EFFECT OF MANAGEMENT ACCOUNTING PRACTICES ON FINANCIAL PERFORMANCE OF COMMERCIAL BANKS IN KENYA

MAINA JOYCE NJOKI

D63/74985/2014

A RESEARCH PROJECT PRESENTED IN PARTIAL FULFILLMENT OF THE REQUIREMENTS FOR THE AWARD OF THE DEGREE OF MASTER OF SCIENCE IN FINANCE, SCHOOL OF BUSINESS,UNIVERSITY OF NAIROBI.

2016

DECLARATION

This research project is my original work and has not been presented for award of any degree in any University for examination purposes.

Signature _____ Date: _____

Maina Joyce Njoki

D63/74985/2014

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

Signature _____ Date: _____

Supervisor: Dr.Winnie Nyamute

Department of Finance & Accounting

Signature _____ Date: _____

Supervisor: Mr.Dan Chirchir

Department of Finance & Accounting

ACKNOWLEDGEMENT

My first acknowledgement goes God for the far He has seen me through. I also acknowledge all those who assisted me in this research project in terms of time, resources and opinions with special acknowledgement going to my supervisors Dr. Winnie Nyamute and Mr.Dan Chirchir for their endless support, guidance and dedication throughout this project.

Finally to my family, colleagues and friends I acknowledge the moral support that you have generously given me throughout the period of my study. To you all, God bless.

DEDICATION

I dedicate this project to my family for always being there for me and for their endless support.

TABLE OF CONTENTS

LIST OF TABLES

LIST OF FIGURES

ABSTRACT

Management Accounting has long been associated with giving management explanations for the intrinsic management functions, specifically in the manufacturing zone. This may have narrowed its utilization in the utilities industry as a tool to be used to improve financial performance where intrinsic and extrinsic trade advice could be required for strategic planning. The objective of the study was therefore to investigate the effects of management accounting practices on financial performance of banks in Kenya.

This study adopted a descriptive survey design. The target population for this study was the 42 banks in Kenya. The study collected primary data from the partakers through a structured Questionnaire. The secondary data was obtained from the financial statements. Analysis was done using Statistical Package for Social Sciences (SPSS V 24).

The research findings established that commercial banks in Kenya often use management accounting practices in their daily operations. From the descriptive statistics it became clear that total quality management ranked highest as mostly used practice (mean of 3.58), planning and control followed (mean 3.52), performance evaluation followed (mean 3.48), Strategic analysis and process reengineering(mean 3.46), info for decision making followed(mean 3.41), costing followed(mean of 3.36) and finally budgeting (mean of 3.34). The research further revealed that management accounting practices have a 62.2% significant effect on the financial performance of commercial banks in Kenya. F statistic was significant at five percent significant level. These findings were consistent with prior researches.

ABBREVIATIONS AND ACRONYMS

MA	Management Accounting
CB	Commercial Banks
CDR	Cash to Deposit Ratio
ABC	Activity Based Costing
CM	Cost Management
TCS	Traditional Costing Systems
SPSS	Statistical Package for Social Sciences
DCF	Discounted Cash Flow
ARR	Accouting Rate of Ruturn
CI	Capital Investment
FP	Financial Performance
FR	Financial Ratios
TQM	**Total Quality Management**
CAR	Capital Adequacy Ratio
GDP	Gross Domestic Product
CDTTAR	Customer Deposit to Total Asset Ratio

TLTCDR Total Loan to Customer Deposits Ratio

NPL **Non-Performing Loans**

CHAPTER ONE

INTRODUCTION

1.1 Background of the study

When the term MA practices is mentioned most people think of manufacturing companies. This is because of its long association with giving management explanations for the intrinsic management functions, specifically in the manufacturing zone. This may have narrowed its utilization in the utilities industry as a tool to be used to improve financial performance where intrinsic and extrinsic trade advice could be required for strategic planning. Other purposes of MA include organising, controlling, motivating and decision making. Current ingenious MA practices for example total quality management, performance evaluation furnish beneficial strategic planning explanations for CM and the improvement of a competitive advantage for an organisation.

Competition in the trade industry may require the management to advance trade tactics and strategies that would direct an organisation towards profit increment. This may be attained through decreased cost of production and operations and increased trading. MA avails schemes for both manufacturing and service industries (Thompson et al., 2009). MA practices can therefore give strategies for operations competency and cost effectiveness and this may have a significant impact on benefits and growth. Horngren, et al., (2009) viewed MA practices as a tool to avail explanations for trade continuity in the trade setting where innovative information technology, competition and customer's options make trade benefits a dominant challenge. This has created a need to understand

better the MA practices in relation to the wider economy as a solution to the financial challenges facing the utilities industry specifically the banking zone.

1.1.1 Management Accounting Practices

MA refers to management detail and records that furnish timely statistical and financial advice needed by controllers to make current and day to day resolutions. It differs from financial accounting due to its lone intention of availing fruitful performing advice to managers. Its characterised by unique practices that must be grasped in order to devise a managerial accounting plan successfully. MA forms an essential item of the main management function. The function requires the recognition, assessment and addition, scrutiny and translation and effective delivery of advice. The info is in turn used by management to strategize, assess and control internal and external organisational activities and to secure proper accountability for its monetary resources (CIMA, 2005).

Some MA practices equip firms with strategies so that it can make a variety of clients to have eternal preference for an organisation's products and utilities. The adoption of MA practices and approaches can furnish an organization with continuous performance and growth (Thompson, Strickland and Gamble, 2009). MA practices can include ABC, total quality management, budgeting, variance analysis, advice for decision-making, strategic analysis, balance scorecard, among many others.

ABC begun from the efforts made by Kaplan cooper in the late 1980's. It's a process of pegging overheads to the cost units based on the gains derived from exact indirect activities which may include ordering, planning and equipment set up. It Perseus to link overheads to product cost on a more practical basis other than simply product volume. A

budget is defined as a program asserted in fiscal terms. It's processed to a specific budget cycle and mostly displays earnings, disbursements and equity to be engaged. They are used to enhance coordination and control. Performance evaluation deals with holding individual managers responsible concerning aspects of organisation performance and making them accountable by producing regular performance report relating to areas in which they are responsible.

1.1.2 Financial Performance

Financial performance may be described as an intuitive allotment of how well an organisation can utilize its resources, mostly assets from its dominant style of trade to make earnings (Mills, 2008). It may again be defined as a regular estimate of an organisation's long-term monetary health at the end of a given duration. Financial performance is used to correlate comparable organisations throughout the same industry or it can be used to compare industries or sectors to other industries or sectors. Further usage of financial performance may still be warranted on the basis that shows what managers consider in reality as financial performance even if it is a combination of diverse indexes for example accounting profits, fruitfulness and cash flow (Carreta and Farina, 2010).

Estimates of financial performance include return on equity, which is a computation of the rate of return on the owners' equity engaged in the firm's trade, return on assets, which is a computation of all firms assets and is mostly used as a general indicator of benefits, the criteria behind return on equity is that the higher its value is the more profitable the firm and vice versa is true. A liquidity ratio establishes a company's

potential to meet its current debt obligations. The criteria behind the ratio it is that the higher the ratio, the better. Current ratio is a popular example of a liquidity ratio which ascertains if a company's current assets are easily accessible to meet its short term liabilities. Leverage ratio for example debt to equity ratio is a ratio presenting the relative percentage of shareowners' equity and the debt used to finance a company's assets; a lower percentage is favourable. Asset management ratios estimates the competency with which a company's assets to generate sales.

1.1.3 Management Accounting Practices and Financial Performance

Past studies have shown that MA practices have an affirmative alliance with financial performance. Diverse studies have concentrated on the alliance between the two. Merchant, (1981) tried to find the alliance a tween the act of using budgeting and performance. He attained this by quizzing the affiliation a tween organizational performance and a firms approach to budgeting. The study findings illustrated that formal administrative way of budgeting was more powerfully allied to better performance of firms of considerable size and interpersonal way of budgeting was more powerfully allied to better performance in smaller firms. Van Der Stede (2004) scrutinized the motives for budgeting in firms and their connection to performance and discovered that the three motives of budgeting which includes performance evaluation, operational planning and strategy formulation to have an affirmative alliance with organizational performance.

Performance estimates and management have been interior, collective volume of financial performance traditionally (chenhall and Langfield-Smith, 2007). Nevertheless its significance has been instigated in the prevailing trade setting. Due to competition

firms have been driven to put in place management systems and strategies to prevail the challenge of not being satisfied with traditional short-term angle of financial measurement structures (Said et al., 2003). This has led to organisations seeking to advance a more complete system of financial measurement to avail the managers and employees with advice that will help in managing the firms operation (Hall, 2008).

Kaplan and Norton (1992) BSC style of management has become popular in MA research as a way of combining financial and non-financial performance evaluations (Hoque and James, 2000). Further investigations on the BSC implementation and its influence on performance were conducted by James and Hoque(2000), together with Jusoh et al. (2008). Jacobs and Maiga (2003), tried for equivalent effect a tween BSC and ABC and found that when the two, that is ABC and BSC are combined they had a denoting an affirmative effect on the performance of a firm.

In his study, Shields (1995) established a positive affiliation between use of ABC and a firm's success. His findings reported that seventy five per cent of the samples under study had received a financial gain from using ABC. Affleck Graves and Kennedy (2001) matched thirty seven organisations that adopted ABC between 1988 and 1996 with an equal number of firms not using ABC listed on the LSE. The match found that the organisations using ABC techniques performed better than firms that did not used ABC. A study by Ittner et al. (2002) sought to establish the connection joining ABC and manufacturing firms' performance. They used a cross sectional sample in the united states of America and their findings reported that an extensive usage of ABC was

affiliated with greater advancement in quality and cycle time and this led to cost reductions hence better performance.

1.1.4 Commercial Banks in Kenya

CB plays a charismatic purpose in a country's economic improvement process of a country. They achieve this through the bringing together of financial resources and allotment of credit to productive zones. The banks main functions include taking deposits, advancing money, processing payment, supplying bankers' drafts and checks and presenting safety deposit boxes for artifacts and documents. The banks may further offer other utilities which may include giving investment advice, brokering insurance contracts, offer credit cards and overdrafts among others. Various investors have a notable interest on the banking zone. Components of the banking zone in Kenya include the CBK which is the regulatory authority and regulated entities which include CB, nonbank financial institutions, deposit taking microfinance institutions and foreign exchange bureaus. Currently, the Kenyan banking zone constitutes forty three institutions, forty two of this is the licenced CB and the other institution is the mortgage finance company.

The CB in Kenya domineer the financial zone. Any failure in the banking zone may therefore have a big impact on the economic growth of the country. In the Kenyan banking industry the competition scope has widened for it has extended beyond the banking industry to include competitors like merry go rounds, savings and credit movement, government financial institutions, Nairobi Stock Exchange, Mutual funds,

and micro finance institutions. Other challenges facing the banking industry include poor management and supervision which has led to some banks being put under receivership like the case of imperial bank and chase bank The supervisory report by CBK for the quarter ended 31st March 2016 registered growth in the Kenyan banking zone, however the recent reports indicate declining or constant performance or benefits in the banking zone.

There is therefore need for Kenyan banks to advance their tactics and strategies to handle the increasing competition and managerial challenges. By doing this the banks will be in a position to enlarge their market share and safeguard their corner. MA can furnish explanations to the banks as far as management issues and competitions are concerned. MA advances views for both manufacturing and utilities organisations (Thompson et al. 2009). This means that MA practices may avail strategies for operations competency and cost effectiveness which could in turn have a significant impact on benefits and growth. MA practices therefore avails explanations for trade continuity in the trade setting where innovative information technology, competition and customer's options make trade benefits a dominant challenge. Trade continuity in the trade setting where competition, client's options and advanced info technology make trade benefits a dominant challenge (Horngren, Sundem, Stratton, Schatzberg and Burgstahler, 2009).

1.2 Research Problem

Competition in the trade industry may require the management to advance trade tactics and strategies that would direct an organisation towards profit increment. This may be attained through decreased cost of production and operations and increased trading. MA

avails schemes for both manufacturing and utilities zones (Thompson et al., 2009).Utilization of MA practices not only increase e management competency but it also increases employees' competency. It also facilitates aim determination, helps in plan preparation, and facilitation of better services to customers, it makes it easy to take judgment, enhance performance measurements, furnish effective management control, and make it possible to maximize profits, safety and security from trade cycle. All of which are important in ensuring that the CB thrive exceptionally well financially.

The CB in Kenya domineer the financial sector. Any failure in the banking zone may therefore have a big significance on the economic development of Kenya. In the Kenyan banking industry the competition scope has widened for it has extended beyond the banking industry to include competitors like merry go rounds, savings and credit movement, government financial institutions, Nairobi Stock Exchange, Mutual funds, and micro finance institutions. Other challenges facing the banking industry include poor management and supervision which has led to some banks being put under receivership like the case of imperial bank and chase bank. The supervisory report by CBK for the quarter ended 31st March 2016 registered growth in the Kenyan banking zone, however the recent reports indicate declining or constant performance or benefits in the banking zone. There is therefore need for Kenyan banks to advance tactics and strategies to handle the increasing competition and managerial challenges. By doing this the banks will be in a position to enlarge their market share and safeguard their corner.

The alternating aspects of MA practices have been analysed, as well as the processes of MA both globally and locally. Adler et al. (2000) focused on MA processes adopted by manufacturing trades in New Zealand. The study included a vast array of MA practices. The study findings indicated that traditional MA processes were more used than advanced MA processes by Venkatachalam (1996). The study results are generally compatible with the study by Ainikkal (1993) and Hawkes et al. (2003) which stated the lack of adoption of advanced MA processes as stated by the reviews, but incompatible with respect to single processes. A study by Alkhadash & Feridun, (2006), revealed a strong affirmative alliance between the use of MA practices and financial performance enhancement. This was consistent with prior research conducted

The study by Thanju (2009) indicated considerable MA changes in the hospitals in all the areas. It further revealed that the firms had also adopted many modern MA techniques. The study created a need to study further MA practices in the utilities industry. Ndigwa (2011) tried to fill the gap by conducting a case study on equity bank of Kenya and focusing on the purpose of MA in creation and sustenance of competitive advantage. This review established that the modern MA processes avail techniques and skills which are very important in erecting competitiveness. The research also outlined the value of MA processes in availing strategies that lead to the creation of a competitive edge in a firm. This study set a basis for a deeper research into the value of modern MA processes in advancing a competitive advantage specifically in the banking zone. The limitation of the study being that he conducted a case study as opposed to a descriptive study. This narrowed generalization of his findings. Mwangi (2014) did a descriptive study on the influence of MA processes on FP but instead of focusing on utilities industry, he focused

on the on manufacturing companies leaving the service industry still hanging. A conclusion can therefore be made that the effect of MA practices on FP in the utilities industry specifically the banking sector is not well documented. This gap is not yet filled. Consequently, the aim of this research was to fill this research gap by trying to achieve a deeper understanding of the effect of MA processes and practices on FP of utilities industry specifically in the banking zone and establish if the results are compatible with the other researchers' discoveries. The conclusion drawn by other researchers may differ in other industries. Furthermore the studies have concentrated only on a few MA variables hence the need for consideration of other MA practices for example` TQM, strategic planning, and process reengineering that were not included in other research works. Leading to the research problem of what is the effect of management accounting practices on the financial performance of CB in Kenya?

1.3 Research Objective

The objective of this study was to investigate the effect of management accounting practices on financial performance of commercial banks in Kenya.

1.4 Value of the Study

This research has added onto the theory of MA in advancing nations.It has done this by focusing on the operations of CB in Kenya. The research has revealed that the CB use traditional tools as well as the modern tools in MA practices. There has been evolution in practice as has the theory. This review has provided useful advice to the involved parties

in the banking zone. The banks regulatory authority may use the findings of this study to formulate management policies, guidelines, rules and regulations.

The bankers have become more advised of improved ways to deliver utilities in order to attract and maintain clients. This research will further help various other associations in Kenya as they will be in a better position to understand the MA approaches and techniques feasible for them as far as improving their performance is concerned. The recommendations yielded will assist the associations advance their practices.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

The need for MA advice has increased overtime. This has attracted scholars and academicians to study MA practices usage across-firms and countries. This chapter furnishes the study with various MA practices adoptions studies. The chapter begins with a theoretical review, followed by theories of MA, and then by determinants of financial performance of CB.it also presents the empirical reviews where several researches have been carried out on MA processes together with their conclusions and their aid to this research is noted. The chapter is finalised by a conceptual framework and a summary of the literature review section.

2.2 Theories of MA

Here two theories are discussed; one being contingency theory and the second is the new institutional sociology.

2.2.1 Contingency Theory

This theory explains the reasons why MA processes may be distinct when conducting a comparison of one organization to another (Burns & Stalker, 1961); this can be connected to organisations operating in various zones. Otley (1980) enforced contingency theory to MA processes and related that there is no sole overall definitive accounting practice that

can be enforced to all associations. This means that each association will adopt its own MA practice(s).

The theory focuses at specific significant elements that will aid management to make a decision on a suitable MA technique. These significant elements include external factors, organisational factors and processing factors. External factors are perceived to be environmental uncertainty and customer's power among others. Processing factors refer to complexity of the processing system, product perishability, TQM, technology advancement and JIT systems. The factors include competitive strategy; decentralisation and firm's size. This theory will be applied in this research since it will be looking at the organisation influential elements that will help management to decide on proper MA techniques.

2.2.2 New Institutional Sociology theory

Rowan and Meyer (1977) laid the foundation of new institutional sociology theory in a seminal paper. This paper followed events of perplexing perceptions made in the 1970s by a class of reviewers who were reviewing the educational zone in the United States of America. Differences had been identified by the researchers and had also recognised the easy coupling of proper operations and real trade systems, which existing organisational theory couldn't define (Scott&Meyer,1992).

Existence of associations in highly institutionalized setting is the concept behind this theory. Setting is not only seen as an origin of task pressure that fake claims for functional systems and controls on an organisation, but includes the cultural guidelines

and sociable estimates that are mirrored in certain proper patterns and routines of the organisation. This means that institutionalized associations often chose to use procedures and designs that are normally seen to be of value in their cultural and social setting. This is done with an aim of searching for validity and to secure the assets that are important for their continuity. The search for validity and assets tend to explain why a particular association forms and routines are distributed across organisations working in same setting for example societal factors, similar setting (Scott&Meyer,1992), or organizational fields (DiMaggio&Powell, 1983). They further suggested that this practice can cause intimadation that can lead to associations becoming similar with other associations in their institutional surroundings. Competitive similarities are not downsized but emphasises is placed on 3 types of institutional similarities which include normative, mimetic and coercive similarities. This highlights the political and social estimates of the setting in which associations are located (Hannan et, al, 1977).

Rowan & meyer's (1977) paper highlights an important aspect which is the fat that that the formal designs and routines of institutionalized associations may become detached from real trade practices. These formal designs and routines are normally used by associations in order to gain validity and in order to ensure the availability of the needed resources for the associations' continuity. However this designs and procedures are normally isolated from associations' daily practices with an aim of not interfering with the normal processes. Other arguments state that associations are normally strategic in their reaction to the institutional concerns inflicted on them, (Oliver, 1991). These associations can keenly agree with regulations or they may use certain formal designs and routines. However they do so in a devious way so as to get validity and consequently

secure assets and grants on which they rely on (Edelman, 1992). Utilization of the concept of this theory in the research results will be of great value to the CB in Kenya.

2.3 Determinants of Financial Performance of CB in Kenya

The factors of bank financial performances are classified into two. This includes bank specific factors also known as internal factors and macroeconomic elements (Al-Tamimi, 2010; Aburime, 2005). Internal elements refer to specific bank qualities that affect the banks performance. These elements are purely affected by the internal resolutions of management and those of the board of directors. The external elements on the other hand refer to the elements which are normally not in the control scope of the bank but influence the benefits of banks. This can be country wide factors or zone wide factors.

2.3.1 Capital Adequacy

Capital falls under bank specific factors. It refers to owners funds (Athanasoglou et al. 2005). A greater capital base is favourable (Diamond, 2000). CAR is use to judge the adequacy of the capital (Dang, 2011).This ratio indicates the intrinsic ability of the bank to with stand losses during a crisis. CAR is directly proportional to the bank flexibility during a crisis. It has also a direct influence on the benefits of banks by determining its ability to expand to risky but beneficial areas (Sangmi & Nazir, 2010).

2.3.2 Asset Quality

Asset quality is also an n internal factor. The assets in the bank include fixed assets, current assets, and investments among others. The older the bank the more the assets (Athanasoglou et al., 2005). Since loans form part of the assets of the banks the highest risk faced by the bank is from the overdue loans (Dang, 2011). Thus, NPL loan ratios are the best estimates for asset quality. Although various scholars use different types of FR to study the performances of banks it is extremely important is that all CB keep the level of NPL as low as possible. This is true because a high NPL influence the benefits of the bank. Hence, low NPL to total loans indicate a favourable bank portfolio. A lower ratio is favourable for the bank performance (Sangmi & Nazir, 2010).

2.3.3 Management Competency

Management Competency is still a bank specific factor. It is shown by different FR for example TAG, LGR and EGR. Furthermore trading competency in managing the trade expenses is another estimate of management quality. The management's ability to deploy its resources competently is established by financial ratio (Ilhomovich, 2009; Sangmi & Nazir, 2010). The higher the financial ration the more the competency of the management (Athanasoglou et al. 2005).

2.3.4 Liquidity Management

It is another element that affects the bank performance level. It refers to the banks ability to fulfil its obligations, especially the depositors. According to Dang (2011), sufficient level of liquidity is affirmatively connected with bank benefits. Common FR that show the liquidity position on of a bank are CDTTA and TLTCD. Other academicians use different FR to estimate liquidity. For example Ilhomovich (2009) adopted CDR to estimate the liquidity level of banks in Malaysia. Nevertheless the study conducted in China and Malaysia discovered that liquidity level of banks has no link with banks performances (Said & Tumin, 2011).

2.3.5 GDP growth rate

GDP growth rate is the rate of change in market value of all goods and utilities' produced in a country from one year to another. The trend of GDP affects the claims for banks asset. During the decreasing GDP growth the demand for credit declines which in turn affect the benefits of the bank negatively. On the other hand, in an economy experiencing growth as shown by an affirmative GDP growth, the request for credit is high due to the nature of trade cycle and vice versa is true(Athanasoglou et al., 2005).

2.3.6 Interest rates

Interest rate is the amount charged by lenders for money lent out to borrowers. Lenders will consider different factors before arriving at a given interest rate. The risk profile of the borrower is important when setting interest rates. The riskier the customer, the higher the rate is likely to be (Ledgerwood, 1998).

2.4 Empirical Studies

Adler, Everett, and Waldron (2000) study focused on specific techniques like target costing. They issued a questionnaire to partakers who were required to rank management practices on a five point scale. The method of sampling used in the study was judgment sampling method. One hundred and sixty five questionnaires were completed which presented a 19% response rate. The findings indicated that traditional MA processes for example direct costing, standard costing and full costing were used more often than advanced MA processes for example strategic MA. The overall results are generally consistent with the review by Ainikkal (1993) and Hawkes et al. (2003) which stated the lack of adoption of advanced MA processes as reported by the reviews, but inconsistent with respect to single processes. Further findings stated that organisation in Australia adopted ABC and quality costing practices and that the bigger firms were more likely to use modern accounting practices.

A research by Anand et al. (2004) focused on CM practices in India. The objective of the study was to assess the improvement in CM practices like utilizations of budgetary control, accounting for overheads and standard costing in corporate India and to verify any influential variance in management motivation for the usage of SC as a control tool between firms using activities based CM and firms using traditional costing systems. They issued a questionnaire to 53 CFOs in Indian corporations. The analysis suggested that the firms with an ABC system have better perception for benchmarking and budgeting yet they lacked consistency in their priority of budget goals which was unlike the firms who are using TCS.

MA keeps advancing and its involvement in the management of the organisation has increased. It is therefore essential that management accountants comprehend not only how to account for MA practices for example ABC, but also how to be aggressive in their implementation and management in order to achieve maximum benefit for the organisation (Alkhadash & Feridun, 2006). In their study they investigated if the thirty finance managers of the IJSC knew of the significance of adopting the MA practices. The study also sought to establish the type of link between strategic initiatives and advancement in FP in the manufacturing sector. Any firm should aim to obtain and enhance financial benefits and having empiric facts of the effectiveness of MA practices should be vital for any organisation. The study findings indicated that twenty six point eight per cent of the IJSC were using a minimum of one of the MA practices. Furthermore the evidence shows that there was a higher consciousness level of the value of using the MA practices amongst the finance managers, although the high level was not liked with the usage level of those practices. Their study revealed a strong affirmative association between using MA practices and advancement in FP. This was compatible with prior research such as Venkatachalam (1996).

Abdel-Kader and Luther (2006) did a review MA processes in the food and drinks industry in the United Kingdom with an aim to establish the level of MA processes sophistication and the elements that affect implementation of MA processes in the food and drinks industry. They issued a questionnaire to 650 executives of the industry. The partakers were required to indicate the rate of occurrence of use of thirty eight per cent MA processes using a Likert scale of ranging from 1(never) and 5(very often).

The partakers were still required to assess the significance of each practice by rating each practice as not significant, moderately significant or significant. 245 completed questionnaires were received and analysed. The conclusion after analysis was that customer power, environmental uncertainty; size, decentralisation, sophisticated manufacturing technology, JIT and TQM would explain the variances in MA complexities whereas the link between competitive strategy, complexity of the processing system and product perishability, and MA complexity have not been found.

Another study was conducted by Thanju (2009). His general objective was to establish the causal elements of MA changes in three private Hospitals in Nairobi. The information was collected using structured questionnaires and by conducting personal interviews. The methodology adopted by his study included descriptive cross sectional survey design. His targeted partakers were the finance managers and management accountants of the three hospitals in the study. Data analysis was done using descriptive statistics. Results findings were interpreted in narrations, graphical and pictorial designs.

The research data analysed reported considerable MA changes in these three hospitals. The researcher also found that these hospitals were using many modern MA practices. The research further suggested that the factors of MA change included resources availability, high competition, financial performance, technology improvement, statutory and regulatory bodies requirements, need for financial and non-financial estimates and board members expectations. The main factors that inhibit MA change were revealed in the study and included difficulties in accessing strategic advice about competitors,

bookkeeping staff turnover, poor communication, inadequate staff and strict government / regulatory bodies' requirements.

Ndigwa (2011) conducted a case study on equity bank of Kenya and focused on the purpose of MA in the creation and sustenance of competitive advantage. A sample of forty partakers from the bank was involved. This study discovered that the modern MA processes avail very essential skills and techniques in creating competitiveness. The research also outlined the purpose of MA processes in availing strategies that lead to the building of a competitive edge in a firm. This study set a basis for further research into the significance of modern MA practices in advancing a competitive advantage specifically in the banking zone.

Mwangi (2014) looked at the link between MA processes and FP of manufacturing companies in Kenya. The methodology used by this study was a descriptive survey design.455 manufacturing companies formed the population of study. The sample size was arrived at through the use of Stratified random sampling method. The sample was made up of 46 manufacturing companies Nairobi which included firms in the zones of building, food and beverages, chemical, energy, metal & Allied, plastics, textile, wood products, pharmaceutical, leather, motor and paper. The study collected primary from the partakers by using a structured questionnaire. Data analysis was done using SPSS V 18. The study found an a affirmative association between usage of MA processes and FP of Kenyan manufacturing companies since an increase in return on equity resulted from utilization of MA practices.

2.5 Conceptual Framework

In this study, bank financial performance is the dependent variable while MA practices are the dependent variables. This is illustrated in the figure below;

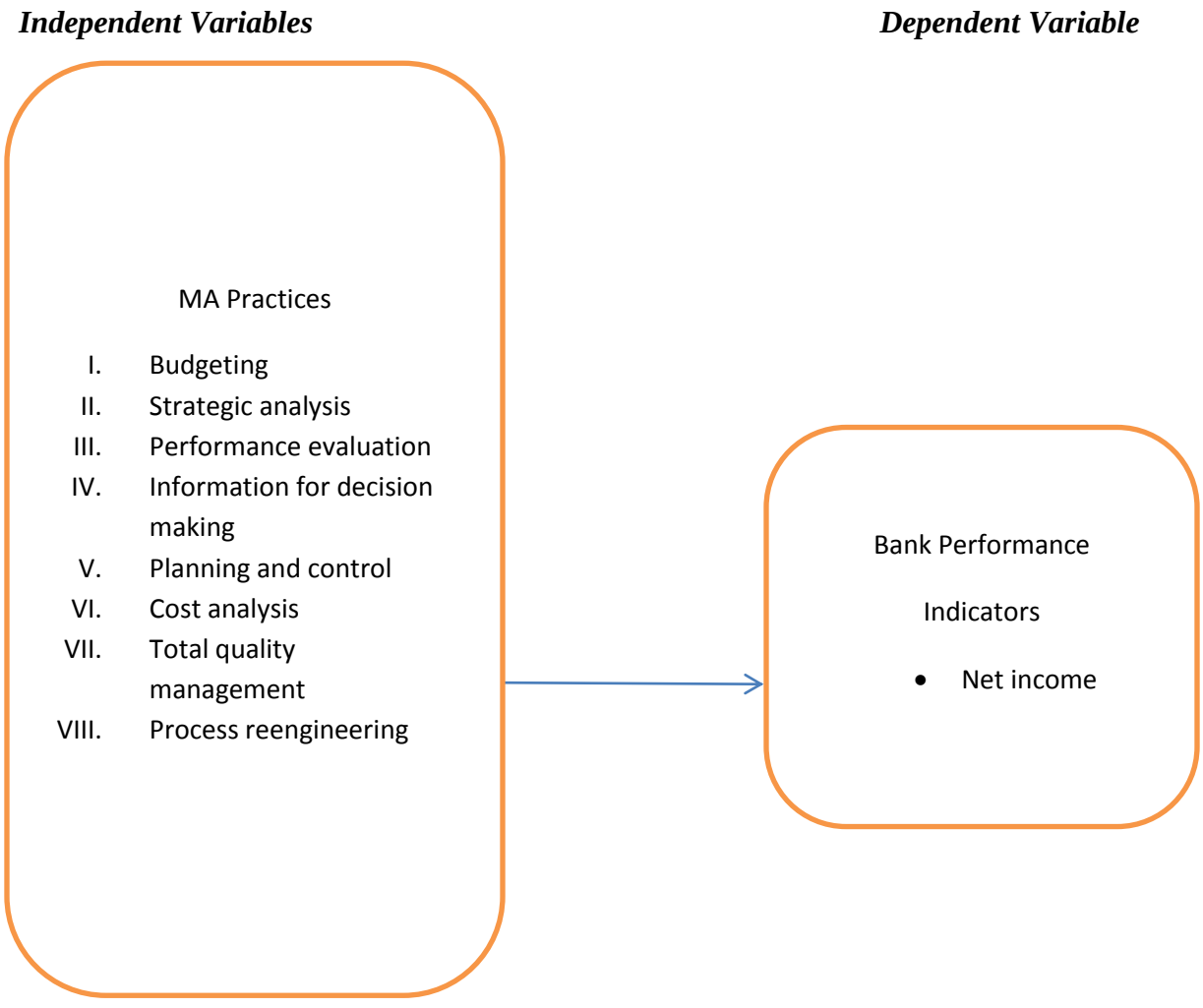

Figure 2.1: Conceptual Framework

2.6 Summary of the Literature Review

From the above review, it is clear that MA practices affect the organisations in Kenya and other countries one way or the other. However, the variables considered are not similar for every organisation. Internationally, the study findings by Adler et al. (2000) are generally compatible with the study by Ainikkal (1993) and Hawkes et al. (2003) which stated the lack of adoption of advanced MA practices as reported by the studies, but incompatible with respect to single techniques. Alkhadash & Feridun, (2006) study revealed a strong affirmative alliance between using MA practices and FP advancement. This was compatible with previous research such as Venkatachalam (1996).

Locally, the varying purpose of MA practices has been researched together with the processes of MA. Prior researchers, Njenga (2006), Ndigwa, (2011), Mwangi (2014) reviewed different angles of MA and they identified key issues that reflected on various factors affecting the associations. These elements mostly cut across the industries; however several are unique to the certain industries. The studies found a positive effect on financial performance as a result of adopting MA practice. However, the studies are biased towards non utilities industry, few if any, research on MA in the utilities industry, specifically the banking zone, exist. Therefore, a conclusion can be made that the relationship of MA practices to financial performance in the utilities industry specifically the banking zone is not well documented. This has created a research gap.

Consequently, this research aimed at filling this gap by trying to attain a deeper perception of the influence of management Accounting techniques and practices on

financial performance of utilities industry specifically in the banking zone and establish if the findings are consistent with the other researchers' findings.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter discusses the research design, the population of the study, how data was collected, analysed and presented.

3.2 Research Design

Fraenkel, Wallen and Hyun (1993) define research design as the plan by which the researcher answers the research problem. It includes the data collection tools and the data analysis techniques the researcher intends to use. The researcher aimed to resolve the research question by using a descriptive research design which attempts to show the status quo of study items (cooper and schidler, 2006). It is primarily concerned with finding out "what is," in research. It is appropriate when studying relationships and effect of variables on other variables. It studies existing relationships as compared to exploratory research which looks at entirely new relationships.

3.3 Population

The forty two CB in Kenya formed the population of this study (**Appendix II**) as at 31st December 2015. This was justified by the fact that it is small hence necessitate the use of

census. The partakers were the bank employees mostly from accounts and finance departments.

3.4 Data Collection

The study collected primary and secondary data. The primary data was collected through the use of a questionnaire (Appendix II).A standardized questionnaire was used to enable advice comparability. The questionnaire had three main questions, question one sought to in identify the participant bank name, question two sought to identify the position held by the participant and question three sought to investigate the extent to which the participant bank used the MA practices and had eight parts. The structured questionnaire was based on a 4-point Likert scale where never was phrased as 1, rarely was phrased as 2, often was phrased as 3 and always was phrased as 4. Kothari (2004) states the advantage of using this type of instrument as the ease which it accords the researcher during analysis.

The questionnaire was issued to financial operations officer, operations managers and customer relations officer, since they have a deeper understanding of the research variables. The questionnaire was hand delivered to the partakers. The data obtained was qualitative. Data on costing was obtained from question 3 part A, data on budgeting was obtained from question 3 part B, data on performance evaluation was obtained from question 3 part C, data on advice for decision making was obtained from question 3 part D, data on strategic analysis was obtained from question 3 part E, data on planning and control was obtained from question 3 part F, data on TQM was obtained from question 3

part G and data on process reengineering was obtained from question 3 part H. Data on net profit of the CB was secondary data and was obtained from the audited financial statements from the banks website, capital market authority and from the CBK supervisory annual reports. This was used to collect advice about the net income for the five years of study (2011 to 2015).

3.5 Data Analysis

The study used SPSS Version 24, as the statistical package of data analysis. Descriptive statistics, which includes frequencies, mean and standard deviation was useful in identifying trends at a glance. A multiple regression model was used to determine the magnitude and direction of the effect of MA practices as the independent variables on the performance of CB in Kenya as the dependent variable. The data were analysed at 95% confidence level, 5% level of significance. The model used in the study was as follows;

3.5.1 Analytical Model

The analytical model in this study was as follows;

Y=*f* (MA practices)

3.5.2 Empirical Model

The real model was as follows**;**

$$\mathbf{Y = \alpha + \beta_1 x_1 + \beta_2 x_2 + \beta_3 x_{3+} \beta_4 x_4 + \beta_5 x_5 + \beta_6 x_6 + \beta_7 x_7 + \beta_8 x_{8+} \varepsilon}$$

Where;

Y – Represent FP as estimated by net profits.

α – the intercept

β_1 β_2 β_3 $\beta_4$$\beta_5$ $\beta_6$$\beta_7$ β_8 - Coefficients as will be determined by the model

x_1 =Costing - mean score of Likert scale question III part A

x_2 = Budgeting - mean score of Likert scale question III part B

x_3 = Performance Evaluation - mean score of Likert scale question III part C

x_4 = Information for Decision Making -mean score of Likert scale question III part D

x_5 = Strategic Analysis- mean score of Likert scale question III part E

x_6 =Planning and Control- mean score of Likert scale question III part F

x_7 =TQM- mean score of Likert scale question III part G

x_8 = Process reengineering - mean score of Likert scale question III part H

ε – Error term

3.5.3 Operationalizing the Variables

The values of independent variables of X1 to X8 were obtained from the mean score responses on every Likert scaled data for each bank. The mean score realised for the individual variable for every bank was then regressed against the values of Y (Net income/profits) for a period of five years that is 2011 to 2015. The analysis was then

carried out; where the MA practices were regressed against the FP to establish which practices have significant influence on the FP of commercial banks in Kenya. The interpretation of the results of the regression analysis were based on the coefficient of determination(R square), significance of F statistics and the significance of beta values from the coefficients of the independent variables. Significance was tested at 5% level (95% confidence Level).

CHAPTER FOUR

DATA ANALYSIS, RESULTS AND DISCUSSIONS

4.1 Introduction

This chapter presents the study's results analysis, findings and discussions. The answers to the research question are discussed. The initial population comprised 42 CB in Kenya obtained from Central Bank supervisory report 2015. Those who filled and returned questionnaires were 26 banks making the response rate 61.9%.

4.2 Descriptive Statistics

The participants were required to rate the extent to which they used MA practices being studied. This include TQM, strategic analysis, costing, planning and control, process reengineering, performance evaluation, budgeting and Information for decision making. The ranking was as follows; 1 for never; 2 for rarely; 3 for often and 4 for always. A mean of above 2.5 is considered a satisfying estimate of the test variables. Standard deviation on the other hand was used to indicate the deflection from the mean. A low standard deviation is favorable as opposed to a higher standard deviation. The descriptive statistics for each independent variable are discussed below;

4.2.1 Costing Measures in CB in Kenya

The partakers were required to rank the level to which they used Costing Measures in the bank. Table 4.1 displays the partakers' responses.

Table 4.1: Costing Measures in CB in Kenya

COSTING	Never 1	Rarely 2	Often 3	Always 4	Mean Score	Std. Deviation
Cost separation into variable, incremental or fixed costs	1.4	5.4	43.2	50.0	3.42	0.66
Cost benefit analysis	0.0	0.0	37.8	62.2	3.62	0.49
Attribute / Product costing	0.0	6.8	41.1	52.1	3.45	0.62
Activity - based costing	0.0	13.5	47.3	39.2	3.26	0.68
Target costing	2.7	10.8	44.6	41.9	3.26	0.76
Quality Costing	0.0	11.1	36.1	52.8	3.42	0.69
Regression and or learning curve techniques	2.8	22.2	38.9	36.1	3.08	0.83
Overall Values					3.36	0.68

Source: Research Findings

The study found that 93.2% of the banks often separate variable cost, incremental costs and fixed costs, 100% of the banks often perform cost benefit analysis, 93.2% of the banks often exercise product costing, 86.5% of the banks often exercise target costing, 88.9% of the banks often perform quality costing and 75%of the banks often use learning

curve techniques. The overall mean was 3.36 ranking costing as number seven in term of usage.

4.2.2 Budgeting Measures in CB in Kenya.

The partakers were required to rank the level to which they used budgeting estimates in the bank. Table 4.2 displays the partakers' responses.

Table 4.2: Budgeting Measures in CB in Kenya.

Budgeting	**Never 1**	**Rarely 2**	**Often 3**	**Always 4**	**Mean Score**	**Std Deviation**
Budgeting for planning purposes	0.0	0.0	28.4	71.6	3.72	0.45
Budgeting for controlling costs	0.0	1.4	16.2	82.4	3.81	0.43
Activity - based budgeting	1.4	9.6	42.5	46.6	3.34	0.71
Budgeting with "what if analysis"	2.8	18.1	43.1	36.1	3.13	0.80
Flexible budgeting	1.4	27.4	35.6	35.6	3.05	0.83
Zero - based budgeting	8.7	31.9	34.8	24.6	2.75	0.93
Budgeting for long - term (strategic) plans	0.0	5.4	28.4	66.2	3.61	0.59

Overall Values	3.34	0.68

Source: Research Findings

As per table 4.2, 100% of the banks often use Budgeting for planning purposes, 98.6% of the banks often use budgeting for controlling costs, 89.1% of the banks often use activity based budgeting, 79.2% of the banks often use budgeting with "what if analysis", 71.2% of the banks often use flexible budgeting, 59.4% of the banks often use ZBB and 94.6 % of the banks often use budgeting for long term plans. The overall mean was 3.34 ranking budgeting as number eight in terms of usage.

4.2.3 Performance Evaluation Measures in CB in Kenya.

The partakers were required to rank the level to which they used performance evaluation Measures in the bank. Table 4.3 displays the partakers' responses.

4.3 Performance Evaluation Measures in CB in Kenya.

Performance Evaluation	**1**	**2**	**3**	**4**	**Mean**	**Std. Deviation**
Financial estimates	0.0	2.7	28.4	68.9	3.66	0.53
Non - Financial estimates related to customers	0.0	4.1	37.8	58.1	3.54	0.58
Non - Financial estimates related to operation and innovation	0.0	4.1	41.9	54.1	3.50	0.58
Non - Financial estimates related to employees	0.0	4.1	47.3	48.6	3.45	0.58

Economic value added	0.0	11.0	39.7	49.3	3.38	0.68
Benchmarks	1.4	13.9	31.9	52.8	3.36	0.77
overall Values					3.48	0.62

Source: Research Findings

According to the findings in Table 4.3, only 2.7% of the banks don't use financial estimates while the other 97.3% of the banks often use the financial estimates, on the non-financial estimates related to customers, 95.9% of the partakers scored 3 and 4. On sub variable three 95.9% of the partakers' scored 3 and 4,on employees non-financial estimates 95.9% of the partakers scored 3 and 4, 89% of the partakers use economic value added and finally 84.7% of the partakers often benchmark. The overall mean of was 3.48 ranking performance evaluation Measures as number three.

4.2.4 Information for Decision Making Measures in CB in Kenya.

The partakers were required to rank the level to which they used information for decision making measures in the bank. Table 4.4 displays the partakers' responses.

Table 4.4: Information for Decision Making measures in CB in Kenya.

Information for decision making Measures	**Never 1**	**Rarely 2**	**Often 3**	**Always 4**	**Mean Score**	**Std. Deviation**
Cost - volume - profit analysis for dominant products	1.4	8.1	39.2	51.4	3.41	0.70
Product benefits analysis	0.0	1.4	32.4	66.2	3.65	0.51
Customer benefits analysis	1.4	2.7	32.4	63.5	3.58	0.62

Evaluation of dominant CI based on DCF method.	1.4	17.6	39.0	41.9	3.22	0.78
Evaluation of dominant CI based on payback period or accounting rate of return	2.7	12.2	40.5	44.6	3.27	0.78
Documenting and reporting non-financial aspects after the evaluation of dominant CI.	0.0	2.7	45.9	51.4	3.49	0.56
Evaluation of dominant CI projects by using benefits analysis	1.4	8.1	36.5	54.1	3.43	0.70
Performing sensitivity "what if" analysis when evaluating dominant CI projects	1.4	9.7	43.1	45.8	3.33	0.71
Calculation of cost of capital and use of cost of capital in discounting cash flow dominant CI evaluation	2.7	8.1	40.5	48.6	3.35	0.75
Overall Values					3.41	0.68

Source: Research Findings

The study found that 90.6% of the banks often conduct break even analysis,98.6%of the banks often analyse product benefits,95.9% of the banks often analyse customer benefits,80.9% of the banks often evaluate dominant CIs based on DCF method, 85.1% of the banks often evaluate dominant CI using payback period and accounting rate of

return, 97.3% of the partakers often document non-financial aspects for the evaluation of dominant CIs projects,90.6% of the banks often use benefits analysis for evaluating dominant CI projects,88.9% of the banks often Perform "what if" sensitivity analysis and finally 89.1% of the partakers often calculate cost of capital and use the same in discounting cash flow of a dominant CI evaluation. The overall mean of 3.41 this practice ranked number six.

4.2.5 Strategic Analysis Measures in CB in Kenya.

The partakers were required to rank the level to which they used strategic analysis measures in the bank. Table 4.5 displays the partakers' responses.

Table 4.5 Strategic Analysis Measures in CB in Kenya.

Strategic Analysis	Never 1	Rarely 2	Often 3	Always 4	Mean Score	Std. Deviation
Long - term forecasting	0.0	2.7	29.7	67.6	3.65	0.53
Shareholder value analysis	5.4	9.5	29.7	55.4	3.35	0.87
Industry analysis	1.4	8.1	31.1	59.4	3.49	0.71
Analysis of competitive position	0.0	4.1	31.1	64.9	3.61	0.57
Value chain analysis	0.0	6.8	36.5	56.8	3.50	0.62
Product life cycle analysis	0.0	13.7	37.0	49.3	3.36	0.71
Integration with suppliers and customers value chains possibilities	0.0	16.2	37.8	45.9	3.30	0.74
Competitors strengths and weaknesses	0.0	10.8	32.4	56.8	3.46	0.69

analysis						
Overall Values					3.46	0.68

Source: Research Findings

As per table 4.5, 97.3% of the banks often conduct long term forecasting, 85.1%of the banks often analyse shareholders value, 90.5% of the banks often analyse the industry, 96% of the banks often analyse their competitive position, 93.3%of the banks often conduct value chain analysis, 86.3%of the banks analyse product lifecycle, 83.7 %of the banks often consider the possibilities of and or customers value chain's and 89.2% of the banks analyse competitors strengths and weaknesses.

4.2.6 Planning and control Measures in CB.

The partakers were required to rank the level to which they used planning and control estimates in the bank. Table 4.6 displays the partakers' responses.

Table 4.6 Planning and control Measures in CB.

Planning and control	**1**	**2**	**3**	**4**	**Mean**	**Std. Deviation**
Defining scope and responsibilities in any undertaken project	0.0	1.4	35.6	63.0	3.62	0.52
Scheduling and time / resource analysis	0.0	4.1	35.1	60.8	3.57	0.58
Cost estimation and budgeting	0.0	5.5	32.9	61.6	3.56	0.60
risk analysis and resource planning	0.0	2.7	37.8	59.5	3.57	0.55
milestone trend charts	0.0	10.8	39.2	50.0	3.39	0.68
Earned value management	0.0	9.5	40.5	50.0	3.41	0.66

Process Management analysis	0.0	6.8	35.1	58.1	3.51	0.62
Overall Values					3.52	0.60

Source: Research Findings

From table 4.6, 98.6% of the banks define scope and responsibilities in any undertaken project, 95.9% of the banks analyse schedule and time/resource, 94.5% of the banks conduct cost estimation and budgeting, 97.3%of the banks perform risk analysis and resource planning, 89.2%of the banks maintain milestone trend charts, 90.5% of the banks perform earned value management and 93.2% of the banks analyse process management.

4.2.7 TQM Measures in CB

The partakers were required to rank the level to which they used TQM measures in the bank. Table 4.7 displays the partakers' responses.

Table 4.7 TQM Measures in CB

TQM Measures	1	2	3	4	Mean	Std. Deviation
Leadership/management commitment analysis	0.0	1.4	40.5	58.1	3.57	0.53
Supplier quality management analysis	0.0	5.5	46.6	47.9	3.42	0.60
Continuous improvement review	0.0	1.4	38.4	60.3	3.59	0.52
Customer and employee involvement analysis	0.0	8.1	33.8	58.1	3.50	0.65
Information and feedback Analysis	0.0	2.7	31.1	66.2	3.64	0.54
Fact based decision Making	0.0	0.0	23.3	76.7	3.77	0.43
Overall Values					3.58	0.54

Source: Research Findings

As per table 4.7,98.6% of the banks analyse leadership/management commitment analysis,94.5% of the banks analyse supplier quality management,98.6% of banks perform continuous improvement review,91.9% of the banks analyse customer and employee involvement,97.3% of the banks analyse information and feedback and 100% of the banks make fact based decision.

4.2.8 Process Re-engineering Measures in CB in Kenya

The partakers were required to rank the level to which they used process re-engineering estimates in the bank. Table 4.8 displays the partakers' responses.

Table 4.8 Process Re-engineering Measures in CB

Process reengineering	Never 1	Rarely 2	Often 3	Always 4	Mean Score	Std. Deviation
Selection of the strategic (added-value) processes for redesign.	0.0	4.1	53.4	42.5	3.38	0.57
Simplify new processes - minimize steps	0.0	8.2	48.6	43.2	3.35	0.63
Organize an employees team for each process and assign a process coordinator	0.0	4.1	41.9	54.1	3.50	0.58
Assign responsibilities and roles for each process.	0.0	2.7	45.9	51.4	3.49	0.56
Automate processes	0.0	2.7	40.5	56.8	3.54	0.55
Training the process team for efficient management and operation of the new process	0.0	5.4	29.7	64.9	3.59	0.59
redesigned process introduction into the trade organizational structure	0.0	6.8	47.9	45.2	3.38	0.62
					3.46	0.59

Source: Research Findings

The results in table 4.8 are interpreted as follows,95.9% of the banks select strategic(added-value) processes for redesign, 91.8% of the banks simplify news steps-minimize steps,95.9% of the banks Organize an employee's team for each process and assign a process coordinator,97.3% of the partakers assign roles and responsibilities for

each process ,97.3% of the banks automate processes, 94.6% of banks train the process team for efficient management and operation of the new process and 93.2% of banks introduce the redesigned process into the trade organisational structure.

4.3 Regression Analysis

A multiple regression analysis was conducted by the researcher so as to establish the effect of MA practices (independent variables) on the dependent variable which is the FP of CB in Kenya.

Table 4.9 Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics			
					R Square Change	F Change	df1	df2
1	.789[a]	.622	.444	.7384178	.622	3.496	8	17

a. Predictors: (Constant), PROCESSREENGINEERING, BUDGETING, COSTING, TQM, PERFORMANCE, PLANNING, STRATEGICANALYSIS, INFORMATION

b. Dependent Variable: FP

Source: Research Findings

Table 4.9 above indicates that there is an R^2value of 62.2%. This value indicates that the eight independent variables explain 62.2% of the variance in the dependent variable. This means that these independent variables influence to a large extent affect the FP of CB in

Kenya. The researcher can therefore conclude that these variables influence the FP of CB in Kenya. It is therefore sufficiently to conclude that these variables significantly influence FP given the unexplained variance is only 37.8%.

Table 4.10 Analysis of Variance (ANOVA)

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	15.250	8	1.906	3.496	.014[b]
	Residual	9.269	17	.545		
	Total	24.519	25			

a. Dependent Variable: FP

b. Predictors: (Constant), process reengineering, budgeting, costing, TQM, performance, planning, strategic analysis, information for decision making.

Source: Research Findings

Given 5% level of significance and F value of 3.496 the researcher concluded that the multiple regression model is statistically significant, in that it is a suitable prediction model for explaining how the selected independent variables affects the dependent variable (FP).

Table 4.11 Regression Analysis Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	95.0% Confidence Interval for B	
		B	Std. Error	Beta			Lower Bound	Upper Bound
1	(Constant)	.799	1.945		.411	.686	-3.305	4.904
	Costing	.189	.481	.081	.394	.699	-.825	1.203
	Budgeting	1.483	.878	.606	1.690	.109	-.369	3.335
	Performance	1.387	.745	.469	1.863	.080	-.184	2.958
	Information for decision making	-4.132	.977	-2.006	-4.231	.001	-6.192	-2.071
	Strategic analysis	2.263	.812	.970	2.786	.013	.549	3.976
	Planning	1.456	.781	.576	1.864	.080	-.192	3.105
	TQM	-1.300	.592	-.494	-2.197	.042	-2.549	-.052
	Process reengineering	.142	.539	.059	.263	.796	-.995	1.278

a. Dependent Variable: FP

Source: Research Findings

Using a significance level of 5%, any independent variable having a significant value greater than 5% is considered not statistically significant. This study found that advice for decision making estimates, strategic analysis estimates and TQM estimates are

statistically significant with a significance of less than 5% as opposed to costing, budgeting, planning and control, process reengineering and performance evaluation with significance of more than 5%.

4.4 Correlation Analysis

Correlation analysis is used to establish if there exists a link between two variables which lies between a strong negative (-) correlation and (+) perfect positive correlation. Nine variables were generated using SPSS. Table 4.12 displays the results.

Table 4.12: Correlation Analysis

		COSTING	BUDGETING	PERFORMANCE	INFORMATION	STRATEGICANALYSIS	PLANNING	TQM	PROCESSREENGINEERING	FINANCIALPERFORMANCE
COSTING	Pearson Correlation	1	.604**	.554**	.547**	.609**	.479*	.474*	.394*	.265
	Sig. (2-tailed)		.001	.003	.004	.001	.013	.014	.046	.190
	N	26	26	26	26	26	26	26	26	26
BUDGETING	Pearson Correlation	.604**	1	.661**	.857**	.779**	.597**	.478*	.362	.130
	Sig. (2-tailed)	.001		.000	.000	.000	.001	.014	.069	.527
	N	26	26	26	26	26	26	26	26	26
PERFORMANCE	Pearson Correlation	.554**	.661**	1	.736**	.681**	.692**	.643**	.504**	.210
	Sig. (2-tailed)	.003	.000		.000	.000	.000	.000	.009	.304
	N	26	26	26	26	26	26	26	26	26
INFORMATION	Pearson Correlation	.547**	.857**	.736**	1	.868**	.803**	.548**	.600**	-.029
	Sig. (2-tailed)	.004	.000	.000		.000	.000	.004	.001	.890
	N	26	26	26	26	26	26	26	26	26
STRATEGICANALYSIS	Pearson Correlation	.609**	.779**	.681**	.868**	1	.801**	.601**	.584**	.270
	Sig. (2-tailed)	.001	.000	.000	.000		.000	.001	.002	.183
	N	26	26	26	26	26	26	26	26	26
PLANNING	Pearson Correlation	.479*	.597**	.692**	.803**	.801**	1	.627**	.647**	.195
	Sig. (2-tailed)	.013	.001	.000	.000	.000		.001	.000	.339
	N	26	26	26	26	26	26	26	26	26
TQM	Pearson Correlation	.474*	.478*	.643**	.548**	.601**	.627**	1	.591**	.015
	Sig. (2-tailed)	.014	.014	.000	.004	.001	.001		.001	.943
	N	26	26	26	26	26	26	26	26	26
PROCESSREENGINEERING	Pearson Correlation	.394*	.362	.504**	.600**	.584**	.647**	.591**	1	-.009
	Sig. (2-tailed)	.046	.069	.009	.001	.002	.000	.001		.965
	N	26	26	26	26	26	26	26	26	26
FINANCIAL PERFORMANCE	Pearson Correlation	.265	.130	.210	-.029	.270	.195	.015	-.009	1
	Sig. (2-tailed)	.190	.527	.304	.890	.183	.339	.943	.965	
	N	26	26	26	26	26	26	26	26	26

**. Correlation is significant at the 0.01 level (2-tailed).

*. Correlation is significant at the 0.05 level (2-tailed).

Source: Research Findings

4.5 Interpretation of Findings and Discussions

The research findings indicate that the independent variables (MA practices) have a sixty two point two percent effect on the dependent variable (FP) of CB in Kenya. F statistic was significant at five percent significant level. This findings are similar to Chantal and Lang field-Smith (1998b) who found greater use of advanced MA practices for example quality improvement resulted in better performance. This further agrees with Ittner

&Larker. 1995), and Sim & Killough (1998) who found a significant affirmative link atween MA Advice and Performance, while Mia & Clarke (1999) found an indirect link atween the intensity of market competition and trade unit performance through the use of MA advice.

The research also indicated that holding all the independent variables constant FP will be 0.799. Further, taking all factors into account, that is, TQM, planning and control, budgeting, costing, process re-engineering, strategic analysis, advice for decision making and performance evaluation, intercept at zero the FP of CB is 4.4327.Similarly if all the independent variables are zero, an increase in TQM estimates by one unit will lead to 1.3 decrease in the net profit, an increase in strategic analysis estimates by one unit will lead to 2.263 increase in the net profits, an increase in advice for decision making estimates by one unit will lead to 4.132 decrease in the net profits, an increase in performance evaluation estimates by one unit will lead to 1.387 increase in net profits, an increase in budgeting estimates by one unit will lead to a 1.483 increase in the net profits, an increase in costing estimates by one unit will lead to a 0.189 increase in net profits, an increase in planning and controlling estimates by one unit will lead to 1.456 increase in net profits, an increase in process re-engineering estimates by one unit will lead to 0.142 increase in net profits.

These findings are compatible with empiric facts for the link atween MA practices and performance. Similarly Baines & Langfield-Smith (2003) discovered that organisations with a greater reliance on non-financial advice advanced their performance. These

findings are compatible with the idea that MA systems changes are linked with good FP (Laitinen, 2006).

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1Introduction

This chapter furnishes a summary, conclusion and recommendations of the main findings on the effect of MA practices on FP of CB in Kenya.

5.2 Summary of Findings

The research established that CB in Kenya often uses MA practices in their operations. From the descriptive statistics it became clear to the researcher that TQM ranked highest as mostly used practice with an overall mean of 3.58,this was followed by planning and control with an overall mean of 3.52,performance evaluation closely followed with an overall mean of 3.48.Strategic analysis and process reengineering ranked fourth with the same overall mean of 3.46,this was followed by advice for decision making with an overall mean of 3.41,then by costing with an overall mean of 3.36 and finally budgeting with an overall mean of 3.34.

The study also established that the usage of MA practices has a positive effect on the FP of CB in Kenya as estimated by net profits. In other words a bank using MA practices will perform better as opposed to a bank that does not use MA practices. This means that taking all factors into account, that is, TQM, planning and control, budgeting, costing, process re-engineering, strategic analysis, advice for decision making and performance evaluation, constant at zero the FP of banks will be 4.4327.

Similarly if all the independent variables are zero, an increase in TQM estimates by one unit will lead to 1.3 decrease in the net profit, an increase in strategic analysis estimates by one unit will lead to 2.263 increase in the net profits, an increase in advice for decision making estimates by one unit will lead to 4.132 decrease in the net profits, an increase in performance evaluation estimates by one unit will lead to 1.387 increase in net profits, an increase in budgeting estimates by one unit will lead to a 1.483 increase in the net profits, an increase in costing estimates by one unit will lead to a 0.189 increase in net profits, an increase in planning and controlling estimates by one unit will lead to 1.456 increase in net profits, an increase in process re-engineering estimates by one unit will lead to 0.142 increase in net profits.

5.3 Conclusion

The study concludes that usage of MA practices specifically TQM estimates which includes process management analysis, management commitment analysis, continuous improvement review, advice and feedback analysis and fact based decision making and strategic analysis and the other MA practices studied positively improves FP of CB in Kenya. This findings are consistent with previous studies conducted Alkhadash & Feridun, (2006) which revealed a strong affirmative association between using MA practices and improvement in FP. This was consistent with prior research such as Venkatachalam (1996).

The study further concludes that only information for decision making measures; strategic analysis measures and TQM measures were significant in FP of CB in Kenya. Information for decision making and TQM affect FP of banks negatively but

significantly. The study also concludes that costing, budgeting, performance evaluation, planning and control and process reengineering affect FP of banks positively and non-significantly.

5.4 Limitations of the study

The research focused on the MA practices of CB in Kenya and international banks were left out. This is limiting since the findings are only apply to Kenyan banks only, and international banks may not benefit from it.

Another limitation of this study is that it concentrated on one utilities zone, which is the banking industry, and excluded other utilities in the economy zones. These results therefore are narrowed to the CB and may be of little or no use to the other service sectors both locally and internationally.

The study focused on net profits as an estimate of FP.Net profits are subjective and keep changing from period to period depending with the economic conditions of the nation and other factors hence the findings may not reflect the true effect of MA practices on the FP of the CB in Kenya.

The quality of primary data collected may have been affected by the fact that the researcher could not control the attitude of the partakers during the data collection. This may affect the accuracy, reliability and suitability of the data.

Further, the researcher used a period of five years in the study. The findings may differ if the period is prolonged to more years to include the evolution of the MA practices.

5.5 Recommendations

From the study findings the researcher will make recommendations towards the policy and suggestions for further research

5.5.1 Policy Recommendations

From the findings, the study established that MA practices positively affect the FP of CB in Kenya. The study therefore recommends that the management of the CB in Kenya strive to maintain the current MA practices and further increase or improve them in order to enhance the banks value leading to more satisfied shareholders and stakeholders.

5.5.2 Suggestions for Further Research

Since this research looked at the relationship between MA practices and FP of CB in Kenya, the study recommends a similar research be carried out in other countries and establish if the findings will differ from this study.

Since the research focused on one sector of the service industry, which is the banking sector, the study recommends a similar study on other service sectors either locally or internationally.

Measures of FP include other ratios like market ratios which are considered more reliable since the market prices are more objective as opposed to net profits which are subjective. The study used net profits and therefore recommends a similar study using more objective estimates of FP like the market ratios.

The study used primary data which is narrowed by factors like attitude affecting its accuracy and reliability. The study therefore recommends a similar study but using pure secondary data to establish if the findings will be compatible with the discoveries of this study.

The period under study in this research was five years; the studies therefore further recommends a similar study with increased time and period of study and establish if the findings will be consistent with the findings of this research.

REFERENCES

Abdel, K.M., & Luther, R. (2006). MA practices in the British food and drinks industry. *British Food Journal*, 336-357.

Adams, R. (1999). Performance Indicators for Sustainable Improvement. Accounting & Trade, 16 – 19.

Adler, R., Everett, A. M., & Waldron, M. (2000). Advanced MA techniques in manufacturing: Utilization, benefits, and barriers to implementation, accounting Forum, 24 (2), 131-150

Ainikkal, J. (1993). Exploring the New Zealand manufacturing setting. *The Accountants' Journal*, 72 (6).

Alkhadash, H., & Aldeen, F. M. (2006). Impact of Strategic Initiatives in MA on corporate FP: Evidence from Amman Stock Exchange.

Al-Tamimi, H., Hassan, A. (2010). Factors Influencing Performance of the UAE Islamic and
Conventional National Banks. Department of Accounting, Finance and Economics, College of Trade Administration, University of Sharjah.

Athanasoglou, P.P., Sophocles, N.B., Matthaios, D.D. (2005). Bank-specific, industry-specific and macroeconomic determinants of bank benefits. Working paper, Bank of Greece. 1(1), 3-4.

Anand, A., Sahay, B., & Subhashish S. (2004). CM Practices in India. An Empirical Study. *ASCI Journal of Management*, 33 1-2.

Barton K., & Gordon R. (2008). The performance estimatement manifesto.*Harvard Trade Review,* 69, Nr. 1, 131-137,

Baumol, W.J. (1982). Contestable markets: an uprising in the theory of industry structures. *Am. Econ. Rev. 72 (1), 1–15*

Bhimani, A., & Bromwich, M. (2010*).* Structure, formality and the importance of financial and non-financial advice in strategy improvement and implementation. *MA Research, 18(1), 3–48.*

Burns, J., Ezzamel, M., and Scapens, R.S. (1999). MA change in the UK. *MA,* 77(3): 28-30.

Carenys, J. & Sales, X. (2008). Costing the Banking Utilitiess: A Management Accounting Approach. *Journal of Money, Investment and Banking,* 6(1), 8-9.

Carreta, A. & Farina, V., (2010), Assessing effectiveness and compliance of banking boards, *Journal of financial Regulation and compliance,* 18, (4) 356-369.

Chenhall, R. H. (1997). Reliance on manufacturing performance estimates, Total Quality Management and organizational performance. *MA Research 8:187–206.*

Chenhall, R. H., & Langfield-Smith, K. (1998). The Adoption and Benefits of MA Practices: An Australian Study. *MA Research, 9(1), 1-20.*

Cooper, D.R., & Schindler, P.S. (2006). Trade Research Methods (9 ed.). *New Delhi: McGraw-Hill*

Dang, U. (2011). The CAMEL Rating System in Banking Supervision: a Case Study of Arcada University of Applied Sciences, International Trade.

DiMaggio, P.J. & Powell, W.W. (1991). "T*he New institutionalism in Organizational Analysis*", The University of Chicago Press, Chicago

Gilbert, R.A., & Wheelock, D. (2007). Measuring CB benefits: proceed with caution. Networks Financial Institute Working Paper, (2007-WP), 22.

Guilding C., Cravens K.S., & Tayles, M. (2000). An international comparison of strategic MA practices, MA Research, 11 (1), pp.113-135.

Hall, M. (2008). The effect of comprehensive performance estimatement systems on role clarity, psychological empowerment and managerial performance. *Accounting, Organizations and Society*, vol. 33, pp. 141-163.

Hansen, S.C., & Van der Stede, W.A. (2004). Multiple facets of budgeting: an exploratory analysis. *MA Research*, vol. 15, pp. 415-439.

Hoque, Z. (2003). Strategic MA (2nd Ed.). Pearson, Frenchs Forest.

Horngren, C., Datar, S., Foster, G., Rajan, M., & Ittner, C. (2009). *Cost Accounting: A Managerial Emphasis.* New Jersey: Upper Saddle River: Prentice Hall.

Howcroft, B. (2005). An Insight into Bank Corporate Strategy: A Lloyds TSB Case Study, Thunderbird International Trade Review, Vol. 47(3) 365–380, May–June 2005

Ilhomovich, S.E. (2009) Factors affecting the performance of foreign banks in Malaysia. . Malaysia: Athesis submitted to the fulfillment of the requirements for the degree Master of Science (Banking) College of Trade (Finance and Banking.)

Indian Institute of Banking and Finance. (2008). Principles and Practices of Banking. 2nd edition. Mumbai: Macmillan.

Isa,C.R.,&Thye,N.K.(2006).Advanced MA Techniques: An Exploratory Study on Malaysian Manufacturing Firms. Proceeding of the International Trade and Advice 2006, Singapore 13-14 July.

Islam, M., & Kantor, J. (2005). The improvement of quality MA practices in China. *Managerial Auditing Journal*, 20 (7), 707 - 724.

Ittner, C., & Larcker, D. (2001). Assessing empirical search in managerial accounting: a value-based management perspective. *Journal of Accounting and Economics*, 32: 349-410.

Ittner, C., & Larcker, D. (2002). Empirical managerial accounting research: Are we just describing MA practice? *European Accounting Review*, 11(4): 787-794.

Jusoh, R., & Parnell, J.A. (2008). Competitive strategy and performance estimatement in the Malaysian context. An exploratory study. *Management Decision*, vol. 46, no. 1, pp. 5-31.

Johnson, H.T., & Kaplan, R.S. (1987). *Relevance lost: The rise and fall of MA*. Boston, MA: Harvard Trade School Press.

Kennedy, T., & Graves, J.A. (2001). The Impact of activity-based costing techniques on firm performance'Journal *of MA Research*, vol. 13.

Koch, T.W. and MacDonald, S.S. (2006). Management of Banks. 6th edition. Manson: Thomson South-Western.

Liaqat, A. (2006). Utilizations of contemporary MA techniques in Indian industry, *Chartered Management Accountant,* 64 (8), pp.8-13.

Libby, T., & Waterhouse, J.H. (1996). Predicting change in MA systems. *Journal of MA Research*, l (8): 137-154.

Maiga, A.S. and Jacobs, F.A. (2006). Assessing the impact of benchmarking antecedents on quality improvement and its financial consequences. *Journal of MA Research,* vol. 18, pp. 97-123.

McWatters, C.S., Morse, D.C. & Zimmerman, J.L. (2001). *MA*: Analysis and Interpretation, McGraw-Hill/Irwin, New York, NY.

Merchant, K.A. (1984). Influences on departmental budgeting: An empirical examination of a contingency model. *Accounting, Organizations and Society*, vol. 9, no. 3/4, pp. 291-307.

Mills, A. (2008). *Essential Strategies for Financial Utilitiess Compliance.* John Wiley & Sons, Ltd.

Mugenda, O.M. and Mugenda, A.G. (2003). Research Methods: Quantitative and Qualitative Approaches. Nairobi: Acts Press.

Murithi, A.P. (2001). Utilization of Strategic MA techniques in the large manufacturing companies in Kenya, *Published MBA project*, University of Nairobi.

Mwangi, P.G (2014). Effect of MA Practices on FP of Manufacturing Firms in Kenya, *Unpublished MSc project*, University of Nairobi.

Ndiritu, M.G. (2007). Effectiveness of cash budgeting in public institutions: A case study of Telkom Kenya. *Unpublished MBA Thesis,* University of Nairobi.

Ndwiga, N.M. (2011). The Role of MA in Creating and Sustaining Competitive Advantage. A case study of Equity Bank in Kenya. *Published Masters of Commerce (Accounting),* University of South Africa.

Njenga B. W. (2006). The relationship between cost X-competency and FP of companies listed in the Nairobi Securities Exchange in Kenya *Unpublished MBA Thesis*, University of Nairobi.

Otley, D.T., & Berry, A. J. (1980). Control, organization and accounting. *Accounting, Organisations and Society*, 5(2): 231-244.

Ribeiro, J.A. & Scapens, R.W. (2006). Institutional theories in MA change: Contributions, issues and paths for improvement, *Qualitative Research in Accounting & Management*, 3 (2), 94 – 111.

Said, A.A., Hassab Elnably, H.R. and Wier, B. (2003). An empirical investigation of the performance consequences of nonfinancial estimates. *Journal of MA Research,* vol. 15, pp.193-223.

Sangmi, M., & Tabassum, N. (2010). Analyzing FP of CB in India: Utilization of CAMEL Model. Pakistan Journal Commercial Social Sciences.

Shields, M.D. (1995). An empirical analysis of firms' implementation experiences with activity-based costing. *Journal of MA Research,* vol. 7, no. 1, pp. 148-166.

Singh, S. and Singh, Y. (2008). Risk Management in Banks: Concepts and Utilizations. New Delhi: Excel Books.

Thaju J. K. (2009). Determinants of MA changes: A case study of three private hospitals in Nairobi. *Published UON MBA project*

Thompson, A.A., Strickland, A.J. and Gamble, J.E. (2009). The Quest for Competitive Advantage: Concepts and Cases. 17th edition. New Delhi: McGraw-Hill

Vong, A., & Hoi, S. (2009). Determinants of Bank Benefits in Macau. Faculty of Trade Administration, University of Macau.

Wijewardena, H. & Zoysa A.D. (1999). A Comparative Analysis of MA Practices in Australia and Japan: An Empirical Investigation. International *Journal of Accounting* 34, 1. 49-70.

Yang J., & Shang, W. (2007). Finance Management Based on Value Chain Management. *International Journal of Trade and Management,* 2(5), 1010–102.

RESEARCH QUESTIONNARE

I) Name of the bank

II) What position do you hold?

(Tick appropriately)

1.Operations Manager □

2.Customer Relations Officer □

3.Financial Operations Officer □

III)To what extent does your Bank (or trade unit) use the following MA techniques

(Tick appropriately)

	Never	Rarely	Often	Always
A)Costing	1	2	3	4

Separation of variable cost, incremental costs & fixed costs				
Cost benefit analysis				
Attribute/Product costing				
Activity- based costing				
Target costing				
Quality Costing				
Regression and /or learning curve techniques				
B)Budgeting				
Budgeting for planning purposes				
Budgeting for controlling costs				
Activity- based budgeting				
Budgeting with "what if analysis"				
Flexible budgeting				
Zero-based budgeting				
Budgeting for long-term (strategic) plans				
	Never	Rarely	Often	Always
	1	2	3	4
C)Performance evaluation				
Financial estimates				
Non-financial estimate(s) related to customers				
Non-financial estimates(s) related to operation and innovation				
Non- financial estimate(s) related to employees				

Economic value added or residual income				
Benchmarks				
D)Advice for decision making				
Cost-volume-profit analysis (break-even analysis) for dominant products				
Product benefits analysis				
Customer benefits analysis				
Evaluation of dominant CI based on DCF method(s)				
Evaluation of dominant CIs based on payback period and/ or accounting rate of return				
For the evaluation of dominant CIs, non-financial aspects are documented and reported				
Evaluating the risk of dominant CI projects by using benefits analysis or computer simulation				
Performing sensitivity "what if" analysis when evaluating dominant CIs projects				
Calculation and use of cost of capital in discounting cash flow for dominant CI evaluation				
E)Strategic Analysis				
Long-term forecasting				
Shareholder value Analysis				
Industry analysis				

Analysis of competitive position				
Value chain analysis				
	Never	Rarely	Often	Always
	1	2	3	4
Product life cycle analysis				
The possibilities of integration with suppliers‟ and/or customers‟ value chains				
Analysis of competitors‟ strengths and weaknesses				
F)Planning And Control				
Defining Scope and responsibilities in any undertaken project				
scheduling and time/resource analysis				
Cost estimation and budgeting				
risk analysis and resource planning				
milestone trend charts				
Earned value management				
G)Total Quality Management				
Process Management analysis				
Leadership/management commitment analysis				
Supplier quality management analysis				
Continuous improvement review				
Customer and employee involvement analysis				
Advice and feedback Analysis				

Fact based decision Making				
H)Process reengineering				
Selection of the strategic (added-value) processes for redesign.				
Simplify new processes - minimize steps				
Organize a team of employees for each process and assign a role for process coordinator				
Assign responsibilities and roles for each process.				
Automate processes using IT intranets, Extranets, Workflow Management				
Train the process team to efficiently manage and operate the new process				
Introduce the redesigned process into the trade organizational structure				

APPENDIX II

COMMERCIAL BANKS IN KENYA

1. ABC BANK KENYA
2. BANK OF AFRICA KENYA
3. BANK OF BARODA KENYA
4. BANK OF INDIA KENYA
5. BARCLAYS BANK OF KENYA
6. CFC STANBIC BANK
7. CITIBANK
8. COMMERCIAL BANK OF AFRICA
9. CHASE BANK OF KENYA
10. CONSOLIDATED BANK OF KENYA
11. COOPERATIVE BANK OF KENYA
12. CREDIT BANK
13. DEVELOPMENT BANK OF KENYA
14. DIAMOND TRUST BANK
15. ECOBANK KENYA
16. EQUITY BANK KENYA
17. FAMILY BANK KENYA
18. FIDELITY COMMERCIAL BANK
19. FIRST COMMUNITY BANK
20. GIRO COMMERCIAL BANK
21. GT BANK KENYA
22. GUARDIAN BANK

23. GULF AFRICAN BANK

24. HABIB BANK

25. HABIB BANK AG ZURICH

26. HOUSING FINANCE COMPANY OF KENYA

27. I&M BANK

28. IMPERIAL BANK OF KENYA

29. JAMII BORA BANK

30. KENYA COMMERCIAL BANK

31. MIDDLE EAST BANK OF KENYA

32. NATIONAL BANK OF KENYA

33. NIC BANK

34. ORIENTAL COMMERCIAL BANK

35. PARAMOUNT UNIVERSAL BANK

36. PRIME BANK KENYA

37. SIDIAN BANK

38. SPIRE BANK

39. STANDARD CHARTERED KENYA

40. TRANSNATIONAL BANK OF KENYA

41. UNITED BANK OF KENYA

42. VICTORIA COMMERCIAL BANK KENYA