

**CONTINUOUS IMPROVEMENT APPROACHES AND PERFORMANCE OF
OPERATIONS AMONG COMMERCIAL BANKS IN KENYA**

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DECLARATION

I declare that this is my original work and has not been presented for a degree in any other university

Rosemary Gatwiri Muriithi

D61/73000/2012

SignedDate

I confirm that I am the supervisor of this student and that I have read this final draft and I believe it to be the students own work.

Zipporah Kiruthu

SignedDate

DEDICATION

I dedicate this project to my dear husband Michael Muya for his overwhelming support and encouragement during the entire study period and my lovely daughter Nadia Kendi who is the source of my strength.

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I extend my sincere thanks to the Almighty God for giving me strength and good health to undertake this course and who led me through the entire project period. Special thanks to my dad and mum for their overwhelming encouragement and support.

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ABBREVIATION

CBK: Central bank of Kenya

CI: Continuous Improvement

CIP: Continuous Improvement Process

CIR: Cost to Income Ratio

COO: Chief Operations Officer

LM: Lean Manufacturing

R & D: Research and Development

TQM: Total Quality Management

TPM: Total Productive Management

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ABSTRACT

Continuous improvement(CI) is a quality philosophy that assumes further improvements are always possible and that processes should be continuously re-evaluated and improvements implemented (Juergensen, 2005).CI is also essentially a quality journey that is “never ending” (Oakland,2007).There are 43 commercial banks operating in Kenya (CBK, 2013) who are currently facing many challenge including competition from the telecommunications companies e.g. the advent of M-pesa and rapid growth of the micro finance sector hence the need to differentiate themselves so that they remain a preferred choice for their customers.CI can be one of the strategies through process improvement and cost reduction and faster customer turnaround time on the service .

The objective of the study was to find out the CI approaches adopted by commercials banks’ and the impact CI has on performance of operations among these banks. The research was carried out through a descriptive survey research. Data collected was both primary and secondary; collection of secondary data was from banks publications of their quarterly financial results while primary data was a structured questionnaire to the head of retail operation or chief operating officer (COO) /equivalent in all the 43 commercial banks. Data analysis was through content analysis of the questionnaire and descriptive statics for the secondary data extracted from financial reports from the banks.

A total of 43 respondents were involved in the study however 53% response rate was achieved. The study found out that 38% of the respondents used balanced score card,18% TQM,17% illustrated as Others which included traditional or business reengineering and 26 % of respondents where Non specific on the CI approach used. Cost to income ratio (CIR) also known as efficiency ratio was used as the performance measure where banks who had adopted a CI approach had a mean of 54 while Other category had mean of 64 and non specific 66. A CIR of below 50 is recommended and one high than 55 is considered risky.

Though the study was not conclusive because of the non specific respondents which affected the representation sample, Conclusions drawn on this study is that over 50 % of commercial banks have some form of CI approach. Also, CI adoption has a positive impact to the performance of operations; however though the banks have implemented CI full adoption has not been reached.

Recommendation : banks should be encouraged to fully adopt CI approaches that they deem fit in their organizations operations so as to leverage on the benefits of CI including waste elimination, cost reduction through process improvement, customer turnaround time which would improve their customer service.

CHAPTER ONE: INTRODUCTION

1.1 CONTINUOUS IMPROVEMENT

Continuous improvement is a quality philosophy that assumes further improvements are always possible and that processes should be continuously re-evaluated and improvements implemented (Juergensen, 2005). It is also the seeking of small improvements in processes and products, with the objective of increasing quality and reducing waste. The belief that an organization must constantly measure the effectiveness of its processes and strive to meet more difficult objectives to satisfy its customers also constitutes continuous improvement. Continuous improvement (CI) can be considered an ongoing effort to improve products, services or processes. These efforts can seek “incremental” improvement over time or “breakthrough” improvement all at once (Bhuiyan&Baghel, 2005).

CI's importance manifests itself in terms of the role it plays in quality improvement, customer satisfaction, employee engagement and productivity. CI is essentially a quality journey that is “never ending” (Oakland,2007) and its main emphasis per Deming's teachings, lies in never accepting that the way business operates today is the best way, even in the face of profitability.

Continuous Improvement (CI) in context of Kaizen means improving performance in many small, incremental steps. In Japan, continuous improvement is called kaizen. The word means continuous improvement, involving everyone in an organization. It implies a never-ending cycle of repeatedly evaluating and re-evaluating the basic processes of an operation (Russell &Taylor, 2003). CI is a philosophy that Deming described simply as consisting of “Improvement initiatives that increase successes and reduce failures” (Juergensen, 2000). Or as a completely new approach of enhancing creativity and achieving competitive excellence in today's market (Oakland, 1999); (Caffyn, 1999); (Gallagher et al., 1997).

McLaughlin (1990) further states that in the service industry CI entails simplification and improved customer service through greater empowerment of individual employees and reduced bureaucracy in the working environment.

CI, in essence will work in all industries from manufacturing, distribution to pure service industries (Oakland, 2007). It is essentially about business embracing a never ending quest to continuously refine and improve its processes

Every industry including banking has an underlying structure or a set of fundamental economic and technical characteristics which give rise to competitive forces. A firm can clearly improve or erode its position within an industry through its choice of strategy.

Banks have to deal with the environmental changes in the industry including government regulations, globalization, and technology, uncertain consumer demand, increased competition, changing demographics, economic downturn, increased levels of education among consumers and develop the necessary responses in order to remain competitive.

Banks keep introducing innovative technology-driven products which are more customer-friendly, and are designed to suit different categories of customers. These new products and services are easily replicated by rival banks which make it difficult to use product or cost differentiation strategies to maintain or improve on competitiveness. The differentiation factor hence is the quality of service and continuous process improvements which ensures that the banks remain flexible and are able to adapt effectively and efficiently to counter these challenges in the environment.

Continuous improvement (CI) in total business activities with the focus in the customer throughout the entire organization and an emphasis on flexibility and quality is one of the main means by which companies can cope with these competitive threats. CI also helps the organization to anticipate what will delight their customers in the future. The skills provide by CI including waste elimination, identification of process problem areas and improvement through the focus on WHAT and HOW, attention to detail and customer focus (Ndlovu, 2008) This add value to the organization by allowing them to meet future customers rising expectations of product and service quality, seamless delivery and fresh new innovations.

1.1 .1 Banking operations and performance

Bank is a financial intermediary that accepts deposits and channels those deposits into lending activities, either directly by loaning or indirectly through capital markets. A bank links together customers that have capital deficits and customers with capital surpluses. Banks act as payment agents by conducting checking or current accounts for customers, paying cheques drawn by customers on the bank, and collecting cheques deposited to customers' current accounts. Banks also enable customer payments via other payment methods such as Automated Clearing House (ACH), Wire transfers or telegraphic transfer, Electronic Funds Transfer, point of sale (POS), and automated teller machine (ATM).

Banks' activities can be divided into retail banking, dealing directly with individuals and small businesses; business banking, providing services to mid-market business; corporate banking, directed at large business entities; private banking, providing wealth management services to high net worth individuals and families; investment banking, relating to activities on the financial markets. Most banks are profit-making, private enterprises. For banks, top priorities include regulatory compliance, improving asset quality, enhancing customer centricity, focusing on digital convergence, and tackling competition from non-banks. (Yadav & Suvarna 2013).

In commercial banks cost to income ratio is another key priority when undertaking all the activities which is a concern from the top management downwards, the productivity of the banks is also based this ratio since it creates efficiency, this also helps in reducing or even eliminating waste, shortens turnaround time. Cost to income ratio is non-interest expenses, excluding bad and doubtful debt expense, divided by total net interest income and non-interest income (Tripe, 2000).

1.1.2 Commercial Banking 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). 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.

As at December 2012 there were forty Three banking and one non Mortgage finance institutions, fifteen micro finance institutions and one hundred and nine foreign exchange bureaus (CBK, 2011). The banks have come together under the Kenya Bankers Association (KBA), which serves as a lobby for the banking sector's interests.

Over the last few years, the Banking sector in Kenya has continued to growth in assets, deposits, profitability and products offering. The growth has been mainly underpinned by an industry wide branch network expansion strategy both in Kenya and in the East African community region. 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 e.g. MPESA mobile money transfer and new entrants into the market (Deloitte, 2013).

Key challenges for the banking industry in Kenya are new regulations especially with the passing of the new constitution. CBK requires financial institutions to build up their minimum core capital requirement to Kenya shillings 1 Billion. The Terrorist attacks on the twin towers in United States of America emphasized and led to the mandating Acts like Anti-money laundering. Nations are working closing to ensure that proceeds of crime do not get into the financial systems of the world. (PWC, 2012).

1.2 Statement of the problem

Constant evolution of local and international regulations is a major driving force in the banking and securities industry coupled with industry operational efficiency challenges. To appropriately address strategic and regulatory challenges, constantly improving operational efficiency has to be high on the agenda of bankers, institutions have to optimize their processes and control their cost structure (Deloitte, 2012). Other challenges that may have an impact on the financial performance of the banking industry, include: Evolving customer demands and the need for developing new products and services to cater to new customer segments, increasing cost of operations, changing customer channel preferences with increasing adoption of mobile and social media rising competition from non-banks (such telecom firms) (Stephens, 2014).

In a bid to counter these new challenges organizations including banks have to find differential factors. Feigebaum & Feigebaum (1999) pointed out that total quality is a major factor in the business quality revolution that has proven to be one of the 20th Century's most powerful creators of sales and revenue growth, good new jobs and sound based and sustainable business expansion. Quality and its management and associated continuous improvement are now looked upon by organization including the banks as a strategy in the increasingly aggressive markets in maintaining a competitive edge over their rivals.

Guidon performance solution (2011) conducted a study on a Canadian bank which had the following success outcome after implementation of CI through culture change: The improved ability to identify, communicate, and solve problems led to one team implementing a process that recovered \$12 million in unreported charge-off fees, improvements in other areas include operations totals approximately \$8 million annually, including Commercial Lending Process Improvements: \$2 million, Credit Card Fraud Management Improvements \$1.8 million, account Recovery Improvements: \$1 million, - 5 -branch Support Services Improvements \$1.8 million and Mortgage Lending Process Improvements: \$500,000.

In his study Musau (2006) on continuous quality improvement on a multinational organization in Kenya found that there was low management commitment and also understanding of the use of Statistical tools and techniques. A Study on TQM practices in the banking industry in Kenya done by Rugendo (2010) for his MBA

program found that 36 percent of banks had some form of quality adherence having possession of ISO 9000 series certification. The level of TQM awareness was found to be very high among the respondents with 80 percent indicating they knew of TQM concepts. However the study found that only 19 percent of banks practiced TQM in their operations. The study recommended that employee empowerment, continuous improvement and customer focus be revamped in banks as they have positive influence on TQM.

Hence the study to find out if banks in Kenya have adopted any continuous improvement approaches according to Rugendo's recommendation on CI.

The researcher will seek to find out what are the CI approaches adopted by commercial banks in Kenya and does CI impact on the performance of operations in commercial banks in Kenya.

1.3 Research Objectives

The objectives of this study will be;

- (i) To determine the continuous improvement approaches by commercial banks in Kenya
- (ii) To establish the impact of CI on performance of operations among commercial banks in Kenya.

1.4 Significance of the study

Increased competition has forced financial institutions to implement initiatives as such as service quality as the key source of competitive advantage in the banking sector. These institutions look at ways to shorten the lead time, through increased automation, new technology and streamlined processes (Ndlovu 2008) processes that involve CI initiatives within the organization.

This research will focus on gaining insights into the adoption of CI initiatives in operation in Kenya commercial banking industry

The research was expected to be valuable to:

Top management who had the overall responsibility of ensuring customer gets value for their money in terms of seamless service and their realization that the success of any improvement relies on their full support and being at the forefront of CI implementation.

Banking sector that will recognize that CI efforts have a positive impact on productivity, employee development, quality improvement, organizational culture, enhancing customer service and overall efficiency which in return increases the organization profitability and return on investments for the stake holders.

From this study, insights will be drawn on the approaches that are used in operation in banking sector and recommendations will be developed for any gaps noted as far as CI adoption in commercial banking industry in Kenya is concerned. The findings will contribute to research on continuous improvement which provides a link between the learning in class and the implementation on the ground. It will also form the basis for further research on the topic. It will contribute to the policy makers who can recommend continuous improvement programs in their areas of operations.

CHAPTER TWO: LITERATURE REVIEW

2.0 Origin and development of Continuous Improvement

CI and the other quality initiatives like Total Quality Management (TQM), Total Productive Management (TPM), Lean Manufacturing (LM) and Six Sigma became popular after the World War II as Japanese industries were rebuilding (Imai, 1996). Whilst CI was derived from the teachings of an American, it became popular in Japan because their industries were more receptive to Deming's ideas than their American counterparts. The American corporate believed they were following the right management practices as they were being successful. They were to later recognize that there is always room for improvement. Through the Deming's Teachings Kaizen or CI concept was successful in turning around the Japanese industries after the World War II and it has grown in popularity such that it is now way of life in that country's business and world at large (Imai, 1996).

The use of statistical tools to problem solving as brought about by Dr Walter Shewhart would help in identification, monitoring and eventually removal of variations in repetitive processes hence helping in streamlining the processes. Other thought leaders included Joseph M Juran (quality trilogy), Kaoru Ishikawa (seven basic tools of quality), Genichi Taguchi all who emphasized on CI.

According to Varian (2007), CI doesn't just mean that a business should keep trying new things. Rather it entails a well thought way of exploration, controlled experimenting and then carefully adopting to new ways of doing things. Imai (1986) defines CI as ongoing improvement, involving everyone in an organization, including managers and workers. Hence, it is clear that CI is an organization wide concept whose underlying aim is to improve the way things are done. It is a departure from the business as usual concept (Trollip, 2008).

Varian states that Japanese manufacturing techniques like TQM, LM and Kaizen or CI are widely used world over, which emphasizes their importance in the current competitive market. Varian goes on to state that Kaizen or CI is the key to the most successful online businesses. CI was traditionally applied to manufacturing because its nature made it possible for experiments to be carried out in order to determine whether a new process resulted in quality improvement or cost savings in a few months (Varian, 2007).

Through service has not had much use of continuous improvement Sean (2008) Secora consulting pg 2 says “Today service firms and service functions within almost every sector, are also using some sort of continuous improvement methods to boost performance. Companies are using it to shape up such nonmanufacturing work such as accounts receivable, sales, and R&D.

Further support for the need of CI in the service industry is illustrated further in research conducted by the Lean Enterprise Research Centre (2000) provides some data from their analysis of the allocation of time to process steps, they found that as little as 1% of service industry process steps actually added value to the end service they were trying to deliver. This means that in many cases 99% of all activity in a service organization is waste. In the quest to eliminate these waste continuous improvement can be one of the strategies to eliminate waste and add value through reduced costs and hence profitability of the organization and value for the customer through faster and efficient services to the customer. The overall goals of CI are eliminating waste in activities that add costs but do not add value, just in time delivery, standardized work

2.1 Traditional Improvement Approach

Traditional quality is defined a conformance to quality or adherence to a certain specification. It is believed to be only a care for the professionals something that the customer cannot perceive nor evaluate. The processes are insulated in the department and functions. There exists inter and intra organizational barriers whereby ideas or communication between and /or departments is limited.

Quality is seen as an operational issues that is delegated to the supervisors where there is tight managerial supervision to ensure conformity. Non conformity or poor quality is associated to with poor workmanship and there is tendency to assign blame on individuals or department

Employees are controlled by managers as opposed to CI where the employees are empowered to meet and exceed the customer expectations at the same time make quality improvements in their processes. Employees are expected to comply within the process and regulations of the company and the quality function within the organization is primarily responsible for the improvements. These functions consist of the quality inspectors. Loyalty is maintained within the departments with each

department dealing with its own duties and there are clear hierarchical structures of management as opposed to end to end processing in CI

Elimination of waste can be best illustrated in the following table which compares the traditional and continuous improvement approaches

Traditional approach	Continuous improvement approach
Acceptable quality levels(defects inevitable)	Zero defects/right first time production
Detection of error	Prevention of error
Maintenance staff respond to breakdowns	Maintenance staff prevent breakdowns and act as internal consultants

Source: Warwick business school continuous improvement module VI

The traditional procedures focus only on accepting and reacting to errors. In contrast a CI approach would be far more proactive, than reactive, striving for first time right prevention of waste and errors, effective recovery of service failures, and error visibility designed into the process.

Traditional approach is:	CI approach is:
Quality is perceived to be costly	Quality is free; costs of quality need to be measured
Quality measurement output based	Statistical process control used to control process, reducing reliance on inspection
Performance measurement systems do not take into account competitor performance	Benchmarking used to measure competitive performance
Emphasizes on excellence; lack of systematic organizational learning	Benchmarking facilitates organizational learning is highly practiced
customer satisfaction not routinely monitored	customer expectations and perceptions regularly monitored

Extract: Warwick business school continuous improvement module VI

2.2 Continuous improvement Implementation

Traditionally, workers were not involved in quality control. It was seen as more effective and convenient to have staff functions assigned to quality: however the philosophy of CI suggests that workers should do and think. This is a difficult transition for managers used to having external control over workers. It requires some degree of trust that workers are capable of contributing to quality improvement, and that they will not exploit the lack of external control to “get off easy,” and perform substandard work. In short, it requires faith in the process. Unless managers buy into the key role of workers, they are not likely to bother to invest the time and resources needed to keep workers involved in CI programs.

Focus on the customer and not only the results by management inspires changes more readily. Communicating widely the desire of the management to continuous improvement on the way things are done to exceed the customers' expectations. Handling customer feedback should be top priority of managers who should utilize at least a third of their time to improve systems and process that focus on the customer (Krishan, 2011).

It is every organization's dream to deliver customer satisfying products or services that are better than its competitors. It is clear that CI is about looking for better ways of doing things. It means more than adapting to the times and is a never-ending quest to improve the way things are done. Ultimately this leads to improved efficiency and profitability (Ndlovu, 2008). CI can be applied to processes, products, technologies, skills and capabilities, every aspect of a business (Trollip, 2008). Companies need to continuously improve because they operate in dynamic environments.

Culture is one of the most important aspects in CI implementation. It is represented by the norms and unwritten rules that guide employee actions, so it's often somewhat amorphous and subject to perceptions. However, culture is critical to an organization's success. The key principle of CI is creating a culture of continuously looking for better ways of doing thing. Culture affects the perception of the individuals and how seriously they take up the responsibilities given to them. It revolves around the values of the company, the norms, recognition and reward systems and communication between the management and employees (Guidon performance solutions, 2011)

A culture where reward and recognition is both individualized and teams oriented creates an atmosphere of creativity and innovation. Involvement of the employees in the improvement of process and systems motivates them and brings a sense of satisfaction in their jobs. Creating a culture of CI must come from the senior management according to Deming's teachings he encouraged involvement of top level management in creating an environment that supports continuous improvement. Showing unrelenting support to continuous improvement initiatives is a call for all senior and top level management. Corbett and Van(1993) and Suzaki (1993) suggested that human resources are the last source of competitive advantage in the global market. How a firm harnesses the knowledge and creativeness of workers through informal networks will become a critical differentiating element.

2.3 CONTINUOUS IMPROVEMENT APPROACHES

2.3.1 Kaizen CI approach

Kaizen originated for Japan it was introduced by Americans after the World War II in the bid to restore Japan. Edward Deming was recommended to steer the industry through training of statistical control methods. Deming encouraged top level management to get involved in the process of creating an environment of continuous improvement. He considered quality improvement activities as a catalyst to improving quality which leads to decreased costs, fewer mistakes, fewer delays and better use of resources hence improving productivity Costin (1999).

Kaizen or 'Continuous Improvement' is a policy of constantly introducing small incremental changes in a business in order to improve quality and/or efficiency. This approach assumes that employees are the best people to identify room for improvement, since they see the processes in action all the time. A firm that uses this approach therefore has to have a culture that encourages and rewards employees for their contribution to the process. Table 1 : overleaf summarizes the hierarchy of Kaizen or CI concept it shows that CI is a company- wide initiative and its success is dependent on each one of all the role players. The management or leadership's main task is to provide a guidance or direction to all the employees who in turn must be committed on their duties and own the CI concept.

Hierarchy of Kaizen

TOP MANAGEMENT	MIDDLE MANAGEMENT	SUPERVISORS	WORKERS
Determination to have CI as a corporate strategy	Deploy and implement CI goals as directed by top management through policy deployment and cross functional management	Use CI in functional roles	Engage in CI through the suggestion system and small group activities
Provide support and direction for CI by allocating resources	Provide support and direction for CI by allocating resources	Provide support and direction for CI by allocating resources	Practice discipline in the workplace
Practice discipline in the workplace	Establish, maintain and upgrade standards	Improve communication with workers and sustain high morale	Engage in continuous self development to become better problem solvers
Realize CI goals through policy deployment and audits	Make employees CI conscious through intensive training programs	Support quality circles and the individual suggestion system	Enhance skills and job-performance expertise with cross education
Build systems, procedures and structures conducive for CI	Help employees develop skills and tools for problem solving	Introduce discipline in the workplace and provide CI goals	
Realize CI goals through policy deployment and audits	Make employees CI conscious through intensive training programs	Support quality circles and the individual suggestion system	Enhance skills and job-performance expertise with cross education

Extract from Masaki (1986)

Key features of Kaizen include improvements based on many, small changes rather than the radical changes that might arise from Research and Development, As the ideas come from the workers themselves, they are less likely to be radically different, and therefore easier to implement, Small improvements are less likely to require major capital investment than major process changes, The ideas come from the talents of the existing workforce, as opposed to using R&D, consultants or equipment – any of which could be very expensive, All employees should continually be seeking ways to improve their own performance, It helps encourage workers to take ownership for their work, and can help reinforce team working, thereby improving worker motivation.

2.3.2 LEAN MANUFACTURING

The aim of lean manufacturing is the elimination of waste in every area of production and includes customer relations, product design, supplier networks, and factory management. Womack and Jones (1996) describe lean thinking as the “antidote” to muda, the Japanese term for waste. Its goal is to incorporate less human effort, less inventory, less time to develop products, and less space in order to become highly responsive to customer demand while producing top quality products in the most efficient and economical manner possible. Waste is defined as anything for which the customer is not willing to pay. Lean manufacturing, if applied correctly, results in the ability of an organization to learn. Mistakes in the organization are not repeated because this in itself is a form of waste that the lean philosophy seeks to eliminate (Robinson, 1990).

2.3.3 SIX SIGMA

Six sigma has been defined as “an organized and systematic method for strategic process improvement and new product and service development that relies on statistical methods and the scientific method to make dramatic reductions in the customer defined defect rates” (Linderman et al., 2003). Minimizing defects to the level of accepting close to zero was at the heart of the methodology, and focuses on reducing variation in all the processes of the organization. To achieve this, the DMAIC model was developed, i.e. define opportunities, measure performance, analyze opportunities, improve performance, and control performance. Six sigma

provides quality measurement that can be used throughout an organization not only in manufacturing and services but also in design, administrative areas.

Motorola achieved amazing results through the application of six sigma, from 1987 to 1997, achieving a total savings of \$US14 billion while sales enjoyed a fivefold growth during the same period (Klefsjo' et al., 2001). Many other organizations that took the lead from Motorola like Ford, Sony are enjoying business excellence.

2.3.4 LEAN SIX SIGMA

Organizations have realized that individual CI programs help to improve organizational operations in many aspects; they are not necessarily effective at solving all issues. To overcome the weaknesses of one program or another, more recently, a number of companies have merged different CI initiatives together, resulting in a combined CI program that is more far reaching than any one individually. Lean six sigma is the most well-known hybrid methodology, a combination of six sigma and lean manufacturing (Xerox, 2009).

Lean Six Sigma is a rigorous, data-driven, results-oriented approach to process improvement. It combines two industry-recognized management methodologies evolved by companies like GE, Motorola, Bank of America, Xerox and Caterpillar, to cite a few examples.

By integrating the tools and processes of Lean and Six Sigma, a powerful engine is created for improving quality, efficiency and speed in every aspect of your business. Typically, organizations use Lean Six Sigma to make improvements inside their operations for everything from managing their supply chain processes and billing processes to new product design and customer relationships. For some, it becomes a new offering – a process improvement service they offer to their clients (Xerox, 2009).

2.3.5 BALANCED SCORECARD

In the early 1990s, Robert Kaplan and David Norton developed a methodology that translates the objectives of the organizations into measures, goals and initiatives in four different perspectives, namely financial, customer, internal business process and learning and growth. This methodology came to be known as the balanced scorecard. A balanced scorecard is generally used to clarify and update the business strategy, link the objectives of the organization to the annual budgets, allow organizational change, and increase the understanding of the company vision and mission statements across the organization. A balanced scorecard can be used to translate an organization's mission and vision statements into a broad set of objectives and performance measures that can be quantified and appraised, and measures whether management is achieving desired results. About 50 per cent of the Fortune 1,000 companies have a balanced scorecard system in place Kaplan and Norton (1996). Niven (2002) refers to the balanced scorecard as a combination of a measurement system, a strategic management system, and a communication tool. According to Gaplin (1997) "measurable goals and objectives" is one of the most important factors to a successful strategy.

2.4 Adoption of Continuous Improvement

CI is a quality improvement approaches can be adopted by organizations including banks to build on their competitive advantage. CI involves everyone in the organization including senior management who has a facilitating role, to ensure that employees are fully involved and facilitated in quest for continuous improvement (Caffyn, 1999). Elimination of waste is another aspect in adoption of CI involving error prevention, zero defects through benchmarking and use of statistical process control. Customer focus of both internal and external is also significant in CI.

2.4.1 Employee Involvement

It is important for organizations to ensure that employees are properly trained have the skills and supports required to efficiently and effectively perform their duties (Bennett, 2007). The working environment should be conducive to allowing innovative spirit to flourish. Apart from wages, employees' psychological needs such as self esteem, self confidence and self worth need to be met, (Ndolvu, 2008).

Commitment to CI requires that employees critically scrutinize the work they do and develop innovative ways for them to work smarter. Some organizations encourage employee involvement by the use of quality circles and even quality improvement teams (Churchill, 1999). Engaging employees inspires them to come up with sustained innovations that are hard to duplicate hence improving the organization the much needed competitive advantage.

2.4.2 Top Management

Top management is the pillar to CI without their full support and commitment CI initiative is bound to failure. Deming is credited with laying the foundation of quality initiatives like CI through his emphasis on encouraging top level management to get involved in the process of creating an environment that supports continuous improvement by the use of his 14 point guideline. Success depends to a large degree on instilling a culture of improvement, one that is demonstrably supported by the executive team, from middle management straight through to the employee (Stephens, 2014). Managers should constantly reinforce CI at all levels and display active commitment to, and leadership of, CI throughout the organization, (Caffyn, 1999)

2.5 BANK ING OPERATION PERFORMANCE

Cost to income ratio (CIR) also efficiency ratio is useful as a measure of bank performance. Banks compare themselves with their peers using the ratio and also bank management impress on staff to reduce costs to income ratio as it is considered to be best international practice.

Market analysts also look at CIR to make predictions about future performance of the banks and other organizations Tripe (2000).CIR tends to focus in the non interest costs. Non interest costs that are perceived as that part of the banks costs which are controlled, most responsive to management action (Tripe, 2000). Recent research by pricewaterhouse found that “the single most impact in enhancing shareholder value remains reduction of CIR. (Madewell, 1997).

McKinsey and co. consultants has concluded that banks with cost to income ratio above 55-60% are under threat of takeover unless high cost is due to short term consequence of an earlier acquisition (James et al, 1997)

A reduction in cost for a fixed level of revenue leads to increased profit, thus return on equity and share price the measure of greatest interest to shareholders and investors.

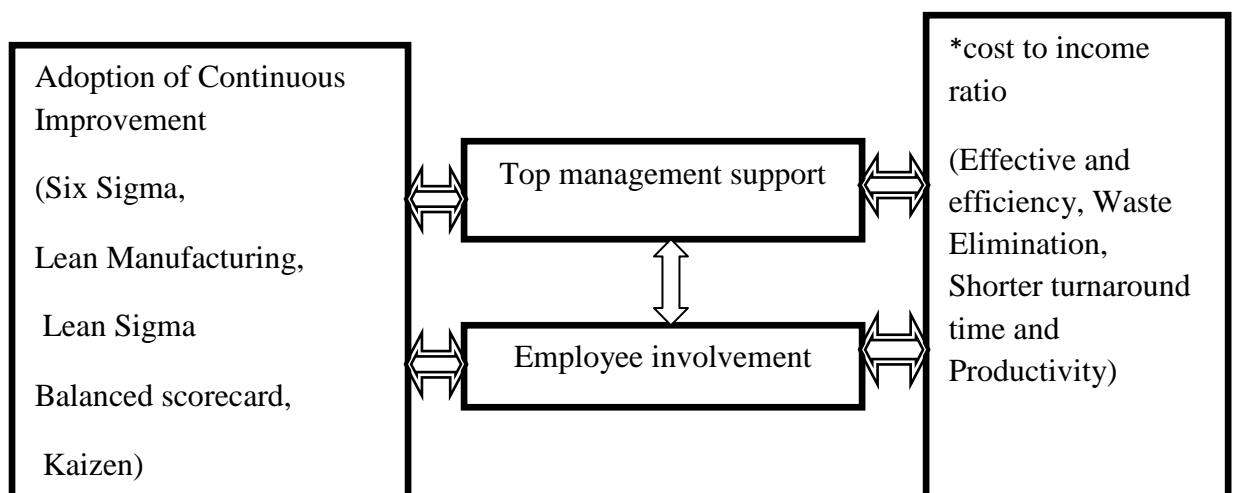
Cost to Income Ratio (CIR) = Non-interest expenses / (net income + non-interest income)

2.5.1 Banking operations and continuous improvement

Unless banks improve on their processes by simplifying, standardizing and consolidating to reduce complexity, lesser errors, and break down the walls that separate one part of the bank from another they'll have a hard time executing on their strategies.

Organizations that are able to improve their processes are typically less rigid and more flexible than their competitors, and so are better able to develop and market differentiated products appealing to a wider range of customers. They can more easily scale up, or down, in response to market trends and client needs (Stephens, 2014).

Industrializing processes isn't easy; however banks must first identify best-practice processes and adapt them to their own circumstances, then overcome employees' natural resistance to change. Fortunately, the payoffs can be large and wide-ranging, including reduced costs, improved customer service, and faster transaction processing. And with less time required for transactional activities, bank personnel can spend more time on the high-value work that drives revenue growth (Stephens, 2014).



Conceptual framework by author (2014)

CHAPTER THREE: RESEARCH METHODOLOGY

3.0 Introduction

This chapter presents the research design and methodology that was be used to carry out the research. Section 3.2 presents the research design, section 3.3 the population of the study, section 3.4 data collection and 3.5 data analysis

3.1 Research Design

The study was a survey. According to Mugenda and Mugenda (2003), survey research explores facts and gets information about a particular area of study. Survey research gets information about conditions that already exist and attempts to draw conclusions, or causes, for the existing condition. Mugenda and Mugenda contend that survey research has the advantage of being easily applicable and thus will be considered for the study so as to establish the CI approaches and performance of operations by commercial banks in Kenya.

3.2 Population of the Study

The target population of this study was all the commercial banks in Kenya .According to 2012 CBK's banking survey, there are 43 commercial banks operating in Kenya.

3.3 Sample Design

The sample design was a census of all the 43 commercial banks in Kenya.

3.4 Data Collection

The study employed both primary data and secondary data. The primary data was obtained by use of a structured questionnaire to the commercial banks. The questionnaire was administered using drop and pick method. The questionnaire had various advantages because it allow the respondents who are senior managers to give their responses in a free environment and help the researcher get information that will not have been given out had interviews been used. The questionnaires were hand delivered to the various offices which hosts the managers.

The respondent were the chief operations officer (COO), head of retail operations or (equivalent) who are involved in the strategies formulations in the head office. These

respondents are considered to be resourceful in providing the required data since they are the persons responsible for strategic operations management of various commercial banks in Kenya.

Secondary data on the other hand was obtained from existing bank publications, quarterly and annual reports in extracting cost to income ratios of the banks

3.5 Data Analysis

For data collected to have a meaningful meaning, the researcher used descriptive statistics. The data was then be coded to enable the responses to be grouped into categories. Descriptive statistics was used mainly to summarize the data. These include percentages and frequencies. Analysis of the data obtained through the questionnaires was done using bar graph and pie chart.

OBJECTIVE ONE:

Continuous improvement approaches was tabulated using frequencies tables and illustrated in percentages.

OBJECTIVE TWO:

Impact of continuous improvement approaches to performance of operations in commercials in Kenya was through descriptive statistics including the mean, standard deviation. Cost to income ratio also known as efficiency ratio was used as a measure of performance in operations. Cost to income ratio was extracted from the various banks quarterly financial reports using the following formula. An evaluation fo the past four quarters was done to establish the trends.

Cost to Income Ratio (CIR) = Non-interest expenses / (net income + non-interest income)

CHAPTER FOUR: DATA ANALYSIS AND FINDINGS

4.1 INTRODUCTION

This chapter gives detailed analysis of data collected and presents the findings. The data has been analyzed and presented in form of frequency tables, pie charts percentages and a descriptive analysis done to execute the second objective of the study. A total of 43 respondents were involved in the study out of which 23 responded representing 53% as seen in figure below

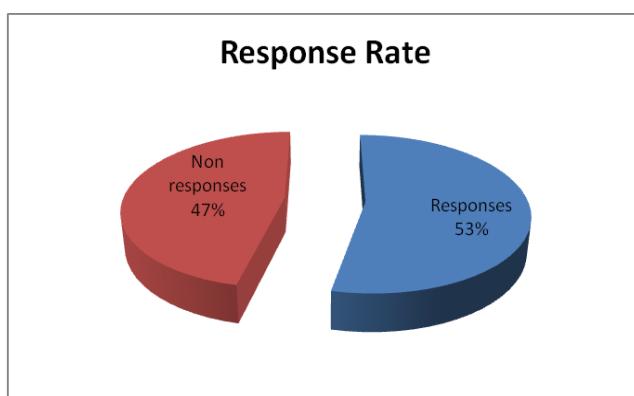


figure 2

4.2: Ranking of priority area of improvement

This part of the questionnaire sought to examine the area of greatest importance to the organization as far a continuous improvement is concern

Priority area of Improvement	Frequency	Percentage
Technology	11	47.8
Processes	6	26.1
Products and service	5	21.7
Human resources	1	4.3
Cumulated Total	23	100.0

Table 2

From the responses given Technology had the greatest level of importance in the organizations at 48% while processes and Products and services followed at 26% and 22% respectively while Human resources stood at 4%.

4.3 ISO Certified Banks

Organizations that had an ISO certification out of the responses were 4 out of the 23 banks which represents about 18% of the banks have ISO-9001-2008 certification

4.4 Frequency of Continuous Improvement Initiatives

The researcher found it necessary to find out how top management felt about frequency of continuous improvement initiatives in the organization. The responses are illustrated below where the management felt that the improvement should have been carried out on a quarterly basis with 15 out of 23 responses.

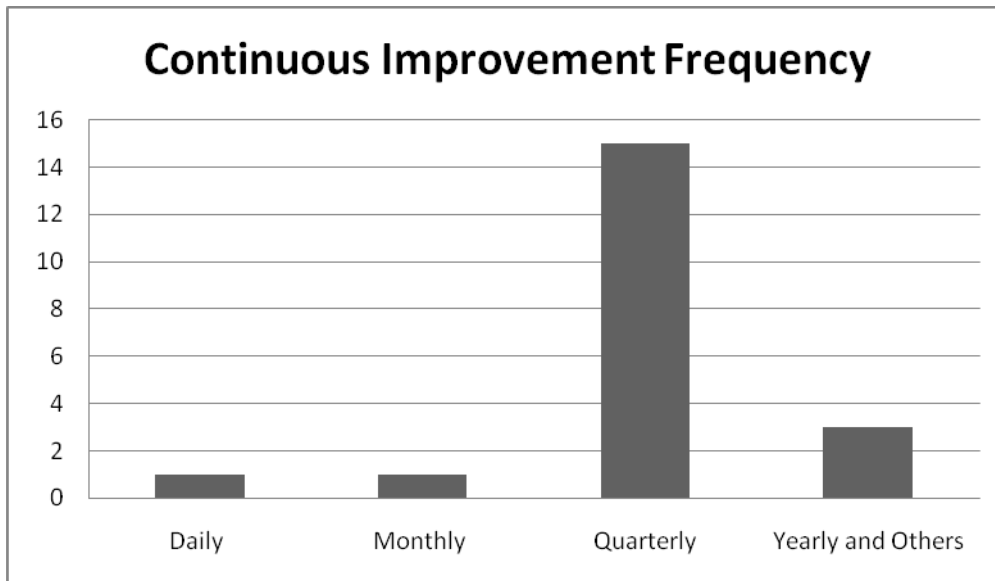
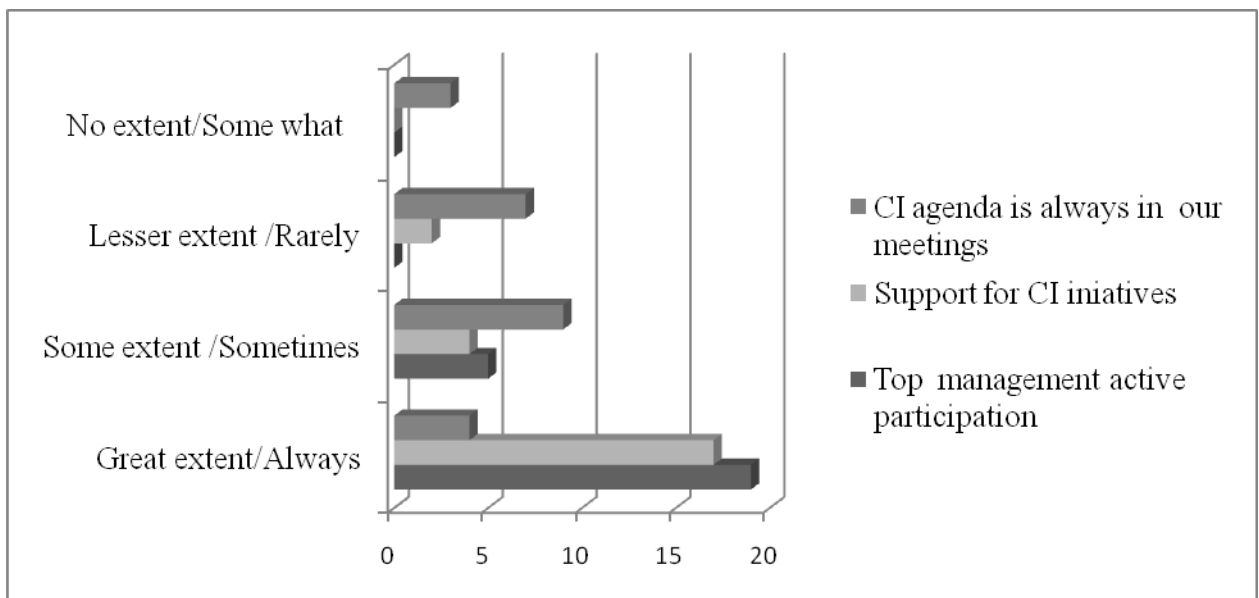


Figure 3

4.5 Top Management Involvement

These was evaluated using three parameters which included degree to which top management should participate on CI effort, extent to which staff required support from top management and finally the CI as an agenda in the meeting. See figure 4



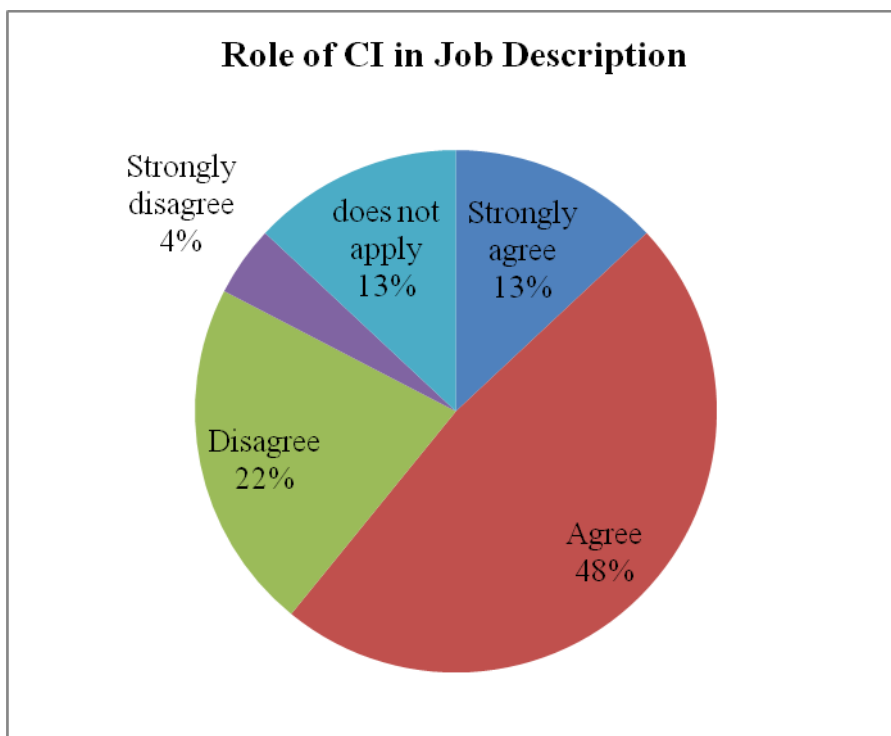
The top management seems to believe that they should actively participate in the CI efforts. They also recognise the support to the staff CI effort is also required however its seems not be top of the agenda of management .

4.6 : Employee Involvement in Continuous Improvement Effort

For successful implementation of CI initiatives the employees are the core determinants of its success or failure. Hence the research sought to examine the top management understanding of this factor.

4.6.1: Employee clearly advised of their role in CI

Employee should be clearly be outlined their roles and responsibilities in the CI from initiation to implementation through to monitoring and evaluation of success and failure. Since it a continuous process these enhances the culture of being alert and aware of what to look out for. The response was a seen below figure 5



Majority of the management agreed that in their organisation CI role is stated in the Job description of the employee that is 13% strongly agreed, 48% Agreed while another percentage of the respondents disagreed and strongly disagreed at 22% and 4% respectively while another part of the respondents 13% it does not apply in their organisation may be because the employee do not have any improvement roles in the organisation.

4.6.2 Evaluated how employee raise CI suggestions

The employees have more than one way in which they could raise their suggestions as all the respondents choose more than one response that were suggested by the researcher. All the suggested options featured almost all the responses which included use of suggestion boxes and drop boxes, discussions with the line manager, Email to a designated team and meetings with senior members of the organisations where area of improvement are highlighted. Conclusion drawn by the researcher on this is that there could be various levels and or areas of improvement in which different departments are involved hence their different channels in which these different propositions can be raised for example an improvement within the department can be done through discussion with line manager while issues on process or procedures are dealt with by a designated team.

4.7 Continuous Improvement Approaches by Commercial banks in Kenya

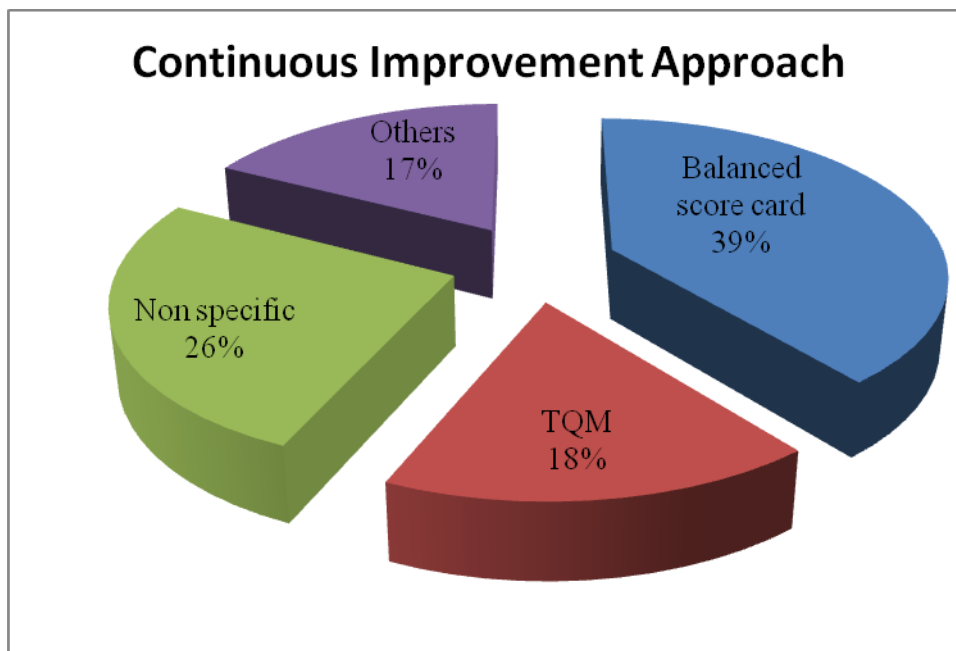


Figure 6

Balanced scorecard and TQM were the popular continuous improvement approaches adopted by commercial banks where balanced score card stands at 39% and TQM at 18%. Others forms of continuous improvement traditional approach and Business Reengineering took about 17% while other banks respondents choose to be non specific in their responses 26% seemed not to have adopted any continuous improvement approach hence remained non-selective on the options provided.

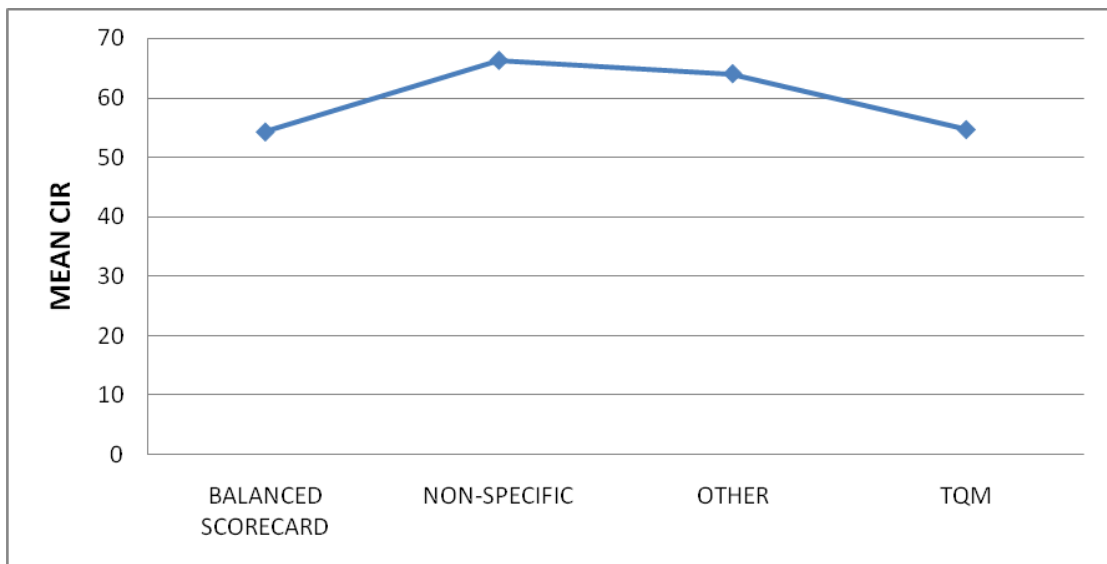
4.8 Impact of continuous improvement to performance of operation

Cost to income ratio was used as the measure of performance of operations in the various commercial banks. An extract was made from the quarterly financial reports that have been reported Half year financial reports ending June 2014, 1st quarterly financial reports ending March 2014, annual report year 2013, 3th quarterly financial report ending Sept 2013. Tabulation of the cost to income was done using the following formula:

$$\text{Cost to Income Ratio (CIR)} = \frac{\text{Non-interest expenses}}{(\text{net income} + \text{non-interest income})}$$

The results were then filtered according to the responses given on the continuous improvement approach used by each of the organization categorized as balanced scorecard, TQM, Other and Non specific.

The mean of the various categories was computed balanced scorecard had a mean ratio of 54.32 while TQM was at 54.71 other approaches had mean of 64.06 and non specific commercial banks had 66.53 as illustrated in the figure 7 below.



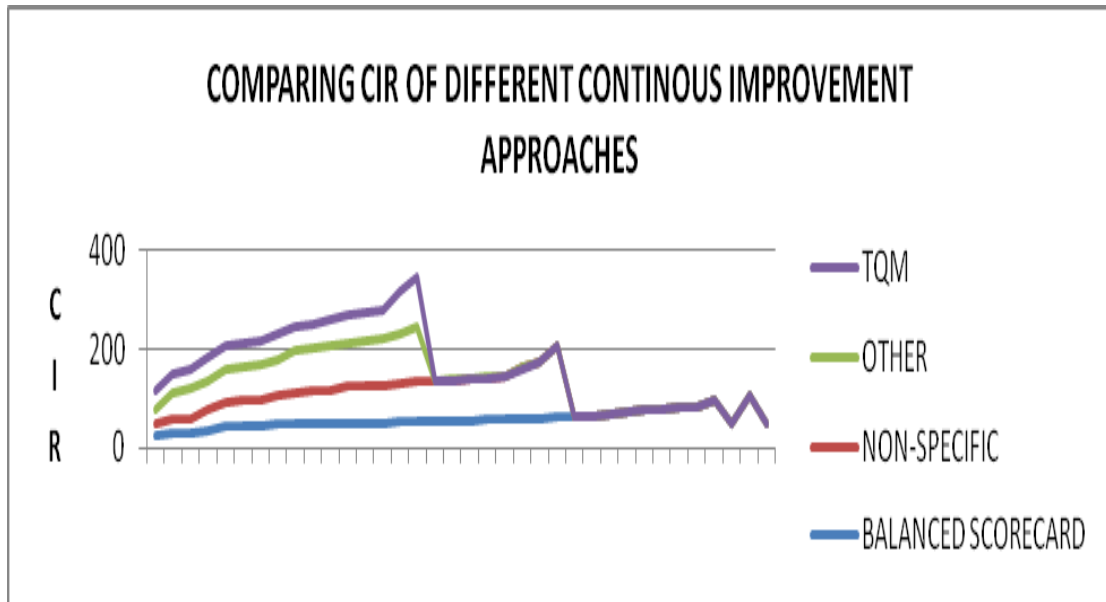
Further descriptive statistics provided the following outcome illustrated in table 3 below

	DESCRIPTIVE STATISTICS			
	BALANCED SCORE CARD	NON-SPECIFIC	OTHER	TQM
Mean	54.37970634	66.53153968	64.49327691	54.6605
Standard Error	3.63423727	5.568011179	5.132589277	4.289325
Median	56.53947592	74.44699335	77.9871266	52.72382
Standard Deviation	21.80542362	27.27757254	20.53035711	17.1573
Sample Variance	475.4764993	744.0659636	421.4955631	294.3729
Kurtosis	0.793210074	1.350207936	0.308845413	3.602535
Skewness	0.91504298	0.636819087	-0.47646199	1.883249
Range	94.31057776	120.0988473	81.30352178	65.317
Minimum	25.84103046	25.90815761	28.7889976	38.41894
Maximum	120.1516082	146.0070049	110.0925194	103.7359
Sum	2209.669428	1716.756952	1207.892431	906.5679
Count	36	24	16	16

4.9 COMPARISON OF COST TO INCOME RATIO AND CONTINUOUS IMPROVEMENT APPROACH

The cost income ratios of all the quarterly financial report where compared with the continuous approach the organization uses to establish whether there are trends between the organizations that use CI approach. Outcome illustrated in the figure 8

Below



All the CIR ratios of the different banks were evaluated against the various choices of continuous improvement approach. Balanced scorecard organizations CIR remained relatively low TQM exhibited an erratic behavior whereby it was at the highest at the start but went down considerably as the quarters proceeded on this could be an illustration that maybe some of the organization were starting to reap the benefits of TQM after implementation in the previous quarter. Other and non specific banks showed CIR ratio that was in an upward trend.

CHAPTER FIVE: SUMMARY AND RECOMMENDATION

5.1 SUMMARY OF THE FINDINGS

The objective of the study was to identify the continuous improvement approaches by commercial banks and the impact it has on performance of operations in commercial banks in Kenya. The research questions were as follows

- What CI approaches have been adopted by commercial banks in Kenya?
- Does CI impact on the performance of operations in commercial banks in Kenya?

There are 43 commercial banks operating in Kenya CBK(2013) Players in this sector have experienced increased competition over the last few years resulting from increased innovations among other players e.g. MPESA mobile money transfer and new entrants into the market (Deloitte, 2013).

Key challenges for the banking industry in Kenya are new regulations especially with the passing of the new constitution. CBK requires financial institutions to build up their minimum core capital requirement to Kenya shillings 1 Billion. The Terrorist attacks on the twin towers in United States of America emphasized and led to the mandating Acts like Anti-money laundering.

All this emerging new requirements and raising competition necessitates that banks look for new ways to improve on their performance and innovations so that to keep up with the changes in the market. Continuous improvement provides a benchmark for employees to continuously look for better ways of doing thing to provide excellent services and products to their customers.

From the research most of the banks seems to have adopted some form of CI approaches with most popular being Balanced score card at 39%, TQM at 18%. Others forms of continuous improvement traditional approach, Kaizen and Business Reengineering took about 17% while others chose to be non specific in their responses 26%. A deduction made from the non specific responses is that the organizations declined to disclose the approach used because they consider it confidential information and also there could be possibility that they have not adopted any CI approach.

The researcher also sought to find out the levels of adoption of the CI approaches and had the following findings.

- 48% of the respondents' considered technology as the most important item for improvement leaving out human resources as the least important at 4%. Considering the philosophy of CI employees are the most important in the CI implementation as Corbett and Van (1993) and Suzaki (1993) suggested that human resources are the last source of competitive advantage in the global market. How a firm harnesses the knowledge and creativeness of workers through informal networks will become a critical differentiating element.
- CI is essentially a quality journey that is "never ending" (Oakland,2007) and its main emphasis per Deming's teachings, lies in never accepting that the way business operates today is the best way, even in the face of profitability. 65 % of the respondents considered quarterly improvement as sufficient in their organization a shift in mind to everyday consideration of making things better would help leverage more on the employees as it becomes a ways of life in the organizations as opposed to quarterly evaluations.
- The top management to a great extent believe that they should actively participate in the CI efforts. They also agreed that support to the staff CI efforts is equally important however the CI agenda is mainly not part of their daily decisions in meeting hence these may not portray full commitment in the CI process by the top management.
- Employee involvement 61% of the respondents confirmed that CI roles of the employee were clearly stated on their job description. 22% and 4% of the respondents disagreed and strongly disagreed respectively that it is included in the Job description and another 13% stated that it does not apply in their organization. Inference draw by the researcher for this response is that some organizations do not have any improvement roles for the employee and they are just implementers.

- Continuous improvement approaches adopted by commercial banks in Kenya were balanced score card at 39%, TQM at 18%, others which included traditional approach and business re engineering was 17% and rest of respondents about 26% remained Non specific on the CI approach they use.

In conclusion about 57 % of the respondents had adopted some form of CI approach most popular being balanced score card and TQM respectively. Other factors evaluated in this research paper as illustrated above was top management involvement where 60% majority of the leaders agreed to great extent and some extent on the importance of participating and being at the fore front of CI implementation

Employee involvement in the process was also examined with 61% of the employee having been advised of their CI roles and also having channels to effectively communicate CI ideas to the organization. Technology was identified by the management as most highly ranked department that required improvement, most probably with the need for automation of services through use of technology but management has not realized that improvement comes from the employee involvement.

Objective one was met with a conclusion that over 50 % of commercial banks in Kenya have adopted some form CI approach.

Impact of CI approach in performance of operations among commercial banks; from the responses the means of the various categories of CI were computed where balance scorecard was at 54.32, TQM was at 54.71, other at 64.06 and non specific responses had a mean of 66.53. the recommended CIR is below 50 however (James et al ,1997) concluded in his study that a bank with CIR of between 55-65 are under threat of take over unless in case where it occurs due to short term consequence. The banks that had adopted Balanced scorecard and TQM maintain a mean 54.32 and 54.71 respectively hence supporting that CI has a positive influence in the operations of the banks through waste elimination, shorter turnaround time and efficiency in operations hence reducing costs.

Trend analysis of the CI was done that showed that banks that had balanced scorecard as their CI approach remained consistently at a lower CIR over the period of observation last four quarters of the year equivalent to one year. TQM approach though not as consistent could have been because the organizations /banks started the

CI approach in between the period of consideration as it comes to the last quarter it comes down to the same level as balanced score card. The non specific and other approaches were at an upward trend through the year's observation. This analysis support that CI approaches have a positive impact on the performance of operations though it is not conclusive enough based on the non specific responses.

5.2 Limitations of the study

1. The cost to income ratio (CIR) could be affected by the short term or one off expenses or incomes to the business.
2. There were a number of banks who did not disclosure the CI approach hence the study is not conclusive probably because they consider the information confidential and may reveal their strategy.
3. There was more than one CI approach used by banks hence we were not able to conclusively settle on one approach that would be appropriate in the banking industry.
4. The current research is limited due to the number of responses and the fact that some of the information was withheld by the respondents which rendered the study inconclusive.

5.3 Recommendation for further research

Further research recommended based on gaps identified during the research include:

- Study challenge that face implementation of CI approaches in commercial banks
- Conduct a case study on a bank implementing a CI approach.
- Assess employee involvement and top management commitment as factors that influence the success or failure of CI approach.

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APPENDICES

APPENDIX I: AUTHORIZATION 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... 13/10/14.....

TO WHOM IT MAY CONCERN

The bearer of this letter ... ROSEMARY GATHIRI MURITHI

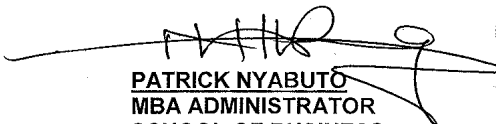
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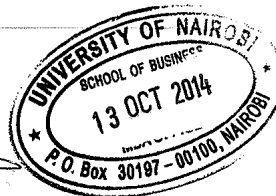
is a bona fide continuing student in the Master of Business Administration (MBA) degree program in this University.

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



APPENDIX II: QUESTIONNAIRE

- 1) Is your organization ISO certified?_____
- 2) If yes please state the ISO certificate?_____
- 3) In your own views Does the top management recognizes the need for continuous improvement.

Strongly agree {4} Agree {3} Disagree {2} Strongly Disagree {1}

- 4) From the list below please select the mode of continuous improvement that your organization has adopted

- | | |
|------------------------------|--------------------------|
| Balanced Score card | <input type="checkbox"/> |
| Total Quality Management TQM | <input type="checkbox"/> |
| Lean Manufacturing | <input type="checkbox"/> |
| Six Sigma | <input type="checkbox"/> |
| KAIZEN | <input type="checkbox"/> |
| Lean Sigma | <input type="checkbox"/> |

Other please specify _____

- 5) Please ranks from the list below areas of improvement in order of importance to your organization. [1] being most important [4] least important

<i>Area of improvement</i>	<i>Ranking</i>
Technology	
Processes	
Human Resource	
Product and Service	

6) How often do you feel that continuous improvement should be carried out? Please tick your best option

Daily

Monthly

Quarterly

Yearly

Other please (specify).....

MANAGEMENT

7) To what degree do you believe that top management should actively participates in continuous improvement efforts

Great extent {4} Some extent {3} Lesser extent {2} no extent {1}

8) To what extent does you staff require your support for their improvement initiatives

Great extent {4} Some extent {3} Lesser extent {2} no extent {1}

9) Continuous improvement is part of the agenda of our team meeting

Always {4} Sometimes {3} Rarely {2} Some what {1}

EMPLOYEE

10) Employee is clearly advised of their role in initiating improvements in their job description.

Strongly agree {5} Agree {4} Disagree {3} Stronglydisagree {2} Does not Apply {1}

11) We have a well established process for improvement suggestions for the employee.

Strongly agree {4} Agree {3} Disagree {2} Strongly Disagree {1}

12) Employee raise continuous improvement suggestions by;

Email to designated team

Suggestion or drop box

Line manager

Town halls with management

Other please specify_____

13) Employee recognition and rewards are related to the CI initiatives by the employee

Strongly agree {4} Agree {3} Disagree {2} Strongly Disagree {1}

THANK YOU FOR YOUR TIME

APPENDIX III: LIST OF BANKS IN KENYA

A: COMMERCIAL BANKS

- 1) African Banking Corporation Ltd.
- 2) Bank of Africa Kenya Ltd.
- 3) Bank of Baroda (K) Ltd.
- 4) Bank of India
- 5) Barclays Bank of Kenya Ltd.
- 6) CFC Stanbic Bank Ltd.
- 7) Charterhouse Bank Ltd **UNDER - STATUTORY MANAGEMENT**
- 8) Commercial Bank of Africa Ltd.
- 9) Consolidated Bank of Kenya Ltd.
- 10) Co-operative Bank of Kenya Ltd.
- 11) Credit Bank Ltd.
- 12) Chase Bank (K) Ltd.
- 13) Citibank N.A Kenya
- 14) Development Bank of Kenya Ltd.
- 15) Diamond Trust Bank Kenya Ltd.
- 16) Dubai Bank Kenya Ltd.
- 17) Ecobank Kenya Ltd
- 18) Equatorial Commercial Bank Ltd.
- 19) Equity Bank Ltd.
- 20) Family Bank Limited
- 21) Fidelity Commercial Bank Ltd
- 22) Fina Bank Ltd
- 23) First community Bank Limited
- 24) Giro Commercial Bank Ltd.
- 25) Guardian Bank Ltd
- 26) Gulf African Bank Limited
- 27) Habib Bank A.G Zurich
- 28) Habib Bank Ltd.
- 29) Imperial Bank Ltd
- 30) I & M Bank Ltd

- 31) Jamii Bora Bank Limited.
- 32) Kenya Commercial Bank Ltd
- 33) K-Rep Bank Ltd
- 34) Middle East Bank (K) Ltd
- 35) National Bank of Kenya Ltd
- 36) NIC Bank Ltd
- 37) Oriental Commercial Bank Ltd
- 38) Paramount Universal Bank Ltd
- 39) Prime Bank Ltd
- 40) Standard Chartered Bank Kenya Ltd
- 41) Trans-National Bank Ltd
- 42) UBA Kenya Bank Limited
- 43) Victoria Commercial Bank Ltd

Source (CBK ,2013)