CRITICAL SUCCESS FACTORS IN OPERATIONS PERFORMANCE IN 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

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This project Proposal has been submitted for examination with my approval as university supervisor

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DEDICATION

I would like to dedicate this work to my beloved wife Isabella Bronsque, children, family and friends. Thank you for encouraging me to be the best I can be.

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ABSTRACT

Banking faces challenges such as new regulations, global financial crisis, declining interest margins, uncertainty over the banking bills and insecurity. To overcome these challenges, there is a need for managers in the banking industry to analyze critical success factors that affect management strategies. The main objective of the study was to establish factors that affect operations performance of commercial banks in Kenya. The research was motivated to find out the factors affecting operations management performance of commercial banks in Kenya and how operations management enhance successful creation of products and services in commercial banks.

This study is a descriptive survey of commercial banks in Kenya. A census survey was conducted in which all commercial banks in Kenya considered in the study. Questionnaires were used to collect primary data. The data was analyzed thorough content analysis.

The study findings indicate that operation performance in commercial banks is greatly enhanced by quality, efficiency, speed, reliability, flexibility, innovation, cost, adoption of new technology, exploration of new markets, strategic determination and attendance to constraints in the bank, introduction and modification of new services, strategic direction of the organization and more sale of existing products and services. Moreover, operation performance of commercial banks is influenced by regulatory control by central bank of Kenya, pressure for change due competition and technological change in the banking sector, economic environment, social cultural environment, political environment and organizational culture of the bank.

CHAPTER ONE: INTRODUCTION

1.1: Background

In an industry as complicated as that of financial intermediation, no simple formula can predict winners and losers from the surrounding environment (Chen 1999). Instead of guessing winners and losers, it is important to identify the principal factors that determine a bank's success. Today's banking industry is characterized by intensifying global competition and rapid advancements in the liberalization of the banking market. This is especially true of Kenya's banking industry where there is increasing number of international and local banks competing for market share. Critical success factors (CSFs) and the firm's competitive ability is the two main components of the competitive advantage of a firm (Bamberger, 1989).

In any organization, the key functional areas are finance, marketing and operations. Operations traditionally refer to the production of goods and/or services separately, although the distinction between these two main types of operations is increasingly difficult to make as manufacturers tend to merge product and service offerings. More generally, operations management aims to increase the content of value-added activities in any given process. Fundamentally, these value-adding creative activities should be aligned with market opportunity (through marketing) for optimal enterprise performance (Tan, 2009).

1.1.1 Operations Performance

Operations performance is a firm's performance measured against standard or prescribed indicators of effectiveness, efficiency, and environmental responsibility such as, cycle time, productivity, waste reduction, and regulatory compliance. In this quickly changing environment with new and growing challenges, banks are realizing their existing processes do not adequately meet these challenges. Under the current economic conditions, banks are feeling increasing pressure to reduce their operating costs in order to maximize profits. But changing processes doesn't always lead to the desired results. In

fact, many process improvement changes can result in additional work or more convoluted processes, which ultimately lead to higher operating costs. In this current fast-paced environment, process improvements can become obsolete before they can be implemented. Or the bank's priorities can change so quickly, the recommended changes will no longer meet objectives (Brignall and Modell, 2000).

1.1.2: Commercial Banks in Kenya

Commercial banks are profit making financial institutions that play a significant role in the financial system. Commercial banks offer a wide range of corporate financial services that address the specific needs of private enterprise. They provide deposit, loan and trading facilities but will not service investment activities in financial markets (Magutu et al., 2009). The CBK, which falls under the Minister for Finance's docket, is responsible for formulating and implementing monetary policy and fostering the liquidity, solvency and proper functioning of the financial system. The CBK publishes information on Kenya's commercial banks and non-banking financial institutions, interest rates and other publications and guidelines. The banks have come together under the Kenya Bankers Association (KBA), which serves as a lobby for the banks' interests and addresses issues affecting its members (Kenya Bankers Association annual Report, 2008).

Commercial banks in Kenya play a number of roles in the financial stability and cash flow of the country's private sector. They process payments through a variety of means including telegraphic transfer, internet banking and electronic funds transfers. They also issue bank cheques and drafts, as well as accept money on term deposits. They act as moneylenders, by way of installment loans and overdrafts. Loan options include secured loans, unsecured loans and mortgage loans. Commercial banks in Kenya provide a number of import financial and trading documents such as banks is predominated by financial assets and liabilities hence giving rise to an emphasis on the net interest margin. Interest rate environment is one of the most important influences on asset/liability decisions of commercial banks. Key determinants of success for commercial banks include management's abilities to understand movements in the interest rates and

inflation, and to interpret forecast with regard to interest rates. While all managers must respond to interest rate changes growing globalization of financial markets creates additional requirements like asset and liability decisions in reaction to changes in the value of currency in use against other currencies (Cooperman *et al*, 2000).

1.2: Statement of the Problem

Research studies have been done on operations management performance in Kenya. Mulwa (2000) did a study on operations management techniques in maintenance management with an aim of determining operations strategies used by city councils in their management, alongside the challenges facing implementation. He found that sound waste management operations strategy implementation was inhibited by the inability to formulate and implement sound solid waste management policies and inadequate funds and corruption. Ombura (2003) studied the improvement methods applied in operations management by firms listed at the NSE and found that NSE performance could be improved by use of modern data systems and improving the existing ones to match the current demands. Nengo (2004), studied proactiveness of the operations management function at the NSE with the aim of determining whether operations of the NSE could be pre -determined and pre controlled. He found that NSE was not static and therefore what investor could do was to diversify risks to avert any future uncertainties. There is no known study that has been done on critical success factors in operations performance among commercial banks in Kenya.

The main challenges facing the Banking sector today include; New regulations; For instance, the Finance Act 2008, which took effect on 1 January 2009 requires banks and mortgage firms to build a minimum core capital of KShs 1 billion by December 2012. This requirement, it's hoped, will help transform small banks into more stable organisations. The implementation of this requirement poses a challenge to some of the existing banks and they may be forced to merge in order to comply. Global financial crisis experienced in late 2008 is expected to affect the banking industry in Kenya especially in regard to deposits mobilisation, reduction in trade volumes and the

performance of assets. Others include declining interest margins. There are also non banking challenges which include; Uncertainty over the Banking Bill: Implementation of the "in-duplum" rule, which, if applied retroactively for several years back will wipe out many local Banks; Infrastructure: the expensive and poor conditions power, roads and communications needs to be addressed – this will reduce the cost of banking and eventually lead to banking costs for account holders; Insecurity: KCB spends Kshs. 15 million a month on security guards, which is not prudent. If the security situation improved, Kenyan banks would not have to pay as much for security; Judiciary: It takes years for cases to be heard, and all banks have backlogs of pending cases, while others are postponed endlessly.

This research study was therefore motivated at establishing the critical success factors affecting operations management performance of commercial banks in Kenya. The study will also investigate how operations strategy enhances banks' competitive advantage and determine how operations management enhances successful creation of products and services in commercial banks. The research was motivated to find out, what are the factors affecting operations management performance of commercial banks in Kenya? How does operations management enhance successful creation of products and services in commercial banks?

1.3: Objective of the Study

To establish factors that affect operations performance of commercial banks in Kenya

1.4: Value of the Study

With transformation of micro finance institution into full-fledge banks and infiltration of the market by international banks, banking industry is becoming increasingly competitive in Kenya. Therefore, for the banks to have a competitive edge, bank's management must develop very efficient operations that will ensure competitive products and services are produced. In this regard, banks must identify the critical success factors that contribute to effective operations management in commercial banks. This, together with customer

feedback and performance information will enable banks to adjust inputs, transform process so as to produce an output (product/service) that suits customers' needs. This makes this study an important one and thus mandate it to be carried out.

CHAPTER TWO: LITERATURE REVIEW

The introduction of performance management of commercial banks has some important roles in the commercial banks. Since the Balanced Scorecard was invented in 1990s, it has received a wide range of use and promotion in the global business community, and some of the major international banks have successfully used the Balanced Scorecard, which makes its performance increase greatly. Kenyan Domestic banks should learn from successful experience of international large banks, and establish a comprehensive performance evaluation system which meets self-demanding. In recent decades, in the context of constant innovation of global financial products, especially in the United States in 2008 financial crisis triggered by global financial turmoil, how to manage the banking performance effectively? In response to this problem and the current problems of commercial bank performance management, this paper makes research about how to use the Balanced Scorecard as a tool, which is applied to commercial banks performance management system.

Operations management (OM) plays a central role in the creation of products and services (Slack *et al.*, 1995). Operations management can be characterized as the function responsible for; making and implementing decisions about the design of a company's operational and ensuring that these decisions align properly with the organizational objectives (Paashuis and Boer, 1997; Boer and Krabbendam, 1999). Banks are influenced by factors relating to the costs of financial service provision in the local market include fraud, security costs, the inefficient payment system and a heavy regulatory burden, the annual relicensing process (Rajan & Zingales 1998), entry barriers and competition from other financial institutions (Claessens and Laeven, 2004), lack of information about the counterpart, lack of monitoring and enforcement tools and uncertainty about the value of money (Beck, Demirguç-Kunt and Levine 2004). Beck and Fuchs (2004) stated that the limited information sharing on debtors, deficiencies in the legal and judicial system, the limited number of strong and reputable banks and non-transparency and uncertainty in

the banking market are major impediments to the development of Kenya's financial system.

2.1 Concept of Operations Performance

Operations management is the business function that plans, organizes, coordinates, and controls the resources needed to produce a company's goods and services. Operations management is a management function that involves managing people, equipment, technology, information, and many other resources. It is the central core function of every company. Operations management transforms a company's inputs - human resources (workers and managers), facilities and processes (buildings and equipment), materials, technology, and information - into the finished goods or services (Tan 2009). Customer feedback and performance information are used to continually adjust the inputs, the transformation process, and characteristics of the outputs. The transformation process is dynamic in order to adapt to changes in the environment.

With the increasing competition that companies are facing today, rewards will accrue to those who can read precisely what consumers wants by continuously scanning the environment and delivering the greatest value to customers. Evans (1987) is of the view that as the operating environment changes; a more pronounced transformation of the business landscape lies ahead. Therefore, strategy is vital to the adaptation of the changing business environment. According to the Government of Kenya economic survey (2000), implementation of structural adjustment programme and subsequent market liberalization opened the Kenyan market, leaving businesses at the mercy of market forces. As a result, businesses faced increased competition and registered low profits and even losses. This could probably be attributed to lack of strategic marketing practices (Abdalla, 2001). Owiye (1997) asserts that sugar companies in Kenya had put in place a number of measures to contain the stiff competition that had become the norm.

The banking industry in Kenya is no exception when it comes to competition and the need for strategic marketing planning. Wanjere (1999) proposes that companies should be more involved on strategic marketing planning especially as they operate in competitive

and turbulent environments. Abdalla (2001) recommends that strategic marketing practices in other industries and sectors be studied to facilitate comparison of practices within and between industries as well as in terms of specific practices adopted. This therefore serves as a springboard for this study to investigate strategic marketing strategies and bank performance in Kenya.

2.1.1 Performance Measurement

In the implementation of the strategy, organizations should monitor the production system continually to ensure the success of strategic planning. Monitoring is done by means of performance-measuring systems that help administrators in the implementation of the business strategy, comparing current results against strategic goals and objectives (Schon 1998).

Performance indicators are indices that translate the business strategy to the operational level and allow for alignment between top management and shop floor operators. (Bititci, Carrie, & Mcdevitt 1997). The main objective of these indicators is to measure how close the organization is to the goals established by the business and operational strategies.

Performance measurement can be defined as the process of quantifying the efficiency and efficacy of an action (Neely et al, 1997). The first step toward achieving full competitive manufacturing capacity is the selection of appropriate strategy (Hill, 2000) while the second step is the identification of objectives at the shop floor level, such as the reduction of losses and of inventories.

Hayes et al., (2004) stated that evaluation systems, if not properly formulated, can even obscure the main developments and distort the perspective of administrators. In the case of successful companies, performance assessment and commitment to ongoing improvement are inherent elements of the strategy. Hayes *et al.*, (2004) discussed the importance of the commitment to ongoing process improvement. To maintain the capacity of the plant's operations, administrators must pay attention and actively plan for learning. Bandeira, et al., (2003) argued that measuring performance is only justified

when the objective is to improve it. Bititci et al., (1997) wrote about the importance of recognizing the difference between measuring performances and managing performance (Bititci, et al., 1997).

The difficulty of developing a collaborative culture and of developing proper performance measures was identified as a major barrier to the implementation of performance management systems. According to Neely, et al., (1997), 70% of the attempts to implement performance measurement systems fail. Organizations seek their goals through the customer's satisfaction with better efficiency and efficacy than their competitors (Neely et al., 1997). Efficacy is related to meeting customer demands, while efficiency is the measure of how economically the company utilizes its resources to satisfy the market. There is a need to measure less objective dimensions such as employee morale, level of knowledge acquired about processes and products, etc. The standards work as the upper limit of performance by establishing goals (usually financial) which, when achieved, are considered to have met the performance goal.

Organizational culture and management style interfere in the way performance measurement systems are implemented and used, resulting in their success or failure Bititci (2004). On the other hand, performance measurement systems can influence management styles and, to a certain extent, organizational culture. Bititci (2004) stated that successful implementations of performance measurement systems lead to more participative management styles. Once they have been implemented and put into practice, supported by consulting management, performance measuring systems lead to greater acceptance at every level. (Bititci, et al., 1997) asserted that the key to the success of high performance in organizations lies in the congruence among the elements of the organization, particularly among its strategy, structure, people and culture.

2.2: Critical success factors that affect operation performance

Many researchers argue that changes in performance measurement systems are influenced mainly by the external environment of the organisation (Innes and Mitchell, 1990; Cobb *et al.*, 1995; Jazayeri and Hopper, 1999; Hussain and Hoque, 2002) and that the changes take place to enhance the production of better information for decisions and to survive in a highly competitive environment (Baines and Langfield-Smith, 2003; Cobb et al., 1995). The external environment is an outer context of organisations which is outside their control. For example, trade liberalisation, technological developments, level of competition, changes in regulatory requirements, and economic uncertainty have often been shown in the literature as major factors that are likely to place pressure on organisations (Cobb et al., 1995). Hussain and Hoque (2002) suggest that external environmental change influence changes in the strategy and/or structure of an organisation, which in turn could lead to changes in performance measurement practices. More specifically, environmental factors such as economic uncertainty, competition and technological developments impact on performance measurement practices (Hussain, 2003; Johnson and Kaplan, 1987). Organisations operating in such environments tend to make an attempt to adapt their systems to fit the environment in various ways (Granlund and Lukka, 1998). For example, hostile economic conditions create pressure on banks to increase financial performance. As a consequence, management generally tends to focus more on using financial measures. It is thus important to consider the effects of uncertainty in the economic environment on banks when developing a framework to analyse change in PMSs.

2.2.1: Economic Environment

According to Cobb et al. (1995), environmental uncertainty in general increases the need for managers to obtain and process information through organizational structures to adapt to the perceived environmental uncertainty (Brignall and Modell, 2000). The literature in this area also suggests that organisations facing a high level of economic uncertainty are likely to use financial measures to a greater extent than non-financial performance

measures (Lynch and Cross, 1991; Kaplan and Norton, 1996). Negative economic conditions place pressure on organisations to increase profitability (Burney, 1999) making it difficult for management to focus on improving and measuring non-financial performance. In recent years banks globally have faced an uncertain economic climate because of their large non-fund based activities, swelled non-performing loans (NPLs), huge write-offs and high inflation and interest rates in the late 1980s and early 1990s (Harker and Zenios, 1998, p.2). Such an economic climate is likely to place pressures on management to take measures to improve performance, for instance by using existing control systems more efficiently or by introducing new systems for that purpose.(Hussain and Hoque, 2002). Therefore, it is important to consider the effect of the economic environment on organisations (banks in this paper) when examining changes to their performance measurement systems and their degree of responsiveness and adaptability.

As in other industries, the degree of competition in the banking sector is primarily driven for creating efficiency of the production of financial services, the quality of financial products and the degree of innovation in the sector. The degree of competition in the banking sector has not only facilitated the access of organisations and households to financial services and financing but also affecting overall economic growth. Cobb *et al.*, (1995) note that markets are becoming increasingly competitive as institutions fight for profitable business, while advances in technology and de-regulation allows other organisations to enter the markets. At the same time, the need for more comprehensive performance measurement systems for organisations to operate effectively in today's competitive environment has often been emphasised by accounting academics as well as practitioners. (e.g. Johnson and Kaplan, 1987).

A number of recent studies have also concluded that traditional performance measures are inappropriate given today's complex competitive environment. In a similar context, Fisher (1995) too identified three principal reasons for adopting new performance measurement systems, one of which is competitive pressure. The banking sector faces severe competition in the current era (Niemela, 1999). Deregulation, both within countries and across national boundaries, has led to increased competition between banks

and between banks, and other financial institutions. The pressure to be more competitive is likely to make banks use existing management control systems including PMS more effectively and also introduce better systems to manage their functions more efficiently. Therefore, the effect of competition merits investigation as a force of change in performance measurement practices in banks.

2.2.2: Technological Environment

The impact of technology on performance measurement practices is well researched in the management accounting literature (Johnson and Kaplan, 1987; Burns, 1992; Otley, 1994). The impact of advancements in information technology is relatively higher in the service industry (such as banking sector) than in manufacturing (Kimball, 1997). Kaplan and Norton (1996) also argue that the impact of the information era is even more revolutionary for service than manufacturing companies. Technology provides an opportunity for banks to improve service performance in addition to providing a broader scale of financial products and services. Also, technological advancements seem to make banks offer a wider variety of customer services, not only to fulfill the needs of customers, but also to achieve economies of scale and to be competitive. The literature on banking reveals that over the last two decades there has been a phenomenal increase in the offer of e-banking products/services by banks to stay competitive. Information technology creates opportunities to deliver financial services through alliances which allow the shared use of technology platforms such as Automatic Teller Machines (ATMs) and payment processing systems. International payments has traditionally been carried out through the Society for Worldwide Interbank Financial Telecommunications (SWIFT) network and the banking regulations ensure that the international banks who form the worldwide network of correspondent banks receive income for managing payment transactions and also from interest earned while the money is in their temporary control. During the 1990s a range of alternative mechanisms for managing international funds transfer emerged. The new entrants include Islamic Banking Operations (IBOs) and smart card technology (Holland and Cortese 1995). The effect of these new entrants is to reduce the overall size of the payments market by offering cheaper, and in most cases

faster methods of moving money by banks. These developments require more extensive use of risk management and performance measurement systems within banks to create competitive advantage and improve performance. It is therefore likely that the technological advancements in the banking sector may influence banks to change their performance measurement practices.

2.2.3: Socio-Cultural and Political Environment

The institutional environment is generally characterized by the rules and requirements which individual organisations must conform if they are to receive support and legitimacy (Scott, 1993). Hoque and Hopper (1994) have characterized a number of overall socio-cultural and political factors such as uncertainty, political instability and the tendency towards organisational disorder. Within the performance measurement literature, research has largely excluded the examination of social and institutional factors by assuming uncertainty in terms of the technical environment such as economic inputs, market functions and technological factors (Alam, 1997). Organisations voluntarily, or at times obligatorily, follow international organisational standards/quality measurement such as International Standards Organisation (ISO) and the United Nations (UN) environmental conditions, and accordingly adapt their performance measures (including quality and standards). Transnational institutions like the World Trade Organisation (WTO) and regional blocs pressure organisations to change their performance measurement practices to make them consistent with international practices. Here, the effect of these socio-cultural and political institutions on performance measurement systems usage is considered to be a relevant influencing force for banks.

2.2.4: Pressures for change

The macro-level factors, in the last section, place pressure on organizations to various forms (namely mimetic, coercive and normative) to change their performance measurement system. DiMaggio and Powell (1983) suggest that in an uncertain environment, organisations will imitate others in determining appropriate behaviour. Patterning their own operational or decision making systems on the system used by those

seen as the industry leaders is seen as a means of reducing uncertainty and risk and enhancing legitimacy (DiMaggio and Powell, 1983; Greve, 2000). Where management is unable to implement and utilise performance measurement system, for reasons such as inability to link strategy to operational activities, it often tends to copy publicly accredited best practice performance measurement systems from other successful organisations (Fligstein, 1985; O'Neill et al.,1998). This copying tendency occurs from a desire to gain legitimacy for their operating environment, although the relationship of performance measurement systems with strategy and performance can still be absent. DiMaggio and Powell (1983) suggested that imitating the largest firm in industry was a successful institutional rule. As Haveman (1993, p.598) concluded "under conditions of competition and environmental variability organisations that mimicked the behaviours of large firms had good survival chances. Large and high profitability firms serve as strong role models for other firms." Hence following the banking reforms and deregulations under environmental uncertainty it is likely that banks will copy best practices of the industry to gain legitimacy.

Institutional theory suggests that some nstitutional fields contain powerful environmental agents who impose structural forms or practices on subordinate organisational units (DiMaggio and Powell, 1983; 1991). Coercive pressures reflect the enforcing and regulative aspects of such environmental agents, and they are receiving increasing attention as important determinants of the structure and functioning of organisations (DiMaggio and Powell, 1991). Coercive pressures on performance measurement practices result from other organisations upon which a particular organisation is dependent (DiMaggio and Powell, 1983). Institutional theorists have directed attention at the importance of symbolic aspects of organisations and their environment. For instance, Granlund and Lukka (1998) found that the symbolic aspects of the environment had clearly created pressures on organisations to change their performance measurement practices to be consistent with the mandates of transitional institutions. In relation to the banking sector, prior research highlights the coercive influence exerted on organisations or on their behaviours through the Central Bank's Regulatory Control, financial

regulations, and socioeconomic-political institutions (Hoque and Hopper, 1994; Hussain, 2003).

2.2.5: Central Bank's Regulatory Control

Banks are required to function within the regulations and guidelines of the central banks and Basel Agreement (Taufe 2006). The Basel Accord II Framework describes a more comprehensive measure and minimum standard for capital adequacy that supervisory authorities are required to implement through rule-making and adoption procedures. It seeks to improve on the existing rules by aligning regulatory capital requirements more closely to the underlying risks that banks face. In addition, the Basel II Framework was intended to promote a more forward looking approach to capital supervision, one that encourages banks to identify the risks they may face, today and in the future, and to develop or improve their ability to manage those risks (Taufe 2006). As a result, banks were required to improve their performance measurement practices with advances in markets and risk management practices. Therefore, the influence of the central banks' regulatory and supervisory framework on performance measurement system in banks is likely.

2.2.6: Financial Legislation

Financial legislation and accounting standards may affect the design and use of a particular performance measurement system (Merchant and Van der Stede, 2007). The international Accounting Standard Board prescribes International financial reporting standard (IFRS) which in turn impacts on accounting systems of which performance measurement system is an integral part. Central banks prescribe banks to follow the IFRSs. The Basel Accord II requires that banks implement a progressive adaptation of risk evaluation techniques; one result of this requirement is a changing demand for bank financial information. This generated adaptive transformations of financial information to change existing accounting systems. Further, most of the changes were improvements in disclosure of financial information that came about as a result of the reformulation of accounting rules for entries and reporting. These reformulations were designed to

improve the informational quality of statements so that they accurately represent the true performance of the bank. An example of recent legislation introduced in the US is "Sarbanes Oxley Act" which was introduced in response to a series of corporate scandals in the US. The Act require organisations, in particular banks, to identify, assess and test the effectiveness of their key management controls and monitoring within the business for the benefit of greater accountability and transparency (Merchant and Van der Stede, 2007). Thus, these legislations, and principles may affect performance measurement systems in banks.

2.2.7: Corporate Culture

Granlund and Lukka (1998) and Scott (1987) argue that top management often creates cultural forms consistent with their own aims and beliefs. These, in turn, can influence organisational practices and systems, including performance measurement systems. Existing literature suggest that board members and chief financial officers can influence performance measurement systems change. For instance, Cobb et al. (1995) explicitly stated that such individuals are generally considered as a significant change agent. Similarly, the dissatisfaction of top management with existing accounting information was identified by Innes and Mitchell (1990) as a driver to change. Cobb et al. (1995) also found top management playing a dual role in the change process; On the one hand top management was the catalyst which initiates management accounting change processes, and on the other hand the top management's leadership ability was found to be necessary to overcome barriers (Cobb et al., 1995). The power of a strong individual personality can accelerate management accounting change (Burns and Scapens, 2000). The corporate culture of banks and leadership and personality of top management in banks could influence the change in performance measurement practices

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In the rapid development of financial markets, commercial banks are facing with intense competition. The traditional performance management appears to be inadequate in how to measure all-round performance to meet the banking needs of strategic development.

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Specific performance: Put emphasis on the financial indicators, and ignore the non-financial indicators. Traditional performance management ignored the nonfinancial factors; with the result that the conclusion can not be fully reflect the overall operations of the bank. At the same time, financial indicators can only reflect the performance of banks in the past and does not reflect the bank's future operating conditions.

Put emphasis on internal evaluation of operating conditions, while neglecting external factors. In the rapid and complicated changing of business environment, banks are facing with challenges from the external environment. If the banks did not correctly analyze the external environment and reflect what it is during the process of performance management, banks can not give an accurate analysis of their own strengths and disadvantages; it can not understand the opportunities and threats facing either, so it is difficult to win in the fierce competition. Put emphasis on traditional assets, and neglect intangible assets. Bank of fixed assets are important, but the banking sector is a knowledge intensive industries, and financial knowledge, intellectual resources and other intangible assets of banks are more important.

Studies in the area of operations management include the process of economic reform which began in China; the Chinese banking system has grown impressively. The aim of this paper was to examine the differences in operational efficiency between China's state-owned commercial banks (SCBs) and shareholding commercial banks using pooled cross-section and time-series data to observe the period between 1996 and 2002. The results showed that, on average, shareholding commercial banks have lower operating costs than the SCBs; this is because China's state-owned commercial banks had more access to funds compared to shareholding commercial banks. The empirical results also indicated that there has been a significant improvement in the overall operational performance of China's commercial banks in the last few years. By 2002, average operating costs were much lower than during the period 1996-1998. This improvement is clearly related to the growth of the shareholding commercial banks (Hsiu-Ling and Chien-Hsun , 2010).

Another study was done was on Islamic Banking Operations (IBO) of commercial banks under Islamic schemes (IBS). The performance analyses was aimed at investigating theoretically how the practices of the Islamic banks differ from the practices of interested based (convectional) banks in the context of financial intervention. The study identified that there is inherent problem profit sharing modes of financing (Johangrbek, 2006).

2.4: Operations strategy and organizational mindset

2.4.1: The transformation system and cross-functional perspective.

There is an increasing emphasis on the management of processes and the cross-functional nature of processes. The Theory of Constraints (TOC) emphasizes the cross-functional and Interdependent nature of organizational processes by viewing an organization as a chain (or a network of chains) of interdependent functions, processes, departments or resources where a variety of inputs are transformed into a variety of products and services which when sold become throughput. Theory of Constraints (TOC) is a general management philosophy that aims at helping organizations continually attain their goals (Cox & Goldratt 1986). The basis of Theory of Constraints is that organizations can be measured and controlled by variations on three measures: throughput, operational expense, and inventory. Throughput is the rate at which the system generates money through sales. Inventory is all the money that the system has invested in purchasing things which it intends to sell. Operational expense is all the money the system spends in order to turn inventory into throughput. The rate of goal achievement is limited by at least one constraining process. Only by increasing flow through the constraint can overall throughput be increased (Cox & Goldratt 1986).

Although it is possible to view the production/operations function as a functional area with a distinct set of inputs and outputs, in the view of TOC the role of operations must be evaluated in the context of the whole organization. Cox *et al.* (2003) goes beyond other operation management textbooks in developing a "business systems model" incorporating organization structure, business processes and management direction as a framework for discussing the use and impact of TOC concepts on the whole organization.

The rate of output of the whole system determines the rate at which the purpose (the goal) of the organization is accomplished. TOC further defines a constraint as anything that limits an organization's higher performance in terms of its goal. When viewed from a functional perspective (e.g. the operations function), a list of problems, often loosely defined as constraints, can be quite long, representing problems in each function or department. However, the chain analogy suggests that not all problems can be the weakest link(s) in the chain; some problem has to be the most significant with respect to the organization's ability to move in the direction of its goal. This weakest link could be a resource the company does not have enough of (a physical constraint) or lack of market demand for its products, poor relationships with suppliers, or other policies, procedures or ways of thinking. All of these latter types of constraints are referred to as non-physical constraints. Thus, it is possible, for example, that the operations function does not have enough of a specific resource or a specific resource is not utilized properly due to some policy constraints, thereby limiting the performance of the entire organization of interdependent resources, departments and processes. Thus, TOC promotes very strongly an integrated, cross-functional and systems view.

2.4.2: Operations strategy

The OM literature emphasizes the importance of the operations strategy being consistent with both the business unit strategy and with the other functional area strategies such as marketing and human resources. Constraints management goes beyond this emphasis on consistency linking to the focus on the organization's goal of "making money now as well as in the future" without violating the necessary conditions of providing a satisfying work environment for employees and ensuring customer satisfaction (Goldratt, 1994; Cox *et al.*, 2003; Boyd and Gupta, 2004). The mission statements of many successful organizations reflect this goal and necessary conditions. This aspect of TOC provides a common mission to be accomplished by the business unit and all functional areas, including the operations function. Although the necessary conditions of employee and customer satisfaction have long been established as core concepts of TQM, TOC

emphasizes that these are threshold conditions whereas in the for-profit organization, the goal of making money is something to be continually striven for.

In the TOC view, a firm considering its strategy first measures the level of these two necessary conditions and if minimum levels have not been met, they must be addressed first before the firm does anything else. If the firm is losing customers or has high employee turnover, the reasons must be determined and corrected before attention is turned to making more money. Another strategic concept of TOC is Throughput-World Thinking (TWT), i.e. the organization should devote its energy primarily to increasing throughput, for example by exploring new markets, introducing or modifying new products or simply selling more of existing products or services, rather than devoting attention to reducing costs or saving money, referred to as cost-world thinking (CWT). The final strategic concept of TOC is that the location of the constraint within the organization must be strategically determined, i.e. management must make a conscious decision concerning what resource or capability should be the organization's most limiting factor (Goldratt, 1990a; Cox et al., 2003; Ronen and Pass, 2007). In many cases, the constraint will be the most expensive or scarce resource and should therefore determine the strategic direction of the organization.

2.5: Measurements used in operations performance

In the traditional operations management literature, discussion of measures includes the four operations objectives of dependability, efficiency, flexibility and quality (Schroeder, 2008). The measures of these objectives are discussed in the context of the need for consistency between the operations strategy and other functional area strategies mentioned above. In addition, depending upon the business strategy, specific objectives become more important than the others and excelling in those areas serves as the organization's competitive advantage. Cox *et al.* (2003) provide a more comprehensive treatment of measures, including the relationships of the three major performance measurement systems in an organization – the financial, operations and customer (marketing) performance measurement systems. They conclude that integration of these

three systems is necessary because focusing on measures in each functional area separately results in suboptimal results for the organization as a whole. Because it is human nature to respond to measures ("what gets measured is what gets done") TOC gives measures a more central role than does the OM literature and proposes a set of measures – throughput, inventory and operating expenses – that tie the impact of local decisions and actions to the company's goal of making money.

Although the terms used for the measures are very common in the OM literature, they are used in a specific way in TOC (Cox *et al.* 2003). For example, throughput, in the OM literature, refers to the output rate of a subsystem or of a system as a whole. In TOC, however, throughput is defined as "the rate at which the system generates money through sales." There are several important distinctions here. First, in TOC, anything produced but not sold is not considered throughput. The implication is that the operations function must produce, the marketing function must sell, and the accounting function must report the income from the sale of a product before it is considered throughput. This aspect of throughput as defined by TOC encourages cross-functional coordination. Second, in TOC throughput is defined in financial terms rather than units so it can be used to measure the organization's progress toward its goal of making money. Similarly, inventory, in operations management, refers to raw material, work-in-process, and finished goods inventories. Generally accepted accounting principles require reporting inventory on the balance sheet as an asset valued at cost of raw material plus value added – the labor and overhead used to produce the inventory (Gupta, 2003).

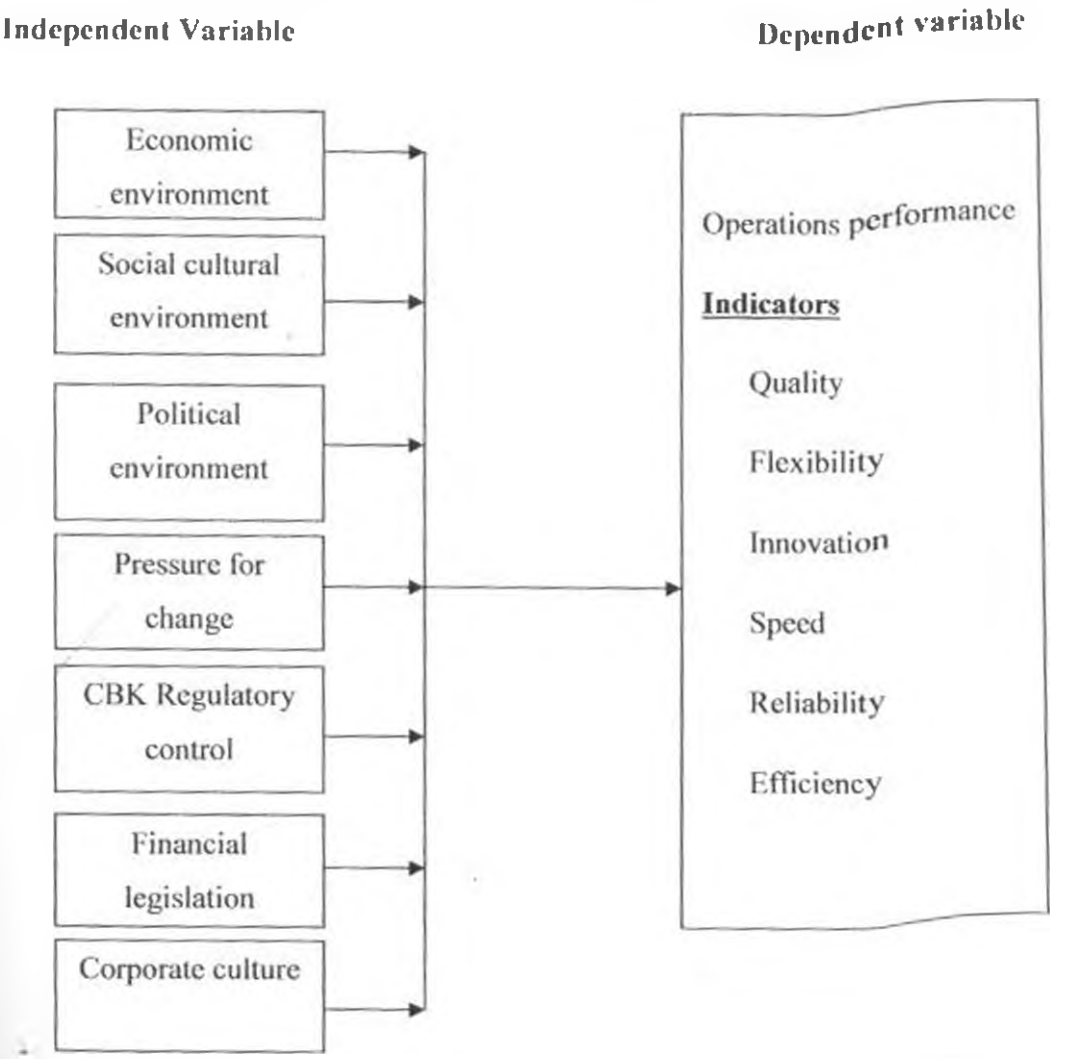
This valuation method encourages organizations to build inventory even though it cannot be sold immediately because portions of operating expense are shifted to the balance sheet as value-added, resulting in higher reported profits in the short-term (Cox *et al* 2003). However, inventory in TOC is reported as the cost of raw material only and does not include value-added. In addition, the term inventory is defined broadly to include all the money "stuck" inside the organization, so all buildings, equipment, fixtures, tools and other investments in assets are also classified as inventory. Thus, from an operations

management perspective, decisions to reduce inventory as defined in TOC are consistent with the actions suggested by JIT and I.M.

Finally, operating expense, in the operations literature, refers to the non-product costs of producing products and services. In TOC, operating expense refers to the money going out of an organization in terms of salaries and wages, rent, utilities and any other cost that does not vary directly with units of product or service produced. In the TOC view, the goal of an organization (i.e. to make money) is accomplished by increasing throughput while at the same time reducing inventory and reducing operating expenses. While this is the ideal situation, the primary emphasis should be on increasing the rate of throughput with secondary emphasis on reducing inventory, while efforts to reduce operating expenses should be a clear third in importance. In the TOC view, operating expenses are the cost of opening the doors and turning on the lights, and while such costs can be decreased in the short-term, doing so can have two negative effects: it will take management's attention away from increasing throughput; and it will almost inevitably harm the necessary conditions of employee and customer satisfaction. Management gets much more "bang for its buck" by focusing on increasing throughput, which has no theoretical limit, rather than focusing on reducing operating expenses, where a 10 or 20 percent decrease is considered significant but is difficult to maintain (Gupta *et al.* 2004).

2.6: Conceptual Framework

Figure 1: Diagrammatic presentation of the Conceptual framework



2.7 Summary

Operations management transforms a company's inputs (human resources, facilities and processes, materials, technology, and information) into the finished goods or services (Tan 2009) Due to increasing competition, companies have to read precisely what consumers wants by continuously scanning the environment and delivering the greatest value to customers. Strategy is vital to the adaptation to the changing business environment in which business operate (Evans 1987). Indicators of operations performance discussed include: Operating cost reduction, continuous improvement, transparency (Bruns 1992), improved Customer Experience, information and document management (Bamberger 1989), process Improvement, increased market share through a competitive edge (Guimaraes, 1984), improved regulatory compliance.

Regarding factors that affect performance management, researchers argue that changes in performance measurement systems are influenced mainly by the external environment of the organisation (Innes and Mitchell, 1990; Cobb et al., 1995; Jazayeri and Hopper, 1999; Hussain and Hoque, 2002, Hussain and Hoque 2002)) and that the changes take place to enhance the production of better information for decisions and to survive in a highly competitive environment (Baines and Langfield-Smith, 2003; Cobb et al., 1995). Factors in external environment include: trade liberalisation, technological developments, level of competition, changes in regulatory requirements, and economic uncertainty (Cobb et al., 1995). More specifically, environmental factors such as economic uncertainty, competition and technological developments impact on performance measurement practices (Hussain, 2003; Johnson and Kaplan, 1987).

In operation management there is a need focusing on the organization's goal of making money now as well as in the future without violating the necessary conditions of providing a satisfying work environment for employees and ensuring customer satisfaction (Goldratt, 1994; Cox *et al.*, 2003; Boyd and Gupta, 2004). Management must make a conscious decision concerning what resource or capability should be the organization's most limiting factor (Goldratt, 1990a: Cox et al., 2003; Ronen and Pass,

2007). Management should focus on increasing throughput, which has no theoretical limit, rather than focusing on reducing operating expenses (Gupta et al. 2004).

According to the Government of Kenya economic survey (2000), implementation of structural adjustment programme and subsequent market liberalization opened the Kenyan market, leaving businesses at the mercy of market forces. As a result, businesses faced increased competition and registered low profits and even losses. This could probably be attributed to lack of strategic marketing practices (Abdalla, 2001). Owiye (1997) asserts that sugar companies in Kenya had put in place a number of measures to contain the stiff competition that had become the norm

The banking industry in Kenya is no exception when it comes to competition and the need for strategic marketing planning. Wanjere (1999) proposes that companies should be more involved on strategic marketing planning especially as they operate in competitive and turbulent environments. Abdalla (2001) recommends that strategic marketing practices in other industries and sectors be studied to facilitate comparison of practices within and between industries as well as in terms of specific practices adopted. This therefore serves as a springboard for this study to investigate strategic marketing strategies and bank performance in Kenya.

Research studies on operations management in Kenya include: Mulwa (2000) who did a study on operations management techniques in maintenance management with an aim of determining operations strategies used by city councils in their management, alongside the challenges facing implementation. He found that sound waste management operations strategy implementation was inhibited by the inability to formulate and implement sound solid waste management policies and inadequate funds and corruption; Ombura (2003) studied the improvement methods applied in operations management by firms listed at the NSE and found that NSE performance could be improved by use of modern data systems and improving the existing ones to match the current demands; Nengo (2004) studied proactiveness of the operations management function at the NSE with the aim of determining whether operations of the NSE could be pre –determined and pre controlled.

He found that NSE was not static and therefore what investor could do was to diversify risks to avert any future uncertainties.

There is no known study that has been done on critical success factors in operations performance in commercial banks in Kenya. This research study will be therefore motivated at establishing the critical success factors affecting operations management performance of commercial banks in Kenya.

CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Introduction

This chapter concerns the various steps that facilitate the execution of the study to satisfy the objectives of this study. These steps include research design, population of interest, data collection instruments and procedures, and data analysis.

3.2 Research Design

This study was done through a descriptive survey. The major purpose of descriptive research design was to describe the state of affairs as it is at present. According to Mugenda and Mugenda (1999) a descriptive research is a process of collecting data in order to test hypotheses or answer questions concerning the current status of the subjects in the study. They point out that the purpose of a descriptive research is to determine and report the way things are done.

Descriptive research was used to obtain information concerning the current status of the phenomena to describe what exists with respect to variables or conditions in a situation. The methods involve a range from the survey, which describes the status quo and the regression study, which investigates the relationship between variables. The primary use of descriptive statistics was to describe information or data through the use of numbers. The characteristics of groups of numbers representing information or data are called descriptive statistics (Kay, 1997).

These descriptions of a descriptive research matched with the purpose of this study, as its intention was to investigate the factors affecting operation management performance of major commercial bank in Kenya. The advantage or the purpose of using descriptive research design in this study was to ensure there is in depth description of the state of affairs.

3.3 Target Population

According to Mugenda and Mugenda (2004), a population is a well defined set of people, services, elements, events, group of things or households that are being investigated. The target population of this study was 45 commercial banks in Kenya (See appendix II). A census was conducted in which all commercial banks in Kenya participated in the study. Census is more representative, the entire population is involved in the study (Mugenda and Mugenda 1999). Forty five operations managers from each of the Commercial Banks in Kenya participated in the study.

3.4 Data Collection

The researcher used a questionnaire as primary data collection instrument. The questionnaire was designed to give a brief introduction of globalization. It consisted of both open and close-ended questions aimed at obtaining information on the on the responses to globalization by major Commercial Banks in Kenya. The questionnaires was administered through drop and pick method to operations manager in the banks.

3.5 Data Analysis

Before processing the responses, the completed questionnaires were edited for completeness and consistency. A content analysis and descriptive analysis was employed The content analysis was used to analyze the respondents' v was then be coded to enable the responses to be grouped into various categories. Descriptive statistics was to summarize the data. This included percentages and frequencies. Tables and other graphical presentations as appropriate were used to present the data collected for ease of understanding and analysis.

The multivariate regression model for this study was;

$Y = a + B_1X_1 + B_2X_2 + B_3X_3 + B_4X_4 + B_5X_5 \quad \ldots\ldots\ldots + e$

a is the constant

Y is Operations Performance,

X_1 is Economic Environment

X_2 is Social Cultural Environment

X_3 is Political environment

X_4 is CBK Regulatory Control

X_5 is Change in technology

B_1, B_2, B_3, B_4 and B_5 are coefficients

e is the standard error

CHAPTER FOUR: DATA PRESENTATION, ANALYSIS AND INTERPRETATION

This chapter entails presentation, analysis and interpretations of primary data collected for the study whose main objective was to establish factors that affect operations performance of commercial banks in Kenya. The data was gathered through questionnaires which were administered to 45 operations managers from each of the 45 commercial banks in Kenya. Statistical Package for Social Sciences SPSS was used to generate frequencies, mean and standard deviation. The findings of the study are presented in form of pie charts and tables.

4.1 Respondents' Demographic Information

Demographic information (age and duration of service) of the respondents was established. The information captured on the respondents indicates that majority (44%) of the respondents were aged between 41-50 years followed by 33%, 13% and 10% of the respondents who were aged between 34-40 years, 20-30 yeas and above 50 years respectively. The finding reveals that majority of operations managers in commercial banks were aged above 30 years and might have gained substantial knowledge and experience on factors that affect operations performance of commercial banks in Kenya.
On level of education, majority (62%) of the respondents ha attained postgraduate level of education while 29% and 9% of the respondents had achieved undergraduate and tertiary levels of education respectively. The findings reveal that most operations managers have attained higher levels of education and are knowledgeable about management particularly factors that affect operations performance of commercial banks in Kenya.

On duration of service, majority of the respondents (42%) had worked in energy firms for a period between 9 and 12 years while 33%, 18% and 7% of the respondents had worked for periods ranging 3-9 years, above 12 years and less than 3 years respectively. The findings reveal that majority of the respondents had worked for their companies for

durations long enough to be familiar with management of inventories and could provide comprehensive information for the study particularly factors that affect operations performance of commercial banks in Kenya.

4.2 Factors Affecting Operations Performance of Commercial Banks in Kenya

The main objective of the study was to establish factors that affect operations performance of commercial banks in Kenya. To achieve this objective, the respondents were asked to indicate the extents of to which various factors affect operations performance of their banks in the previous five years. The responses were rated on a five point likert scale where 1= No extent at all, 2= Less extent, 3= Moderate extent, 4= Great extent and 5= Very great extent. Mean and standard deviation of the responses were calculated and results presented in the tables below.

The study investigated the extent to which factors illustrated in figure 4.1 b enhance operation performance of commercial banks.

Table 4.1: Factors that enhance operation performance

	Mean	Standard Deviation
Quality of services	4.2148	0.4045
Efficiency of services	4.0541	0.4746
Speed of services	4.0452	0.5203
Reliability of services	3.9536	0.4746
Flexibility of services	3.9238	0.4954
Innovation	3.7698	0.5174
Cost of services	3.7456	0.6451

The study findings illustrated in table 4.1 above indicate that operation performance in commercial banks is, to a great extent, enhanced by quality (M=4.2148, S.D=0.4045), efficiency (M=4.0541, 0.4746), speed (M=4.0452, S.D=0.5203), reliability (M=3.9536, S.D=0.4746), flexibility (M=3.9238, S.D=0.4954), innovation (M=3.7698, S.D=0.5174) and cost (M=3.7456, S.D=0.6451).

All the factors in table 4.1 above had means greater than 3.7 indicating that they significantly contribute to the success of operation performance.

The most significant factors were quality, efficiency and speed of service. The quality of service greatly impact on the confidence that customers have in banking services and a good quality enhances customer loyalty to the bank. Quality is therefore a priority in management of operations performance. The findings of the study are in agreement with the findings of a study by Schroeder (2008) who noted that operations management measures includes the four operations objectives of dependability, efficiency, flexibility and quality. Neely et al., (1997) noted that organizations seek their goals through the customer's satisfaction with better efficiency and efficacy than their competitors. He observed that efficiency is the measure of how economically the company utilizes its resources to satisfy the market.

With the changes in technology, the speed of services in the banking industry has tremendously increased. Changes in technology have led to improved speed of service delivery which has become a major factor in attraction and retention of customers. Customers prefer quicker and efficient services. This explains why operation performance is greatly influenced by speed of services. Reliability and flexibility of services in the bank were also cited as major factors affecting operation performance. The other factors were innovation and cost of services provided by the banks.

4.2.1 Competitive advantage plans that enhance operations performance of banks

The study sought to find the extent to which competitive advantage plans listed in table 4.2 below enhance operations performance of commercial banks.

Table 4.2: Competitive advantage plans

	Mean	Standard Deviation
Adopting new technology	4.1556	0.6380
Exploring new markets	4.0126	0.5222
Strategically determining and attending to constraints in the bank	4.0062	0.5641
Introducing and modifying new services	3.9282	0.7474
Strategic direction of the organization	3.7656	0.5703
Selling more of existing products and services	3.7433	0.5394

From the study findings in table 4.2 above, majority of the respondents indicated that operations performance of commercial banks is, to a great extent, enhanced by adoption of new technology (M=4.1556, S.D=0.6380), exploration of new markets (M=4.0126, S.D=0.5222), strategic determination and attendance to constraints in the bank (M=4.0062, S.D=0.5641), introduction and modification of new services (M=3.9282, S.D=0.7474), strategic direction of the organization (M=3.7656, S.D=0.5703) and more sale of existing products and services (M=3.7433, S.D=0.5394).

The study findings in table 4.2 reveal that operations performance is mainly enhanced by adoption of new technology, exploration of new markets and strategic determination and

attendance to constraints in the banking sector. Adoption of advanced technology enhances speed, reliability and quality of services in the banking industry. Technology is also a major factor in enhancing competitive advantage of banks which explains why it greatly impact on operation performance of commercial banks. The impact of technology on operations performance is supported by Kaplan and Norton (1996) who observed that technology provides an opportunity for banks to improve service performance in addition to providing a broader scale of financial products and services. Technological advancements make banks offer a wider variety of customer services in order to fulfill the needs of customers, achieve economies of scale and to be competitive.

Exploration of new markets is part of diversification strategies used by banks to improve financial performance. The commercial banks need to conduct analysis of markets with a view of identifying and attending to various constrains the banking sector. According to the Government of Kenya economic survey (2000), implementation of structural adjustment program and subsequent market liberalization opened the Kenyan market. Therefore, exploration of new markets and strategic determination and attendance to constraints in the banking sector are major factors in operation management. Besides, introduction and modification of new services, strategic direction of the organization and increasing the sales of existing products and services enhances operations performance of commercial banks.

4.2.2 External environmental factors that influence the operation performance of bank

The study explored the extent to which external environmental factors influence the operation performance of commercial banks. Table 4.3 presents the findings of the study.

Table 4.3: External environmental factors in the banking industry

	Mean	Standard Deviation
Regulatory Control by Central Bank of Kenya	4.1328	0.4573
Pressure for change due competition and technological change in the banking sector	4.0889	0.4682
Economic Environment	4.0657	0.4472
Organizational culture of the bank	4.0218	0.4767
Social Cultural Environment	3.1238	0.7474
Political environment	3.0429	0.8245

The study finding in table 4.3 above indicate that majority of the respondents agree to a great intent operation performance of commercial banks is influenced by regulatory control by Central Bank of Kenya (M=4.1328, S.D=0.4573), pressure for change due competition and technological change in the banking sector (M=4.0889, S.D=0.4682), economic environment (M=4.0657, S.D=0.4472) and organizational culture of the bank (M=4.0218, S.D=0.4767). Majority of the respondents indicated that social cultural environment (M=3.1238 S.D=0.7474) and political environment (M=3.0429, S.D=0.8245) have moderately affect operation performance.

Regarding the external environmental factors in the banking industry the study findings reveal that operation performance is significantly affected by regulatory control by Central Bank of Kenya, pressure for change due competition and technological change in the banking sector, economic environment and organizational culture of the bank. All the banks in Kenya operate under regulatory policies from the Central Bank of Kenya. This explains why regulatory control of the Central Bank of Kenya was cited as the most significant external environmental factors that influence the operation performance of commercial bank is in Kenya. Merchant and Van der Stede (2007) observed that financial legislation and accounting standards may affect the design and use of a particular performance measurement system. Similar to regulatory control of the Central Bank of Kenya, Merchant and Van der Stede (2007) noted that International financial reporting standard (IFRS) prescribed by international Accounting Standard Board impacts on accounting systems of which performance measurement system is an integral part.

The environmental factors have great contribution to changes in the banking sector therefore influencing operation performance in commercial banks. The increase in the umber of financial institutions especially financial intermediaries has led to an increase in competition within the banking sector. This has prompted banks to adopt strategies than enhances their competitive advantage. Technology has been evolving leading to great changes in the mode of service delivery in the banking sector commercial bank. Kimball (1997) stated that the impact of advancements in information technology is relatively high in such as banking sector. Te study findings are in agreement with that of Kaplan and Norton (1996) who stated that technology provides an opportunity for banks to improve service performance in addition to providing a broader scale of financial products and services. Also, technological advancements seem to make banks offer a wider variety of customer services, not only to fulfill the needs of customers, but also to achieve economies of scale and to be competitive. Commercial banks are confronted with the need to upgrade their technology in order to remain competitive.

The global and local economic environments also play a major role in operation performance in commercial banks. This is due to the impact of economic environment on

investment decision. Burney (1999) observed that negative economic conditions place pressure on organizations to increase profitability thus making it difficult for management to focus on improving and measuring non-financial performance. Hussain and Hoque (2002) also noted that economic climate is likely to place pressures on management to take measures to improve performance, for instance by using existing control systems more efficiently or by introducing new systems for that purpose.

4.3 Regression analysis

The researcher performed a regression analysis to establish the association between the independent variables with the dependent variables. The findings are shown in the table.

Table 4.4: Regression output

Model		Unstandardized Coefficients	Standardized Coefficients	t	Sig.	
		B	Std. Error	Beta		
1	(Constant)	-.660	.211		-3.133	.002
	Social Cultural Environment	.040	.089	.045	.451	.653
	Regulatory Control by CBK	.417	.102	.436	4.104	.000
	Political environment	.316	.106	.218	2.968	.004
	Change in technology	.384	.100	.308	3.832	.000
	Economic environment	.398	.097	.401	3.954	.001

Dependent Variable: Operations Performance

ows the results of regression analysis. The original regression model
$+B_1X_1+B_2X_2+B_3X_3+B_4X_4+B_5X_5$ ... + e. From the above regression
original regression model changes to Y=-
$7X_2+0.316X_3+0.384X_4+0.398X_5+0.211$ where Y is operations
is economic environment X_2 is Social cultural environment, X_3 is
nt. X_4 is CBK regulatory control and X_5 is change in technology.

odel above, if the X value changes by one unit then the Y value will
agnitude proportional to the coefficient of X. The positive sign of
notes a direct proportionality between Y and X while a negative
notes an inverse proportionality between Y and X. The results of
indicate that operation performance is greatly influenced by
by CBK as indicated by the greatest coefficient of 0 .417. This is
economic environment (coefficient 0.398), change in technology
political environment (coefficient 0.316) and social Cultural
icient 0.040).

CHAPTER FIVE: SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

This chapter presents a summary of the research findings presented in chapter four above. The conclusion drawn from the findings of the study are also presented in this chapter. Besides, the chapter presents recommendations of the study.

5.1 Summary

The study findings respondents' demographic information indicate that majority of operations managers in commercial banks were aged above 30 years and might have gained substantial knowledge and experience on factors that affect operations performance of commercial banks in Kenya. Majority of the respondents ha attained postgraduate level of education and are therefore knowledgeable about management particularly factors that affect operations performance of commercial banks in Kenya. Besides, majority of the respondents had worked for their companies for durations long enough to be familiar with management of inventories and could provide comprehensive information for the study particularly factors that affect operations performance of commercial banks in Kenya.

The study findings indicate that operation performance in commercial banks is, to a great extent, enhanced by quality, efficiency, speed, reliability, flexibility, innovation and cost of services. With respect to competitive advantage plans that enhance operations performance of banks, majority of the respondents indicated that operations performance of commercial banks is, to a great extent, enhanced by adoption of new technology, exploration of new markets, strategic determination and attendance to constraints in the bank, introduction and modification of new services, strategic direction of the organization and more sale of existing products and services.

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The study findings indicate that operation performance in commercial banks is, to a great extent, enhanced by quality, efficiency, speed, reliability, flexibility, innovation and cost of services. With respect to competitive advantage plans that enhance operations performance of banks, majority of the respondents indicated that operations performance of commercial banks is, to a great extent, enhanced by adoption of new technology, exploration of new markets, strategic determination and attendance to constraints in the bank, introduction and modification of new services, strategic direction of the organization and more sale of existing products and services.

Operation performance of commercial banks is also influenced by regulatory control by central bank of Kenya, pressure for change due competition and technological change in

the banking sector, economic environment, organizational culture of the bank, social cultural environment and political environment. The results of regression analysis indicate that operation performance is greatly influenced by regulatory Control by CBK. This is followed by of economic environment, change in technology, political environment and social cultural environment.

5.2 Conclusions

The main objective of the study wads to establish factors that affect operations performance of commercial banks in Kenya. From the findings of the study operation performance in commercial banks is greatly enhanced by quality, efficiency, speed, reliability, flexibility, innovation and cost.

Operations performance of commercial banks is also enhanced by adoption of new technology, exploration of new markets, strategic determination and attendance to constraints in the bank, introduction and modification of new services, strategic direction of the organization and more sales of existing products and services.

Moreover, operation performance of commercial banks is influenced by regulatory control by central bank of Kenya, pressure for change due competition and technological change in the banking sector, economic environment, organizational culture of the bank, social cultural environment and political environment. Operations performance is directly related to economic environment, social cultural environment, political environment and CBK regulatory control.

5.3 Recommendations

The study reccomends that operation mangers should prioritize factors such as quality, efficiency, speed, reliability, flexibility, innovation and cost during strategic planning.

The study also reccomends that commercial banks should enhance operation performances by adoption of new technology, exploration of new markets, strategic determination and attendance to constraints in the bank, introduction and modification of new services

5.4 Limitations of the study

The limitations in the research study were mainly from the protocols that have to be followed when collecting data. The researcher had to seek authorization from bank mangers to allow for data collection. There was time limitation during data collection. The respondents also had busy schedules making data collection difficult. However, the researcher overcame time limitation by using drop and pick method which provided enough time for respondents to fill in the questionnaires.

5.5 Suggestions for further research

The study recommends that further research should be carried out on the impact of management styles on the effectiveness of operations management in commercial banks in Kenya. This will enable managers in commercial banks to have an insight into management styles that enhances operation performance.

The study also recommends that further research on the impact of operations management strategies on the organizational performance of commercial banks in Kenya. The information collected from the study will help managers and other stakeholders in commercial banks in evaluating the extent to which strategies adopted in operation management influences organizational performance

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APPENDIX I: Questionnaires

SECTION A: Respondents Demographics

1. Indicate your age bracket

   20-30 yrs [ ]
   31-40 yrs [ ]
   41-50 yrs [ ]
   51 and above [ ]

2. State your highest level of education

   Primary level [ ]
   Secondary level [ ]
   College [ ]
   University [ ]
   Postgraduate [ ]

3. For how long have you been working in your bank?

   Less than 3 years [ ]
   3 to 9 years [ ]
   9 to 12 years [ ]
   Above 12 years [ ]

SECTION B: Factors Affecting Operations Performance of Commercial Banks in Kenya

4. To what extent do the following factors influence operation performance of your bank?

	Very great extent	Great extent	Moderate extent	Low extent	No extent at all
Economic Environment					
Social Cultural Environment					
Political environment					
Regulatory Control by Central Bank of Kenya					

5. In the last five years how have the following factors influenced operation performance?

	2010	2009	2008	2007	2006
Quality					
Flexibility					
Innovation					
Speed					
Reliability					
Efficiency					

Cost					

6. To what extent has your bank succeeded in enhancing its performance in terms of the following factors following that influence operation performance?

	Very great extent	Great extent	Moderate extent	Low extent	No extent at all
Quality					
Flexibility					
Innovation					
Speed					
Reliability					
Efficiency					
Cost					

7. To what extent do the following factors of operations performance in enhancing competitive advantage of your bank?

	Very great extent	Great extent	Moderate extent	Low extent	No extent at all
Exploring new markets					

Adopting new technology					
Introducing and modifying new products					
Selling more of existing products and services					
strategically determining and attending to constraints in the bank					
strategic direction of the organization					

8. To what extent do the following factors influence the performance of your bank?

	Very great extent	Great extent	Moderate extent	Low extent	No extent at all
Dependability of products and services					
Efficiency of products and services					
Flexibility of products and services					
Quality of products and services					

9. To what extent do the following operations objectives influence the operation performance of your bank?

	Very great extent	Great extent	Moderate extent	Low extent	No extent at all
Economic status of the country					
Social and cultural differences in various parts of the country					
Political environment in the country					
Regulatory control by central bank of Kenya					
Pressure for change due competition and technological change in the banking sector					
Organizational culture of the bank					

10. How would you rate your level of satisfaction with the following aspects of operation performance of the bank in the last one year?

	Very satisfied	Satisfied	Moderately satisfied	Dissatisfied	Very dissatisfied
Improved Customer Experience					
Financial returns					
Market growth rate					

Operating Cost Reduction					
Service quality					
Improvement of information communication technology application within the bank					
Improved Regulatory Compliance					
Human resource development					
Identification of problems and opportunities					

11. Which recommendation will you make to the bank to help enhance its performance?

a).....

.....

b)

.....

.....

c)

.....

.....

d)

.....

.....

Appendix II: Commercial banks in kenya

1. Kenya Commercial Bank Ltd
2. Barclays Bank of Kenya Ltd
3. Standard Chartered Bank Ltd
4. Cooperative Bank of Kenya Ltd
5. CFC Stanbic Bank Ltd
6. Equity Bank Ltd
7. Commercial Bank of Africa Ltd
8. National Bank of Kenya Ltd
9. Citibank NA
10. Diamond Trust Bank Ltd
11. NIC Bank Ltd
12. I&M Bank Ltd
13. Prime Bank Ltd
14. Bank of Baroda Ltd
15. Savings and Loan Ltd
16. Housing Finance Company of Kenya Ltd
17. Bank of Africa Ltd
18. Bank of India
19. Imperial Bank Ltd
20. Ecobank Ltd
21. Family Bank Ltd
22. Chase Bank Ltd
23. Fina Bank Ltd
24. African Banking Corporation Ltd
25. Development Bank of Kenya Ltd
26. Gulf African Bank Ltd
27. Habib AG Zurich
28. K-Rep Bank Ltd

29. Giro Bank Ltd
30. Consolidated Bank of Kenya Ltd
31. Guardian Bank Ltd
32. Fidelity Commercial Bank Ltd
33. Victoria Commercial Bank Ltd
34. Habib Bank Limited.
35. Southern Credit Banking Corporation Ltd
36. Equatorial Commercial Bank Ltd
37. First Community Bank Ltd
38. Credit Bank Ltd
39. Trans-National Bank Ltd
40. Middle East Bank Ltd
41. Paramount Universal Bank Ltd
42. Oriental Commercial Bank Ltd
43. Dubai Bank Ltd
44. UBA Kenya Bank Ltd
45. City Finance Bank Ltd

Source: Banking Survey (2010)