BENCHMARKING PRACTICES USED BY COMMERCIAL BANKS IN NAIROBI

BY

DAVID WAFULA SAJABI

SUPERVISOR: DR JAMES GATHUNGU

A research project submitted to the School of Business in partial fulfillment of requirements for the award of the degree of Masters of Business Administration, University of Nairobi

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Declaration

This project is my original work and has not been presented for a degree in this or any other university

Signed……………………………………….. Date…………………………..

David Sajabi
D61/8387/2006

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

Signed………………………………. Date……………………………..

Dr. James Gathungu

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I would like to acknowledge the Almighty for the gift of life and the intellectual ability to carry out this research. I also acknowledge my parents for their love and support. To my brother for the constant encouragement and support. To my wife, Evelyne, for the love and encouragement throughout all the stages of the research.

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Thank you.

Dedication

To my parents, my brother, my wife Evelyne and my son Michael.

Abstract

Financial institutions including commercial banks have since the mid 1980s and 1990s adopted continuous improvement techniques such as benchmarking to build organizations that are internally and externally geared towards building efficiency in the industry. Benchmarking has been described as among the easiest to implement requiring few resources and delivering superior value. This paper sought to investigate whether commercial banks in Kenya benchmark, and if they do, in what specific areas of their operations, evaluate the success as well as the challenges they encounter in their quest to benchmark.

Primary data was collected using a questionnaire, designed to be completed by respondents in the commercial banks. The data was then checked for completeness and analyzed using descriptive statistics.

The survey reveals that indeed most commercial banks benchmark and management support is critical for its success. Secondly, most institutions chose benchmarking partners from those in the same industry or line of trade.

The paper concludes by a confirmation that benchmarking has had a tremendous effect in improving the operations of many firms and will continue to play a critical role in their success going into the future.

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CHAPTER ONE

INTRODUCTION

1.1 Background of the study

The main goal in the business world is to maximize returns. This leads to formulation of strategies with the aim of growing and retaining market share. This is the conceptual backbone of benchmarking i.e. following the lead in any industry by borrowing the operating patterns and strategies of the leaders in any industry. In the banking profession, the upsurge of many new banks has made it imperative for each bank to formulate ways of remaining competitive. To this end, banks now have tailored products that they market to different customer segments. Uche Nwaogu (2000) maintained that banks are in dire need of benchmarking to guarantee more customers.

Companies respond to environmental factors and one of the environmental influences to a business arises from competition. They have to respond strategically to environmental factors in order to be sustainable. Increased competition threatens the attractiveness of an industry and reduces the profitability of the players. Firms therefore focus on gaining a competitive advantage to enable them respond to, and compete effectively in the market. By identifying their core strengths, firms are able to concentrate on areas that give them a lead over competitors, and provide a competitive advantage. Though a business does not want competition from other businesses, inevitably most will face a degree of competition. The amount and type of competition depends on the market the business operates in (Hamel and Prahalad, 1993). A company has competitive advantage whenever it has an edge over its rivals in securing customers and defending against competitive forces (Thompson & Strickland, 2002).

The term benchmarking' has become increasingly used over the last decade at many different levels for various purposes. Analysts have utilized benchmarking studies to identify best practice' across organizations; lobbying groups to make international comparisons and push for the allocation of funds on specific sectors or activities; and governments to set up priorities and policy responses.

1.1.1 Benchmarking

Benchmarking broadly refers to comparing and assessing performance. Comparing the performance of organizations, sectors and economies has received considerable attention and resources in recent years, particularly with growing internationalization of production, increasing trade across regions and subsequent intensification of global interactions. Competitive forces rule existing global economic relationships, and agents have a keen interest in knowing how well or bad they are performing in relation to their international competitors. It has been argued that at the level of the organization, the use of benchmarking can foster innovation, identify gaps and trajectories, and enhance the quality of products and services (Ogden and Wilson, 2000); (Dattakumar and Jagadeesh, 2003). Additionally, at the level of the government, benchmarking is commonly used to formulate policies intended to affect performance at various levels, in order to achieve a specific target.

Benchmarking has been used as a tool, a methodology and a technique for continuous improvement in sectoral operations to gain and maintain competitive advantage. Participating on benchmarking has promoted a culture of thinking about quality, assessing one's own performance and taking responsibility for it. This is aimed at improving customer relations and promoting self-criticism. Depending on how excellent, good, bad or indifferent an organization's operations are, it determines the direction, urgency and priorities for a sound base of appetite for change and for a continuous drive to enhance quality. At its simplest competitive performance standard, it would consist merely of judging whether the achieved performance of an operation is better than, the same or worse than that of its competitors (Norman, 2001).

The first international benchmarking was undertaken in mid-1990s (Wragg, 1998; Fielden & Carr, 2000). Jackson (2001) noted that the challenge for banks will be to develop benchmarking in a way that will help people learn and improve their own practice while improving the overall capacity of the system to develop, improve and regulate itself. The term benchmarking was first used by Rank Xerox to describe a process of self-evaluation and improvement through the systematic and collaborative comparison of practice and performance with competitors in order to identify own strengths and weaknesses and learn how to adapt and improve as conditions change (Camp, 1989). Benchmarking has been quickly adopted by many sectors of business and industry as part of the quality movement (Spendolini, 1992). The banking sector is no exemption.

1.1.2 The Banking Industry in Kenya

At independence, the financial system in Kenya consisted of 9 foreign owned commercial banks, the largest of which were Barclays, Standard Chartered, and National and Grindlays (the fore runner of Kenya Commercial Bank). In the subsequent years particularly in the 1980's there was a tremendous growth in the number of locally owned financial institutions. In the 1990's as part of the Structural Adjustment Programmes (SAPS), the Kenya Government introduced reforms to liberalize the financial sector. This facilitated the entry of many competitors in the banking industry, given that some of the Non-Bank Financial Institutions (NBFI's) converted into full-time banks and some of the banks merged to form larger outfits, which could be more competitive in the market.

Despite the evidence of greater competition in some sectors of the banking market, the system remains effectively oligopolistic with larger banks operating as an informal cartel in setting interest rates and bank charges. Barclays, Standard Chartered Bank and Kenya Commercial Bank have been insulated from more vigorous competition by their size, their extensive branch networks and their international links. Customers are however getting more knowledgeable on products and becoming more demanding for quality services. This has enabled the smaller banks to penetrate the market aggressively and threaten the oligopolistic state. The past decade has seen banks go through major changes in the face of liberalization, globalization, information technology, the emergence of micro-finance institutions and demanding customers.

1.1.3 Commercial Banks in Kenya

According to Financial Institutions Supervision Annual Report 2010 prepared by the Central bank of Kenya there were as at December 2010, 51 financial institutions comprising 44 commercial banks, 2 non-bank financial institutions, 2 mortgage finance companies and 3 building societies, with a total of 532 branches across the country. The sector comprised 6 locally incorporated foreign banks and 4 branches of foreign owned institutions.

1.2 Research problem

Although the banking sector has achieved a tremendous leap in the past decade, sustainable growth remains elusive. In the first quarter of 2012, total loans and advances grew by 4.2% in comparison to an 8% growth registered for the same period in 2011 (Central Bank of Kenya, 2012). This decline has been occasioned by higher repayments as compared to loans advanced by the sector during that period. Banking is however expected to play a crucial role in the economic recovery plan and employment creation bringing to the fore the core aspect of achieving competitiveness in a global environment. Benchmarking within the organization, with competitors in the same or different field becomes more important in delivering competitiveness (Fink, 1993).

Revisiting the definition of benchmarking, it is a process used in management and particularly strategic management, in which organizations evaluate various aspects of their processes in relation to the best practice, usually within their sector. This then allows organizations develop strategies on how to adopt these practices, usually with the aim of increasing some aspect of performance. Benchmarking may be a one-off event, but is often treated as a continuous process in which organizations continuously seek to challenge their practices (Jackson and Lund, 2000). From this perspective it is clear that in order to compare yourself against the standard you must first understand what the standard is. Organizations do not become world class overnight. It is a slow and deliberate process of setting targets and working towards achieving them (Lema and Price, 1995). This is where benchmarking plays a crucial role in class parameters that deliver world class performances (Roider, 2000).

In the developed world, there is a deep understanding of benchmarking concepts. The same cannot however be said for the developing nations (Lema and Price, 1995). It would be inaccurate to state that benchmarking is not carried out. A more correct statement would be that we lack adequate research on the benchmarking practices in the country and in various sectors. Having understood the crucial role that the banking sector plays in our economy, the purpose of this study therefore was to provide an answer to the basic question: What would it take to bring about the success in implementing benchmarking in the banking industry in Kenya?

Other questions that arose that required answers were what extent do Kenyan banks benchmark, the specific operations, strategies and techniques used in the implementation of benchmarking and the difficulties faced by banks in the implementation of benchmarking.

1.3 Objectives of the Study

During the study the researcher sought to:

i. Establish the extent to which Kenyan commercial banks employ benchmarking.
ii. Identify the specific methods and techniques used by Kenyan banks in the implementation of benchmarking as well as the areas targeted.
iii. Identify the difficulties faced by the banks in the implementation of benchmarking.

1.4 Value of the Study

With respect to theory, this project offers researchers a foundation into the extent of evolution of the banking sector. The principles as enunciated in the proposal will help in further research in benchmarking and related areas.

With respect to practice, this project presents ample opportunity for business people to acquire clientele by improving on services offered by comparing their products and services to those of their competitors. For Commercial Banks and their employees, this project presents an opportunity to evaluate performance with the view to improving services and products offered.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter presents a review of the various research objectives which will be undertaken. It will further present a review of past studies and discussions. It will provide a critical review of benchmarking and strategy.

2.2 Benchmarking

The concept of benchmarking has been expounded upon greatly in the past decade. From the definition of systematic comparison of organizational processes and performance to create new standards or to improve processes, the concept has slowly evolved to include different types and methods of benchmarking. Internal Benchmarking is the comparison of different processes within the same organization. An essential component of benchmarking is the search for best practice in the external environment. Competitive benchmarking is a comparison between the processes of companies operating within the same industry. The big advantage with this type of benchmarking is applicability. It is highly relevant to compare the marketing operations of two companies offering the same product and working within the same client base. Generic Benchmarking compares the business processes of organizations regardless of the industry they belong to. Some business processes are common to all industries: purchasing and recruitment are two examples (Patel, 1995).

2.3 Strategy

Strategy can be defined as the direction and scope of an organization over the long term which achieves advantage for the organization through configuration of resources within a challenging environment (Johnson and Scholes, 1999). Strategies exist at several levels ranging from the overall business to the individuals implanting it. Strategy can take place on a corporate level, business unit level and operational level. Strategic management on the other hand is concerned with taking strategic decisions. It broadly involves strategic analysis, strategic choice and strategic implementation. Strategic analysis is concerned with analyzing the strength of the business position and understanding the important external factors that may influence that position. Strategic choice involves understanding the nature of stakeholders' expectations, identifying strategic options and then evaluating and selecting strategic options. Strategic implementation which is often the most difficult is involved in translating strategy into organizational action.

2.4 Theoretical Review

Although benchmarking has no specific mapped out theories, various discussions have been done on the various types of benchmarking with a view to determining best practice in the approach to benchmarking. Internal benchmarking involves comparing processes within the same organization. If this is so, then why would an organization carry out internal benchmarking? The answer to this is fourfold (Shoemaker, 1995). First, it is possible that within the same organization business processes will vary. This may be for reasons of location or may be historical, the company having been subject to take over bids or mergers. Internal benchmarking gives the organization an understanding of its own performance level. It allows best practice that exists within the organization or be identified and installed company wide. The second reason is that internal benchmarking provides that data that will be required at the extent benchmarking stage. Third internal benchmarking, by encouraging information exchange and a new way of thinking, ensures that the process of benchmarking is understood by those who will be involved in later external benchmarking exercises. Finally, benchmarking is based on the examination of the business process, as such comparison with other. Divisions of the same company, although internal to the organization may provide a comparison that is external to the process under consideration.

Competitive benchmarking is a comparison between the processes of companies operating within the same industry. The problem is however, with competitive benchmarking is that because we are dealing in process; the best practice of a competitor is not necessarily good enough. A particular construction company may, for example, have an excellent reputation for design and build projects. There is however no direct follow on from this that estimating processes are any better than others. As a result, benchmarking such processes will not create superiority. In order to identify best practice in the business process, it is sometimes necessary to go beyond the sphere of one's own industry. Generic Benchmarking compares the business processes of organizations regardless of the industry they belong to. The advantages of generic benchmarking are that it breaks down the barriers of thinking and offers a great opportunity for innovation. It also broadens the knowledge base and offers creative and simulating ideas, however it is difficult, time consuming and expensive (Patel, 1995).

Various cases have been used over the decades to elaborate on the process of benchmarking and its link to success regardless of the nature of the industry. Michelle Smith (1996) confounded the swimming world by winning three gold medals at the Atlanta Olympic Games. When asked about the secret of her success she said, among other things that she had learned the training methods of truck and field athletic and applied these to her swimming training programme. Michelle Smith's experience is not new. Other athletes have also looked outside their own sports for new techniques that have formed the basis of very successful training programmes. Emil Zaropek (1982) who was the only man ever to win three long distance athletic gold medals at one Olympic Games learned his techniques from the Army. Other athletes such as Ron Hill (1978), one of the greatest marathon runners, used the carbohydrate loading diet invented by Swedish physiologists to improve his performance. Others are said to have lived on a diet that included turtle and ground rhinoceros horn.

What is common in all these experiences is that individuals looked outside the scope of their own sports or discipline to find ways of improving. They were using the training methods already accepted in their own sports but these were not enough. Everybody was using them, in order to really succeed they needed something else, they needed competitive edge (Edquist, 1997). Parallels for this can be seen in industry. For example when Henry Ford 11 was faced with rescuing a failing business he took new methods of organizing these central motors. However, although, there are examples like Ford, industries and companies are generally reluctant to look beyond their own sphere in order to find the competitive edge. For reasons of competitive, fear, lack of resources or simple conservatism, organizations tend to rely on the tried and trusted methods that exist within their own limited spheres. This is not to say that these tried and trusted methods are worthless. Michele Smith was an international Swimmer even without the track and field methods she introduced into her programme.

The message therefore, is that the search for superiority is a three-layered pyramid of success. In the case of the athlete, it means they first, must do the best they can. Second, they must do the best that others in their field can, by studying the training methods of other athletes. Finally, they must do the best that is by looking to the outside world and examining techniques in the fields of physiology, psychology and nutrition and apply these to their own training programmes. This idea also applies to the management of a company. In order to gain competitive edge of a company needs to look at it first. It needs to examine its own systems and methods of working and make the necessary improvements. It also needs to look at its own industry to learn the best methods from it and to achieve those best practices itself (Rajalahti, 2006). Finally, it needs to look outside its own industry to learn the best methods from other industries and to try to achieve those best practices also.

This pyramid of success based on the comparison with others in the basis of benchmarking. Benchmarking is the comparison of practices either between different departments within the company, or with other companies in the same industry, or finally with other industries (Nelson, 1993). The aim of benchmarking is to achieve superiority. Taking these essential ingredients into accounts, benchmarking can therefore be defined as: A process of continous improvement based on the comparison of an organization's processes or products with those identified as best practice. Comparison is used as a means of establishing achievable goals aimed at obtaining organizational superiority (Muoba, 1975).

2.5 Empirical Review

Benchmarking pyramid of success outlines that an organization in the search for best practice against which to operate could look to internal sections or divisions, other industries. Naturally, these three types of comparison would involve different procedures and would, in addition offer different benefits and disadvantages. For this reason they are generally classified as three distinct types of benchmarking, each of which is examined separately (Wilson, 2000).

Any organization is broken down into series of functions. In business terms function refers to the performance of a particular section of the organization such as marketing, estimating or buying. All functions have an output or deliverable. In the case of the estimating function for example, the output may be the total number of submitted bids. A business process, on the other hand, refers to the action that takes place within the function. In the case of estimating, the business processes may therefore be the decision to tenderly, the obtaining of sub-contractor quotes or the final submission of bill. Within these processes, there will also be sub-processes (Wilson, 2000). In the case of final submission of bid these sub-processes might include the checking of sub-contractors bids, calculation of attendance on sub-contractors, addition of contingency and addition of over-heads and profit and submission to the client.

The push in recent years to provide superior quality has affected all industries. In the service industry, competitive advantage is achieved through management of the customer relationship. Customers today demand quality and from their point of view, quality constitutes an integral and expected part of the service; service and quality are therefore synonymous and uncompromising (Kandampully, 1997). Banks need not so much attract new customers because, attracting a new customer can cost “five to six times more” than the cost of keeping an existing customer (Chakravarty, 1996).

Establishing “lasting relationships with customers, rather than constantly courting new ones” can contribute to organizational success (Cumby and Barnes, 1996). It can assist delivery of superior quality customer service by ensuring a fast, accurate and reliable service, supporting product and service range developments and providing information for decision-making and advice. In banking, quality means not just meeting but exceeding customer expectations, requiring banks to use their technology to best advantage to improve customer service quality (Teixeira and Ziskin, 1992). A link has been established between high quality service, which has the potential to increase customer satisfaction, and improved financial performance (Bennet, 1992). For this reason, service quality is viewed as a critical issue in the banking industry (Stafford, 1994). The need for technology to support superior quality service is therefore viewed as very important. Customers’ perception of service quality and their satisfaction are profoundly influenced by their service encounters. The term service encounter can be defined as “period of time during which a consumer directly interacts with a service. This concept encompasses all aspects of the service firm with which the consumer may interact, including its personnel, its physical facilities, and other tangible elements, during a given period of time and it involves both interpersonal and non-human interactions with service providers. Service quality is determined by the differences between customers' expectations of service provider's performance and their evaluation of the services they received (Meuter, 2000).

Competitive advantage can result either from implementing a value-creating strategy not simultaneously being implemented by any current or potential competitors or through superior execution of the same strategy as competitors (Barney, 1991). Hofer and Schendel (1978) describe competitive advantage as "the unique position an organization develops vis-a-vis its competitors". Competitive advantage is mainly derived from resources and capabilities. Resources have been termed "assets", "strengths and weaknesses" and "stocks of available factors". The capabilities of a firm are what it can do as a result of teams of resources working together. Examples of capabilities include product development, market research, fast development cycles and brand management (Shoemaker, 1995).

The extent of the return a firm can obtain from a competitive advantage, however, depends upon the sustainability of the competitive advantage which the resources and capabilities confer upon the firm. Porter (1985) suggests that sustainability is achieved when "advantage resists erosion by competitive behaviour. This is because of the existence of barriers that make imitation difficult. Additionally sustainability can only be created when the resources and capabilities are durable, that is, they do not physically depreciate. The intense competition of recent years in national and international markets is generating significant restructuring in firms (Onwutebe, 1999). Managers are looking for more efficient organizations, with lower fixed costs and greater flexibility in the face of changing market conditions. These processes and the subsequent challenges also affect the banking sector. Where appropriate, the reorganization processes are a reaction to the fact that banks have lost their leadership position in their traditional markets, and particularly to the impact of technological innovation. In the last decade, market conditions in banking have undergone deep changes. Nevertheless, the competitive policies and strategies followed by banks in response to these tendencies enjoy great importance in this sense (Keltner, 1995).

The products of technological banking are already being offered to customers in Kenya. This is one of the rapidly developing markets. Most predictions concerning banking foresee that in the coming years time the volume of operations made by telebanking systems will increase tremendously, especially if a solution is found for the main problem, which is the implicit risk of fraud and the need to establish mechanisms giving customers the same security as when carrying out an operation at a branch (Bessant, 2006). Downsizing by applying new information technology in an industry characterized by numerous routine transactions and tons of paperwork necessarily supposes higher productivity and efficiency as well as an improvement in the services that can be offered to customers. However, this should not mean that the bank distances itself from customers, losing a great part of the advantages to be reaped from the development of a stable relationship (Reichheld & Sasser, 1990).

Cost reductions could be insufficient to overcome competition from other firms. Competition is also surmounted by giving the customers better value for money. In this sense, in the search for price competitiveness one of the most distinctive and traditional features of banking is lost: relationship banking. There is the risk of sacrificing the quality of service offered with the aim of improving costs, when it is precisely the possibility of providing a superior quality and personalized service, together with the offer of financial advice on a wide range of products that gives the bank its competitive advantage over other financial entities (Metcalfe, 1995).

2.6 Summary

The term benchmarking' has become increasingly used over the last decade at many different levels for various purposes. Analysts have utilized benchmarking studies to identify best practice across organizations. Benchmarking broadly refers to comparing and assessing performance. Comparing the performance of organizations, sectors and economies has received considerable attention and resources in recent years, particularly with growing internationalization of production, increasing trade across regions and subsequent intensification of global interactions. Competitive forces rule existing global economic relationships, and agents have a keen interest in knowing how well or bad they are performing in relation to their international competitors. It has been argued that at the level of the organization, the use of benchmarking can foster innovation, identify gaps and trajectories, and enhance the quality of products and services. Additionally, at the level of the government, benchmarking is commonly used to formulate policies intended to affect performance at various levels, in order to achieve a specific target.

Benchmarking requires bringing conventional benchmarking and new views on benchmarking much closer. Benchmarking should reflect a type of culture where change is central, rather than merely achieving pre-determined goals at higher level of policy. Benchmarking should constitute a tool for regularly improving and revising the goals and practices of innovation internal to the system. Although innovation systems are internationally, the assessment of the innovation system needs to combine comparisons to external actors, but also introspective exercises of self-comparison.

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CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter defines the design of the study and the research method, which was used to get responses from the target population. It further highlights data collection procedures including data collection instruments that were used.

3.2 Research Design

The study was in the form of a census where the researcher went out to the population of interest and investigated issues relating to the problem under study. The study was descriptive because the characteristics of the phenomena to be studied were well known and the researcher had no control over the variables. The interest of the researcher focused on how these could be used to achieve certain business objectives.

3.3 Population

This study focused on all the 43 banks operating in Kenya. The census identified all commercial banks headquartered in the City of Nairobi through the Central Bank of Kenya's directory on Commercial Banks. The researcher appreciated that some of the proposed respondents would be hesitant to respond due to certain levels of secrecy enforced by some institutions.

3.4 Data Collection

The survey relied on primary data collection techniques. A questionnaire was used to collect information from the selected commercial banks' representatives. One respondent from each organization was asked to complete the questionnaire. Employees comprising middle to top level management were requested to respond to the questionnaire as they are actively involved in strategy formulation and implementation. The questionnaire used in this study contained closed questions to ease completion by the respondents and facilitate accurate data capture and analysis. One on one interviews were conducted where possible and results captured in the questionnaires will then obtain the necessary approval from the managers in charge of the banks to administer the questionnaire. The questionnaire was divided into four segments: Part A of the questionnaire sought demographic information concerning the respondents as well as basic information on the firm. Part B reviewed the organization’s benchmarking practices. Part C reviewed the extent of management commitment to benchmarking and D evaluates the success of benchmarking.

3.5 Data Analysis

The process of data analysis involved several stages. The completed questionnaires were edited for completeness and consistency, checked for errors and omissions and then coded. Data was analyzed using quantitative methods which were used to describe, analyze and communicate research findings. Heads and assistant Heads of Operations, Credit, Finance and/ or Treasury, Branch Managers and their assistants who constitute management and are in touch with the bank’s mission and vision, responded to the questionnaire on benchmarking practices. Thereafter frequency tables and percentages were used to analyze the data collected. The frequency tables were considered adequate as they depict the classes where the majority of the respondents fall while percentages were used to draw comparisons between different areas.

CHAPTER 4

DATA ANALYSIS, RESULTS AND DISCUSSION

4.0 Introduction

This chapter represents A total of forty three questionnaires were sent to the targeted top and middle level managers in the forty three commercial banks in this census. A total of thirty five questionnaires were received from thirty five out of the targeted forty three firms. Based on the target organizations tally, this represented an eighty one percent response rate. The returned questionnaires from the field were first edited for completeness and then coded before being subjected to statistical manipulation and evaluation.

4.1 Demographic Information

In these questions, the respondents were asked to provide demographic information concerning themselves and the firms they work for. This information was necessary to give the researcher a better understanding of respondents' profiles and their firms. Out of the total thirty five commercial banks from whom responses were received, twenty nine percent of were listed under the Banking banner at the Nairobi Stock Exchange while the rest were privately owned and family enterprises. This, the researcher felt provided a fairly good view of the level of benchmarking practiced within the two categories, Public and Private Commercial Banks.

Of the respondents from the thirty five firms who completed and returned their questionnaires to the researcher, thirty one percent of the respondents came from listed firms, again giving a fairly good representation. A better response rate was seen in listed firms as opposed to the non-listed ones. One possible reason for this could have been the secrecy and confidential nature with which private firms are run. In profiling the ages of the respondents, seventy percent of the respondents were aged between twenty six and forty five. Only ten percent of the respondents were above fifty one years of age. This age distribution shows that most organizations have a fairly young to middle aged workforce. The research data revealed that survey respondents were drawn from a several different departments in their respective organizations. Fifty seven percent of the respondents were however from the operations departments and about ten percent from the top management. On the overall the departmental distribution was satisfactory in portraying the level of benchmarking within the respective organizations.

4.2 Best Practices Considered For Benchmarking

The respondents were asked to select from a list, those best practices that they consider necessary for benchmarking. The respondents were free to make multiple selections of the best practices from the list. The results are as shown in table 4.1 below. Most of the respondents identified turnaround time reduction, relationship management, quick changeover and delegation of authority as best practices that would warrant a benchmarking process. Agency development incentives & rewards and high performance leadership do not rank as best practices that can be benchmarked, probably due to the limited knowledge the respondents may have had on them. Most of the organizations surveyed placed a strong emphasis on turnaround time reduction of various processes as the most important best practice to be benchmarked as shown in Table 4.1.

Table 4.1: Best Practices considered for Benchmarking.

BEST PRACTICES	No	frequency
Turn Around Time Reduction	35	15.9%
Relationship Management	23	10.5%
Quick Changeover	22	10.0%
Delegation of authority	22	10.0%
Decentralization of organizations	19	8.6%
Cross-Functional Teamwork	17	7.7%
Standard Operating Procedures	16	7.3%
Process Reliability	14	6.3%
Information Technology Reliability	14	6.3%
Seamless Shift Operations	10	4.5%
World-Class Performance Measures	10	4.5%
Product development	8	3.6%
Streamlined flow of information	4	1.8%
Incentives, Rewards & Recognition	2	1.0%
High-Performance Leadership	2	1.0%
Agency Development	2	1.0%
TOTAL	220	100.0%

Source: Research data

From the above data we can deduce that most commercial banks put heavy emphasis on reduction of turnaround time of various processes. These include credit advance requests and general banking and operation requests. Also under heavy emphasis is relationship management which has the overall effect of increasing market share by growing one's loan and advance book.

4.3 Firms Practicing Benchmarking in their daily Non- lending Operations

The respondents were asked to state whether the commercial banks practice benchmarking in their daily non lending operations. Ninety two percent of the respondents confirmed using benchmarking practices in their operations. The remaining eight percent were not sure whether they did practice any form of benchmarking. It is worth noting that none of the respondents gave a firm negative response to the question, implying that nearly all the commercial banks benchmarked in one way or the other even in their regular operations which include activities such as deposit mobilization, trade finance and foreign exchange provision. These findings confirm that benchmarking is indeed practiced in the banking industry in Kenya.

4.4 Processes within the Organization That Are Benchmarked

The respondents were asked to select from a list those processes within their firms that are benchmarked. They had the choice to make multiple selections from the list. Survey findings indicate that turnaround time on loan and advance requests ranks as the most benchmarked while environment was the least preferred choice for benchmarking, as shown in table 4.2.

Table 4.2: Processes that are benchmarked in firms

PROCESS	**No**	**frequency**
Turnaround time on credit advance requests	27	23.0%
Relationship Asset Management	22	18.8%
Information Technology networks	19	16.2%
Product Development	17	14.5%
Treasury and Forex Services	9	7.6%
Sales	9	7.6%
Custodial Services and safe keeping	5	4.3%
Marketing and Public Relations	3	2.5%
Risk and Compliance	3	2.5%
Human resources management	1	1.0%
Trade Finance Services	1	1.0%
Environment	1	1.0%
Others	0	0.0%
TOTAL	117	100.0%

Source: Research data

An interesting outcome is the heavy emphasis commercial banks are placing on relationship asset management which involves specifically the tailoring of credit products to suit the customer and also monitoring of the credit facility throughout its tenor. Information technology is also a strong platform from which to benchmark as all commercial banks move toward paperless and wireless banking processes. On the lower end of the scale is the environment and human resource management which are considered weak processes on which to benchmark as the impact of these are largely determined by the structure of the organization.

4.5 Sources of 'Best Overall Organization' for Commercial Banks practicing Benchmarking

The respondents were asked the state their sources of the organization they would consider benchmarking against. Only single selections were allowed. Fifteen Commercial Banks identified other firms in the same industry as being the source of 'best overall organization' practices. The survey data also reveals that another eight commercial banks would prefer to pick best practices from other distinct units but with same parent company as this organization (in-the case of multi-national banks) while ten percentage stated they would pick a financial institution from a different country altogether as shown in table 4.3.

Table 4.3: Sources of 'Best Overall Organization' for Commercial Banks Practicing Benchmarking

Benchmarking Partners	No	frequency
Other financial institutions within the same industry	15	42.8%
Other distinct financial institution but with same parent company as this organization (in-case of multi-national)	8	22.8%
Financial institution in a different country	5	14.3%
Other institution in a different industry	4	11.4%
Other departments/sections within this organization	3	8.7%
Others (describe/specify)	0	-
TOTAL	35	100.0%

Source: Research data

From the above table we can deduce that most commercial banks prefer to benchmark themselves against other organizations in the banking industry within the same country. Strategies in this case are easier to formulate and implement due to the similarities in the institutions and modus operandi. Multi-national banks preferred to benchmark against foreign banks as their policies are well formulated and have been tested over long periods of time.

4.6 Identification and Rating of the 'Best In the Industry'

This question required the respondents to state how their organization identified and rated their best industry performers. Only single selection was allowed in this area to prevent contradicting statements. Twenty three of the respondents contend that they identify them from published results indicating the areas where success has been achieved. Six of the respondents contend that they would identify an industry performer based on the firm's ability and success in following certain standards on customer service, for example ISO certification. On the lower end of the scale, four respondents contended that the level of competition within the industry and the ability of the firm to succeed under such conditions would also be a distinguishing aspect for it to be identified as the best in the industry as displayed in Table 4.4.

Table 4.4: Identification and Rating of 'Best in the Industry'.

Identification & Rating of 'Best in Class'	No	frequency
From published results showing success (Published accounts etc)	23	65.7%
Standards compliance	6	17.1%
Intensity of competition and success of the firm	4	11.4%
From peer review findings	2	5.8%
Others (describe/specify)	0	-
TOTAL	35	100.0%

Source: Research data

From the results above, the actual performance of the firm, coupled with the evidence of its success (be it in the form of financial results, productivity or competitiveness) plays a critical role in being chosen as the best in class for purposes of benchmarking. Peer review findings based on perceptions other than solid results play a minimal role in making the choice.

4.7 Challenges Faced In Adapting the Best Practices from the Benchmarking Process

When the respondents were tasked with the question of challenges faced, the results were evenly spread between lack of support from management, differences in units of measurement/reporting between different organizations, costs associated with benchmarking, lack of an appropriate benchmarking partner and lack of a clear understanding of benchmarking in the organization. Although the five factors played an almost equal role in hindering benchmarking a slight majority of respondents indicated that lack of support from management was the greatest challenge in adopting the best practices from the benchmarking process. From table 4.5 we can deduce that support from management is the backbone to the implementation of the entire process and other factors strongly rely on the commitment of the managerial team to the process. With the support of management of the institution all other challenges such as cost can be easily circumvented.

Table 4.5: Challenges Faced In Adapting the Best Practices from the Benchmarking Process.

PROCESS	No	frequency
Lack of management support	9	25.8%
Differences in units of measurement/reporting between different organizations	7	20.0%
Costs associated with benchmarking	7	20.0%
Lack of 'appropriate' benchmarking partner	6	17.1%
Lack of clear understanding of benchmarking in the organization	6	17.1%
Trade/competitive barriers	0	0.0%
Skill levels between different organizations	0	0.0%
Communication (language differences)	0	0.0%
Government/regulatory challenges	0	0.0%
Others	0	0.0%
TOTAL	35	100.0%

Source: Research data

4.8 Management Commitment to Benchmarking

The respondents were asked to assess the respective firms' management commitment to various aspects of benchmarking implementation. Twenty one respondents representing sixty percent of the total organizations surveyed did not have a documented policy of benchmarking implementation. This means that even though the most commercial banks benchmarked, the majority did not have a documented framework upon which benchmarking was to be implemented.

A positive aspect from the survey was that in over thirty cases, representing eighty six percent of the cases, the top management of was found to be the driver of the benchmarking process. In addition to this, the majority of the commercial banks had adequate resources (manpower, funding etc) for the benchmarking process. Most organizations surveyed were found to be poor in relaying the benchmarking message across the organization. This information is summarized in the table 4.6.

Table 4.6: Management commitment to Benchmarking

	Management commitment	**Yes**	**No**	**Don't know**
	Documented policy for benchmarking	20%	60%	20%
	Top management driving benchmarking process	86%	13%	1%
	Resources for successful benchmarking available	67%	33%	
	Communication of benchmarking in the organization	33%	67%	

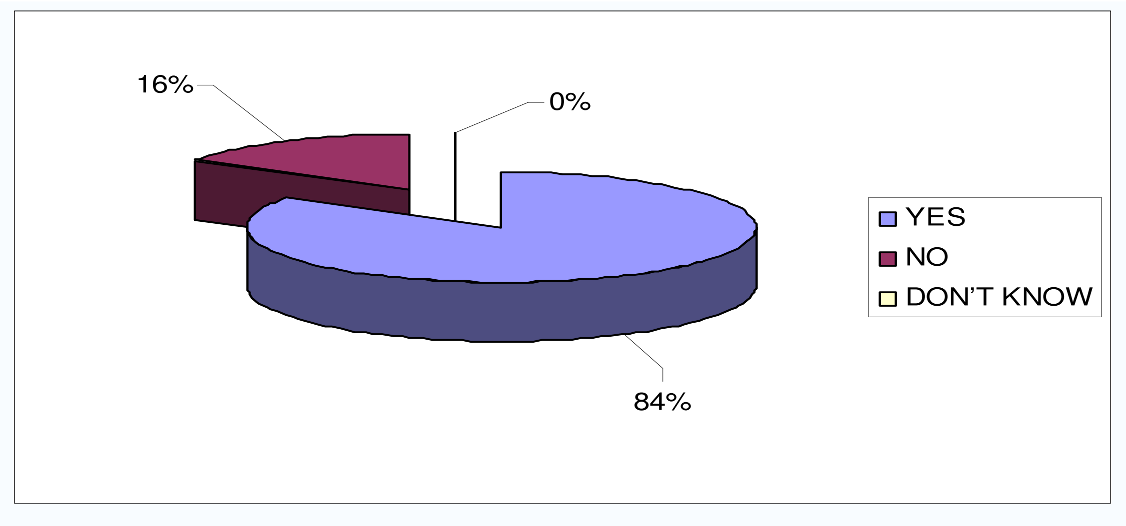
Source: Research data

The above results communicate the need for further research on benchmarking and implementation of the same as most organizations lack formal standards that are present in developed countries. Most commercial banks utilize benchmarking as a reactive tool rather than a strategic platform for future growth.

4.9 Benchmarking Results

The respondents were asked to give their assessment of the success of benchmarking initiatives in their respective organizations.

Figure 4.1: Benchmarking Results



Source: Research Data

The survey results revealed that benchmarking has yielded positive results in over eighty four percent of the firms surveyed, as shown in the chart 4.1.These results confirm the initial contention that benchmarking has had a positive impact on commercial banks in Kenya.

CHAPTER 5

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Summary

The census revealed that the majority of commercial banks in the country practice benchmarking in one form or another. These firms, irrespective of whether they are listed on the stock exchange, privately or even family owned acknowledged that they found benchmarking a key ingredient in improving competitiveness and achieving better operation results. The census showed that most commercial banks targeted areas near their core banking functions for benchmarking. The commercial banks placed heavy emphasis on processes such as turnaround time on advance requests and relationship management while less emphasis was put on processes such as human resource management and trade finance services.

The census also revealed that commercial banks were most likely to select benchmarking partners and standards from the same industry and to a lesser extent from other countries as is the case with multi-nationals. The research was also able to establish that commercial banks rated top firms through the use of published results showing past performance and also through firms that had attained accreditation on services offered. Levels of competition played very little part in establishing the success of a firm. The study outlined the challenges faced by firms in adapting benchmarking practices and revealed that the majority of respondents felt that management support and the high costs involved were some of the most serious challenges faced in adapting benchmarking standards.

Management involvement in developing and enhancing benchmarking within the organization has been recognized as a key ingredient for success. Indeed, the majority of the firms pin-pointed management support as a key pillar in realizing the recorded benefits in these firms.

5.2 Conclusion

This survey of the commercial banking sector confirmed that most organizations undertake one form of benchmarking or the other. This conclusion was consistent with the worldwide trends in driving continuous improvement initiatives in financial institutions. The survey also showed that commercial banks are deeply rooted in benchmarking against their core functions that is loans and advancement of credit facilities. Further the study confirmed that the commercial banks identified and rated their benchmarking partners from other firms in the same line or industry, and from those with shared ownership. Benchmarking among departments within the same organization and across international borders was a less favored option among most of the firms in the sector. The perceived success in a certain aspect as evidenced by results (e.g. financial performance) formed the basis of making a choice on whom to be considered the best in class for benchmarking. Finally, this survey has established that lack of support from management, different units of measurement and cost were the greatest hindrance to effective benchmarking. Most respondents did not consider government regulations and communication barriers to be a hindrance to the process.

5.3 Recommendations

To the commercial banking sector in Kenya, the researcher would like to make two recommendations. One, the firms in this sector will greatly benefit from a structured approach in the implementation of benchmarking. Even though most firms are practicing benchmarking, the real benefits would be phenomenal with a clearly defined and outlined policy and process framework within which benchmarking is to be implemented.

Secondly, Kenyan firms would greatly benefit with cross-border benchmarking. This survey noted that there was minimal interaction with the international firms in this area. Unfortunately, this situation is not tenable in the future since the world has become borderless, with a lot more interactions. The commercial banks in this country need to adopt best practices to make their products competitive, not only locally, but regionally and internationally.

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APPENDICES

Appendix A: Questionnaire

Benchmarking Practices used by Commercial Banks in Nairobi

PART A: RESPONDENT INFORMATION

1. Name of respondent____
2. Name of the financial institution you work in________________________
3. What position do you currently hold in this Commercial Bank ________________
4. Age(Optional): ( )18 – 25 ( )26– 35 ( )36 – 45

   ( ) 46 – 50 ( )51 and above
5. Gender (Optional)

   Female ( ) Male( )

PART B: BENCHMARKING PRACTICES

6. From the list below, tick those aspects your organization considers to be Best practices that can be benchmarked

	Best Practices		**Best Practices**
	Turn Around Time Reduction		Seamless Shift Operations
	Streamlined Flow		World-Class Performance Measures
	Quick Changeover		Product development
	Delegation of authority		Relationship Management
	Decentralization of organizations		Incentives, Rewards & Recognition
	Cross-Functional Teamwork		High-Performance Leadership
	Standard Operating Procedures		Agency Development
	Process Reliability		Others (please specify)
	Information Technology Reliability		

7. Does the firm practice any benchmarking in its daily non lending operations?

( )YES ( )NO ( )DON'T KNOW

8. What processes in your organization are benchmarked?

	Benchmarked Processes		**Benchmarked Processes**
	Product development		Marketing
	Relationship Management		Risk and Compliance
	Turnaround time on operations		Human resources management
	Turnaround time on loan requests		Accounts/controls/audit
	Information Technology networks		Environment
	Sales		Others (Please Specify)
	Process control		

9. Who/what are the organization's source of 'Best in the Industry' performance

	Benchmarking partners
	Other departments/sections within this organization
	Other distinct unit but with same parent company as this organization (in-case of multi-national)
	Other organization in the same field
	Other organization in the different field
	Organization in a different country
	Others (describe/specify)

10. How does the organization identify and rate the 'Best in class' performers identified above

	From peer review findings
	From published results showing success (Published accounts etc)
	Intensity of competition and success of the firm
	Standards compliance e.g. ISO 9001
	others

11. What challenges does your organization face in adopting and implementing the identified Best Practices from the Best in Class.

	Communication (language differences)
	Units of measurement/reporting between different organizations
	Skill levels between different organizations
	Trade/competitive barriers
	Government/regulatory challenges
	Lack of 'appropriate' benchmarking partner
	Costs associated with benchmarking
	Lack of management support
	Lack of clear understanding of benchmarking in the organization
	Others (specify)

PART C: MANAGEMENT PARTICIPATION

12. Does your organization have a documented policy defining procedure for adopting and implementing benchmarked processes?

	Yes		**No**		**Don't Know**

13. Is the benchmarking process driven by the top management?

	Yes		**No**		**Don't Know**

14. Are resources needed for successful benchmarking available

	Yes		**No**		**Don't Know**

15. Is management support realized at all steps in the benchmarking implementation?

	Yes		**No**		**Don't Know**

16. Is benchmarking communicated throughout the entire organization

	Yes		**No**		**Don't Know**

17. In your opinion does the benchmarking process translate into positive growth for your organization?

	Yes		**No**		**Don't Know**

PART D: SUCCESS OF BENCHMARKING

18. In your opinion, does benchmarking achieve the desired goals of the institution?

	Yes		**No**		**Don't Know**

Thank you for taking your time to complete this questionnaire

Appendix B: List of Companies Used In the Survey

1. African Banking Corporation Ltd.
2. Bank of Africa Kenya Ltd.
3. Bank of Baroda Kenya Ltd.
4. Barclays Bank of Kenya Ltd.
5. CFC Stanbic Bank Ltd.
6. Chase Bank (K) Ltd.
7. Citibank N.A Kenya.
8. Commercial Bank of Africa.
9. Consolidated Bank of Kenya Ltd.
10. Co-operative Bank of Kenya.
11. Credit Bank Ltd.
12. Development Bank of Kenya Ltd.
13. Diamond Trust Bank (K) Ltd.
14. Ecobank Kenya Ltd.
15. Equatorial Commercial Bank Ltd.
16. Equity Bank Ltd.
17. Family Bank Ltd.
18. Fina Bank Ltd.
19. First Community Bank Ltd.
20. Giro Commercial Bank Ltd.
21. Guardian Bank Ltd.
22. Gulf African Bank Ltd.
23. Imperial Bank Ltd.
24. I & M Bank Ltd.
25. K-Rep Bank Ltd.
26. Kenya Commercial bank.
27. Middle East Bank Ltd.
28. National Bank of Kenya Ltd.
29. NIC Bank Ltd.
30. Oriental Commercial Bank Ltd.

31. Prime Bank Ltd
32. Standard Chartered Bank (K) Ltd.
33. Trans-National Bank Ltd.
34. Victoria Commercial Bank Ltd.
35. UBA Kenya Bank Ltd.

Appendix C: Letter of Introduction

UNIVERSITY OF NAIROBI,

SCHOOL OF BUSINESS,

P.O BOX 30197 NAIROBI

Dear Sir/Madam,

RE: BENCHAMRKING PRACTICES USED BY COMMERCIAL BANKS IN NAIROBI

I am a Postgraduate student undertaking a Master of Business Administration (MBA) degree at the University if Nairobi. I am currently carrying out research on Benchmarking Practices used by Commercial Banks in Nairobi.

Your organization has been chosen to be used for this research. I would therefore like to request for your assistance in completing the questionnaire attached to enable me complete the research. The information you provide will be treated with strict confidence and will only be used for academic purposes (this research).

Your cooperation in completing the questionnaire will be highly appreciated.

Yours faithfully,
David Sajabi

MBA Student.