extent. Pindado (2004) laying out the financial cash strategy ahead of time, it will make financial decisions easier about when to write a check and when to access a line of credit during normal business practice contributing significant organization financial performance.

CHAPTER FIVE: SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

This chapter presents the summary of the findings on determinants of organizational performance in the Kenyan banking sector with specific focus on tier three commercial banks, the conclusions and recommendations are drawn there to. The chapter is therefore structured into summary of findings, conclusions, recommendations and area for further research.

5.2 Summary of the Findings

The objectives of this study were to ascertain how corporate governance affect performance of commercial banks in Kenya, to establish the influence of technology advancement on performance of commercial banks in Kenya, to examine how firm size affect performance of commercial banks in Kenya and to determine the influence of financial strategies on performance of commercial banks in Kenya.

From the study findings it was clear that majority of the organization perceive that alleged that corporate governance affects organization performance. Also the study found that companies had put in place effective corporate governance systems that shown to implement solid and integrated performance approaches more easily than others and that management in their organization are committed in ensuring the performance of the bank is improved. Likewise, the study found that management most organization consider merit and previous performance of the individual to be mandated in the management

position and that bank shares more democratic ownership structures, more balanced and broader governance systems, and a more comprehensive view of organizational goals and performance have also better chances to increase shareholders' loyalty. Finally the study found that management is committed hence influencing bank performance to a great extent.

To technologies advancement, the study found that technologies advancement enhancement bank performance where it eases the process and procedure of banking. However, the study found that banks are not more profitable due to economies of scale on adoption of IT on their production although most of banks are trying to modified its operation with relation to technological advancement in order to remain viable in the market. Despites indicated challenges ICT revolution in terms of innovation increases speedy operation and therefore reduce cost per unit in production, and this has led a good number of banks to embrace the use of ICT infrastructure in their operations that improves efficiency which influences bank profitability to a very great extent.

On bank size, the study found that most of the banks had 16-30 branches where number of branches that bank have determines its profitability. Additionally, the study found that total asset of most banks in tier three result minimal performance hence they face stiff competition from their competitors due to lack of fund in financing marketing program and that organization have less number of loyal customers who take loans from us hence low interest income. Inclusively, the study established that bank size determines bank profitability to very great extent.

To financial strategies adopted by the banks, the study found that investment management strategy and cash flow management strategy were the main financial

strategies adopted by most of tier three banks in Kenya. Furthermore, the study found that respondent were trained on effectively use of financial strategies available especially in the control of cash flow in the bank and that cash collection techniques are utilized effectively contributing to the better performance of most bank in the category studied.

5.3 Conclusions

The study sought to find out determinants of organizational performance in the Kenyan banking sector with specific focus on tier three commercial banks. Based on the findings in relation to specific objective, the study concluded that majority of the organization perceive that alleged that corporate governance affects organization performance. Also the study concluded that companies had put in place effective corporate governance systems that shown to implement solid and integrated performance approaches more easily than others and that management in their organization are committed in ensuring the performance of the bank is improved. Likewise, the study concluded that management most organization consider merit and previous performance of the individual to be mandated in the management position and that bank shares more democratic ownership structures, more balanced and broader governance systems, and a more comprehensive view of organizational goals and performance have also better chances to increase shareholders' loyalty. Finally the study found that management is committed hence influencing bank performance to a great extent.

To technologies advancement, the study concluded that technologies advancement enhancement bank performance where it eases the process and procedure of banking. However, the study concluded that banks are not more profitable due to economies of scale

on adoption of IT on their production although most of banks are trying to modified its operation with relation to technological advancement in order to remain viable in the market. Despites indicated challenges ICT revolution in terms of innovation increases speedy operation and therefore reduce cost per unit in production, and this has led a good number of banks to embrace the use of ICT infrastructure in their operations that improves efficiency which influences bank profitability to a very great extent.

On bank size, the study concluded that most of the banks had 16-30 branches where number of branches that bank have determines its profitability. Additionally, the study concluded that total asset of most banks in tier three result minimal performance hence they face stiff competition from their competitors due to lack of fund in financing marketing program and that organization have less number of loyal customers who take loans from us hence low interest income. Inclusively, the study established that bank size determines bank profitability to very great extent.

To financial strategies adopted by the banks, the study concluded that investment management strategy and cash flow management strategy were the main financial strategies adopted by most of tier three banks in Kenya. Furthermore, the study concluded that respondent were trained on effectively use of financial strategies available especially in the control of cash flow in the bank and that cash collection techniques are utilized effectively contributing to the better performance of most bank in the category studied.

5.4 Recommendations

The study recommended that for performance of bank to be precise, management staffs in the entire organization should be involved either in implementation or formulation of

strategies that are intended on improving organization performance so that they can understand them well and act in a manner that results to the realization of the common goal of the bank. On the same the study recommended that effective performance can only be achieved when all staffs admits accountability of the organization involvement to it operation hence the need to be accountable of risk mitigation which can lead to good reputation of an effective management team.

On Technology advancement, the study recommended that due to globalization and technological innovation that the modern businesses are operating in, banks should not be exempted from this innovation since its one of the major drivers of profitability within organizations. Likewise the study recommended that organization and management should embrace IT and accept their operation to be done through technological adoption in order to improve their service delivery through a quality and quick process.

To the influence of bank size on bank performance, the study recommended that banks should consider opening new branches on the untapped potential areas for them to make high profits by increasing their customer base, opening of more branches and ATM centers as such will enhance their profitability capacity. Banks with more branches and interior access to the unbanked or marginalized areas will realize high profits hence banks should not ignore the concept of enlarging their market size thereby boosting their profitability.

On strategies adopted by the organization, the study recommended that strategies adopted by organization should be communicated to enhance financial management and handling so as to develop trust among the shareholder hence attracting more customers which in

turn improves organization performance. Additionally, the study recommended that staffs to be training on technical strategies such as fraud risk management to eradicate fraud any frauds.

5.5 Suggestion for Further Studies

The study has explored determinants of organizational performance in the Kenyan banking sector with specific focus on tier three commercial banks. The banking sector in Kenya however is comprised of various other financial institutions which differ in their way of management and have different settings all together. This warrants the need for other studies which would ensure generalization of the study findings for all the financial institutions in Kenya and hence pave way for new policies. The study therefore recommends other studies be done with an aim to investigate determinants of profitability in other financial institution other than banks such as DTMs in order to give a general result that depict real situation in the financial institutions.

5.6 Limitations of the Study

The researcher encountered various limitations that hindered access to information that the study sought. The main limitation of study was its inability to include more organizations. This was a case focusing on the selected banks. The study could cover more institutions across all banking sectors so as to provide a more broad based analysis. However, time and resource placed this limitation. The researcher also experienced other challenges such as none-cooperation by banks employees since it was not easy to convince employees to fill questionnaires hence not reaching the targeted sample size. This was attributed by the staffs perceiving that they will be victimized by giving out

information. However, the researcher assured respondents of proprietary measures that the findings would be accorded and used only for academic purpose.

5.7 Implication for Theory, Policy and Practices

Since the study was focusing on determinants of organization performance in the banking sectors in Kenya. The study recommended that management to ensure that corporate governance in their organization encourages staffs performance and that ensures operation of the organization are in accordance to the organization objectives so that to ensure its performance met the organization goals. Further the study recommended that management to ensure that operation of the organization are streamlined to the technological changes since application of IT in banking services results to significant performance of the banks. The study recommended that since there is a potential unbanked individuals who lack banks services, banks should reach try to reach customers through having a wide network of branches in rural and remotes areas. Finally, the study recommends that for the organization to improve on their performance they must ensure they adopt financial strategies that ensures customer retention in their organization and that terms applied in financial transactions are not stiff.

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APPENDICES

Appendix I: Introduction Letter

UNIVERSITY OF NAIROBI
SCHOOL OF BUSINESS
MBA PROGRAMME

Telephone: 020-2059162
Telegrams: "Varsity", Nairobi
Telex: 22095 Varsity

P.O. Box 30197
Nairobi, Kenya

DATE 26/08/2013

TO WHOM IT MAY CONCERN

The bearer of this letter Joseph Murithi Gikunda

Registration No. D61/70145/2009

is a bona fide continuing student in the Master of Business Administration (MBA) degree program in this University.

He/she is required to submit as part of his/her coursework assessment a research project report on a management problem. We would like the students to do their projects on real problems affecting firms in Kenya. We would, therefore, appreciate your assistance to enable him/her collect data in your organization.

The results of the report will be used solely for academic purposes and a copy of the same will be availed to the interviewed organizations on request.

Thank you.

UNIVERSITY OF NAIROBI
SCHOOL OF BUSINESS
18 NOV 2013
MBA OFFICE
P.O. Box 30197 – 00100, NAIROBI

PATRICK NYABUTO
MBA ADMINISTRATOR
SCHOOL OF BUSINESS

Appendix II: Questionnaire

Kindly answer all the questions by ticking or by providing the answers in the spaces provided.

Section 1: Background Information

1. Indicate the name of your bank (optional)…………………………………………
2. What is your highest level of academic qualification?

   Post graduate [ ] degree [ ]

   Diploma [ ] certificate [ ]

   Any other (specify)……………………………………………………………………..

3. How long have you worked in this organization?

   1 – 5 years [ ] 11- 15 years [ ] More than 20 years [ ]

   6- 10 years [ ] 16 – 20 years [ ]

4. Kindly, indicate the department you are working in.

   ………………………………………………………………………………………

5. Indicate position that you hold in the department?

   Manager [ ] Unit Head officer [ ]

   Supervisor [ ] Departmental Head [ ]

   Assistant Manager[ ] Technical personnel [ ]

   Other(specify) ……………………………………………………

Section B: Good Governance

6. Does the corporate governance adopted in your organization affect its performance?

   Yes [ ] No [ ]

7. Does the following aspect of corporate governance affect its performance?

	Yes	**No**
Misconduct		
Carelessness		
Insensitivity		

8. Indicate your level of agreement with the following statements relating to corporate governance and its influence to organization performance? Use a scale of 1-5, where 1- strongly disagree, 2- disagree, 3- neutral, 4- agree, 5- strongly agree.

Statement	**1**	**2**	**3**	**4**	**5**
Under the umbrella of corporate governance, our organization is encouraged to promote ethics, fairness and transparency in order to improve its performance					
Our companies had put in place effective corporate governance systems that shown to implement solid and integrated performance approaches more easily than others					
Our bank shares more democratic ownership structures, more balanced and broader governance systems, and a more comprehensive view of organizational goals and performance have also better chances to increase shareholders' loyalty					
Management in our organization are committed in ensuring the performance of the bank is improved					
Management in our organization consider merit and previous performance of the individual to be mandated in the management position					

9. How would you rate corporate governance in your organization?

   Less committee [ ] committed [ ] very committed [ ]

10. In your own opinion, indicate the extent to which corporate governance affect performance of you bank?

    To a very low extent [ ] To a great extent [ ] To a low extent [ ]

    To a very great extent [ ] To a moderate extent [ ]

Section C: Technologies Advancement

11. Is the technology available effective in the enhancement of your bank performance?

Yes [ ] No [ ]

12. If yes, does your bank IT ease the process and procedure of banking such as (Account opening, Card or cheque book processing , Transaction execution speed etc)

Yes [ ] No [ ]

13. Indicate your level of agreement to the statement below relating to bank size and its influence to organization performance. Use a scale of 1-5, where 1- strongly disagree, 2- disagree, 3- neutral, 4- agree, 5- strongly agree.

We accrue less profits due to small customer base					
Banks with high value of assets accrue more profits					
The market share that we have results to minimal performance					
Large banks are more profitable due to economies of scale on their production					
Banks that have adopted IT has broadened the scope of banking practices and changed the nature of banking as well as the competitive environment in which they operate					
Technological advancement in the banking industry has facilitated payments and creates convenient and non-risky alternatives to cash and cheque for making transactions					
Banks that have adopted ICT revolution in terms of innovation have benefited from speedy operation and reduced cost per unit hence more profits					
Our banks has modified it operation with relation to					

technological advancement in order to remain viable in the market					
IT has assisted customers to validate their account numbers, receive instruction on, when and how to receive their cheque books, credit and debit cards					

14. To what extent has lack of appropriate technological infrastructure affected the overall performance of your organization?

    To a very low extent [ ] To a low extent [ ]

    To a moderate extent [ ] To a great extent [ ]

    To a very great extent [ ]

Section D: Bank Size

15. How many branches does your bank have?

    1-15 [ ] 16-30 [ ]

    31-45 [ ] 46-60 [ ] 61 and Above [ ]

16. Does the number of branches determine your bank's profitability?

    Yes [ ] No [ ]

17. Indicate your level of agreement to the statement below relating to bank size and its influence to the bank performance. Use a scale of 1-5, where 1- strongly disagree, 2- disagree, 3- neutral, 4- agree, 5- strongly agree.

statement	**1**	**2**	**3**	**4**	**5**
Performance of our bank is in relation to the number of branches that we have					
Total asset of our bank result minimal performance hence we face stiff competition from our competitors due to lack of fund in financing marketing program					

Fewer number of ATM point contribute to more profit to the banks that have adopted it while we have less number of ATM point hence less profitability					
We have less number of loyal customers who take loans from us hence low interest income					
Labour productivity growth, has a positive and significant effect on bank profitability					

18. To what extent do you think bank size influence your bank performance?

    To a very low extent [ ] To a low extent [ ]
    To a moderate extent [ ] To a great extent [ ]
    To a very great extent [ ]

Section E: Financial Strategies

19. What are the financial strategies commonly used in your bank to enhance performance?

	Yes	No
Cash flow management strategy		
Purchase management strategy		
Collection management strategy		
Investment management strategy		
Consideration management strategy		

20. Please indicate your response ((SA): Strongly agree (A); Agree, (UD); Undecided, (D); Disagree, (SD); Strongly Disagree) to the following statements regarding how monetary policy influence the performance of banks.

Statements	SA	A	UD	D	SD
Our bank suffer from cash flow problems because of lack of margin of safety in case of anticipated expenses such that we experience problems in finding the funds for innovation or expansion					
Poor financial strategy application in our bank has resulted to weak cash flow. This makes it difficult for the management to hire and retain good employees					
The cash collection techniques are not being utilized effectively and this contributes to the poor performance of our bank.					
We aren’t adequately trained to use effectively the financial strategies available especially in the control of cash flow in the bank.					

21. To what extent are the financial strategies applied in your bank to enhance its performance?

    To a very low extent [ ] To a low extent [ ]
    To a moderate extent [ ] To a great extent [ ]
    To a very great extent [ ]

22. In general, what would you suggest to be done in your organization to improve its performance?

    ……………………………………………………………………………………………
    ……………………………………………………………………………………………
    ……………………………………………………………………………………………
    …………………………………………………………………………………………..

THANK YOU FOR YOUR PARTICIPATION!![i]!!!!!!!!!!!!!!!!!!!!!!!!!!!!!!!!!!

Appendix III: List of Banks in Tier Three

Tier III	Comprises of banks with a balance sheet of less than Kenya Shillings 10 billion	1. Habib A.G. Zurich 2. Victoria Commercial Bank 3. Credit Bank 4. Habib Bank (K) Ltd 5. Oriental Commercial Bank 6. K-Rep Bank 7. ABC Bank 8. Development Bank of Kenya 9. Middle East Bank 10. Equatorial Commercial Bank 11. Trans-National Bank 12. Dubai Bank 13. Fidelity Commercial Bank 14. City Finance Bank 15. Paramount Universal Bank 16. Giro Commercial Bank 17. Imperial Bank 18. Guardian Bank 19. Southern Credit Bank 20. Gulf African Bank 21. First Community Bank

Source: The Banking Survey 2011, pp. 191

DETERMINANTS OF ORGANISATIONAL PERFORMANCE BY TIER THREE COMMERCIAL BANKS IN KENYA

BY

JOSEPH MURIITHI GIKUNDA

A MANAGEMENT RESEARCH PROJECT SUBMITTED IN PARTIAL FULFILLMENT OF THE REQUIREMENT FOR THE AWARD OF THE DEGREE OF MASTER OF BUSINESS ADMINISTRATION (MBA), SCHOOL OF BUSINESS, UNIVERSITY OF NAIROBI

NOVEMBER, 2013

DECLARATION

This is my original work and has not been presented for award of any degree in any other university or institution of higher learning for a degree, diploma or certificate award or anywhere else for academic purposes.

Signature: ______________________ Date: _____________________

JOSEPH MURIITHI GIKUNDA

REG NO. D61/70145/2009

SUPERVISOR'S APPROVAL

This Management research project has been submitted for examination with my approval as the University of Nairobi Supervisor.

Signature: ______________________ Date: _____________________

DR. JAMES GATHUNGU

DEPARTMENT OF BUSINESS AND ADMINISTRATION

SCHOOL OF BUSINESS

UNIVERSITY OF NAIROBI

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I thank God for providing me with an opportunity, strength, health, knowledge and favour to complete this research project. I am heartily thankful and appreciate my supervisor Dr. James Gathungu, without whose guidance and supervision, this project would not have been accomplished. Lastly and not least, am also indebted to my MBA colleagues and friends and all those who assisted me in one way or another throughout this period of study and though I may not name each one of you individually, your contribution is recognized and appreciated immensely. I owe you my gratitude. To you all, God bless.

DEDICATION

This research is dedicated to my parents, who made me be whom I am today and more so, to my late father who never got tired of talking to me on the value of education, sacrificed our family comfort to invest in our education and endured a lot to make me whom I am today. Lastly I would also like to thank my Wife and Son for their support during the project.

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ABSTRACT

The Banking sector has undergone significant transformation and continues to improve with new regulations and guidelines seeking to maintain stability. The objective of the study was to establish determinants of organization performance in Kenya banking sector with special focus on tier three Commercial Banks. The research adopted a descriptive survey design on a population of the 43 commercial banks in Kenya. The study utilized both primary and secondary sources of data. Data analysis was done using the facilities for descriptive methods on the Statistical Packages for Social Sciences (SPSS). Based on the findings in relation to specific objective, the study concluded that majority of the organization perceive that alleged that corporate governance affects organization performance. Also the study concluded that companies had put in place effective corporate governance systems that shown to implement solid and integrated performance approaches more easily than others and that management in their organization are committed in ensuring the performance of the bank is improved. Likewise, the study concluded that management most organization consider merit and previous performance of the individual to be mandated in the management position and that bank shares more democratic ownership structures, more balanced and broader governance systems, and a more comprehensive view of organizational goals and performance have also better chances to increase shareholders' loyalty. Finally the study found that management is committed hence influencing bank performance to a great extent. To technologies advancement, the study concluded that technologies advancement enhancement bank performance where it eases the process and procedure of banking. On bank size, the study concluded that most of the banks had 16-30 branches where number of branches that bank have determines its profitability. Loans from us hence low interest income. Inclusively, the study established that bank size determines bank profitability to very great extent. To financial strategies adopted by the banks, the study concluded that investment management strategy and cash flow management strategy were the main financial strategies adopted by most of tier three banks in Kenya.

Keywords: Corporate governance, firm size, financial strategy, technology advancement

CHAPTER ONE: INTRODUCTION

1.1 Background of the Study

Global competition, reengineered product life cycles, mass customization and the increased need to respond quickly to customers' needs are some of the pronounced trends currently driving organizational change. Successful companies in this environment use Information Technology as a primary enabler and are organized as dynamic networks with globally distributed operations which allow them to adapt more quickly to ever-changing competitive landscapes and customer requirements (Edwards & Sridhar, 2005). These organizations often adopt models of global virtual teams to collaboratively work, often exemplified in global software development (Edwards & Sridhar, 2006).

Over the past decades, organizations have constantly trying to adapt, survive, perform and influence. However, they are not always successful. To better understand what they can or should change to improve their ability to perform, organizations can conduct organizational assessments (Edwards & Sridhar, 2005). This diagnostic tool helps organizations obtain useful data on their performance, identify important factors that aid or impede their achievement of results, and situate themselves with respect to competitors. Interestingly, the demand for such evaluations is gaining ground. Donors are increasingly trying to deepen their understanding of the performance of organizations which they fund (government ministries, International Financial Institutions and other multilateral organizations, as well as research institutions) not only to determine the contributions of these organizations to development results, but also to better grasp the capacities these organizations have in place to support the achievement of results.

Banking industry play an important role in mobilizing financial resources for investment by mobilizing investors and boosting businesses as well as offering financial services to the public with the aim of making profit. As per the central bank of Kenya, bank supervision annual report (2010), at the end of December 2010, the banking sector comprised of 45 institutions, 41 of which were commercial banks, two mortgage finance companies, one non-bank financial institution and one building society. Despite their number being high their total assets account for only 48.2% of the sectors total assets. However, the industry has also involved itself in automation, moving from the traditional banking to better meet the growing complex needs of their customer and globalization challenges.

1.1.1 Organizational Performance

Organizations today grapple with revolutionary trends; accelerating product and technological change, international competition, deregulation, demographic changes, and a shift towards a service society. These trends have increases dramatically the degree of competition in virtually all industries. Either companies in such an environment become competitive high-performers or they vanish (Dessler, 2000). However, organization performance can be classified into financial performance and non-financial performance (Mahoney & Roberts, 2007). The financial performance approach examines indicators such as sales growth, profit rate, return on investment, return on sales, return on equity, and earnings per share, whereas the non-financial performance approach focuses on market share, new product introduction, product quality, marketing effectiveness and technological efficiency.

Traditionally, organizations have measured success against a financial standard through the profits, the greater the success and other identical measures. In fact, noted economist Milton Friedman believed the only social responsibility of business was to increase profits and to serve as the instrument of the stockholders who owned the corporation and the community surrounding (clients) (Hoyt, 2003). Hartman (2005) summarizes Friedman's view by stating that the difficulty of exercising social responsibility illustrates the great virtue of private competitive enterprise to it forces people to be responsible for their own actions and makes it difficult for them to "exploit" other people for either selfish or unselfish purposes. They can do well, but only at their own expense.

Organizations are investing ever-increasing amounts of resources into Performance Management Systems, but it is still not clear what they can expect in return, or how they might influence the likelihood of positive system outcomes. Performance Measurement Systems (PMS) enable organizations to plan, measure and control their performance, so that decisions, resources and activities can be better aligned with business strategies to achieve desired results and create shareholder value.

1.1.2 Determinants of Bank Performance

The banking industry in general has experienced some profound changes in recent decades, as innovations in technology and the inexorable forces driving globalization continue to create both opportunities for growth and challenges for banking managers to remain profitable in this increasingly competitive environment (Molyneux & Wilson, 2004). The importance of bank profitability 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. Hence, the basic aim of a bank's management is to achieve a profit, as the essential requirement for conducting any business (Bobáková, 2009).

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. The importance of bank profitability at both the micro and macro levels has made researchers, academics, bank managements and bank regulatory authorities to develop considerable interest on the factors that determine bank profitability (Athanasoglou *et al*., 2005). Determinants of bank profitability comprise characteristics of individual bank companies that affect their profitability. Shareholder and managerial decisions and activities can directly influence these characteristics which also differ from company to company.

Across the globe, the banking industry today enjoys a number of advantages compared to past years that would appear to contribute to their ability to generate profits. Molyneux and Thornton (1992) were the first to explore thoroughly the determinants of bank profitability on a set of countries using a sample of 18 European countries during the 1986-1989 periods. They found a significant positive association between the return on equity and the level of interest rates in each country, bank concentration and government ownership. Abreu and Mendes (2001) investigate the determinants of banks interest margins and profitability for some European countries in the last decade. They report that well capitalized banks face lower expected bankruptcy costs and this advantage translates into better profitability. Bashir (2009) examines the determinants of Islamic banks

performance across eight Middle Eastern countries for 1993-1998 periods. A number of internal and external factor were used to predict profitability and efficiencies. Controlling for macroeconomic environment, financial market situation and taxation, the results show that higher leverage and large loans to asset ratios, lead to higher profitability.

1.1.3 Banking Industry in Kenya

The Banking industry in Kenya is governed by the Companies Act, the Banking Act, the Central Bank of Kenya Act and the various prudential guidelines issued by the Central Bank of Kenya (CBK, 2009). The banking sector was liberalized in 1995 and exchange controls lifted. The CBK, which falls under the Minister for Finance docket, is responsible for formulating and implementing monetary policy and fostering the liquidity, solvency and proper functioning of the financial system.

In Kenya, commercial banks play an important role in mobilizing financial resources for investment by mobilizing investors and boosting businesses as well as offering financial services to the public with the aim of making profit. Lending represents the heart of the banking industry and loans are the dominant assets as they generate the largest share of operating income. As per the central bank of Kenya, bank supervision annual report (2010), at the end of December 2010, the banking sector comprised of 45 institutions, 41 of which were commercial banks, two mortgage finance companies, one non-bank financial institution and one building society. Despite their number being high their total assets account for only 48.2% of the sectors total assets.

Over the last few years, Kenyan Banks have realized tremendous grow in the last five years and have expanded to the East African region. The growth has been mainly

underpinned by, the industry's wide branch network expansion strategy both in Kenya and in the East African community region, and automation of a large number of services and a move towards emphasis on the complex customer needs rather than traditional 'off-the-shelf' banking products. Players in this sector have experienced increased competition over the last few years resulting from increased innovations among the players and new entrants into the market (PWC, 2008).

The banking industry in Kenya has also involved itself in automation, moving from the traditional banking to better meet the growing complex needs of their customer and globalization challenges. There has been increased competition from local banks as well as international banks, some of which are new players in the country. This has served the Kenyan economy well as the customers and shareholder are the ones who have benefited the most. According to Omuodo (2008) as pressure mounts on the banking industry's profitability resulting from over reliance on interest income by banks, it is strategically imperative that banks focus on other revenue streams.

1.1.4 Tier Three Commercial Banks in Kenya

In the banking sector, tier three commercial banks are considered to be among the few banks whose assets happen to be below 10 billion. This means that their performance may not be compared to other banks that have assets that are more than 10 billion. Reasons as to why banks such as Transnational bank, Habib Bank, Oriental commercial bank, First community bank, Middle East Bank and Paramount Universal Bank among many other banks have been classified to be among the tier three group is basically because, over some period their performance have remained to be stagnant. This has also

resulted to minimized expansions of these banks. The operations in these banks have also been quite shaky and have some elements of instability in service provision in these current times. As such there is need for this study to examine in detail what is really main cause of unpleasant performance among these banks.

1.2 Research Problem

The banking sector is the backbone of any economy and plays an important financial intermediary role. Therefore, its health is very critical to the health of the general economy at large. Given the relation between the well-being of the banking sector and the growth of the economy (Rajan & Zingales, 2008) knowledge of the underlying challenges facing financial sector's performance is therefore essential not only for the managers of the banks, but also for numerous stakeholders such as the central banks, bankers associations, governments, and other financial authorities. Knowledge of these challenges would be useful in helping the regulatory authorities and bank managers formulate future policies aimed at improving the profitability of the banking sector. The importance of bank performance can be appraised at the micro and macro levels of the economy (Athanasoglou *et al*., 2008).

Over the last few years, Kenyan Banks have realized tremendous grow in the last five years and have expanded to the east African region. The growth has been mainly underpinned by, the industry’s wide branch network expansion strategy both in Kenya and in the East African community region and automation of a large number of services and a move towards emphasis on the complex customer needs rather than traditional ‘off-the-shelf’ banking products. Players in this sector have experienced increased

competition over the last few years resulting from increased innovations among the players and new entrants into the market (PWC, 2008). However, some banks are unable to compete with bigger bank due to their financial capacity to adopt current IT environment, employee retention, poor governance and stiff competition from bigger banks. This has resulted to minimized expansions of these banks. The operations in these banks have also been quite shaky and have some elements of instability in service provision in these current times. As such there is need for this study to examine in detail what is really main cause of unpleasant performance among these banks.

Notwithstanding the enormously complex and dynamic nature of the environment in which the banks compete, there is a growing body of evidence that suggests it is possible to discern relevant indicators of banking industry performance today. Local studies done include; Serem, (2002) did a survey on the effect of human resource practices on banks profit in Nairobi, Nyangweso (2009) did a survey on the practice and challenges of strategy implementation at Cooperative Bank of Kenya, Kinuthia (2010) conducted a study on the Effect of competitive strategies on the performance of Equity Bank of Kenya while Wandate (2011) conducted a survey on management perception of the influence of corporate social responsibility on performance of Equity Bank Limited. However no local studies that have been done on challenges facing the organization performance in financial sector. It’s against this realization that the current study aims to bridge this gap by investigating the determinants of the organization performance in Kenya banking sector with special focus on tier three Commercial Banks. The study aims to answer the following research questions, that is, how does corporate governance affect performance of commercial banks in Kenya?, Does technology advancement affect performance of

commercial banks in Kenya? Does firm size affect performance of commercial banks in Kenya? How do financial strategies affect performance of commercial banks in Kenya?

1.3 Research Objective

This study sought to establish determinants of organization performance in Kenya banking sector with special focus on tier three Commercial Banks.

1.4 Value of the Study

The findings of this study will be useful to financial institutions in Kenya. The study will provide useful information that will help the management of financial institutions in addressing the challenges facing financial institutions and devise strategies to ensure the institutions remain competitive.

The study will also be of great significance to banking sectors in Kenya. This study will be invaluable to banking sector as a whole as its findings would appraise challenges they face and link the same to the corporate performance. The study will offer an opportunity for review of strategies adopted with aim of improving organization performance as it will try to unearth how it has been effective leading to effective performance.

The study findings are expected to be of great importance to various researchers involved in policy making. The study will further make a myriad contribution to the literature on challenges facing organization performance that will be helpful to researchers who want to further on their study in the area.

CHAPTER TWO: LITERATURE REVIEW

2.1 Introduction

This chapter presents past studies done on challenges facing the organizational performance and the link between the two. The chapter also presents literature and previous studies that have been conducted on the link between challenges and organization performance.

2.2 Theoretical Foundation

This study is guided by innovator's solution theory. The theory is relevant in the study as it explains the process of innovation. According to Christensen and Raynor's (2003) theory of the innovator's solution is a brilliant analysis of why companies fail to innovate. It explains convincingly why corporate managements don't learn about good ideas, and why managers succumb to inherent pressures to run away from the challenge of disruptive competition rather than stand and fight. The decisions made as a result of these pressures make sense in the short run to the individuals involved, but in due course they send the organization into an inexorable death spiral.

But while their analysis of the causes of failure to undertake disruptive innovation is effective, their proposal for solving the dilemma of disruptive innovation is less helpful. The central premise of their thesis the innovator's solution – is to accept the grim reality that big companies are inherently and constitutionally disinclined to tackle disruptive innovation. A modern organization will crush disruptive new ideas, because they represent a threat to management, to careers, to power structures, to customary ways of

things, to client bases, to brands, to corporate culture. The author’s solution is to protect genuine innovators and their disruptive change ideas from these hostile forces.

Corporate leaders should put up a wall between the innovation and the existing hierarchy. Leadership should create an independent business unit, which will provide a safe and protected environment for innovation. These innovations can flourish without having to fight off the interferences and intrusions and anti-innovation attitudes of the hierarchy.

Allowing a different culture to flourish in a separate organization eventually leads to repeated power struggles and culture clashes, which members of the mainstream organization invariably win. Interest in the new ventures tends to be cyclical. Brief surges of enthusiasm, triggered by abundant resources and the desire to diversify, are followed by sharp declines. The life spans of both internal venture units and corporate venture capital funds, therefore, tend to be short on average, only four to five years. Oke and Goffin (2001) innovator's solution theory rests on the hope that if one can build enough commercial success in the marketplace, he/she has a better chance of eventually winning that battle of persuasion. Surely, their argument goes, the hard numbers will win the war. Unfortunately the track record shows that even with strong commercial success, numbers and reason are not enough to dislodge the forces of stasis and inertia.

2.3 Organization performance

Performance is the outcome of all of the organization’s operations and strategies (Wheelen & Hunger, 2002). Performance measurement systems provide the foundation to develop strategic plans, assess an organization’s completion of objectives, and remunerate managers (Ittner & Larcker, 1998). While consensual measurement of

performance promotes scholarly investigations and can clarify managerial decisions, marketers have not been able to find clear, current and reliable measures of performance on which marketing merit could be judged. Performance is optimal result done by somebody or group or company. Traditional performance measurement is oriented to financial and profitability. A good company's performances are looked by the profit it's achieved compared to amount specified before (Mulyadi, 2001).

According to Kaplan & Norton (1996) there are 4(four) perspectives of company's performance, that are: Financial Perspective, consist of income growth, productivity growth, cost efficiency and as-set utilizing; Internal business process perspective, consist of improving innovation, operation process, service of post sell; Client perspective, consist of: client satisfaction, client acquisition (how far the company can draw client), client retention, potential market, client profitability and Learning growth perspective, consist of: improving personnel capability, improving information system capability and also motivation, development and compatibility (Kaplan & Norton, 1996).

Organization performance is very essential to management as it is an outcome which has been achieved by an individual or a group of individuals in an organization related to its authority and responsibility in achieving the goal legally, not against the law, and conforming to the morale and ethic. Performance is the function of the ability of an organization to gain and manage the resources in several different ways to develop competitive advantage (Iswatia & Anshoria, 2007). There are two kinds of performance, financial performance and non-financial performance. Financial performance emphasizes on variables related directly to financial report. Company's performance is evaluated in

three dimensions. The first dimension is company’s productivity, or processing inputs into outputs efficiently. The second is profitability dimension, or the level of which company’s earnings are bigger than its costs. The third dimension is market premium, or the level of which company’s market value is exceeding its book value (Walker, 2001).

2.3.1 Corporate Governance

Corporate governance has been an issue of global concern long before now. Many countries that suffered during the recent economic crises in Asia and other emerging markets had weak legal environments and poor governance systems. Christopher (2009) stated that proper governance of companies would become as crucial to the world economy as the proper governance of countries and will converge in associated issues of competitiveness, corporate citizenship, social and environmental responsibility. The governance of banks becomes even more pronounced considering their role of financial intermediation in developing economies. Commercial banks are the main providers of funds to enterprise and where there is a thin or absent capital market, their failure becomes the failure of the system. According to Simpson (2004) the impact of failure of the banking system can have immense cost, as it has repeatedly been seen that bank failure cost developing countries up to 15% of their GDP and losses that far outstripped aids received.

Love and Rachinsky (2008) opined that corporate governance aims at promoting competition, while allowing customers the option of making a choice. This concerns deregulation as reform measures that guarantees lower rates, provide customer choice and offer reliable services so that no one is literally left in the dark (Kajola, 2008). However,

corporate governance arrangement and institutions vary from place to place, though the focus is always to promote corporate fairness, transparency and accountability. Christopher (2009) pointed that the financial sector being at the center stage of efficient capital allocation needs to be visited more consciously with the subject of corporate governance. However, the fundamental issue of corporate governance and banks performance cannot be complete without proper understanding of the functions of shareholders and directors; the creation of an efficient and reliable board from among the shareholders to checkmate director's excesses if any becomes a sine qua non.

Sanda, Mikailu and Garba (2005) examined the relationship between banks ownership and several governance aspects and found out that increasing ownership stakes for hired managers and boards improves banks performance. However, for banks to perform its intermediating functions, certain issues like their objectives for being in existence must be considered. Berger, *et al.* (2004) identified these three objectives– to protect depositors, to promote stable money supply by preventing financial panic, and foster and efficient and competitive banking system that facilitate financial intermediation**.** Fundamentally corporate governance issue is more about leadership, as the public is now demanding accountability and responsibility in corporate behavior more than ever before. It also involves effective government action in the form of reformed regulatory systems; improve quality of service delivery and stepped-up in law enforcement by regulatory agencies (Kajola, 2008).

2.3.2 Technology advancement

Today's business environment is very dynamic and experiences rapid changes as a result of creativity, innovation, technological changes, increased awareness and demands from customers (Woherem, 2006). Business organizations, especially the banking industry of the 21st century operates in a complex and competitive environment characterized by these changing conditions and highly unpredictable economic climate with Information and Communication Technology (ICT) is at the centre of this global change curve. The banking business is becoming highly ICT based due to its inter-sectoral link; it appears to be reaping most of the benefits of revolution in technology, as can be seen by its application to almost all areas of its activities (Akinuli, 2009). It has broadened the scope of banking practices and changed the nature of banking as well as the competitive environment in which they operate. A broad opening has been experienced around the world for banks and they are currently taking due advantage of these innovations to provide improved customer services in the face of competition and faster services that enhance productivity (Ovia,2005).

Technological advancement facilitates payments and creates convenient alternatives to cash and cheque for making transactions. Such new practices have led to the development of a truly global, seamless and Internet enabled 24-hour business of banking. Technological advance in payments are important due to the fact that it will be feasible to outsource quite a number of the banks' role in the payments system. Also banks' regulation can be more technologically dependent and better focused rather than focusing on conceptual guidelines. ICT revolution both in terms of innovation rate, speedy operation, and cost per unit (portraying reduction in average total and marginal costs) has

made a good number of banks embrace the use of ICT infrastructure in their operations (Akinuli, 2009). However there may be little interruptions at times due to network failures, which may make customers unable to carry out transactions at a particular point in time. This little shortcoming is not in any way comparable to the days when banking halls were characterized by long queues mainly as a result of delays in the traditional banking operations.

Irechukwu (2006) itemized some bank services that have been revolutionized through the use of ICT as including account opening, customer account mandate, and transaction processing and recording. Information and Communication Technology has provided self-service facilities (automated customer service machines) from where prospective customers can complete their account opening documents direct online. It assists customers to validate their account numbers and receive instruction on when and how to receive their cheque books, credit and debit cards. ICT products in use in the banking industry include Automated Teller Machine, Smart Cards, Telephone Banking, Electronic Funds Transfer, Electronic Data Interchange, Electronic Home and Office Banking. Ovia (2005) opined that the revolution in ICT has made the banking sector changed from the traditional mode of operations to presumably better ways with technological innovation that improves efficiency. ICT can enhance efficiency via its use and in recent times banks have been encouraged by the rapid decline in the price of ICT gadgets. This has perhaps increased the bank level of ICT usage. The increase might have also been attributable to business environment that became relatively flexible to accommodate new forms of technological change as a result of reforms in the country.

2.3.3 Firm Size

If the relative size of a firm expands, its market power and profits increases. This is the Market-Power (MP) hypothesis. The hypothesis is also referred to as the Structure-Conduct-Performance (SCP) hypothesis (Athanasoglou *et al*., 2008). It has been argued that the effect of a growing size on bank profitability is significantly positive to a large extent (Smirlock, 2005). Smirlock (2005) further suggested that the difference in profitability among large and small banks is due to production technologies and outputs, which vary across them. The relative efficiency hypothesis (Clarke *et al*., 2004) presupposes that larger banks (where size is measured by assets) are more efficient than smaller ones, and are more profitable as a result of this superior efficiency.

The preceding arguments on the effect of size on bank profitability overlap with the idea that large banks can benefit from economies of scale (Bashir, 2009). However, some researchers suggest that little cost saving can be achieved by increasing the size of a banking firm (Berger *et al.*, 2006). They suggest that eventually very large banks could face scale inefficiencies, perhaps due to bureaucratic reasons (Athanasoglou *et al.*, 2008). Newly established banks are not particularly profitable (if at all profitable) in their first years of operation, as they place greater emphasis on increasing their market share and enlarging their firm, rather than on improving profitability (Athanasoglou et al., 2008).

Empirical evidence from Athanasoglou *et al.* (2008) shows that labour productivity growth, which can only be achieved if the bank is large in its size, has a positive and significant effect on bank profitability. This suggests that higher productivity growth generates income that is partly channeled to bank profits. Banks target high levels of

labour productivity growth through various strategies that include keeping the labor force steady, ensuring higher quality of newly hired labor, reducing the total number of employees, and increasing overall output via increased investment in fixed assets which incorporate new technology.

2.3.4 Financial Strategy

Financial strategy is a plan that spells out the actions that a company or business will undertake in order to be profitable and successful. It includes the use of value based performance measures and standardization of business processes, maintenance of financial flexibility to support growth and keeping the capital structure efficient. Financial strategies are very important for the survival of any institution, because without good financial strategies, organizations will run bankrupt and can be closed down. There are various forms of financial strategies that may affect the performance of banks to a certain extent. The key types of financial strategies that come in handy include cash flow management, purchase management, collection management, investment management and consideration management among many others (Leigh, 2013).

In terms of cash flow management, the income statement and balance sheet of a business may look great on paper, but if the cash is not properly managed, financial institutions can quickly go under. Part of the financial strategy of the business is to deal with how cash will be used in the institution (Pindado, 2004). This includes identifying an amount that will always be in reserves as well as how major expenses will be paid. By laying out the financial cash strategy ahead of time, it will make financial decisions easier about when to write a check and when to access a line of credit during normal business

practice. However, poor training among the support staff on cash flow management may pose a challenge on the overall performance of financial banks especially with relation to the flow of cash in and out of the organization.

Mauchi et al., (2011) carried out a study entitled “The effectiveness of cash management policies: a case study of Hunyani flexible products”. The study sought to evaluate the effectiveness of cash management policies at Hunyani Flexible Products (HFP) using data from 2000-2010. Other objectives of the study were to identify the key processes and models in cash management; examine the impact of poor cash management on the overall company performance and come up with strategies that can lead to an effective cash management system. The descriptive survey method was used to solicit information from the respondents and a case study approach was used. The research study was confined to respondents at Hunyani Flexible Products where a sample of forty (40) respondents was drawn. Data was obtained through interviews, administering questionnaires and by observations. From the research findings, it was established that there is a high deficiency of an effective cash management policy although some attributes of an effective management system were present. The study found that there is a positive relationship between the level of cash flow and the profitability of the company. The research concluded that, cash management is a culture that forms part of the strategy of companies and depends more on managers themselves than the characteristics of companies.

Bort (2004) noted that, cash flow management being one of the key financial strategies is of importance for both new and growing institutions. Companies may suffer from cash

flow problems because of lack of margin of safety in case of anticipated expenses such that they experience problems in finding the funds for innovation or expansion. Weak cash flow makes it difficult to hire and retain good employees (Beranek, 2000). Additionally, cash collection is also another financial strategy that may have an influence on the overall performance of financial institutions. Ross (2000) defines cash collection as a function of accounts receivable, it is the recovery of cash from a business or individual with which the company is issued an invoice. In the banking institution, collection of cash is of critical importance especially for its survival. This is whereby if the institutions do not apply the right techniques or put the appropriate follow up in the collect of cash, the institutions may end up having no cash in circulation and hence putting it into a critical situation.

According to Gitman (2008), there are four cash collection techniques namely letters, telephone calls, personal visits and legal action. Letters are written communication of expressions, opinions and communication recorder for later reference (Palom, 2001). The use of letters in the collection of cash comes into operation in that after a certain number of days, the firm sends a polite letter reminding the customer of the overdue accounts. If the account is not paid within a certain period after this letter has been sent a second more demanding letter is sent. A telephone call is a connection established over a telephone network between two parties (Chastain, 2008). As such, if the support staff members in a financial institution are not adequately prepared in terms of training skills on how to be effective while using these financial strategies, organizations may not be able to retrieve the finances that customers owe the company. This will automatically, influence the overall performance of the institution in that there will be more debts that the outside and

the institution may be running on a low budget. As such, this study intends to examine how financial strategies affect the performance of tier commercial banks.

2.4 Critical Review

Boateny (2004) pointed that good institutional and corporate governance had long been a development issue; the connection to the corporate governance agenda has not always been explicit. In fact, prior to this time bank governance has had a lower profile than corporate governance. Effective bank governance is the one that actually raises all the good governance questions. For instance, instability in banks would lead to financial instability and by extension a significant impact on the entire economy. It is in this vein that Blide (2004) purported that there is a direct link between improved bank governance, financial stability and sustainable economic development, particularly in developing and emerging market.

Charkam (2004) pointed that banking is littered with failure-cause by ignorance, fraud, misjudgment political and societal pressures, that he is unsure if better governance would saved them. However, bank failures convince government of the necessity to establish minimum capital requirement for insured banks. Oluyemi (2007) assert that sound capital creates reasonable assurance of protection to depositors as well as creditors. Yung (2009), using panel regression methods, indicated that board size has a great impact on bank performance. While Love and Rachinsky (2009) using a sample of 107 banks in Russia and 50 banks in Ukraine found some significant, but economically unimportant relationship between governance and contemporaneous operating performance and a

weaker link with subsequent performance. They also ascertained that banks with more concentrated ownership have lower ranking on corporate governance.

Harold and Jeff (2005) contend that financial service providers should modify their traditional operating practice to remain viable in the 1990’ss and the decade beyond. Thus, ICT has emerged as a catalyst in the various industries of the world to aid the process and procedure required to ensure the realization of various organizational goals. The role of ICT in the banking sector became of interest to this study due to the significant role it plays in the economy by stimulating economic growth through the intermediation of funds to economic agents that need them for productive activities. This function is very vital for any economy that intends to experience meaningful growth because it makes arrangements that bring borrowers and lenders of financial resource together and more efficiently too than if they had to relate directly with one another (Ojo, 2007).

The banking industry in general has experienced some profound changes in recent decades, as innovations in technology and the inexorable forces driving globalization continue to create both opportunities for growth and challenges for banking managers to remain profitable in this increasingly competitive environment. Most of the studies concerning bank profitability to date, including Short (1979), Bourke (1989), Molyneux and Thornton (1992), Demirguc-Kunt and Huizinga (1999) and Goddard, Molyneux, and Wilson (2004), have employed different linear models to estimate the impact of various factors that could be significant in terms of explaining profits.

The importance of bank profitability 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. Hence, the basic aim of a bank's management is to achieve a profit, as the essential requirement for conducting any business (Bobáková, 2009). 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. The importance of bank profitability at both the micro and macro levels has made researchers, academics, bank managements and bank regulatory authorities to develop considerable interest on the factors that determine bank profitability (Athanasoglou *et al*., 2005). Determinants of bank profitability comprise characteristics of individual bank companies that affect their profitability. Shareholder and managerial decisions and activities can directly influence these characteristics which also differ from company to company.

Guru et al. (2009) attempt to identify the determinants of successful deposit banks in order to provide practical guides for improved profitability performance of these institutions. The findings of this study revealed that efficient expenses management was one of the most significant in explaining high bank profitability. Among the macro indicators, high interest ratio was associated with low bank profitability and inflation was found to have a positive effect on bank performance. In Kenya, commercial banks play an important role in mobilizing financial resources for investment by mobilizing investors and boosting businesses as well as offering financial services to the public with the aim of making profit. However globalization and unpredictable change in the

environment they operate, such as IT advancement, poor corporate governance, size of the firm in terms of assets, challenges their performance. The current study aims to investigate the challenges faced by commercial banks in Kenya in their performance particularly on tier three Commercial Banks.

CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Introduction

This chapter presents the methodology, which was used to carry out the study. It further describes the type and source of data, the target population and sampling methods and the techniques that was used to select the sample size. It also describes how data was collected and analyzed. The suitable methodology in this study gives the guidelines for information gathering and processing.

3.2 Research Design

This study employed a descriptive research design. A descriptive research design attempts to describe or define a subject, often by creating a profile of a group of problems, people, or events, through the collection of data and tabulation of the frequencies on research variables or their interaction, (Cooper and Schindler, 2006). It is concerned with describing the characteristics of a particular individual, or of a group. In this case, the research problem was to investigate determinant of organization performance in the Kenya banking sector with focus to banks in tiers three. A descriptive research defines questions, people surveyed, and the method of analysis prior to beginning of data collection. Thus, this approach is appropriate for this study, since the researcher intends to collect detailed information through descriptions and the method is also useful for identification of variables and hypothetical constructs.

3.3 Population of Study

Target population as described by Borg and Grall (2009) is a universal set of study of all members of real or hypothetical set of people, events or objects to which an investigator wishes to generalize the result. The population of this study comprised of the banks in categorized in tier three. There are twenty one banks in tier three in Kenya as at may 2013 (CBK Report, 2013). Thus the study conducted a census survey owing to the small number of banks in the said tier. These banks were chosen since they perform minimal compared to other banks in tier one and two. Mugenda and Mugenda (2003) explained that the target population should have observable characteristics to which the study intents to generalize the result of the study. This definition assumes that the population is not homogeneous.

3.4 Data Collection

The researcher collected primary where the questionnaire was used to collect the data from the respondents from each bank. The questionnaire was structured to include both closed, open-ended and matrix questions to allow variety. The structured questions are normally close ended with alternatives from which the respondent is expected to choose the most appropriate answer (Mugenda & Mugenda, 2003). Unstructured questions are open-ended and present the respondent with the opportunity to provide their own answers. These types of questions are easy to formulate and allow the respondent to present their feelings on the subject matter enabling a greater depth of response (Mugenda & Mugenda, 2003). Matrix questions were also utilized. This type of questions present the respondent with a range of questions against which they are expected to

respond based on a predetermined rating scale. The most commonly used is the likert scale. These types of scales are used to measure perceptions, attitudes, values and behaviour (Cooper & Schinder, 2007). These types of questions are popular with the respondents and researchers as they are easy to fill in, economical and provide easy comparability. The respondents of this study were senior, middle low level managers while two respondents in each bank were targeted contributing to 42 respondents.

3.5 Data Analysis

The study generated both qualitative and quantitative data. Quantitative data were coded and entered into Statistical Packages for Social Scientists (SPSS Version 17.0) and analyzed using descriptive statistics. Qualitative data was analyzed based on the content matter of the responses. Responses with common themes or patterns will be grouped together into coherent categories. Descriptive statistics was also used of absolute and relative (percentages) frequencies, measures of central tendency and dispersion (mean and standard deviation respectively). Quantitative data was presented in tables and graphs and explanation was presented in prose.

CHAPTER FOUR: DATA ANALYSIS, RESULTS AND DISCUSSION

4.1 Introduction

This chapter presents analysis of the data on determinants of organizational performance in the Kenyan banking sector with specific focus on tier three commercial banks. This chapter presents the findings of the study and discussions on the findings. The finding intended on answering the study's research questions. Data collected was collated and reports were produced in form of tables and figures and qualitative analysis done in prose.

4.2 Response Rate

Table 4.1 illustrates the response rate of the respondents that participated in the survey. The study targeted 42 respondents working in the said banks in collecting data on determinants of organizational performance in the Kenyan banking sector. However, out of 42 questionnaires distributed 33 respondents completely filled in and returned the questionnaires contributing to 79%. This response rate was reached due to the data collection procedure, where the researcher personally administered questionnaires and waited for respondents to fill in, kept reminding the respondents to fill in the questionnaires through frequent phone call and picked the questionnaires once fully filled. The 21% questionnaires that were not returned were due to reasons like, the respondent were not available to fill them in at that time and with persistence follow-ups there were no positive responses from them. The response rate demonstrates a willingness of the respondents to participate in the survey that the study sought.

Table 4.1 Response Rate

Response	Frequency	Percentage
Filled in questionnaires	33	79
Un returned questionnaires	7	21
Total	**40**	**100**

Source: Research data (2013)

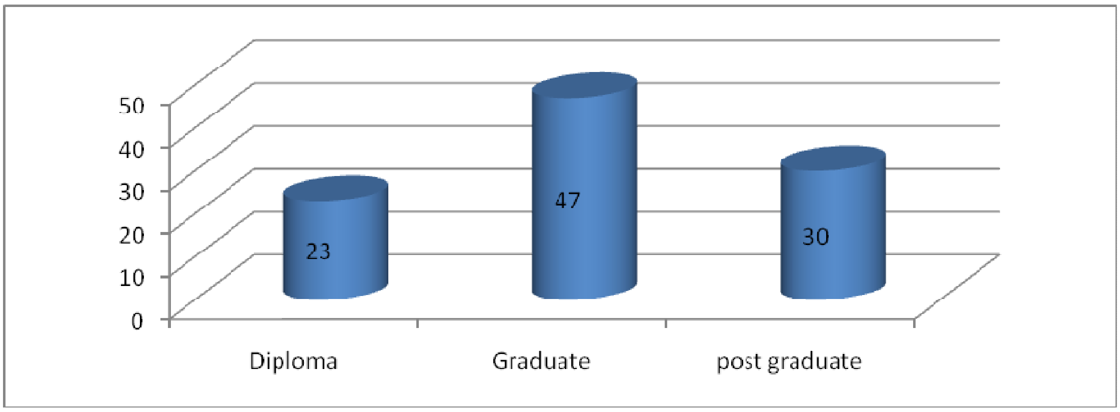
4.3 Demographic Characterization of the Respondents

The study found it crucial to ascertain the broad information of the respondents since it structures the charity under which the study can fairly entrance the pertinent information. The analysis relied on this information of the respondents so as to classify the different results according to their knowledge and responses.

4.3.1 Highest Education Level of the Respondents

The study was also inquisitive to determine the highest level of the academic qualification that the respondent held. Figure 4.1 shows the findings of the result, most (47%) of the respondents were graduate, 30% were post graduate (masters holder) while the rest (23%) had diploma as their highest level of education. This depicted that most of the respondents interviewed were well knowledgeable to understand and able to respond to the questionnaire in the manner intended.

Figure 4.1 Education Level of the Respondents



Source: Research data (2013)

4.3.2 Respondents Working Duration in Years

Table 4.4 illustrates working period in years of the respondents in their respective organization. From the findings majority (53%) of the respondents had worked in the organization for a period of 6-10 years, 36% had worked for a period of 1-5 years, 7% had worked for a more than 16 years while the rest (5%) had served in the organization for a period of 10-15 years. This implies that most of the respondents of this study had worked for a longer period within the organization thus conversant enough of the information that the study sought pertaining to the bank profitability.

Table 4.2 Working Duration

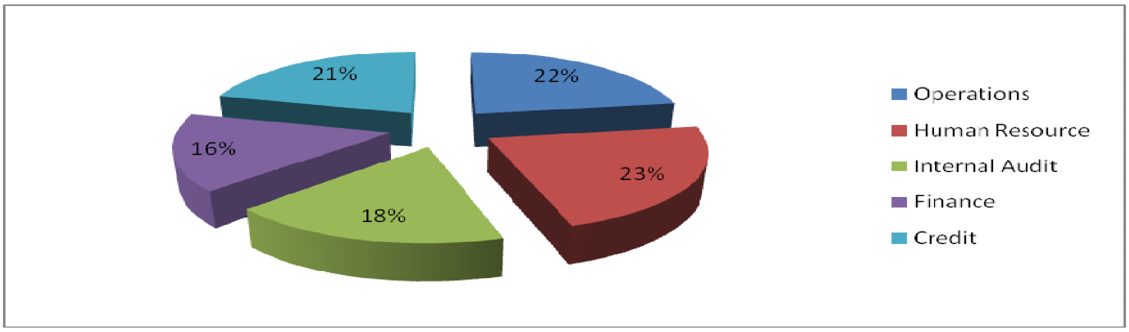
Period of Service	Frequency	Percentage
1- 5 Years	12	36
6 – 10 Years	18	53
10 – 15 Years	2	5
Above 16 Years	2	7
Total	**33**	**100**

Source: Research data (2013)

4.3.3 Respondents Department of Work

Figure 4.2 indicates departments in which respondents were working in their organization. From the findings most (22.6%) of the respondents were working at operations and human resource departments as shown in each case, 21% were serving at credit department, 18% were working at internal audit while 16% of the respondents were serving at finance department. This implies that all departments that were targeted by the study were involved and that the findings are not biased.

Figure 4.2 Respondents Department of Work



Source: Research data (2013)

4.3.4 Position held by the Respondents in their Respective Banks

The study aimed to investigate position held by the respondents in their organization. From the findings (33%) of the respondents were unit heads, 21% as assistance manager and directors, 18% were technical personnel, 15% were departmental heads while 3% were supervisors. Position held in the workplace leads to easier application and strategic practices that leads to better performance of the organization towards achieving

organizational goals and objectives. This depicts that all participant of the study were under the level to which the study targeted as stipulated in previous chapter.

Table 4.3 Position Held by the Respondents in their Respective Banks

Position Held	**Frequency**	**Percentage**
Supervisor	1	3
Technical personnel	6	18
Departmental Head	5	15
Unit Head	11	33
Director	7	21
Manager	7	21
Total	**33**	**100**

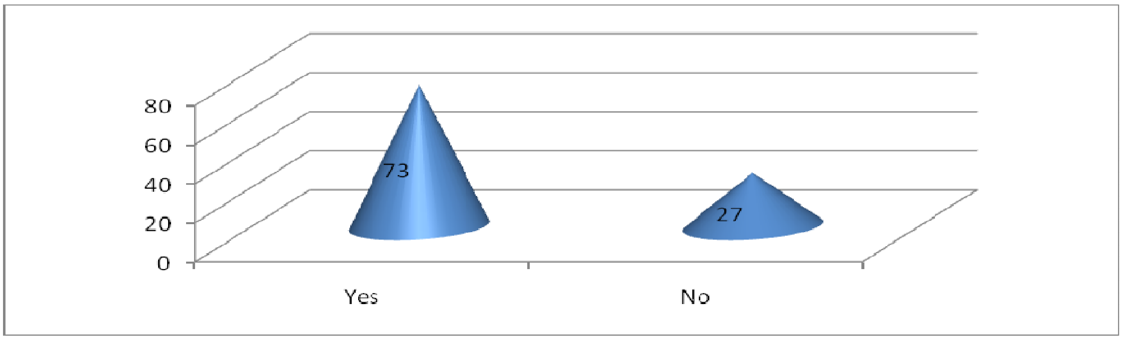
Source: Research data (2013)

4.4 Good Governance

4.4.1 Effect of Corporate Governance on Organization Performance

Figure 4.3 illustrates the summary of the findings on whether corporate governance affects organization performance. According to the findings, majority (73%) of the respondents alleged that corporate governance affects organization performance while the rest (27%) opposed the opinion of majority. This implies that majority of financial institution, banks not exempted; consider effectiveness of corporate governance as a key performance indicator in the organization performance.

Figure 4.3 Effect of Corporate Governance on Organization Performance



Source: Research data (2013)

4.4.2 Corporate Governance and its Influence on Organization Performance

Table 4.4 indicates respondents' level of agreement on the statements regarding to corporate governance and its influence on organization performance. According to the findings, respondents agreed that their companies had put in place effective corporate governance systems that shown to implement solid and integrated performance approaches more easily than others and that management in their organization are committed in ensuring the performance of the bank is improved as shown by mean score of 3.96 in each case, almost the same number of respondents agreed that management in their organization consider merit and previous performance of the individual to be mandated in the management position and that bank shares more democratic ownership structures, more balanced and broader governance systems, and a more comprehensive view of organizational goals and performance have also better chances to increase shareholders' loyalty as depicted by mean score of 3.79 and 3.75 respectively. Few of the respondents were neutral that their companies had put in place effective corporate governance systems that shown to implement solid and integrated performance approaches more easily than others as illustrated by mean score of 3.33.

Table 4.4 Corporate Governance and its Influence on Organization Performance

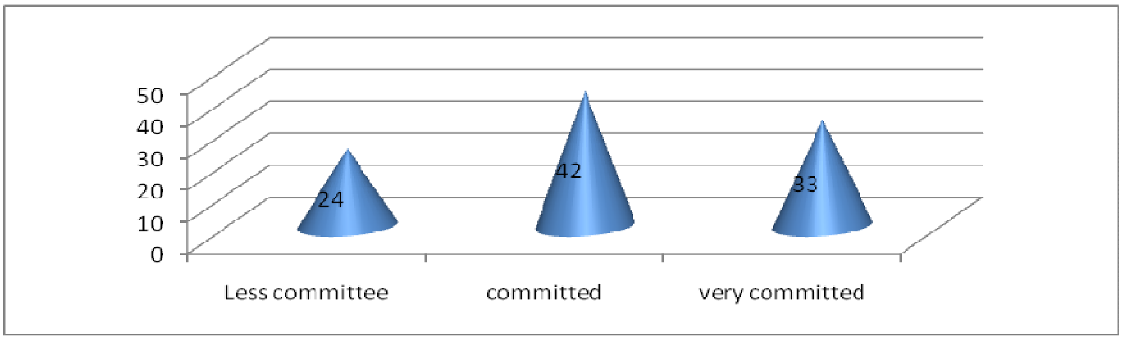
	Mean	**STDev**
Under the umbrella of corporate governance, our organization is encouraged to promote ethics, fairness and transparency in order to improve its performance	3.33	0.816
Our companies had put in place effective corporate governance systems that shown to implement solid and integrated performance approaches more easily than others	3.96	0.69
Our bank shares more democratic ownership structures, more balanced and broader governance systems, and a more comprehensive view of organizational goals and performance have also better chances to increase shareholders' loyalty	3.75	0.676
Management in our organization are committed in ensuring the performance of the bank is improved	3.96	0.55
Management in our organization consider merit and previous performance of the individual to be mandated in the management position	3.79	0.658

Source: Research data (2013)

4.4.3 Commitment of Corporate Governance

The researcher was also inquisitive in determining commitment of corporate governance in determining organization performance. From the findings, most (42%) of the respondent were of the opinion that corporate governance are committed, 33% were of the opinion that corporate governance are very committed while the rest (24%) opined that they are less committed.

Figure 4.4 Commitment of Corporate Governance



Source: Research data (2013)

4.4.5 Extent that Corporate Governance Determine Organization Performance

Table 4.5 represents the study finding on the extent to corporate governance determine organization performance. From the findings, majority (62.5%) of the respondents' indicated that corporate governance determine organization performance at a great extent, 29.2% perceived that corporate governance determine organization performance to a moderate extent while 8.3% were of the opinion that corporate governance determine organization performance to a very great extent.

Table 4.5 Extent that Corporate Governance Determine Organization Performance

	Frequency	Percentage
Moderate Extent	10	29
Great Extent	21	65
Very Great Extent	3	8
Total	**33**	**100**

Source: Research data (2013)

4.5 Technologies Advancement

4.5.1 Effectiveness of Technologies Advancement on Bank Performance

The study requested the respondent to indicate whether technology advancement enhance bank performance. Majority (90%) of the interviewed respondents' indicted that the banks technologies advancement enhancement bank performance while 10% indicated that technologies advancement does not in any way enhance bank performance. On whether application of IT eases the process and procedure of banking, majority (90%) of the respondents indicated that application of IT eases the process and procedure of banking while the remaining pointed otherwise.

Table 4.6 Effectiveness of Technologies Advancement on Bank Performance

	Frequency	**Percent**
Yes	30	90
No	3	10
Total	**33**	**100**

Source: Research data (2013)

4.5.2 Technology Advancement and its Influence on Organization Performance

Table 4.7 illustrates the finding of the study on respondent level of agreement on state of IT to its influence on bank performance. From the findings, most of the respondents strongly agreed that interviewed banks are not more profitable due to economies of scale on adoption of IT on their production as indicated by the mean score of 4.95, also respondent strongly agreed that most of banks are trying to modified its operation with relation to technological advancement in order to remain viable in the market as shown

by mean score of 4.01. Further, respondents strongly agreed that ICT revolution in terms of innovation increases speedy operation and therefore reduce cost per unit in production, and this has led a good number of banks to embrace the use of ICT infrastructure in their operations that improves efficiency as shown by mean score of 3.77. Respondents have also agreed that Banks that have adopted IT has broadened the scope of banking practices and changed the nature of banking as well as the competitive environment in which they operate and that Banks that have adopted ICT revolution in terms of innovation have benefited from speedy operation and reduced cost per unit hence more profits as depicted by mean score of 3.73 and 3.70 respectively. Likewise respondent agreed that IT has assisted customers to validate their account numbers and receive instruction on, when and how to receive their cheque books, credit cards and debit cards and also have agreed that accuracy of results generated by bank systems that embrace use of Smart Cards which in turn results to more profitability as depicted by mean score of 3.64 and 3.53 respectively. IT has broadened the scope of banking practices and changed the nature of banking as well as the competitive environment in which they operate as illustrated by mean score of 3.41. Finally, respondents disagreed that cost of acquiring better IT infrastructure for our bank is the major cause of low profits thereby decrease profitability as illustrated by mean score of 2.29.

Table 4.7 Technology Advancement and its Influence on Organization Performance

	Mean	STDev
Accuracy of results generated by bank systems that embrace use of Smart Cards which in turn results to more profitability	3.52	1.168
ICT revolution in terms of innovation increases speedy operation and therefore reduce cost per unit in production	3.77	1.297
IT has broadened the scope of banking practices and changed the nature of banking as well as the competitive environment	3.41	0.312
The market share that we have results to minimal performance	3.47	0.899
Our banks are not more profitable due to economies of scale on adoption of IT on their production	4.15	1.009
Cost of acquiring better IT infrastructure for our bank is the major cause of low profits	2.29	1.464
Banks that have adopted IT has broadened the scope of banking practices as the competitive environment in which they operate	3.73	0.87
Technological advancement in the banking industry has facilitated payments and creates convenient and non-risky alternatives	3.44	0.943
Banks that have adopted ICT revolution in terms of innovation have benefited from speedy operation and reduced cost per unit	3.7	1.198
Our banks is trying to modified its operation with relation to technological advancement in order to remain viable in the market	4.01	1.196
IT has assisted customers to validate their account numbers, receive instruction on, when and how to receive their cheque books, credit and debit cards	3.64	1.284

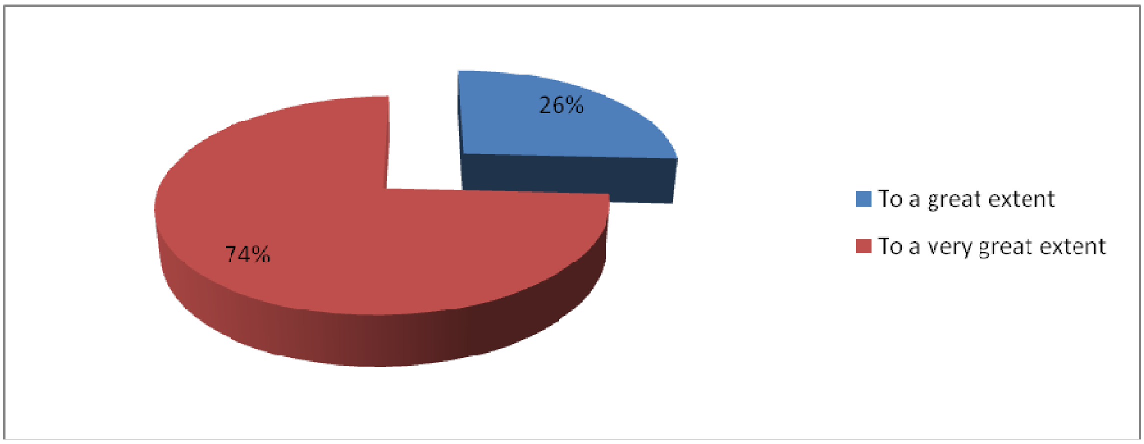
Source: Research data (2013)

4.5.3 Extent that Technological Advancement affect Bank Performance

Figure 4.5 illustrates the findings of the study on the influence of state of IT on bank profitability. Majority (74%) of the respondents purported that state of IT influences bank

profitability to a very great extent while the rest 26% were of the opinion that IT influences bank profitability to a great extent.

Figure 4.5 Extent that Technological Advancement affect Bank Performance



Source: Research data (2013)

4.6 Bank Size

4.6.1 Number of Branches

The study further requested the respondents to indicate the number of branches their bank have. According to the findings, majority (64%) of the respondents indicated that their bank have 16-30 branches, 24% indicated that their bank have between 1-15 branches, while 12% indicated that their bank have between 31-45 branches respectively.

Table 4.8 Number of Branches

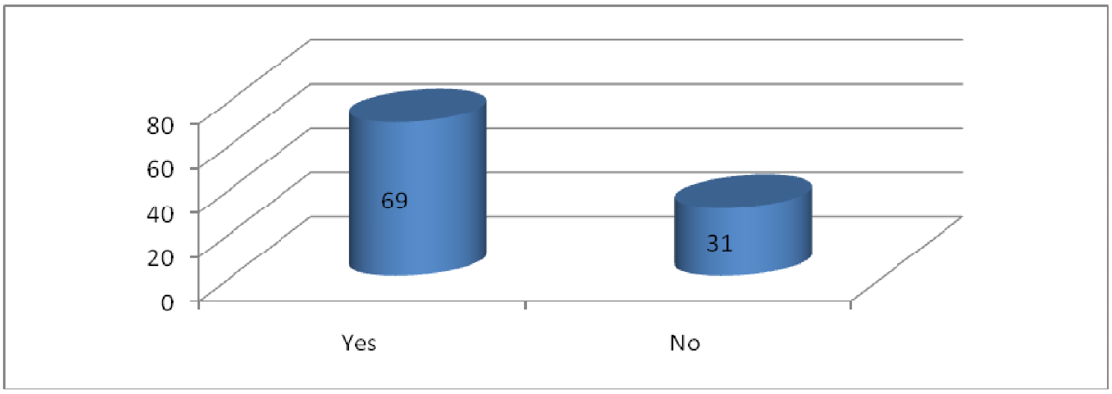
	Frequency	Percentage
1 to 15	8	24
16-30	21	64
31-45	4	12
Total	**33**	**100**

Source: Research data (2013)

4.6.2 Determination of Bank Profitability by Number of Branches

Figure 4.6 summarizes the study findings, on whether numbers of branches for a bank determines its profitability. From the findings, 69% of the respondents indicated that numbers of bank branches determines its profitability while the rest (31%) opined that number of bank profitability does not determine bank profitability.

Figure 4.6 Determination of Bank Profitability by Number of Branches



Source: Research data (2013)

4.6.3 Aspect of Bank Size on bank Performance

Table 4.9 illustrates the finding of the study on the respondent level of agreement. From the findings, most of the respondents agreed that total asset of their bank result minimal performance hence we face stiff competition from our competitors due to lack of fund in financing marketing program and that organization have less number of loyal customers who take loans from us hence low interest income as depicted by mean score of 4.26 and 412 respectively. Also respondents agreed that performance of our bank is in relation to the number of branches that we have and that fewer number of ATM point contribute to more profit to the banks that have adopted it while we have less number of ATM point hence less profitability as illustrated by mean score of 3.89 and 3.54 respectively. On the other hand, respondents were neutral that banks with many managers and few operators creates power confusion resulting to less profitability as depicted by mean score of 3.19.

Table 4.9 Aspect of Bank Size on bank Performance

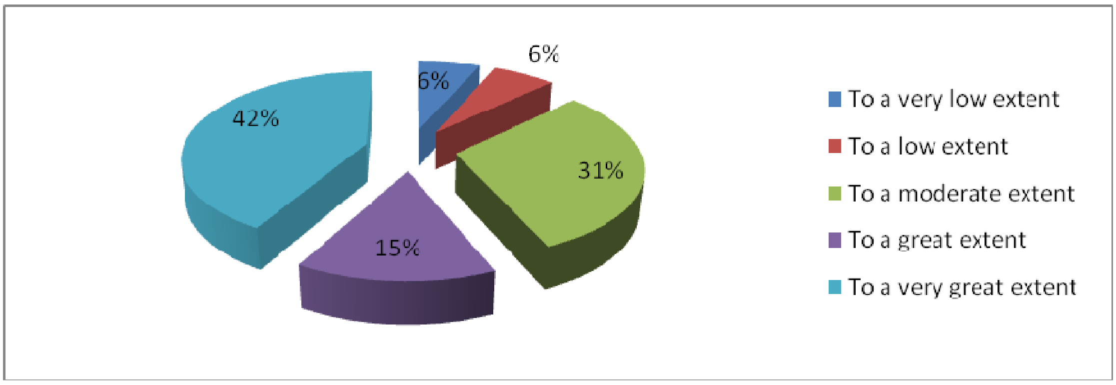
	Mean	**STDev**
Performance of our bank is in relation to the number of branches that we have	3.89	1.01
Total asset of our bank result minimal performance hence we face stiff competition from our competitors due to lack of fund in financing marketing program	4.26	0.723
Fewer number of ATM point contribute to more profit to the banks that have adopted it while we have less number of ATM point hence less profitability	3.54	1.498
We have less number of loyal customers who take loans from us hence low interest income	4.12	0.882
Banks with many managers and few operators creates power confusion resulting to less profitability	3.19	1.321

Source: Research data (2013)

4.6.4 Extent to which Bank Size Determines its Profitability

Further the study requested the respondents to indicate the extent to which bank size determines its profitability. From the findings, 42% of the respondents opined that bank size determines bank profitability to very great extent, 31% were of the opinion that bank size influence bank profitability to a moderate extent, 15% to a great extent, 7% to a low extent while a similar numbers purported that bank size influence bank profitability to a very low extent as indicated by the figure 4.13.

Figure 4.7 Extent to which Bank Size Determines its Profitability



Source: Research data (2013)

4.7 Financial Strategies

4.7.1 Financial Strategies adopted

Table 4.10 summarizes the study findings on the financial strategies adopted by the banks. From the findings, 79% of the respondent indicated that their banks have adopted investment management strategy, 67% had adopted cash flow management strategy, 55% had adopted purchase management strategy, 52% had adopted consideration management strategy while 52% had adopted collection management strategy.

Table 4.10 Financial Strategies adopted

Financial Strategies adopted	Frequency		percentage	
	Yes	No	Yes	No
Cash flow management strategy	22	11	67	33
Purchase management strategy	18	15	55	45
Collection management strategy	14	19	42	58
Investment management strategy	26	7	79	21
Consideration management strategy	17	16	52	48

Source: Research data (2013)

4.7.2 Monetary Policy and their Influence to Performance of Banks

The study requested the respondents to indicate their level of agreement on the statement relating to monetary policy and their influence to performance of banks. From the findings most of the respondents disagreed that they aren't adequately trained to use effectively the financial strategies available especially in the control of cash flow in the bank as depicted by mean score of 2.92, also respondent disagreed that cash collection techniques are not being utilized effectively and this contributes to the poor performance of our bank as illustrated by mean score of 2.56, on the other hand, respondent strongly disagree that Poor financial strategy application in our bank has resulted to weak cash flow. This makes it difficult for the management to hire and retain good employees as shown by mean score of 2.39 while also respondent strongly disagreed the bank suffer from cash flow problems because of lack of margin of safety in case of anticipated

expenses such that we experience problems in finding the funds for innovation or expansion as depicted by mean score of 2.24.

Table 4.11 Monetary Policy and their Influence to Performance of Banks

	Mean	**STDev**
Our bank suffer from cash flow problems because of lack of margin of safety in case of anticipated expenses such that we experience problems in finding the funds for innovation or expansion	2.24	0.862
Poor financial strategy application in our bank has resulted to weak cash flow. This makes it difficult for the management to hire and retain good employees	2.39	1.046
The cash collection techniques are not being utilized effectively and this contributes to the poor performance of our bank.	2.56	1.236
We aren't adequately trained to use effectively the financial strategies available especially in the control of cash flow in the bank.	2.92	0.874

Source: Research data (2013)

4.7.3 Extent that Financial Strategies Applied Enhance Bank Performance

Table 4.12 shows results of the findings on the extent to which financial strategies applied by bank enhance its performance. From the findings, (65%) of the respondents were of the opinion that financial strategies applied by bank enhance its performance to a great extent, 32% very great extent while the rest (3%) alleged that financial strategies applied by bank enhance its performance to a moderate extent.

Table 12 Extent that Financial Strategies Applied Enhance Bank Performance

	Frequency	Percentage
To a moderate extent	1	3
To a great extent	21	65
To a very great extent	11	32
Total	**33**	**100**

Source: Research data (2013)

4.8 Discussion of the Findings

The study sought to establish the extent to which corporate governance determines organization performance in the Kenyan banking sector, to examine the extent to technology advancement determines organization performance in the Kenyan banking sector, to assess the extent to which firm size determines organization performance in the Kenyan banking sector and to establish the extent to which financial strategies determines organization performance in the Kenyan banking sector.

On corporate governance, the study established that majority (73%) of the respondents alleged that corporate governance affects organization performance. According to Christopher (2009) the governance of banks becomes even more pronounced considering their role of financial intermediation in developing economies, thus banks should consider corporate governance. Further, respondents agreed that their companies had put in place effective corporate governance systems that shown to implement solid and integrated performance approaches more easily than others while management in their organization are committed in ensuring the performance of the bank is improved.

The finding of the study complied with Love and Rachinsky (2008) findings that that corporate governance aims at promoting competition, while allowing customers the option of making a choice. Finally, on the same the study found that corporate governance determine organization performance at a great extent. Christopher (2009) pointed that the financial sector being at the center stage of efficient capital allocation needs to be visited more consciously with the subject of corporate governance.

To technology advancement, majority (90%) of the interviewed respondents' indicted that the banks technologies advancement enhancement bank performance. The findings of the study did not show any relationship with Ovia (2005) finding that broad opening has been experienced around the world for banks and they are currently taking due advantage of these innovations to provide improved customer services in the face of competition and faster services that enhance productivity. Likewise, the study found that most of the respondents strongly agreed that interviewed banks are not more profitable due to economies of scale on adoption of IT on their production and that of banks are trying to modified its operation with relation to technological advancement in order to remain viable in the market. The finding of the study was contrary to Akinuli, (2009) that the banking business is becoming highly ICT based due to its inter-sectoral link; it appears to be reaping most of the benefits of revolution in technology, as can be seen by its application to almost all areas of its activities. Finally, majority (74%) of the respondents purported that state of IT influences bank profitability to a very great extent. The finding of the study was similar to Akinuli (2009) finding that ICT revolution both in terms of innovation rate, speedy operation, and cost per unit (portraying reduction in average total and marginal costs) has made a good number of banks embrace the use of

ICT infrastructure in their operations due to benefits they accrues in terms of bank performance. The increase might have attributable to business environment that became relatively flexible to accommodate new forms of technological change as a result of reforms in the country.

On bank size, majority (64%) of the respondents indicated that their bank have 16-30 branches. According to Bashir (2009) the preceding arguments on the effect of size on bank profitability overlap with the idea that large banks can benefit from economies of scale. From the findings, 69% of the respondents indicated that numbers of bank branches determines its profitability. Smirlock (2005) further suggested that the difference in profitability among large and small banks is due to production technologies and outputs, which vary across them. The relative efficiency hypothesis (Clarke et al., 2004) presupposes that larger banks (where size is measured by assets) are more efficient than smaller ones, and are more profitable as a result of this superior efficiency. Additionally, the study found that total asset of banks in tiers three result to minimal performance due to stiff competition from their competitors due to lack of fund in financing marketing program and that organization have less number of loyal customers who take loans from them hence low interest income. Athanasoglou *et al.* (2008) shows that labour productivity growth, which can only be achieved if the bank is large in its size, has a positive and significant effect on bank profitability. This suggests that higher productivity growth generates income that is partly channeled to bank profits. Finally, the study established that bank size determines bank profitability to very great extent. The finding of the study complied with Smirlock (2005) that it has been argued that the effect of a growing size on bank profitability is significantly positive to a large extent.

To financial strategies, the study found that majority (79%) of the respondent indicated that their banks have adopted investment management strategy. Leigh (2013) pointed that financial strategies are very important for the survival of any institution, because without good financial strategies, organizations will run bankrupt and can be closed down. Meanwhile, respondents disagreed that they aren’t adequately trained to use effectively the financial strategies available especially in the control of cash flow in the bank. Pindado (2004) purported that poor training among the support staff on cash flow management may pose a challenge on the overall performance of financial banks especially with relation to the flow of cash in and out of the organization. Inclusively, the study found that financial strategies applied by bank enhance its performance to a great extent. Pindado (2004) laying out the financial cash strategy ahead of time, it will make financial decisions easier about when to write a check and when to access a line of credit during normal business practice contributing significant organization financial performance.

CHAPTER FIVE: SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

This chapter presents the summary of the findings on determinants of organizational performance in the Kenyan banking sector with specific focus on tier three commercial banks, the conclusions and recommendations are drawn there to. The chapter is therefore structured into summary of findings, conclusions, recommendations and area for further research.

5.2 Summary of the Findings

The objectives of this study were to ascertain how corporate governance affect performance of commercial banks in Kenya, to establish the influence of technology advancement on performance of commercial banks in Kenya, to examine how firm size affect performance of commercial banks in Kenya and to determine the influence of financial strategies on performance of commercial banks in Kenya.

From the study findings it was clear that majority of the organization perceive that alleged that corporate governance affects organization performance. Also the study found that companies had put in place effective corporate governance systems that shown to implement solid and integrated performance approaches more easily than others and that management in their organization are committed in ensuring the performance of the bank is improved. Likewise, the study found that management most organization consider merit and previous performance of the individual to be mandated in the management

position and that bank shares more democratic ownership structures, more balanced and broader governance systems, and a more comprehensive view of organizational goals and performance have also better chances to increase shareholders' loyalty. Finally the study found that management is committed hence influencing bank performance to a great extent.

To technologies advancement, the study found that technologies advancement enhancement bank performance where it eases the process and procedure of banking. However, the study found that banks are not more profitable due to economies of scale on adoption of IT on their production although most of banks are trying to modified its operation with relation to technological advancement in order to remain viable in the market. Despites indicated challenges ICT revolution in terms of innovation increases speedy operation and therefore reduce cost per unit in production, and this has led a good number of banks to embrace the use of ICT infrastructure in their operations that improves efficiency which influences bank profitability to a very great extent.

On bank size, the study found that most of the banks had 16-30 branches where number of branches that bank have determines its profitability. Additionally, the study found that total asset of most banks in tier three result minimal performance hence they face stiff competition from their competitors due to lack of fund in financing marketing program and that organization have less number of loyal customers who take loans from us hence low interest income. Inclusively, the study established that bank size determines bank profitability to very great extent.

To financial strategies adopted by the banks, the study found that investment management strategy and cash flow management strategy were the main financial

strategies adopted by most of tier three banks in Kenya. Furthermore, the study found that respondent were trained on effectively use of financial strategies available especially in the control of cash flow in the bank and that cash collection techniques are utilized effectively contributing to the better performance of most bank in the category studied.

5.3 Conclusions

The study sought to find out determinants of organizational performance in the Kenyan banking sector with specific focus on tier three commercial banks. Based on the findings in relation to specific objective, the study concluded that majority of the organization perceive that alleged that corporate governance affects organization performance. Also the study concluded that companies had put in place effective corporate governance systems that shown to implement solid and integrated performance approaches more easily than others and that management in their organization are committed in ensuring the performance of the bank is improved. Likewise, the study concluded that management most organization consider merit and previous performance of the individual to be mandated in the management position and that bank shares more democratic ownership structures, more balanced and broader governance systems, and a more comprehensive view of organizational goals and performance have also better chances to increase shareholders' loyalty. Finally the study found that management is committed hence influencing bank performance to a great extent.

To technologies advancement, the study concluded that technologies advancement enhancement bank performance where it eases the process and procedure of banking. However, the study concluded that banks are not more profitable due to economies of scale

on adoption of IT on their production although most of banks are trying to modified its operation with relation to technological advancement in order to remain viable in the market. Despites indicated challenges ICT revolution in terms of innovation increases speedy operation and therefore reduce cost per unit in production, and this has led a good number of banks to embrace the use of ICT infrastructure in their operations that improves efficiency which influences bank profitability to a very great extent.

On bank size, the study concluded that most of the banks had 16-30 branches where number of branches that bank have determines its profitability. Additionally, the study concluded that total asset of most banks in tier three result minimal performance hence they face stiff competition from their competitors due to lack of fund in financing marketing program and that organization have less number of loyal customers who take loans from us hence low interest income. Inclusively, the study established that bank size determines bank profitability to very great extent.

To financial strategies adopted by the banks, the study concluded that investment management strategy and cash flow management strategy were the main financial strategies adopted by most of tier three banks in Kenya. Furthermore, the study concluded that respondent were trained on effectively use of financial strategies available especially in the control of cash flow in the bank and that cash collection techniques are utilized effectively contributing to the better performance of most bank in the category studied.

5.4 Recommendations

The study recommended that for performance of bank to be precise, management staffs in the entire organization should be involved either in implementation or formulation of

strategies that are intended on improving organization performance so that they can understand them well and act in a manner that results to the realization of the common goal of the bank. On the same the study recommended that effective performance can only be achieved when all staffs admits accountability of the organization involvement to it operation hence the need to be accountable of risk mitigation which can lead to good reputation of an effective management team.

On Technology advancement, the study recommended that due to globalization and technological innovation that the modern businesses are operating in, banks should not be exempted from this innovation since its one of the major drivers of profitability within organizations. Likewise the study recommended that organization and management should embrace IT and accept their operation to be done through technological adoption in order to improve their service delivery through a quality and quick process.

To the influence of bank size on bank performance, the study recommended that banks should consider opening new branches on the untapped potential areas for them to make high profits by increasing their customer base, opening of more branches and ATM centers as such will enhance their profitability capacity. Banks with more branches and interior access to the unbanked or marginalized areas will realize high profits hence banks should not ignore the concept of enlarging their market size thereby boosting their profitability.

On strategies adopted by the organization, the study recommended that strategies adopted by organization should be communicated to enhance financial management and handling so as to develop trust among the shareholder hence attracting more customers which in

turn improves organization performance. Additionally, the study recommended that staffs to be training on technical strategies such as fraud risk management to eradicate fraud any frauds.

5.5 Suggestion for Further Studies

The study has explored determinants of organizational performance in the Kenyan banking sector with specific focus on tier three commercial banks. The banking sector in Kenya however is comprised of various other financial institutions which differ in their way of management and have different settings all together. This warrants the need for other studies which would ensure generalization of the study findings for all the financial institutions in Kenya and hence pave way for new policies. The study therefore recommends other studies be done with an aim to investigate determinants of profitability in other financial institution other than banks such as DTMs in order to give a general result that depict real situation in the financial institutions.

5.6 Limitations of the Study

The researcher encountered various limitations that hindered access to information that the study sought. The main limitation of study was its inability to include more organizations. This was a case focusing on the selected banks. The study could cover more institutions across all banking sectors so as to provide a more broad based analysis. However, time and resource placed this limitation. The researcher also experienced other challenges such as none-cooperation by banks employees since it was not easy to convince employees to fill questionnaires hence not reaching the targeted sample size. This was attributed by the staffs perceiving that they will be victimized by giving out

information. However, the researcher assured respondents of proprietary measures that the findings would be accorded and used only for academic purpose.

5.7 Implication for Theory, Policy and Practices

Since the study was focusing on determinants of organization performance in the banking sectors in Kenya. The study recommended that management to ensure that corporate governance in their organization encourages staffs performance and that ensures operation of the organization are in accordance to the organization objectives so that to ensure its performance met the organization goals. Further the study recommended that management to ensure that operation of the organization are streamlined to the technological changes since application of IT in banking services results to significant performance of the banks. The study recommended that since there is a potential unbanked individuals who lack banks services, banks should reach try to reach customers through having a wide network of branches in rural and remotes areas. Finally, the study recommends that for the organization to improve on their performance they must ensure they adopt financial strategies that ensures customer retention in their organization and that terms applied in financial transactions are not stiff.

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APPENDICES

Appendix I: Introduction Letter

UNIVERSITY OF NAIROBI
SCHOOL OF BUSINESS
MBA PROGRAMME

Telephone: 020-2059162
Telegrams: "Varsity", Nairobi
Telex: 22095 Varsity

P.O. Box 30197
Nairobi, Kenya

DATE 26/08/2013

TO WHOM IT MAY CONCERN

The bearer of this letter Joseph Murithi Gikunda

Registration No. D61/70145/2009

is a bona fide continuing student in the Master of Business Administration (MBA) degree program in this University.

He/she is required to submit as part of his/her coursework assessment a research project report on a management problem. We would like the students to do their projects on real problems affecting firms in Kenya. We would, therefore, appreciate your assistance to enable him/her collect data in your organization.

The results of the report will be used solely for academic purposes and a copy of the same will be availed to the interviewed organizations on request.

Thank you.

PATRICK NYABUTO
MBA ADMINISTRATOR
SCHOOL OF BUSINESS

UNIVERSITY OF NAIROBI
SCHOOL OF BUSINESS
18 NOV 2013
MBA OFFICE
P.O. Box 30197 – 00100, NAIROBI

Appendix II: Questionnaire

Kindly answer all the questions by ticking or by providing the answers in the spaces provided.

Section 1: Background Information

1. Indicate the name of your bank (optional)…………………………………………
2. What is your highest level of academic qualification?

   Post graduate [ ] degree [ ]

   Diploma [ ] certificate [ ]

   Any other (specify)………………………………………………………………..

3. How long have you worked in this organization?

   1 – 5 years [ ] 11- 15 years [ ] More than 20 years [ ]

   6- 10 years [ ] 16 – 20 years [ ]

4. Kindly, indicate the department you are working in.

   ……………………………………………………………………………………

5. Indicate position that you hold in the department?

   Manager [ ] Unit Head officer [ ]

   Supervisor [ ] Departmental Head [ ]

   Assistant Manager[ ] Technical personnel [ ]

   Other(specify) ……………………………………………………

Section B: Good Governance

6. Does the corporate governance adopted in your organization affect its performance?

   Yes [ ] No [ ]

7. Does the following aspect of corporate governance affect its performance?

	Yes	**No**
Misconduct		
Carelessness		
Insensitivity		

8. Indicate your level of agreement with the following statements relating to corporate governance and its influence to organization performance? Use a scale of 1-5, where 1- strongly disagree, 2- disagree, 3- neutral, 4- agree, 5- strongly agree.

Statement	**1**	**2**	**3**	**4**	**5**
Under the umbrella of corporate governance, our organization is encouraged to promote ethics, fairness and transparency in order to improve its performance					
Our companies had put in place effective corporate governance systems that shown to implement solid and integrated performance approaches more easily than others					
Our bank shares more democratic ownership structures, more balanced and broader governance systems, and a more comprehensive view of organizational goals and performance have also better chances to increase shareholders' loyalty					
Management in our organization are committed in ensuring the performance of the bank is improved					
Management in our organization consider merit and previous performance of the individual to be mandated in the management position					

9. How would you rate corporate governance in your organization?

   Less committee [ ] committed [ ] very committed [ ]

10. In your own opinion, indicate the extent to which corporate governance affect performance of you bank?

    To a very low extent [ ] To a great extent [ ] To a low extent [ ]

    To a very great extent [ ] To a moderate extent [ ]

Section C: Technologies Advancement

11. Is the technology available effective in the enhancement of your bank performance?

Yes [ ] No [ ]

12. If yes, does your bank IT ease the process and procedure of banking such as (Account opening, Card or cheque book processing , Transaction execution speed etc)

Yes [ ] No [ ]

13. Indicate your level of agreement to the statement below relating to bank size and its influence to organization performance. Use a scale of 1-5, where 1- strongly disagree, 2- disagree, 3- neutral, 4- agree, 5- strongly agree.

We accrue less profits due to small customer base					
Banks with high value of assets accrue more profits					
The market share that we have results to minimal performance					
Large banks are more profitable due to economies of scale on their production					
Banks that have adopted IT has broadened the scope of banking practices and changed the nature of banking as well as the competitive environment in which they operate					
Technological advancement in the banking industry has facilitated payments and creates convenient and non-risky alternatives to cash and cheque for making transactions					
Banks that have adopted ICT revolution in terms of innovation have benefited from speedy operation and reduced cost per unit hence more profits					
Our banks has modified it operation with relation to					

technological advancement in order to remain viable in the market					
IT has assisted customers to validate their account numbers, receive instruction on, when and how to receive their cheque books, credit and debit cards					

14. To what extent has lack of appropriate technological infrastructure affected the overall performance of your organization?

    To a very low extent [ ] To a low extent [ ]

    To a moderate extent [ ] To a great extent [ ]

    To a very great extent [ ]

Section D: Bank Size

15. How many branches does your bank have?

    1-15 [ ] 16-30 [ ]

    31-45 [ ] 46-60 [ ] 61 and Above [ ]

16. Does the number of branches determine your bank's profitability?

    Yes [ ] No [ ]

17. Indicate your level of agreement to the statement below relating to bank size and its influence to the bank performance. Use a scale of 1-5, where 1- strongly disagree, 2- disagree, 3- neutral, 4- agree, 5- strongly agree.

statement	**1**	**2**	**3**	**4**	**5**
Performance of our bank is in relation to the number of branches that we have					
Total asset of our bank result minimal performance hence we face stiff competition from our competitors due to lack of fund in financing marketing program					

Fewer number of ATM point contribute to more profit to the banks that have adopted it while we have less number of ATM point hence less profitability					
We have less number of loyal customers who take loans from us hence low interest income					
Labour productivity growth, has a positive and significant effect on bank profitability					

18. To what extent do you think bank size influence your bank performance?

    To a very low extent [ ] To a low extent [ ]
    To a moderate extent [ ] To a great extent [ ]
    To a very great extent [ ]

Section E: Financial Strategies

19. What are the financial strategies commonly used in your bank to enhance performance?

	Yes	No
Cash flow management strategy		
Purchase management strategy		
Collection management strategy		
Investment management strategy		
Consideration management strategy		

20. Please indicate your response ((SA): Strongly agree (A); Agree, (UD); Undecided, (D); Disagree, (SD); Strongly Disagree) to the following statements regarding how monetary policy influence the performance of banks.

Statements	SA	A	UD	D	SD
Our bank suffer from cash flow problems because of lack of margin of safety in case of anticipated expenses such that we experience problems in finding the funds for innovation or expansion					
Poor financial strategy application in our bank has resulted to weak cash flow. This makes it difficult for the management to hire and retain good employees					
The cash collection techniques are not being utilized effectively and this contributes to the poor performance of our bank.					
We aren't adequately trained to use effectively the financial strategies available especially in the control of cash flow in the bank.					

21. To what extent are the financial strategies applied in your bank to enhance its performance?

To a very low extent [ ] To a low extent [ ]
To a moderate extent [ ] To a great extent [ ]
To a very great extent [ ]

22. In general, what would you suggest to be done in your organization to improve its performance?

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THANK YOU FOR YOUR PARTICIPATION!![i]!!!!!!!!!!!!!!!!!!!!!!!!!!!!!!!!!!

Appendix III: List of Banks in Tier Three

Tier III	Comprises of banks with a balance sheet of less than Kenya Shillings 10 billion	1. Habib A.G. Zurich 2. Victoria Commercial Bank 3. Credit Bank 4. Habib Bank (K) Ltd 5. Oriental Commercial Bank 6. K-Rep Bank 7. ABC Bank 8. Development Bank of Kenya 9. Middle East Bank 10. Equatorial Commercial Bank 11. Trans-National Bank 12. Dubai Bank 13. Fidelity Commercial Bank 14. City Finance Bank 15. Paramount Universal Bank 16. Giro Commercial Bank 17. Imperial Bank 18. Guardian Bank 19. Southern Credit Bank 20. Gulf African Bank 21. First Community Bank

Source: The Banking Survey 2011, pp. 191