CATEGORY MANAGEMENT AND PROCUREMENT PERFORMANCE
AMONG COMMERCIAL BANKS IN KENYA

BY
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DECLARATION

I declare that this Research Project is my original work and has not been submitted for examination in any other university.

Signed …………………………….. Date…………………………

KIOKO MUTINDA
D61/81040/2012

This Research Project has been submitted for examination with my approval as the University supervisor

Signed …………………………….. Date…………………………

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DEDICATION

This project is dedicated to: my mother Joyce Katiku, my wife Francisca Kioko, my daughter Chantelle Nthenya and all family members for their support and encouragement throughout this project.
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First, I would like to acknowledge the support and guidance of my University supervisor Mr. Michael K. Chirchir not forgetting all the lecturers who have added great value to my life through impartation of knowledge and skill.

A special appreciation goes to my employer, Kenya Commercial Bank (KCB) for supporting my MBA program and giving me a chance to offer my skill and service in enriching and bettering the lives of all customers.

I am deeply grateful to my family, above all, my wife Francisca Kioko and daughter Chantelle Nthenya for their encouragement, support and patience.

A special appreciation goes to my parents and siblings for being there for me always supporting me in all they could in achieving this goal.

Finally, I thank the almighty God for the gift of life, his wisdom and for his divine favor and grace.
ABSTRACT

A study was conducted to establish the relationship between category management and procurement performance among commercial banks in Kenya. The study had three objectives: to determine category management practices implemented by commercial banks in Kenya, to establish the relationship between category management and procurement performance among commercial banks in Kenya and to establish the challenges faced in the implementation of category management philosophy among commercial banks in Kenya. The research design involved a cross sectional survey of all commercial banks in Kenya. Data was collected using a questionnaire that was administered through drop and pick later method. Descriptive statistics were used to analyze objective one and objective three whereas correlation and regression analysis was used to analyze the relationship between category management and procurement performance. The findings were presented in tables and charts. The study established that most of the commercial banks in Kenya have implemented category management for more than five years. It was also evident that there was a very significant relationship between category management and procurement performance represented by an $R^2$ value of 0.764 which translates to 76.4% variance explained by the independent variables namely; spend analysis, aggregation and standardization, market analysis, supplier relationship management and category strategy. The findings of this study and application thereof are limited commercial banks in Kenya and can only be used for comparative purposes and not any direct application in another industry or country. Further research on the same study can be done in other sectors and industries to establish whether category management is able to yield the same effect on procurement performance of commercial banks. It has also been recommended that all banks and other organizations be advised to embrace category management to enable them reap the benefits of the philosophy.
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<th>Description</th>
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<tr>
<td>CM</td>
<td>Category Management</td>
</tr>
<tr>
<td>CAPEX</td>
<td>Capital expenditure</td>
</tr>
<tr>
<td>OPEX</td>
<td>Operating expenditure</td>
</tr>
<tr>
<td>SS</td>
<td>Strategic Sourcing</td>
</tr>
<tr>
<td>TCO</td>
<td>Total Cost of Ownership</td>
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<tr>
<td>CIPS</td>
<td>Chartered Institute of Procurement and Supply</td>
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<td>CBK</td>
<td>Central Bank of Kenya</td>
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<tr>
<td>SRM</td>
<td>Supplier Relationship Management</td>
</tr>
<tr>
<td>ROI</td>
<td>Return on Investment</td>
</tr>
<tr>
<td>ERP</td>
<td>Enterprise Resource Planning</td>
</tr>
<tr>
<td>FMCGs</td>
<td>Fast Moving Consumer Goods</td>
</tr>
<tr>
<td>EBIT</td>
<td>Earnings before Interest and Tax</td>
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CHAPTER ONE: INTRODUCTION

1.1 Background of the Study

Interest in Procurement as a separate, important, and profit-contributing function of management has been increasing from the 1950s to date. A review into the development and attention to the procurement function reveals impressive progress which has been made in the last few years (Sirkin, 2011). As the business environment keeps changing and becoming more complex, organizations continue searching for new ways to remain relevant and competitive in their operations. This can only be achieved if a firm delivers end product or service to customers when they are wanted and at a price that customers feel fair. This is influenced by the firm’s economic value which should be more than its rival (Leenders, 1989)

Today purchasing functions are presented with opportunities to add significant value to the organization like never before with category management being one of the important enablers needed in order to realize these opportunities. If well executed, it has the potential to deliver dramatic results. Furthermore, it is possible to respond directly to the drivers of the organization and the sector it operates within as well as the prevailing macro-economic or any specific market conditions. The reality, however, is that in many businesses there is a disconnect between what the organization is trying to achieve and the day-to-day activities of purchasing teams, further exacerbated by an ignorance of the huge potential that can be realized (Mitchell, 2012)

1.1.1 Category Management

The concept of Category Management is "the practice of segmenting the main areas of organizational spend on bought-in goods and services into discrete groups of products and services according to the function of those goods or services and, most importantly, to mirror how individual marketplaces are
organized. Using this segmentation organizations work cross functionally on individual categories, examining the entire category spend, how the organization uses the products or services within the category, the marketplace and individual suppliers” (O'Brien, 2012) it is a framework and set of practices used to optimally manage supply categories to meet business objectives. The framework sits above and guides the content and sequencing of lower-level methodologies like strategic sourcing and supplier relationship management (SRM) to satisfy category objectives and business objectives.

Through Category Management firms have 'a structure where team members specialize according to the supply markets. Here each member of the P&S team will focus on a particular supply market and become the expert in that Category. Over the years, a commodity buying approach has meant having IT buyers, print buyers, engineering buyers etc. etc. This specialization has tended to limit a P&S professional in their career development. However, category management - albeit still focusing on a particular segment of the supply market or a Commodity - has meant much more is required from the P&S practitioner' (CIPS Practice Guide, 2007) Implementation of Category Management results into value improvement in terms of reduced price, cost and risk, increased innovation, brand/product value, greater effectiveness and a stronger competitive position. It contributes to EBIT (earnings before interest and taxation) and can make a solid contribution to share-holder equity (Adyang, 2012)

1.1.2 Procurement Performance

According to Van Weele (2006) procurement performance is considered to be the result of two elements: procurement effectiveness and procurement efficiency. Performance provides the basis for an organization to assess how well it is progressing towards its predetermined objectives, identifies
areas of strengths and weaknesses and decides on future initiatives with the goal of how to initiate performance improvements. This means that purchasing performance is not an end in itself but a means to effective and efficient control and monitoring of the purchasing function (Lardenoije, Van Raaij & Van Weele, 2005). Performance management includes activities which ensure that goals are consistently being met in an effective and efficient manner (Knudsen, 1999).

A good performance system should be able to measure both financial and non-financial actions. Organizations which do not have proper performance means in their processes, procedures, and plans experience lower performance, higher customer dissatisfaction and employee turnover, (Amaratunga & Baldry, 2002).

General performance indicators of the supply chain in terms of time, quality, flexibility and cost are used to measure efficiency and effectiveness. The efficiency in the supply chain explains how well the resources are utilized. Since resources are scarce, it is in everyone’s interest in the organization to maximize the utilization of the resources. The effectiveness of the supply link explains how well the objectives are achieved (Arun and Ozdamar, 2005).

Many metrics used in supply chain performance evaluation have been designed to measure operational performance, evaluate improved effectiveness, and examine strategic alignment of the whole supply chain management (Cuthbertson & Piotrowicz, 2011). Individual measures of supply chain performance have usually been classified into four categories: quality, time, cost and flexibility. Furthermore, they have also been grouped by quality and quantity, cost and no cost, strategic/operational/tactical focus, and supply chain processes. However, since many measurement systems lacked strategy alignment, a balanced approach and systemic thinking, they had difficulty in systematically identifying the most appropriate metrics. To address this problem, the Balanced
Scorecard (BSC) and Activity Based Costing (ABC) methods have been used to evaluate supply chain performance (Shepherd and Günter, 2006).

The other model that has been developed is the Supply Chain Operations Reference (SCOR). This model has been developed to facilitate construction of a systematic supply chain performance measurement and improvement tool; it has often been recognized as a systematic approach for identifying, evaluating and monitoring supply chain performance. In the SCOR model, a balanced performance measurement system at multiple levels, covering five core supply chain processes (i.e. Plan, Source, Make, Deliver, and Return) (Lockamy and McCormack, 2004).

1.1.3 Commercial Banks in Kenya

According to chapter 488 of Banking Act, a Commercial Bank is a company which carries on or purposes to carry on banking business in Kenya. This does not include the Central Bank of Kenya. Banking business means accepting from members of the public money on demand deposit repayable on demand or at the expiry of a fixed period or after notice.

There are 44 commercial banks in Kenyan with a few non-financial institutions and foreign exchange bureaus which are licensed and regulated under the CBK Act, cap 491. The banks have come together under the Kenya Bankers Association (KBA), which serves as a lobby for the banks’ interests and addresses issues affecting member institutions. The commercial banks offer corporate and retail banking services but a small number, mainly comprising the larger banks, offer other services including investment banking (Kusina, 2011).

The importance of purchasing to commercial Banks competitiveness is increasingly being noted, and is now considered more and more a strategic function. Viewed holistically, purchasing comprises all of the goods and services used by banks: from temporary help to recruiting, market research services;
direct mail to advertising services etc. and when viewed in totality, the true impact of purchasing on the bank’s bottom line is hardly irrelevant (Cousins and Spekman, 2003).

1.2 Research Problem

There are numerous benefits that can be obtained from adoption and implementation of category management. However, there are challenges as well which include restructuring of the procurement function, change management, training or hiring staff that have the right competence for the roles, approach and structure. There is substantial cost to this effort and the category management strategy must pay off this investment (Adyang, 2012). The category management strategy comes up with innovative activities to create more value and reduce cost to the business (Walker & Brammer, 2009). However, organizations need to review their performance against plan and more important evaluate the return on investment (ROI) to validate category management viability (Faan, 2012).

Commercial Banks mainly purchase indirect expense items (unlike manufacturing companies whose purchases are mainly direct items), ranging from non-critical expense items to strategic capital items like IT systems. Unfortunately, the procurement function has been treated as a unit which is unrelated to the core business of the banks. Consequently, this attitude relegates the purchasing function to a low-visibility, purely transactional role in banking and therefore not strategic (Masiko, 2013) The application of category management organizational philosophy would enable the Commercial banks develop and position aptly configured procurement functions from the onset to add value through leveraging strategic sourcing decisions while remaining focused on the external supply markets. Procurement category management allows procurement to fully integrate with the organization. According to the Hackett Group, Inc.; 2010 study on procurement value, performance and capability,
the largest obstacle to value evolution is procurement’s limited circle of influence which is broken by adapting category management approach. KPMG’s 2011 European Business Leader Survey demonstrated that realizing cost efficiencies is the top priority for business leaders across all industry sectors. Businesses have been stripping out costs through headcount reductions as well as sustainable cost savings achievable through procurement. Research by KPMG’s 2011 procurement survey indicates a direct link between cost savings and maturity in CM, strategic sourcing and supplier relationship management. As the American Productivity & Quality Center (APQC) and KPMG study on Supplier Category Management shows, there is a profound change occurring in procurement that will outgrow the initial cost savings and process improvement. It will grow through understanding business strategy, how key supply markets work and its ability to affect business growth. Most organizations are now passionate about procurement’s ability to unlock productivity avenues. Category management survey by the Haket Group (2011) focused in Europe and Transforming procurement and releasing efficiencies through category management at Leicestershire county council (Holboum, 2010) and a study of the CM benefits at GlaxoSmithKline (Thorpe, 2009).

A survey done by future purchasing (2015) in the United Kingdom measured the extent of category management implementation in terms of category management maturity, category management importance and percentage of spend covered by category strategies. The study found that banks and financial institutions were among the leaders in the adoption of category management with a performance lying within the 75th percentile in terms of category management capability. These studies have been conducted majorly in Europe.

Locally, a study of procurement category management in 2012 in Kenya by Adyang (2012) which focused on fast moving consumer goods (FMCG) sector found that category management had been
practiced between three to five years in the studied companies. The study also found that more than 51% of the procurement spend in the companies was category managed. However the study only studied FMCGs and the findings of the study cannot be readily applied to commercial banks due to the difference in operational requirements of the financial institutions as compared to fast moving consumer goods sector.

A study on strategic procurement practices in commercial banks in Kenya by Masiko (2013) mentioned category management as one of the strategic procurement practices applied by banks in Kenya to improve procurement performance. To the best knowledge of the researcher, no known in-depth study has focused on Category Management in commercial banks in Kenya.

The purpose of this study is to fill this gap in literature by addressing the following questions; what are the Category Management practices used by commercial banks in Kenya? What is the relationship between Category Management and procurement performance of commercial banks in Kenya? And finally what challenges are faced in implementation of category management by Commercial Banks in Kenya?

**1.3 Research Objectives**

The study sought to determine the role of category management on procurement performance in Commercial banks in Kenya. The specific objectives of the study are as follows: -

i) To determine the Category management practices used by commercial banks in Kenya;

ii) To establish the relationship between Category Management practices and procurement performance in commercial banks in Kenya.

iii) To establish challenges faced in implementation of Category Management philosophy among commercial banks in Kenya.
1.4 Value of the Study

The findings of this study will provide information to various groups of people in the management of commercial banks procurement by enabling them to learn how to make a category management philosophy work; All commercial banks in Kenya will also stand to benefit from the study since the information will broaden their knowledge and enhance the realization of strategic sourcing gains due to proper organization of their procurement resources.

The application of total cost ownership (TCO) perspectives under the different categories will Enable commercial banks and indeed any other lines of business will enable them remain cost competitive and gain enhanced sourcing foresight capabilities. Non-Banking organizations in the service industry will also benefit from the study by learning the significance of taking into account the category management philosophy for better procurement performance. Researchers and academia may also find the study helpful and identify further areas of research built on the findings of this research. It may be a relevant reference material for researchers on this topic or other related topics. They will use the findings of the study in category management for further research and detailed study in the field of category management in procurement.
CHAPTER TWO: LITERATURE REVIEW

2.1 Introduction

This section seeks to look at the literature on the concept of Category Management, the breadth of category management, the link between category management (CM) and procurement performance, and the challenges on the adoption and implementation of category management and finally the Procurement performance measures.

2.2 Category Management Concept

Category management is a framework and set of practices used to optimally manage supply categories to meet business objectives. The framework sits above and guides the content and sequencing of lower-level methodologies like strategic sourcing and supplier relationship management (SRM) to satisfy category objectives and business objectives (Mitchell, 2012). An implication of this is that the purchasing department needs to be synchronized with the rest of the functions of the company in order to be well-informed regarding user preferences and new projects that demand new purchasing routines. This, among other things, means creation of cross-functional buying teams and it sheds light on the importance of a well-functional organizational design (Axelsson, 2005).

The success of category management is based on its five building blocks. This is through conducting business spend analysis and coming up with spending categories. The procurement organization then seeks to understand the categories by engaging the spending functions. Once the segments are clear, market analysis kicks off by use of models like porters five forces. A fit for purpose category strategy is then developed considering cost drivers for a particular category (Brown, 2011).
As a strategic process-based approach, CM "focuses on the vast majority of an organization’s spend on goods and services with third-party suppliers" (O'Brien, 2009). This process involves segmenting the main areas of organizational spend into groups of products and services according to their function. The categories are then managed from a procurement perspective since they require the same supplier market intelligence, same sourcing strategies and similar supplier relationship management programs. Category segmentation requires organizations to work cross-functionally on individual categories and examine the entire category spend, the market places and individual suppliers (O'Brien, 2009).

Obrien, J (2012) distinguishes two types of 'typical' categories; direct categories and indirect categories". Those that are direct, i.e. raw materials, components or services that are directly incorporated into, or help produce, the final product; and those that are indirect, i.e. products and services that are non-product-related or enable the company to function overall. Organizations deploying category management will often organize the program of work and cross-functional teams around direct and indirect categories in order to identify potential linkages and opportunities between categories. For example, an indirect category team working on the indirect category of fleet would ideally be the same team or close to the team that is working on another indirect category of insurance (Obrien, 2012)

Organizations have moved from being primarily fixated on cost reductions and quick procurement wins to an organization that is evolving to encompass Total Cost of Ownership (TCO), building supplier relationships and sourcing spend reduction in order to create and sustain a competitive advantage" (Anderson & Katz, 1998). Therefore CM not only provides a more comprehensive internal customer and supplier management approach, but also a broader approach to providing solutions that support category and business objectives and looking to safely harness supply-market
power to create a competitive advantage (Mitchell, 2012). Not only does CM organize processes and resources around supply markets (just like Strategic Sourcing,) but in addition it sources these market categories and also manages them on an ongoing basis. It involves a clear understanding of the organization’s key value objectives for the category (based on business objectives) and then develops a set of executable strategies.

Category management brings together the entire organization, not just procurement, to better manage processes, resources, knowledge, and activities for a specific commodity, part, or service category. Increasingly, companies are taking a category approach to Spend Management to drive sustainable savings and results for both indirect and direct materials categories. Category Management works in tandem with other procurement strategies (e.g. strategic sourcing) to help achieve new levels of savings and efficiency (Busch, 2005) CM requires a strong customer management competency and is more of a solution assembler role rather than just process executor (Mitchell, 2012) and therefore requires new processes and capabilities. As many organizations move into a category management model for their procurement function they require to employ category expertise for a given subject matter within their structure and invest in managing top spend portfolios at a strategic level (Sollish, 2011).

2.2.1 Theoretical Foundations of Category Management

Organizational theory is a management insight that can help explain or describe organizational behaviors, designs, or structures. This section explores the contingency theory, the agency theory and the resource based theory (Sarkis et al, 2011)
Contingency Theory

Contingency theory means that one thing depends on other things, and for organizations to be effective, there must be a “goodness of fit” between their structure and the conditions in their external environment. As such the correct management approach is contingent on the organization’s situation (Daft 2001). This study accepts the notion of contingency theory, which suggests that the selected design and use must conform to its contextual factors (Pugh, 2008). Contingency theory represents a rich blend of organizational theory such as organizational decision making perspectives and organizational structure (Lawrence and Lorsch, 1969; and Donaldson, 2001).

The essence of the contingency theory paradigm is that organizational effectiveness results from fitting characteristics of the organization to contingencies that reflect the situation of the organization (Lawrence and Lorsch, 2004). According to Donaldson (2001), organizations seek to attain the fit of organizational characteristics to contingencies which leads to high performance. Therefore the organization becomes shaped by the contingencies to avoid loss of performance. Thus, there is an alignment between organization and its contingencies, creating an association between contingencies and organizational contextual characteristics (Burn and Stalker, 1961, Woodward, 2001). Contingency theory is essentially a theoretical perspective within organizational theory that emphasizes how contingent characteristics or contextual factors (Daft, 2001) such as technology, size, environment, culture and strategy affect the design and functioning of organizations (Covaleski, Dirsmith& Samuel, 2006).

This theory is relevant to the study because the conditions existing in the market dictate the design of the procurement function and as a result influencing the performance of the procurement function.
Resource Based View

The resource based view argues that sustained competitive advantage and improved performance by a firm may be realized by exploiting resources that are valuable, rare, imperfectly imitable and non-substitutable (Barney, 1991; Hart, 1995). A valuable resource or bundle of resources allows an enterprise to harness opportunities and reduce threats in its environment. A rare resource or bundle of resources is one that is not possessed by a large number of firms. A non-substitutable resource or bundle of resources is one for which an equivalent resource cannot easily be created by competing firm or firms. An imperfectly imitable resource or bundle of resources is one that is difficult to replicate or one that can be replicated at a significant cost (Barney, 1991; Hart, 1995). Daft (1983) lists these resources as including all assets, capabilities, organizational processes, firm attributes, information and knowledge among others. Hart (1995)

Helfat and Peteraf (2003) argued for dynamic capabilities, that is, resources can only increase the value of the firm if they are employed in a way that considers the dynamic external business environment (Sirmon, Hitt& Ireland, 2007). The resources can be categorized as tangible or intangible (Mentzer, Min & Bobbitt, 2004). Knowledge is one frequently discussed intangible resource in the theories of the firm (Mentzer et al., 2004). The learning that occurs between buyers and suppliers concerning business activities such as working with suppliers to commit to lead time reduction goals takes time, but such learning is strongly directly related to supplier performance and reduced operating costs in supply chain relationships (Carter, 2005). This theory is relevant to the study because it recognizes organizational processes, knowledge sharing and close working relationships as resources that can be used to improve the competitiveness of organizations.
2.3 Category Management and Procurement Performance

Proper execution of Category Management results into value improvement in terms of reduced price, cost and risk, increased innovation, brand/product value, greater effectiveness and a stronger competitive position. It contributes to EBIT (earnings before interest and taxation) and can make a solid contribution to share-holder equity (Adyang, 2012).

Specific improvements to procurement performance due to category management include;

Ensuring that all relevant spend is included in the category so that your leverage is maximized. Without category management there is a danger that the purchase of individual items are spread across an organization in quantities that are too small to get volume related benefits (Allen, 2012).

Linkage of customer requirements with supply market capabilities. Once you know what core supplier capabilities deliver and customer requirements, one can identify and work with those suppliers that are "best of breed" in that capability. A deeper understanding of the commercial and operational risks associated with a particular supplier can also be gained by benchmarking against other similar suppliers (Carter, 2012).

Enabling and shaping the business requirements definition or specification to be developed so that it delivers best value. Defining business requirements is a team game considering user requirements and commercial expectations. A balance between the two is what delivers best value (Carter, 2012).

Ensuring the right skills and experience are applied to the right activity within the category management process. Category management creates the critical mass needed to have experts for each of the activities in this process rather than generalists having to do a wide range of differing activities (Carter, 2012).

Risk reduction; creating categories and putting them under the proper management of experts, enables one spot any trends or developments that might create a commercial risk and
formulate a mitigating plan (Allen, 2012). The procurement function can leverage expertise and insight into a whole category as a means of driving value from a particular deal providing better, sustainable savings to the business (Chun and Cadeaux, 2010). Procure to Pay processes are often defined by category and similar ways of working can be replicated across a range of suppliers. Category management helps in building good communications across the entire value chain. Value Chains are made up of people and communicating the right message to the right people promotes the right results (Allen, 2012). Building trust and co-working across all of the value chain. Trust comes from delivering your promises. Category understanding provides the ability to set goals for everyone in the value chain that meets their needs and the delivery is within guaranteed capability. It unlocks supply option that can be put under consideration other than the obvious traditional one. The category management process ensures all options are explored and considered before a conclusion is drawn (Dunne et al. 2010).

Developing the right supply capability for today and the future. An understanding of changing capabilities over the next few years and suppliers plan, can influence both positively the organization expectation in line with changing supplier capabilities (Adyang, 2012)

2.4 Challenges of Category Management Implementation

Cautious management culture hinders implementation of changes to processes. When organizations pursue variations much the same objectives in much the same way over a period of time they become conservative targeting incremental improvement avoiding mistakes. Category management can seem too big, too different. The disruption and risk may seem too much. The organization must confront and assess its reality honestly and commit to a bold path forward (Robert, 2010)
Proper implementation of CM requires in-depth insight into the spend portfolio. This is only possible with an adoption of a robust ERP (Enterprise Resource Planning) system achievable by investment in a modern ICT (Information communication Technology) platform (Falgione, 2009). Supply management still needs an overall strategy, and only with the strategy, a map that shows the linkage of e-procurement to the achievement of goals must be constructed. The core of e-procurement applications should provide accurate spends information, e-auction applications, automated acquisitioning and purchase order placement, and risk management. If systems aren’t effectively providing functions that track to supply management goals, expected results and ROI will not be reached (Harris, 2006)

Procurement CM is sold to the organization by putting together a proper business case. Resistance to change is a normal human nature, until this is overcome; no change process ever takes place. Change agents must be identified and mobilized (Bourne, 2011). Recalcitrant business executives will pose a challenge to the implementation of CM. Not everyone will be behind the change. The organization will want to avoid conflict, so will tolerate dissent. In tolerating dissent, however, it allows enthusiasm and energy to be drained from the process, and keeps in stakeholders who will keep focusing on failure and sap the support of first equivocal stakeholders and finally actual supporters. Recalcitrant stakeholders have to be dealt with as early as possible, and this may mean launching the process in a deliberately provocative manner in order to highlight where dissent will originate. (Robert, 2010)

Top management support is also important in realizing success in the implementation process to realize smooth transition between the existing structure and the optimal one. Consultants and change managers need to be employed to see through the transition (Bourne, 2011).

Business as usual management practices put a speed brake on the implementation of category management. The organization is already functioning, operating entity with full schedule of activity
to get through. The category management project is a demand on already utilized people and resources. The answer to this is to create a category management project that will rip at high speed through its agenda. it will not try to create a fully formed and perfect process but will run in parallel with the rest of the organization transferring deliverables as they arise and accepting that very deliverable is a work in progress to be refined and perfected through use. (Robert, 2010)

Lack of training and development. Implementation of category management strategy comes with costs of training current staff to plug the skills gap and expertise to deliver value to the business. There is need to also employ new category managers. Since category managers are strategic managers in the organization, they are senior and their pay bill is equally higher. The company therefore increases its wage bill before realizing any benefit (Attwood, 2011)

Poorly Deployed Category Strategies. Categories often have many existing contracts in force within them. As a result the organization is never able to neither act cohesively nor make most of its aggregated spending power in its markets... Reasons for this range from lack of buy-in, poor communication, inadequate team management, reduced expectations / demand overall, competing supplier pressure, inadequate planning, and changing markets. Although these reasons can probably be defended, Category strategies are not fully deployed across the organizations and potential savings are lost (Harris, 2006)

Lack of Proper Planning. Planning exists in the ideal world. At some point there is a move from the ideal to the real world of doing. If the planning is inadequate, the organization will be doomed to firefighting. The problem is that planning is always inadequate; no planning process can anticipate every eventuality, and as problems encountered, organizations reach for old-system answers that are known to work, and every time this happens, new intentions are dilute and focus is lost on category
management. There is need to surround execution with features that will keep CM on track and using new methods (Robert, 2010)

Management of Indirect Spend Decision Making. Indirect spend, because it cuts across departmental and functional responsibilities is handled by people with the status and hierarchical authority to act in that way and not by procurement specialists who may lack the authority to exert their expertise in these situations. The reason is that the using departments are still “calling the shots” on sources, sourcing strategies, contract terms, and supply relationship managements. Category management groups should redouble their efforts to address the non-traditional categories in order to bring on additional savings opportunities. (Harris, 2006)

Poorly Developed Market Analysis. Many organization produce narrow incomplete market analyses. The organization needs to be thorough and inquisitive. Market analysis provides insight into the present and future conditions of an industry and market. Many tools are available to assist supply management in completing market analysis tasks such as Michael Porter’s Five Forces, SWOT analysis, Boston Consulting Group’s Product Segmentation Matrix, and resource models. Ultimately, the result is an assessment of the market under which the category sourcing project will be pursued. Results may dictate length and timing of contracts, pricing trends, selection criteria, underlying new material trends, off shoring / outsourcing, and profit levels (Harris, 2006)

Disengagement of frontline employees poses a challenge to CM implementation. Top managers can plan, but it is front-line people who implement. Everyone needs to be involved in the process and to move at the speed of the process. The category management team is prone to living in its own bubble, carrying forward a high-level process of analysis, strategy-making, contracting and so forth, but unless front-line staff are helped to keep up, then whatever the category team comes up with is
destined for failure—they are like roofers laying a roof for a building which is not actually there (Robert, 2010)

2.5 Summary of Literature Review and Knowledge Gap

Category management has been gaining prominence over the recent past among both academic and industry practitioners. However, despite the known merits of category management adoption, there has been slow uptake. Adoption of category management is thus riddled with challenges that need to be addressed to enhance chances of success. Past studies conducted in various contexts have revealed a number of key factors that influence success of implementation of category management. Some of these factors include: Spend analysis, aggregation and standardization, market analysis, supplier relationship management and category strategy. It is noted that most of studies have been carried out in developed countries and where done locally it's in industries other than the banking industry (Refer to Table 2.1 below) hence there is need to carry out similar research based on the banking industry in Kenya.
Table 2.1 Summary of Key Previous Studies and Gaps

<table>
<thead>
<tr>
<th>Author</th>
<th>Focus Of Research</th>
<th>Findings</th>
<th>Gap</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 Adyang, 2012</td>
<td>A survey of the major FMCGs in Kenya to determine the extent of category management adoption in FMCGs in Kenya</td>
<td>Significant adoption levels of category management approach with 51% of procurement spend being category managed.</td>
<td>Research focused on FMCGs only. The firms studied are multinationals with operations mainly controlled regionally and globally.</td>
</tr>
<tr>
<td>2 Thorpe, 2009</td>
<td>A study of the benefits of category management at GlaxoSmithKline</td>
<td>Study identified the benefits of category management approach at GlaxoSmithKline</td>
<td>Research was based on one firm and in the pharmaceutical sector. The study was done in the UK.</td>
</tr>
<tr>
<td>3 Hackett group, 2010</td>
<td>A study on procurement value, performance and capability</td>
<td>Study identified the category management capability for as a way of increasing procurements circle of influence</td>
<td>Study was multi-sectoral &amp; did not focus on financial institutions. The study was done in Europe.</td>
</tr>
<tr>
<td>4 Future Purchasing, 2015</td>
<td>A survey of the adoption and implementation of category management across different sectors in the UK</td>
<td>Study found category management to have been adopted but not fully developed with banks and financial institutions being in the 75th percentile adoption rate</td>
<td>Study done on banks in the UK findings not readily applicable locally.</td>
</tr>
<tr>
<td>5 KPMG European Business Leader Survey, 2011</td>
<td>Procurement survey to establish the direct link between cost savings and maturity in category management</td>
<td>Study found a link between the maturity of category management and cost savings</td>
<td>The study was done in European firms and findings not readily applicable to Kenyan firms.</td>
</tr>
<tr>
<td>6 Masiko, 2013</td>
<td>Strategic procurement practices and procurement practices among commercial banks in Kenya</td>
<td>Study mentioned category management as one the strategic procurement practices applied by commercial banks to improve procurement performance</td>
<td>The study does not provide an in-depth study on the application of category management among commercial banks in Kenya.</td>
</tr>
</tbody>
</table>
2.6 Conceptual Model

Fig 2.5 Conceptual Framework

<table>
<thead>
<tr>
<th>INDEPENDENT VARIABLES</th>
<th>DEPENDENT VARIABLES</th>
</tr>
</thead>
<tbody>
<tr>
<td>Category management processes</td>
<td>Organization performance</td>
</tr>
<tr>
<td>Spend analysis(X1)</td>
<td>Best value specifications</td>
</tr>
<tr>
<td>Aggregation and Standardization(X2)</td>
<td>Reduced prices</td>
</tr>
<tr>
<td>Market analysis(X3)</td>
<td>Risk Reduction</td>
</tr>
<tr>
<td>Supplier relationship management.....(X4)</td>
<td>Reduced Total cost of Ownership</td>
</tr>
<tr>
<td>Category strategy.........(X5)</td>
<td>Developed supply capability&amp; Company sustainability</td>
</tr>
</tbody>
</table>

Source: Author (2015)
CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Introduction

This chapter represented the methods that the researcher used to collect and analyze data to conduct the study. This included the research design, the population of the study, sample size used, data collection method, data collection method, data analysis, analytical model as well as tests of significance that were used to arrive at conclusions regarding the relationship between CM and procurement performance among in Commercial banks in Kenya.

3.2 Research Design

This study adopted a descriptive research design which is a valid method for researching specific subjects and as a precursor to quantitative studies. In this case the research problem was the impact of category management on the procurement performance among commercial banks in Kenya. This approach is appropriate for this study as it helped to describe the state of affairs as they are without manipulation of variables.

3.3 The Population

The unit of the study was the commercial banks in Kenya. Thus the population of this study was made up of 44 commercial banks which are regulated by Central Bank of Kenya (refer to appendix II) for this study, a census was carried out since the population is relatively small.

3.4 Data Collection

The data was collected through a five point Likert scale questionnaire and interview guide administered to the procurement management in each of the commercial banks. The Likert scale
measures the level of agreement or disagreement. Likert scales are good in measuring perception, attitude, values and behavior. The questionnaires were self-administered and distributed to the managers by e-mail or dropped to each physically. The researcher followed up with phone calls or personal visits to ensure quick and timely response. Section A of the questionnaire was comprised of general questions about the respondents, while section B addressed the level of implementation of category management in the commercial banks. Section C evaluated the link between adoption of category management strategy and procurement performance and the last section on identifying the challenges in implementation of CM strategy.

3.4.1 Pilot Test

The questionnaire was subjected to a pilot test before final administration to the respondents. A convenient sample of five (5) respondents was selected and given the questionnaire to fill in the presence of the researcher. The results were used to check for face validity of the instrument and to refine the instrument for clarity. The pilot test helped the researcher in clearing any ambiguities and in ensuring that the questions posed measure what it is intended to measure.

3.5 Data Analysis

Data collected was screened for accuracy, consistency, uniformity and completeness in preparation for analysis. The data was summarized and tabulated using descriptive measures. Factor analysis was used to identify the underlying factors. The resulting factors were used as independent variables and the procurement performance as the dependent variable.
Table 3.1 Summary of Research Methodology

<table>
<thead>
<tr>
<th>Objective</th>
<th>Data Collection</th>
<th>Data Analysis Technique</th>
</tr>
</thead>
<tbody>
<tr>
<td>General Information</td>
<td>SECTION A</td>
<td>Descriptive</td>
</tr>
<tr>
<td>Extent of Category management implementation among commercial banks in Kenya</td>
<td>Section B of the questionnaire</td>
<td>Descriptive</td>
</tr>
<tr>
<td>Relationship between Category Management and procurement performance among commercial banks in Kenya</td>
<td>Section C of the questionnaire</td>
<td>Correlation and regression analysis</td>
</tr>
<tr>
<td>Category management investments and challenges.</td>
<td>Section D</td>
<td>Descriptive</td>
</tr>
</tbody>
</table>

\[ Y = a + b_1 x_1 + b_2 x_2 + b_3 x_3 + b_4 x_4 + b_5 x_5 + e \]

Where:

- \( Y \) = Procurement performance;
- \( a \) = The \( Y \) intercept when \( x \) is zero;
- \( b_1, b_2, b_3, \) and \( b_4 \), are regression weights attached to the variables;
- \( x_1 \) = Spend analysis;
- \( x_2 \) = Aggregation and standardization;
- \( x_3 \) = Market analysis;
- \( x_4 \) = Supplier Relationship Management;
- \( x_5 \) = Category Strategy;
- \( a \) and \( b \) are regression constants, \( e \) is the error term.
CHAPTER FOUR: DATA ANALYSIS, PRESENTATION AND INTERPRETATION

4.1 Introduction

This chapter presents the data analysis results, as well as interpretation and discussion of findings. This study was carried out to establish the relationship between category management and procurement performance among commercial banks in Kenya. Data analysis was done using descriptive statistics, correlation and regression analysis. Results are presented in tables and charts.

4.2 Response Rate

**Figure 4.1 Response Rate**

![Pie chart showing response rate]

Source: Research data (2015)

Out of the target 44 commercial banks the study obtained response from 34 firms indicating a response rate of 77%. This response rate was considered high enough and representative (Letting, 2011) The 23% who never returned the questionnaires cited busy schedules as the main reason for lacking time to fill them.
4.3 Background information

4.3.1 Position in the Firm

The study sought to establish the respondents’ positions within procurement department in their organizations.

<table>
<thead>
<tr>
<th>Table 4.1 Position of respondents</th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Procurement Manager</td>
<td>7</td>
<td>20.6</td>
</tr>
<tr>
<td>Operations Manager</td>
<td>17</td>
<td>50.0</td>
</tr>
<tr>
<td>Procurement Officer</td>
<td>10</td>
<td>29.4</td>
</tr>
<tr>
<td>Total</td>
<td>34</td>
<td>100.0</td>
</tr>
</tbody>
</table>

Source: Research data (2015)

The majority of the respondents (50%, n=17) were operations manager, (29.4%, n=10) were procurement officers and (20.6%, n=7) were procurement managers. This implies that the respondents held positions of responsibility in the firms and thus could easily respond to the questions posed informatively.

4.3.2 Experience in the Firm

<table>
<thead>
<tr>
<th>Table 4.2 Experience in the Firm</th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>1-3 years</td>
<td>8</td>
<td>23.5</td>
</tr>
<tr>
<td>4-5 years</td>
<td>13</td>
<td>38.2</td>
</tr>
<tr>
<td>6-10 years</td>
<td>13</td>
<td>38.2</td>
</tr>
<tr>
<td>Total</td>
<td>34</td>
<td>100.0</td>
</tr>
</tbody>
</table>

Source: Research data (2015)
The majority of the respondents (38.2%, n=13) had at between 6-10 years’ experience in their firms, 38.2%, (n=13) of the respondents had between 4-5 years’ experience while (23.5%, n=8) had between 1-3 years in their firms. This implies that the respondents had considerable experience working in procurement department for the banks and thus understood procurement management in their respective banks and hence the accuracy of their responses.

### 4.3.3 Number of Employees

**Table 4.3 Number of Employees**

<table>
<thead>
<tr>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>101-500</td>
<td>52.9</td>
</tr>
<tr>
<td>501-1000</td>
<td>38.2</td>
</tr>
<tr>
<td>Over 1000</td>
<td>8.8</td>
</tr>
<tr>
<td>Total</td>
<td>100.0</td>
</tr>
</tbody>
</table>

Source: Research data (2015)

The majority of the firms (52.9%, n=18) had between 101-500 employees, (38.2%, n=13) of the firms had between 501-1000 employees while the least (8.8%, n=3) of the firms had over 1000 employees. This implies that the category management approach has been practiced in commercial banks of all sizes.
4.3.4 Years of Category Management Practice

The study sought to establish the number of years that the respondents’ banks had been practicing category management.

**Table 4.4 Category Management Experience**

<table>
<thead>
<tr>
<th></th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>1-2 years</td>
<td>5</td>
<td>14.7</td>
</tr>
<tr>
<td>3-5 years</td>
<td>29</td>
<td>85.3</td>
</tr>
<tr>
<td>Total</td>
<td>34</td>
<td>100.0</td>
</tr>
</tbody>
</table>

*Source: Research data (2015)*

In the majority of the firms (85.3%, n=29) category management had been in practice for between 3-5 years while (14.7%, n=5) of the firms category management had been in practice for 1-2 years. This implies that category management has been practiced for a significant number of years among commercial banks in Kenya and that they have knowledge of category management philosophy.

4.4 Procurement Category Management Implementation

The first objective of the study was to establish the level of implementation of category management among commercial banks in Kenya. To determine this, the respondents were directed to use a Likert scale of 1-5 point and indicate the extent they agree with the statements (i.e.) where 1=Very small extent 2=Small extent 3=Moderate extent 4=Large extent and 5= A very large extent
Table 4.5 Procurement Category Management Implementation

Summary Statistics

<table>
<thead>
<tr>
<th>Category Description</th>
<th>N</th>
<th>Mean</th>
<th>Std. Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Spend analysis</td>
<td>34</td>
<td>4.853</td>
<td>0.3594</td>
</tr>
<tr>
<td>Category strategy goals are aligned with overall strategy</td>
<td>34</td>
<td>4.852</td>
<td>0.3595</td>
</tr>
<tr>
<td>Aggregation and standardization of requirements</td>
<td>34</td>
<td>4.7647</td>
<td>0.4306</td>
</tr>
<tr>
<td>Goods and services purchased have clear category lines</td>
<td>34</td>
<td>4.7059</td>
<td>0.4625</td>
</tr>
<tr>
<td>Category strategies are fully developed</td>
<td>34</td>
<td>4.7059</td>
<td>0.4625</td>
</tr>
<tr>
<td>The company has specific category strategies</td>
<td>34</td>
<td>4.6765</td>
<td>0.4749</td>
</tr>
<tr>
<td>Supplier relationship management</td>
<td>34</td>
<td>4.5882</td>
<td>0.6568</td>
</tr>
<tr>
<td>The company has a fully developed e-procurement system</td>
<td>34</td>
<td>4.5588</td>
<td>0.7464</td>
</tr>
<tr>
<td>The bank has put in place a performance measurement system</td>
<td>34</td>
<td>4.5294</td>
<td>0.7675</td>
</tr>
<tr>
<td>Indirect spend and out of budget spend is managed</td>
<td>34</td>
<td>4.5294</td>
<td>0.7876</td>
</tr>
<tr>
<td>The category management cross-functional engagement</td>
<td>34</td>
<td>4.0</td>
<td>0.9211</td>
</tr>
</tbody>
</table>

Source: Research Data (2015)

The respondents were asked if the category management practices tabulated above had been implemented in their banks. With the high mean of 4.8529 and a standard deviation of 0.359494, most of the respondents were in agreement that Spend Analysis was practiced effectively by the category management team in their banks. Similarly with a high mean of 4.8530 and standard deviation of 0.35950, most of the respondents were in agreement that goals in the category strategy had been aligned with the banks' vision and mission and the overall banks' strategy. Most of the respondents were also in agreement that
aggregation and standardization of requirements had been done to improve financial performance and gain value for money as indicated by the high mean of 4.7647. According to Allen (2012) without aggregation there remains a danger that the purchase of individual items is spread across an organization in quantities that are too small to get volume related benefits.

Further, most of the respondents were in agreement that the bank had put in place a precise measurement to help assess the progress of procurement performance as indicated by the high mean of 4.7059. Most of the respondents were also in agreement that indirect spend and out of budget spend had been properly controlled within limits and by specified budget holders as indicated by the mean score of 4.7059. Concerning the implementation of category strategies within the firm, most of the respondents were in agreement that it was in effect within their firms as indicated by the mean of 4.6765. With regard to supplier relationship management practice within the different category lines, most of the respondents were in agreement it had been effected as indicated by the mean of 4.59 and a standard deviation of 0.6568.

With regard to the company having a fully developed e-procurement system to increase visibility of the whole end to end categories sourcing process, most of the respondents were in agreement as indicated by the mean of 4.5588. Concerning category management team engaging in cross functional involvement, working with all other functions to get input from user departments most of the respondents were in agreement as indicated by the mean of 4.

4.5 Category Management and Procurement Performance

The study also sought to establish the impact of category management on procurement performance among commercial banks in Kenya. The researcher used correlation and regression analysis to determine the relationship between procurement performance and category management.
The study adopted the following linear multiple regression to establish the relationship between the variables; Y = β0 + β1X1 + β2X2 + β3X3 + β4X4 + β5X5 + e where Y = Procurement performance, β0 = the y intercept when X is 0; β1, β2, β3, β4 and β5 are regression coefficients of the following variables respectively; X1 = Spend Analysis, X2 = Aggregation and Standardization, X3 = Market Analysis, X4 = Supplier Relationship Management; and X5 = Category Strategy.

All the five independent variables were measured using the responses on each of the variables obtained from the respondents. The results are depicted in table 4.6

**Table 4.6 REGRESSION COEFFICIENTS**

<table>
<thead>
<tr>
<th>Model</th>
<th>Unstandardized Coefficients</th>
<th>Standardized Coefficients</th>
<th>t</th>
<th>Sig. (p-values)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>B</td>
<td>Std. Error</td>
<td>Beta</td>
<td></td>
</tr>
<tr>
<td>(Constant)</td>
<td>5.526</td>
<td>2.327</td>
<td></td>
<td>1.473</td>
</tr>
<tr>
<td>Spend Analysis (X1)</td>
<td>.550</td>
<td>.354</td>
<td>.528</td>
<td>1.552</td>
</tr>
<tr>
<td>Aggregation and Standardization (X2)</td>
<td>.636</td>
<td>.332</td>
<td>.705</td>
<td>1.913</td>
</tr>
<tr>
<td>Market Analysis (X3)</td>
<td>.436</td>
<td>.363</td>
<td>.482</td>
<td>.562</td>
</tr>
<tr>
<td>Supplier Relationship Management (X4)</td>
<td>.576</td>
<td>.383</td>
<td>.574</td>
<td>.1546</td>
</tr>
<tr>
<td>Category Strategy (X5)</td>
<td>.634</td>
<td>.143</td>
<td>.703</td>
<td>1.238</td>
</tr>
</tbody>
</table>

Source: Research Data (2015)
The regression coefficients in the above table provide the regression equation for the relationship between category management and the procurement performance. The coefficient for category strategy is (0.032) aggregation and standardization (0.025), Spend Analysis (0.009), Market Analysis (0.15) and Supplier Relationship Management (0.018). The multiple linear regression equation will be;

\[
Y = 5.526 + 0.550X_1 + 0.636X_2 + 0.436X_3 + 0.576X_4 + 0.634X_5
\]

The regression coefficients were tested for significance at alpha=0.05. Significance occurs at p-values less than 0.05.

Using the P-Values; the coefficient for spend analysis (X1) is significant since 0.009<0.05. The coefficient for aggregation and standardization(X2) is also significant since 0.025<0.05. The coefficient for marketing analysis(X3) is not significant since 0.15>0.05. The coefficient for supplier relationship management(X4) is significant since 0.018<0.05 and the coefficient for category strategy (X5) is significant since 0.036<0.05.

The t-values are generally small possibly due to multi-colinearity

From these results all the predictors are good predictors for the estimation of procurement performance except Market analysis. This is consistent with the view by Brown (2011) that the success of category management is based on its five building blocks; that is through conducting business spend analysis, coming up with spending categories, then procurement organization seeks to understand the categories by engaging the spending functions. Once the segments are clear, market analysis kicks off by use of models like porters five forces. A fit for purpose category strategy is then developed considering cost drivers for a particular category.
4.7.1 Coefficient of Determination

The researcher sought to test the goodness of fit of the model by determining that portion of the response variable which is explained by the predictors in the regression model. Generally, the higher the value, the larger the proportion of the response variable that is explained by the predictors in the model and hence the more reliable and adequate the model is for estimation purposes and vice versa.

Table 4.7 Regression Model Summary

<table>
<thead>
<tr>
<th>Model</th>
<th>R</th>
<th>R Square</th>
<th>Adjusted R Square</th>
<th>Std. Error of the Estimate</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>.851(^a)</td>
<td>.764</td>
<td>.617</td>
<td>1.393</td>
</tr>
</tbody>
</table>

Source: Research Data (2015)

From the regression model summary table 4.7, the variation in predictor variables combined accounts for 76.4% variation in the procurement performance (R Square = 0.764). The remaining 23.6% variation in the procurement performance is as a result of other factors not considered in the model. From these results it can be concluded that the model is very good and can be used for the estimation of procurement performance since R\(^2\) > 70%. The results of this study concur with Adyang (2012) who found that category management practices play an important role in enhancing procurement performance.
Table 4.8 ANOVA of Category Management Impact on Procurement Performance

The study further employed ANOVA to determine the significance of the whole regression model.

Table 4.8 shows the results from the analysis.

<table>
<thead>
<tr>
<th>Model</th>
<th>Sum of Squares</th>
<th>Df</th>
<th>Mean Square</th>
<th>F</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Regression</td>
<td>59.537</td>
<td>5</td>
<td>59.537</td>
<td>5.102</td>
<td>.029</td>
</tr>
<tr>
<td>Residual</td>
<td>347.175</td>
<td>28</td>
<td>11.843</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>407.265</td>
<td>33</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: Research Data (2015)

From the ANOVA table significance tests for the overall model; Using p-value, the regression model is significant since 0.029<0.05. Using the F-test statistic, the sample F value had a value of 5.102, with critical f value at $\alpha=0.05$, 5 degrees of freedom for the numerator (k-1) and 28 degrees of freedom for the denominator (n-k) this implies that the regression model is statistically significant since 5.102 > 2.710. This according to Shamoo & Resnik (2003) is a good model and therefore can be used for estimation purposes.

4.6 Challenges in implementation of Category Management

The third objective of the study aimed at establishing the challenges that are experienced by respondents in the implementation of category management. Statements were outlined in the questionnaire and the respondent was required to agree or disagree with the statements. The
statements were in relation to the issues that are likely to pose a challenge in the implementation of category management. The following table 4.9 illustrates the mean and standard deviations of the results. To determine this, the respondents were directed to use a Likert scale of 1-5 point and indicate the extent to which they agree with the statements (i.e.) where 1= strongly disagree and 5= strongly agree

Table 4.9 Challenges in implementation of Category Management

<table>
<thead>
<tr>
<th>Description</th>
<th>N</th>
<th>Mean</th>
<th>Std. Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Indirect Spend</td>
<td>34</td>
<td>4.176</td>
<td>.83378</td>
</tr>
<tr>
<td>Cautious Management Culture</td>
<td>34</td>
<td>4.147</td>
<td>.74396</td>
</tr>
<tr>
<td>Lack of Clear Category Management</td>
<td>34</td>
<td>4.147</td>
<td>.85749</td>
</tr>
<tr>
<td>Lack of Top Management Support</td>
<td>34</td>
<td>4.120</td>
<td>.97746</td>
</tr>
<tr>
<td>Shortage of Expertise</td>
<td>34</td>
<td>4.117</td>
<td>.72883</td>
</tr>
<tr>
<td>Lack of Use of ICT tools.</td>
<td>34</td>
<td>4.090</td>
<td>.83003</td>
</tr>
<tr>
<td>Rigid Organization Structure</td>
<td>34</td>
<td>4.088</td>
<td>.71213</td>
</tr>
<tr>
<td>All Stakeholders are Involved</td>
<td>34</td>
<td>4.060</td>
<td>.85071</td>
</tr>
<tr>
<td>Individuals have not been Fully Trained</td>
<td>34</td>
<td>4.059</td>
<td>.85071</td>
</tr>
<tr>
<td>Category Management not fully developed</td>
<td>34</td>
<td>4.029</td>
<td>.75820</td>
</tr>
</tbody>
</table>

Source: Research Data (2015)
Most of the respondents were in agreement that indirect spend and off budget spend by individuals in other departments reduced the effectiveness of category management as indicated by the mean score of 4.176 and a standard deviation of 0.834. Harris (2006) noted that this was the result of the user departments still “calling the shots” on sources, sourcing strategies, contract terms, and supply relationship managements. Category management groups should redouble their efforts to address the non-traditional categories in order to bring on additional savings opportunities.

Similarly, regarding cautious management culture, the relatively high mean of 4.147 and a moderately low standard deviation of 0.744 imply that the respondents were in agreement that a cautious management limits category management implementation. This is consistent with view by Robert (2010) that cautious management culture can prevent category management adoption. Lack of clear category management measurement was also a major challenge to the procurement category management as implied by the mean of 4.1471 and standard deviation of 0.858. Further the respondents were in agreement that lack of top management support in category management implementation is a major challenge to category management as indicated by the large mean of 4.12 and a relatively strong standard deviation of 0.978.

The respondents were in agreement that lack of involvement of all stakeholders in the procurement category management was a challenge as implied by the high mean of 4.060 and a standard deviation of 0.85. In regard to the training of individuals in the procurement department most of the respondents were in agreement as indicated by the mean of 4.059 and a standard deviation of 0.851. A rigid organization structure was also identified as a major challenge to the implementation of category management as indicated by the standard deviation of 0.712 and a mean of 4.088.

Most of the respondents were also in agreement in identifying the lack of adequate and usage of ICT tools as a challenge to achieving category goals as highlighted by the mean of 4.090 and a standard...
deviation of 0.830. This implies minimal variation in the respondent’s opinions. Shortage of expertise and leadership in category management was identified as a limitation in adoption and implementation of category management as evidenced by the mean of 4.117 and a standard deviation of 0.728 which indicates agreement with the statement.

Finally, lack of fully developed category management strategies was also identified a challenge as indicated by a mean of 4.029 and a standard deviation of 0.758 implying that lack of fully developed strategies hinders the full realization of category management benefits.
CHAPTER FIVE: SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 introduction

This study was carried out to establish the impact of category management on procurement performance among commercial banks in Kenya. The study had three objectives, to determine the category management practices used by commercial banks in Kenya; to establish the relationship between category management practices and procurement performance among commercial banks in Kenya and to establish the challenges faced in implementation of category management philosophy among commercial banks in Kenya. This chapter presents the summary of findings for the three objectives mentioned above, the conclusions, recommendations made based on findings and the suggestions on areas that need to be researched as far as this concept is concerned.

5.2 Summary of Findings

The study established that most large manufacturing firms that operate in Kenya have been in existence for more than ten years. The study confirmed that most manufacturing companies in Kenya had embraced the concept of category management as they had incorporated it in their procurement operations.

The research also looked into the challenges facing category management implementation among commercial banks in Kenya. It confirmed that cautious management culture, lack of adequate usage of ICT tools, lack of top management support, indirect and off budget spends, lack of a clear category measurement system, lack of stakeholder engagement, lack of proper training in category management and rigid organization structures were some of the challenges that were affecting
category management implementation. This is an indication, that for category management implementation to be successful, companies have to ensure that there is top management support, investment in ICT tools, embrace the change brought about by category management approach, proper training of procurement staff on category management practices, ensure stakeholder involvement and new enabling organization structures need to be put in place.

Four out of the five independent variables were found to have statistically significant relationships with category management implementation (i.e.) Spend Analysis, Aggregation and Standardization, Supplier Relationship Management (SRM) and category strategy. Market analysis was found to have no statistically significant relationship with category management. However, taken together all the variables explain 76.4% variation in category management. The findings of this study are consistent the findings of an earlier study carried out by Adyang (2012) that the category management variables have a significant impact on procurement performance.

5.3 Conclusions

The study concludes that most commercial banks in Kenya have been embracing category management for more than five years. Category Management has assisted commercial banks in enhancing procurement performance. This is supported by the results from a regression analysis conducted that indicated that there is a strong relationship between category management and procurement performance.
5.4 Recommendations

The study has confirmed that category management practices have a significant effect in enhancing the procurement performance of commercial banks in Kenya. All commercial banks and other financial institutions should be advised to embrace the concept so that they can be able to reap the benefits of adopting and implementing category management practices. It is also recommended that organizational rigidities and bureaucracy should be eradicated and enabling organizational structures be instituted for the benefits of category management to be achieved in the procurement performance.

There is also the need for the management of firms implementing category management to leverage on the capabilities of technology (ICT) tools like e-procurement systems in order to fully benefit from category management.

5.5 Limitations of the Study

The findings of this study and application thereof are limited commercial banks in Kenya. They may not be applicable directly to other commercial banks operating outside the Kenya. It is therefore important to note that they can only be used for comparative purposes and not any direct application in another industry or country.

The research only focused on Commercial banks in Kenya. It did not feature other financial institutions in Kenya. This was because of limited time and resources.

It was such an uphill task for the researcher to convince the respondents to participate in the study. Commercial banks are very busy organizations where by getting a respondent was challenging. Most
of the respondents agreed to participate on condition that the information will not be divulged to any other party other than for academic purposes only.

Only primary data was used for this study, collected at a particular point in time. Such data could be subject to bias and therefore future researches in this area should incorporate secondary data in addition to having primary data collected over a substantially longer period of time.

5.6 Recommendations for Further Study

The researcher recommends further research on the same topic but in other organizations other than commercial banks, such as SACCOs, MFIs and other financial institutions both within the country and outside the country. This will help to establish whether the same effects will be found when the research is done on different organizations other than commercial banks. This will assist in providing concrete facts upon which reliable conclusions can be made.

The study did not fully concentrate on the effects of procurement measurement on performance, a highlight is just given, and therefore an in-depth analysis on the effects of measuring procurement performance can be considered as an area for further studies.

The study also recommends for similar study to be replicated in SACCOs, MFIs, or institutions in other sectors of the economy.
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Helen Walker & Stephen Brammer, Sustainable procurement in the United Kingdom, 14,128-137, 2009.
Axelsson, B, Rozemeijer, F., Wynstra, F., (2005), Developing Sourcing Capabilities, p. 90-95, John Wiley & Sons

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Sneider, Julie. "*The Category Coalition Craze – Aggregation benefits*" - Milwaukee 11 1999.


APPENDIX I: RESEARCH QUESTIONNAIRE

This questionnaire is meant to collect information on the impact of category management among commercial banks in Kenya. This information is being sought solely for academic purposes and will be treated with strict confidence. Kindly answer the questions by writing a brief statement or ticking the boxes provided as will be applicable.

SECTION A: BACKGROUND INFORMATION

Name (Optional)

....................................................................................................................

Position / Designation

Procurement manager □ Operations manager □ Procurement Officer □

Other (Specify)...........................................................

Respondents Years of Experience in Procurement

1-3 Years □ 4-5 years □ 6-10 years □ above 10 years □

Age of the Company (years)

............................................................

Size of the company (No. of employees)

Below 100 □ 101-500 □ 501-1000 □ above 1000 □
SECTION B: PROCUREMENT CATEGORY MANAGEMENT IMPLEMENTATION

LEVEL

1. For how many years has category management been practiced in your organization? (Tick one)

1-2 Years  □  3-5 Years  □  above 5 Years  □

Please give the strength of your agreement with the following statements about category management implementation in your organization? Use a scale of 1 – 5 where 1 is Not at all and 5 is to a very large extent

<table>
<thead>
<tr>
<th></th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
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<tbody>
<tr>
<td>Spend analysis and management is practiced effectively by the category management team in your organization.</td>
<td></td>
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<tr>
<td>Indirect spend and out of budget spend is properly controlled within limits and by specified budget holders</td>
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<tr>
<td>Category strategies are fully developed to achieve leverage on category sourcing activities</td>
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<tr>
<td>The category management team engages in cross functional involvement, working with all other functions to get input from user departments</td>
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<tr>
<td>All procurement staff team has been fully trained in category management</td>
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</tbody>
</table>
Aggregation and standardization of requirements is done to improve financial performance and gain value for money

The category management team engages in comprehensive market analysis

Supplier relationship management is practiced within the different category lines

The company has a fully developed e-procurement system to increase visibility of the whole end to end categories sourcing process

The company has category strategies in place for the different category lines

Goals in the category strategy are aligned with the banks vision and mission

Goods and services purchased by the bank have clear categories for easy spend management.

The bank has put in place a precise measurement to help assess the progress of procurement performance

2. How would you rate the extent to which category management has been developed and implemented in your organization?

Not at all □ Low extent □ Moderately □ Large extent □ Very large extent □
3. How many categories lines e.g. IT services, machinery & parts etc. does your organization have? (state i.e. Twenty(20) categories, do not list)

SECTION C: CATEGORY MANAGEMENT IMPACT ON PROCUREMENT PERFORMANCE

1. To what extent do you agree with the following statements regarding the impact of category management on procurement performance? Use a scale of 1 – 5 where 1 is Not at all and 5 - To a very large extent

<table>
<thead>
<tr>
<th>Statement</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
</tr>
</thead>
<tbody>
<tr>
<td>Improved role of procurement by the organization: there is close collaboration with other functions and involvement in company strategy formulation.</td>
<td></td>
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<tr>
<td>Deployment of category management has led to a stronger competitive position for the bank in the supply market.</td>
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<tr>
<td>Smart cost savings: procurement’s ability to influence sustainable cost reduction to the business is enhanced</td>
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<tr>
<td>Assess the optimal Procurement operating model: Coming up with a structure that optimally serves the business by increasing procurement agility</td>
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<td>Taking a more active role in risk management: Influencing the sourcing cycles and cash flow opportunities</td>
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<tr>
<td>Maximize the use of technology and Management Information: Leverage technology to automate transactional tasks to realize enhanced value</td>
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<tr>
<td>There is good communication across the entire category value chains</td>
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<tr>
<td>Having the necessary category management skills and training has led to improved performance for all procurement staff</td>
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<tr>
<td>Embedded supplier relationship management has led to reliability of supplies to the bank</td>
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<tr>
<td>Category management has enabled shaping of business requirements definitions and specifications to deliver best value</td>
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<tr>
<td>All relevant spend is included in the specified category lines</td>
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<tr>
<td>There is linkage of customer requirements with supply market capabilities</td>
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<tr>
<td>Category management has enabled the bank develop the right supply capability for now and the future</td>
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<tr>
<td>Benefits</td>
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<td>-------------------------------------------------------------------------</td>
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<tr>
<td>By leveraging expertise and insight, deployment of category experts has</td>
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<td>led to reduced exposure to market risk</td>
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<tr>
<td>Embedded Supplier relationship management reduces risks of poor</td>
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<tr>
<td>performance by suppliers.</td>
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<tr>
<td>Proactive category management helps in compliance to terms of legal,</td>
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<tr>
<td>corporate and regulatory requirements</td>
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<tr>
<td>Category management has led to product/service innovation due to good</td>
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<tr>
<td>relationship with suppliers</td>
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<tr>
<td>Category management has helped the organization to gain competitive</td>
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<tr>
<td>advantage in the supply markets</td>
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<tr>
<td>Clear strategic goals are a source of motivation to procurement officers</td>
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</table>

2. What specific benefits within your organization can you directly relate to procurement category management? List any two

i)........................................................................................................................................

ii).........................................................................................................................................
SECTION D: PROCUREMENT CATEGORY MANAGEMENT CHALLENGES

1. To what extent do you agree with the following statements regarding the challenges of category management implementation? Use a scale of 1 – 5 where 1 is strongly disagree and 5 is strongly agree

<table>
<thead>
<tr>
<th>Statement</th>
<th>1</th>
<th>2</th>
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</thead>
<tbody>
<tr>
<td>Lack of use/adequate use of ICT tools has led to difficulties in achieving category goals</td>
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<tr>
<td>There is a cautious management culture limiting category management implementation</td>
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<tr>
<td>There is a lack of top management support in the implementation of category management practices</td>
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<tr>
<td>There is lack of a clear category management performance measurement and benefits tracking/reporting system</td>
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<tr>
<td>Individuals in the procurement department have not been fully trained on category management</td>
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<tr>
<td>All Stakeholders are not involved in planning process and category strategy development</td>
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<tr>
<td>A rigid organization structure has prevented the full implementation of category management</td>
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</tbody>
</table>
Procurement staff are not engaged/fully involved in the implementation of category management practices and strategies

Individuals in other departments engage in indirect spend and off budget spend which limits the effectiveness of procurement goals on spend management.

Category strategies are not fully developed hence difficult to implement

There is a shortage of expertise and leadership on category management which limits its adoption and implementation

2. Do you believe that Procurement Category Management in the organization has been successfully implemented? If yes, state any two factors which has led to this success.
   i)...........................................................................................................................
   ii)............................................................................................................................

3. Based on your experience, would you recommend Procurement Category Management to other companies who have not implemented this strategy? If yes briefly explain.
   ..........................................................................................................................
   ..........................................................................................................................
   ..........................................................................................................................
   ..........................................................................................................................

THANK YOU FOR YOUR RESPONSE
Appendix II: Commercial Banks in Kenya

<table>
<thead>
<tr>
<th>Appendix II: Commercial Banks in Kenya</th>
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<tbody>
<tr>
<td>Africa Banking Corporation Limited</td>
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<tr>
<td>Bank of Africa Kenya Limited</td>
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<tr>
<td>Bank of Baroda Kenya Limited</td>
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<tr>
<td>Bank of India</td>
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<tr>
<td>Barclays Bank Kenya Limited</td>
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<tr>
<td>CFC Stanbic Bank Kenya</td>
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<tr>
<td>Chase Bank Kenya Ltd</td>
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<tr>
<td>Citibank N.A. Kenya</td>
</tr>
<tr>
<td>City Finance Bank Ltd</td>
</tr>
<tr>
<td>Commercial Bank of Africa Ltd</td>
</tr>
<tr>
<td>Consolidated Bank of Kenya Ltd</td>
</tr>
<tr>
<td>Co-operative Bank of Kenya</td>
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<tr>
<td>Credit Bank Ltd</td>
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<tr>
<td>Credit Finance C Bank Ltd</td>
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<tr>
<td>Development Bank of Kenya Ltd</td>
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<tr>
<td>Diamond Trust Bank Kenya Ltd</td>
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<tr>
<td>Dubai Bank Kenya Ltd</td>
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<tr>
<td>Eco Bank Kenya Ltd</td>
</tr>
<tr>
<td>Equatorial Commercial Bank Ltd</td>
</tr>
<tr>
<td>Equity Bank</td>
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<tr>
<td>Family Bank Limited</td>
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<tr>
<td>Fidelity Commercial Bank Ltd</td>
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</tbody>
</table>