BD 287412

DETERMINATION OF THE EXTENT OF THE PRACTICE OF VALUE BASED MANAGEMENT WITHIN COMMERCIAL BANKS IN KENYA.

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KARIUKI, PAUL MAINA

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SUPERVISOR:

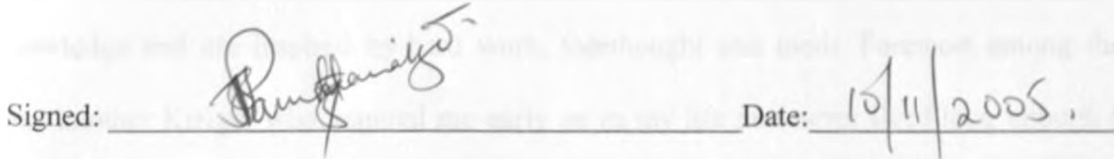
PROF. EVANS AOSA

A management research project submitted in partial fulfillment of the requirements of the degree of Master of Business Administration, Faculty of Commerce, University of Nairobi.

September, 2005

DECLARATION

This is my original work and has never been submitted for a degree in any other university.



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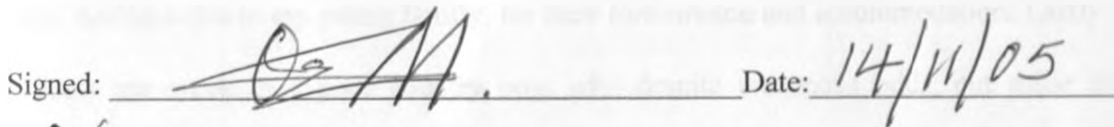
Kariuki, Paul Maina.

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



Signed: ______________________ Date: 14/11/05

for **Prof. Evans Aosa.**

Department of Business Administration

Faculty of Commerce

University of Nairobi.

DEDICATION

This work is dedicated to all people of goodwill who believe in education and the pursuit of knowledge and are inspired by hard work, forethought and merit. Foremost among them is my grandmother Kirigo, who inspired me early on in my life and never lived long enough to see the fruits of her effort, she will always be in my heart for her efforts were never in vain.

It is also dedicated to my dear parents Njeri and Kariuki, for devoting all the resources they had to finance the education of a poor son, who had nothing but dreams to offer in return. My beloved sibling brothers and sisters for their labour, prayers and comradeship, I will always treasure our memories, fears and life together. You all gave me what I could not give myself and I am forever in your debt.

I also dedicate this to my young family, for their forbearance and accommodation. Lastly , I wish to dedicate my work to a poor country boy, who despite enormous odds, put aside the pain of inadequacy and want of resources, to trudge on in life, guided by his belief of a better tomorrow and the kindness of destiny. With faith in God everything can be achieved.

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EXECUTIVE SUMMARY.

The purpose of this study was to find out the extent of Value Based Management (VBM) practice among commercial banks in Kenya and also the extent of awareness and appreciation of the benefits of VBM among them. The study focused on all the 42 commercial banks that were operational at the time of the study. A questionnaire was sent to the chief executive and finance officers of the banks. The questionnaire had open-ended and closed questions, and questions requiring answers on a 5 point scale. The response was not high as 57 percent returned the filled questionnaire. The data was then coded, fed into a computer program and analyzed. The results were presented in the form of tables, frequency tables and cross tabulations.

The study revealed that the main goals of banks in Kenya are maximizing shareholder value, corporate social responsibility, attaining market leadership and profitability. Several factors affected formulation and implementation of goals. The main ones are the chief executive officer, available resources, management, competition and market forces. Most banks revised their goals within five years and investment in information technology, prevailing economic climate, leadership commitment and improved customer service were the main factors affecting company performance. Most banks had policies on employee compensation, link employee compensation to performance and have their training needs affected by changing management practices.

Among respondents, 71 percent practiced VBM, but with only 42 percent doing so formally. The concentration of those who practiced was highest among the quoted banks (86 percent). The study reveals that VBM was a much admired practice especially with all those who practiced saying it was desirable. For most banks, VBM was not the main management focus and most also had practiced VBM for less than six years.

The main performance measure was found to be EVA/EP which is consistent with the practice of VBM. The main benefits of VBM was found to be that it led to improved investment decisions, increased profits, enhanced strategy formulation, improved decision making and increased organization value. The main problems experienced in implementing VBM were found to be inadequate training, difficulty in changing culture, lack of commitment, no available benchmarks and resistance to change.

In conclusion, it was found that VBM was practiced by Kenyan banks, with a majority finding it desirable. However, it seems that some of the banks had not implemented VBM fully but only partially. It can thus be concluded that VBM is well appreciated and the extent of awareness and practice is quite high.

CHAPTER ONE: INTRODUCTION

1.1 Background

The complexity and sophistication of modern business decision-making requires strategic management. Managing various and multifaceted internal activities is only part of the modern executive's responsibility. They have to deal with the firm's external environment and must design strategic processes that they feel will facilitate the optimal positioning of their firms in the competitive environment. This is possible because the strategic processes allow more accurate anticipation of environmental changes and improved preparedness for reacting to the unexpected internal or competitive demands (Pearce and Robinson, 2001).

Companies often fail to recognize that their environment, both market and operational changes every few years. Customer requirements and competitive forces have changed significantly every few years in most industries. This means that last year's winning strategy may become today's losing strategy and as someone once observed, there are two kinds of firms: those who change and thrive and those who don't and disappear (Kotler 1999).

The principal appeal of any managerial approach is the expectation that it will lead to increased profit for the firm. This is especially true of a strategic management system with a major impact on both the formulation and implementation of plans (Pearce and Robinson, 2001). De Jonge (2003) argues that for a firm to succeed, it must define its purpose. Many feel that the purpose is to make profit, but this is only one aspect of a firm's goals, the other being shareholder value. Shareholder value can be achieved and measured in a number of ways.

Intensifying competition, globalising of capital markets, and increasingly active and powerful institutional investors whose managers are themselves engaged in a do-or-die performance battle, are putting pressure on firms to deliver value to their shareholders, regardless of cultural heritage (Haspeslagh et al 2000). This battle for success has forced managers to turn to emerging

management practices to help them respond to this challenge. Only customer focused, value adding, high quality firms doing high quality work can survive global competition. Adding value in the long run is aided by eliminating non-value adding work or in eliminating waste (which is the difference between the way things are now and the way things would be if everything were perfect). Waste could be waste of material, capital, lost opportunities or people time, energy or talent (Landry and Chan, 1999).

One of the emerging management practices that firms have turned to help them in the battle for shareholder value is Value Based Management (VBM). VBM owes its roots to longstanding financial theory where a firm creates value only when its return on capital exceeds its cost of capital. Thus the true measure of profitability of a firm is the net profit left over after deducting a charge for the cost of capital utilized. This measure is called Economic Profit (EP). The idea of EP teaches people that capital is not free but rather that it has a cost that must be covered before value is created for the owners of capital.

There are various views on what a good VBM practice involves. One is that a firm needs to adopt an EP metric as a key measure of corporate and business performance. Second, is that incentive compensation must be tied to agreed upon improvement targets in this EP metric. That is if managers achieve this target, they are rewarded accordingly. Third, is that it should lead to a delicate balance between short-term earnings objectives and long term growth goals by accounting for each when working towards a value target established.

For many firms, VBM has brought only mediocre results but for a select few, it's led to a sustained increase in profits and stock prices (Haspeslagh et al 2000). They argue that for firms that have practiced VBM effectively and for a long time, it has become a holistic management approach that encompasses redefined goals, redesigned organizational structure and systems, rejuvenated strategic and operational processes, and even revamped human resource practices. VBM power is

unleashed after several years of concentrated effort, where all management processes have become fused together under the overriding objective of pursuing shareholder value (they call this the VBM way of life).

Leahy (2001), states that the metrics the company chooses to focus on must reflect and support strategic goals and employee compensation must be tied to how well they achieve those metric targets and hence the more value they create to the organization. VBM makes strategy happen by developing close links between strategy, operations and finance, with shareholder value as the principal measure of success or failure. VBM systems are conceived to reduce the lack of goal congruence between the objectives of agents (management) and those of the principals (shareholders), by making managers think more as owners. Ameels et al (2002) state that according to research by McKinsey, shareholder-oriented economies appear to perform better than other economic systems and that other stakeholders do not suffer at the hands of shareholders.

According to De Jonge (2003), VBM is likely to be more beneficial to companies who are capital-intense than service-orientated companies because it focuses on earning a return on capital beyond the cost of the capital. This bias towards capital-intense firms means that firms with huge balance sheets are good candidates for VBM. Kenyan commercial banks, whether listed on the Nairobi stock exchange or held among private investors have huge balance sheets relative to firms of similar sizes in other industries (especially service-oriented).

The issues of measuring performance, identifying profitable investment opportunities and securing capital for expansion are central management concerns both within the privately held banks and the ones listed at the stock exchange. Due to this reasons it is imperative that banks are able to take advantage of the benefits of VBM

1.2 The Banking Sector in Kenya.

The banking sector in Kenya is dominated by a few large players who between them control and set trends within the industry. This trend has not changed much even though the banking sector has seen a gradual transformation from a weak and unstable base to more sustainable sector over the last decade. This is partly due to improving regulatory oversight and the increased competition in the sector after it was deregulated. The introduction of a parliamentary act to regulate the interest banks pay and charge, and the commissions and service charges, will when implemented have far reaching consequences on the sector in general.

The last two decades has seen many commercial banks especially the indigenous ones falling by the wayside or collapse under the weight of mismanagement and bad debts. Such banks include Trust Bank, Trade Bank, Rural-Urban Credit and Kenya Finance Bank. Analysts and investors have fared badly when making investment decisions based on traditional financial measures of performance such as dividend per share (DPS), earning per share (EPS), and price-earning (P/E) ratio especially when assessing companies that have made large swings between reported profits and losses over the years.

The challenges facing the banking sector has seen the regulator require them to publish quarterly results in the press, which is likely to create more openness and provide a better guide to expected performance. This will radically reduce the chances of big surprises where a commercial bank would fail without notice and jeopardize the sector's confidence as a whole. Changes in the way land is charged for lending purposes imposed by the government ministry in charge of land matters will provide a challenge to the banks. All these challenges will mean the competitive and

operational environment will become stiffer for the banks and therefore there is need to sharpen their claws if they are to survive. Better systems of management and stewardship are needed to safeguard their survival.

The banking sector has a lot of potential for growth and prosperity especially with the change in government in the last two years and the signs in the economy showing the beginning of fast growth. The sector is huge, as of December 2003, Kenyan banks held Ksh: 499 billions in assets, making banking easily one of the biggest industries in Kenya, the sector was also able to generate Ksh. 14 billion in 2003 when the economy was performing poorly. However a lot need to be done to ensure that the big five banks do not continue to dominate the sector and there also an extension of their services to the rural areas and to the informal sector where growth is expected to be phenomenal (Market Intelligence, April 2004).

1.3 Statement of the Problem.

The business environment in Kenya over the last two decades has been very difficult. Many companies have gone into receivership as reported through published financial statements and in business newspapers and magazines. Others have found the environment hostile and have either scaled down operations or relocated to other countries. Many more companies are facing difficult times with several years of loss making under their belts.

As VBM has been found beneficial to many companies, (Haspeslagh et al 2001), there is need for commercial banks in Kenya to practice VBM. This is especially so because of the huge capital held by the banks. VBM has been found to be more beneficial to companies with large capital outlays. The failures by banks over the last two decades have led to heavy losses to the economy. Banks are an important industry in a country, and more so one like Kenya that needs massive investments in the productive sectors of its economy in order to create growth and employment opportunities. As of December 2003, Kenyan banks held Ksh: 499 billions in assets, making banking easily one of the biggest industries in Kenya, (Market Intelligence, and April 2004).

In Kenya no comprehensive research has been carried to determine whether banks practice VBM and whether there are benefits to be derived through such practice. Ongwae (2002) has carried research on the extent of the awareness of VBM and practice among firm listed at the Nairobi Stock Exchange. A majority, (59.4%) revealed they practiced VBM. Research elsewhere has shown that great benefits accrue to firms practicing VBM. There is therefore a need to study the practice of VBM among Kenyan commercial banks to determine the extent of practice and to also find out whether the practitioners find it beneficial to them.

Ongwae (2002) has observed that VBM has been used to help companies improve performance. VBM focuses company's management on value creation and hence significantly

improves overall corporate performance. Many companies are under pressure to create more shareholder value. They are turning to VBM to achieve this. Kenyan commercial banks are striving to create shareholder value and can be expected to turn to VBM.

The question is have they done so?

1.4 Objectives of the Study

- To establish the extent of the practice of value based management. (VBM) among commercial banks in Kenya.
- To establish the degree of awareness and appreciation of the benefits of the practice of VBM among commercial banks in Kenya.

1.5 Importance of the Study

- The study will be of importance to corporate managers who will want to know what strategies their competitors are practicing to enhance shareholder value.
- The study will build on previous research and shed light on the practice of VBM by a very important industry in the economy.
- Scholars, academicians and researchers will find the research important especially those who would want to further research on VBM practices, benefits and their influence on corporate performance.

CHAPTER TWO: LITERATURE REVIEW

2.1 What is Value Based Management (VBM)?

Managers in all kind of firms are now faced with the dilemma of how to reconcile the competing claims of shareholders and other stakeholders. Top management's concern with shareholder value has never been greater. But, on the other hand, the interest in stakeholder approaches to strategic management is growing around the world. Business is all about creating value. This value creation process is only possible with the support of the different stakeholder groups. Despite the fact that the objectives of the different stakeholder groups do not always converge, they realize that working together to realize the multiple goals of the firm is the only way to reach some of their own objectives (Ameels et al 2002).

All firms are in the same business of competing for capital. Because capital is scarce, a business must make the most optimal use of the capital at its disposal. Managers have thus to find innovative ways of using the capital available. This means managers are preoccupied with the pursuit of identifying profitable investment opportunities, measuring performance and securing capital for expansion. Corporate managers and investors, taking risks with new business models, need to better understand the true sources of value in their firms. Thus they must, like investors, seek to know just what assets their firms own, why they own them, what they paid for them, and the return the assets produced (Boulton et al 2000).

VBM can be described as a management approach whereby companies' driving philosophy is to maximize shareholder value by producing returns well in excess of capital or can also be defined as a framework for measuring and, more importantly, managing businesses to create superior long-term value for shareholders that satisfies both the capital and product markets. Rewards are measured in terms of enhanced share price performance and dividend growth (Ameels et al 2002). VBM can also be defined as a combination of beliefs, principles and processes that

effectively arm the company to succeed in the battle against competition from the outside and the institutional imperative from the inside. These beliefs, principles and processes form the basis of a systematic approach to achieving the company's governing objective (McTaggart et al, 1994).

When VBM is defined to encompass shareholder value creation, company processes and employee compensation, it becomes a driving philosophy. For example KPMG (1999) defines VBM as a management approach which puts shareholder value creation at the center of the company philosophy. The maximization of shareholder value directs company strategy, structure and processes; it governs executive remuneration and dictates what measures are used to monitor performance.

In general, the distinctive features of value-based management can be explained thus. First in terms of management focus, VBM is a management tool, a control system, an apparatus that is used to integrate resources and tasks towards the achievement of stated organizational goals. These goals are varied as organizations are but VBM creates a distinct focus. Second, in terms of approach and processes, VBM is a prescribed and usually repetitious way of carrying out an activity or a set of activities that propagate its values all over the organization. It is a robust disciplined process that is meant to be apparent in the heart of all business decisions. Finally in terms of maximizing shareholder value or creating value creating opportunities, VBM purpose is to generate as much value added or net worth as possible, in other words to distribute the given resources to the most valuable investments. This maximization involves crafting a winning strategy, encompassing ethical practices, having a clear forward vision, offering progressive and rewarding careers, generating superior returns to shareholders and practicing a sustainable production or service philosophy (Ameels et al 2002).

Research conducted by Haspeslagh et al (2001), that covered 1862 large companies in North America, the United Kingdom, rest of Europe and Asia, found that VBM was spreading fast across

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the globe and that it was widely practiced by various type of companies in a wide variety of sectors, having moved beyond the narrow focus of financial definition (initially associated with VBM) and that indeed it covered a broad set of management processes. This means that the practice of VBM has led to a paradigm shift in organizational practices, culture and performance measurement. In the past (and probably still even these days in some organizations) sales-growth or revenue-growth was often the governing objective. Residual income theory applied to customer or product profitability analysis reveals that not every growth is a good thing to pursue. Management more and more realizes that traditional earning measures do not reflect the real value creation. Those traditional metrics are accounting based and therefore do not take into account the risk notion, neither the impacts of inflation, nor opportunity costs. Stern Stewart & Co (1999) calls this, the switch from managing for earning to managing for value.

2.2 Aligning VBM to Corporate Goals

For VBM to be effective as a management practice, it must serve to help organizations achieve their corporate goals and live their aspirations. The VBM approaches are argued to subsume or render unnecessary most, if not all, other types of performance measures at the corporate and strategic business unit levels and therefore contest the principle of different accounting for different purposes (Ameels et al 2002)

In recent times, business executives have concentrated on improving operational processes such as manufacturing, supply chain, sales and marketing. All too often these activities have resulted in improvements that do not deserve the predicate 'sustainable'. Kotter (1995) notes that the large majority of large change processes have failed to produce the results expected for the reason that they are missing an important ingredient. This ingredient is a lack of corresponding changes in the business management processes and in the organizational culture. A lack of changes

regarding an economic focus; clarity about how capital is to be deployed and managed in the future and how ownership and accountability for operational changes are to be balanced across the value chain, only serves to undermine the sustainability of these operational changes.

For corporations to benefit from the advantages of VBM the decision making must be required across three essential management processes. These processes are strategy development, target setting and performance measurement system formation. VBM communication is essential and this could include senior management leadership and commitment, training programs, content and process champions (facilitators). The key activities for companies implementing VBM include defining the value targets, translating the value target into operational measures, communicating the value targets, setting appropriate expectations, measuring performance, establishing accountability and aligning the value target with the planning process (Haspeslagh et al 2000).

The adoption of VBM system may lead to firm reviewing its corporate practices if differences appear between their pursuit of value and its processes. Companies have assets, both tangible and intangible. These assets can allow the company to tap into untapped value when continuous values creation potential and reality is compared regularly. According to Boulton et al (2000), a company creates value by combining and recombining all its different assets or resources to form its economic DNA. For example, the Williams Company (US) is creating value by running fiber-optic lines through its natural gas pipelines and leasing them to start-ups in the telecommunication industry. General Electric creates value via its GE Capital Services financial subsidiary, which earns about $ 55 billion in revenues annually. Starbucks, the specialty coffee retailer, creates value by turning its generous employee benefits/stock option package into a key competitive advantage.

2.3 Ingredients for a Well Designed VBM System

Fieldwork by Boulos et al (2001), concerning VBM practice reveals that a successful VBM program is much more than the adoption of an economic profit metric as key measure of performance, combined with tied compensation to agree-upon improvement targets in that metric. A successful VBM program is about introducing fundamental changes in the company's culture. Their research has revealed five key value-driven elements, described below, which set up a virtuous circle of behavior and benefits as a foundation for sustained value creation. The first key element is an explicit commitment to value, which becomes apparent to everyone when the company sets shareholder goals to guide and stretch out their thinking and actions. The education and intensive training of a large number of managers and employees in the shareholder value creation process and in the awareness of how their actions can contribute to economic profit creation, forms the second element. Building ownership is the third element mentioned. Rewarding large numbers of managers and employees on corporate and/or business unit economic profit measures has a positive influence on the creation of ownership. Empowering business units is the fourth main element.

The fifth main element concerns broad process reforms. The most important rules concerning these broad programs are, avoiding accounting complexity, identifying the value drivers, integrating budgeting with strategic planning and lastly, investing in information systems to develop an overall corporate strategy. A clear explicit commitment to shareholder value and intensive training for as many managers and employees as possible or desirable, are success factors situated at the beginning of the VBM implementation process. The involvement of the CEO as success factor applied to the whole VBM practice.

2.3.1 Management Focus and commitment

The top management must be committed to the imperative of maximizing shareholder value as the paramount performance objective. Companies must gain unequivocal senior management consensus around the value target. They must have a solid analytical understanding of which performance variables drive the value of the company. The team can demonstrate its commitment to the implementation of VBM by expressing an interest in the implementation progress, querying the underlying financial calculations supporting the financial measures and by discussing how the implementation will affect management decision-making (Corporate Executive Board 2001).

Senior executives can show their support by holding company-wide forums, providing adequate resources, and communicating the value targets. Ongwae (2002) has stated that a public commitment by the chief executive officer, committing the company to delivering unmatched shareholder value is needed. He has given examples of companies that have had their chief executive officers openly stating their commitment, as Barclays bank plc and Cadbury Schweppes. There has been clear evidence of companies in Kenya stating their explicit commitment to creating shareholder value. The explicit commitment by the top executives is also important because, as the result of the study by Ongwae (2002) has shown, the influence of chief executive officers is the greatest driver of corporate policy in a majority of the companies he surveyed.

2.3.2 Perceptions of the Different Stakeholders and Value Creation

Haspeslagh et al (2001), have argued that successful VBM programs almost always involve increasing everyone's ownership stake in the company and therefore in the program. In their research, they found out that companies such as Siemens and Cadbury Schweppes have linked employee compensation to achieving specific economic value added (EVA) targets. We can therefore say that companies need to link incentive compensation to specific value drivers.

Value metrics, together with a value mindset, which is denoted as the way management internalizes the idea of shareholder value creation, are two dimensions in value thinking. This is a prerequisite for making value happen (Copeland et al 2000). The organization needs to be able to make the right structural decision, focus on the challenges of streamlining the organization and the need to expand and serve customers worldwide.

Haspeslagh et al (2001), state that a firm needs to make broad changes and not deep ones. The company needs to make VBM technically simple. For example, Dow (a US company) focused on easy to use accounting systems, applying one tax rate across all units. It needs to focus on employee value creation by identifying value drivers at each level. It also needs to integrate budgeting with strategy planning. Lastly the company needs to invest in systems to pinpoint product, service, market and customer value, with which to assess each units' competitive position and spur employee buy-in. Leahy (2002) states, true believers in VBM says that employees who understand the impact their jobs have on company performance can turn around an ailing company.

2.3.3 Communication and Internal contribution

According to the Corporate Executive Board (2002), communication is essential for employees to understand the concepts behind value creation and discover how the decisions they make contribute to the value target goal. Not only is communication an opportunity to speed implementation but also a tool to improve results realized during implementation. A successful communication typically employs the following strategies. Repeating the message to key stakeholders maintains focus, heighten awareness and build understanding. Second, by integrating the chosen value target into corporate activities. Third, setting realistic time expectations, that is allow the new decision process time to take root at all the operating levels of the company. Fourth,

sequestering implementation activities appropriately where, depending on the type of corporate culture, the decision to implement VBM can be hurried or slowed to allow consultation and buy-in. According to Copeland et al (2000), companies should apply the same communication strategy for internal and external communication. They suggest treating investors, the investment community, customers and employees all with the same degree of assiduousness.

Implementing VBM can change people's time-horizon and motivation to achieve corporate goals and enhance the strategic thinking capabilities of business managers. This can be done by decentralization and empowerment. Each business unit becomes a value center, where it undertakes a comprehensive analysis of the underlying attractiveness of its segment and its own relative competitive position and comes up with a few strategic options.

2.3.4 Strategy Development and Deployment

There is need for an overarching strategy combined with organization structure that supports the chosen strategy. Key resources should be deployed based on the assessment of the appropriate competitive position especially on the five Porter's forces of competitive advantage.

According to Ameels et al (2002), Marakon Associates have developed a universal framework for strategy development. They envision this strategic planning process as a primary decision-making tool. The Marakon framework is based on three characteristics. First of all, it needs to be value-based. Second, it is important that the process is consequential, which implies that the major business units and appropriate decisions determine short and long-term performance. The third characteristic refers to continuity, where important issues are constantly under assessment and discussion.

2.3.5 Preferred Metrics

The firm must always choose and designate the value measures with which performance and value creation is to be judged against. According to Ameels et al (2002), notwithstanding the fact that each level has different strategic tasks, it remains important that they are all linked by the one common objective to create shareholder value.

According to the Corporate Executive Board (2001), when translating value targets into discrete goals for different levels within the organization, companies often should observe three principles. One, create financial and non-financial goals focused on key drivers. Two, tailor the targets to different levels within the organization and three, link short and long-term targets to ensure that the larger value targets will be met over time. This means that operating managers need to assess the value creation potential of alternative strategies all the time. The preferred metrics should be used to assess investment strategies, in the search for acquisitions candidates for mergers and acquisitions and in allocating resources to different business units.

2.3.6 Employee Education and Training.

The training and education program should be supported by the appointment of VBM change champions or facilitators throughout the organization, who should focus on popularizing VBM change process and also serve as the best champions to drive implementation and ensure the sustainability of the value creation as a core competence. The chief executive officer should be a visible leader of the VBM process.

According to Haspeslagh et al (2000), managing for value is 20% about numbers and 80% about the people, because people create value. Successful VBM companies train almost all managers. They also train a larger portion of their entire workforce than unsuccessful VBM companies do. Training programs allow employees to ask questions and build their understanding

of the VBM initiative, which ultimately helps reduce the anxiety and resistance associated with the new approach. The comments made by employees during these sessions can also serve to improve how the company is implementing the VBM approach.

2.4 The Usefulness of VBM Practice to a Company

For companies to spend so much of their scarce resources on implementing and sustaining a VBM practice, it must derive useful benefits so that VBM does not become a victim of its own postulates. VBM requires that every process must be able to create value or benefits more than its cost, hence VBM should justify its cost or else it may be seen to be a value destroyer and be shelved. VBM usually involves heavy investments in information systems and training, hence the benefits must be clear and worthwhile. The main benefits of a VBM approach can be explained thus.

2.4.1 Strategy Alignment and Performance Improvement

VBM as a strategy, by means of alignment and making coherent the allocation of the organization's limited resources, has been seen to produce a remarkable performance breakthrough. VBM focuses on value creation; hence corporate performance is driven and directed towards a set of goals. These goals enable better or superior performance due to the inherent focus on meeting the performance targets. Investment goals can be better defined because of the uniformity or common language across the business.

Haspeslagh et al (2001), states that diagnosis based on VBM analysis is only a starting point for developing a new value creating corporate strategy. In some companies the portfolio diagnosis triggers a series of disinvestments. Lloyds TSB for example initially divested most of its businesses outside of retail banking, and also sold off most of its international operations.

2.4.2 Enhances Investment Decision-making

With VBM, investment decisions are enhanced because of the use of a common hurdle rate and a centrally aligned business strategy. Companies are able to assess opportunities more critically. Ameels et al (2000), argue that companies should develop their own acquisition strategy, which will guide management in their search for acquisition candidates who seem more valuable for their own shareholders than for the shareholders of the sellers.

Haspeslagh et al (2000), argue that VBM, when implemented successfully, helps corporations redefine the nature of corporate-business relationship and forges a new balanced partnership between them. VBM imposes heavy requirements on upgrading management information systems to provide data and information to users. Companies like Daimler, Dow and Hoya invested heavily in management information systems, which ensure commonality of information across the business. As a minimum, advanced VBM companies at least tie strategy and the project approval process very closely, as well as strategy and budget.

2.4.3 Influences on Collaboration and Cultural Transformation

Ameels et al (2002), observe that closely related to the impact of value based management on both external and internal communication, is the influence on collaboration. Making managers into owners enhances their tendency in thinking towards collaboration. Focusing on EVA as the only measure to pursue reduces conflicts and confusion in the organization and simplifies decision-making.

Haspeslagh et al (2000), point out that VBM provides focus and clarity as the overriding guiding principle, provides repeated reinforcements of shareholder value as the glue binding the company's structure, management process and systems, and puts a big onus on the people to spend time together to implement the program successfully. Chief executive officers should look for VBM

as a potential agent of cultural transformation, making every effort to ensure the process start on a wining note. Every step taken should involve a celebration of success and a wide communication of success stories throughout the organization.

2.4.4 Performance Management, Reward and Training

VBM enhances the performance management and target setting in an organization. VBM value targets can be tied to employee performance, reward and compensation process within the organization. This will usually involve the creation of process integrity and means that performance contract are crafted and honored by both the chief executive officer and the business units.

Ameels et al (2002), observe that the first building block relates to the availability of a clearly defined value-creating strategy for business units. Second, is the importance of alignment between the targets and the specific value drivers at business unit level. The structured performance reviews during which the results are discussed in relation to the key performance imperatives (KPI) are the third factor. Those KPI or operating value drivers are useful across all levels. The rewarding policy should be deployed throughout the entire organization, concentrating on top levels first, or having relative pay for relative performance. There should be a tailor made education and value enhancement workshops, as they are helpful tools to demonstrate how the daily decisions of every individual, independent of their level in organization, affects the shareholder value.

2.4.5 Enables Benchmarking and Staying Ahead

Companies practicing VBM can easily perform benchmarking among their peers, which enables them to determine their relative competitive position. Benchmarking is closely related to value based metrics such as Total Shareholder Return (TSR) or Economic Value Added (EVA), and

can be performed based on key management processes like strategic planning, resource allocation, and market value added.

Haspeslagh et al (2000), state that companies are faced with unrelenting pressure from shareholder for higher performance and the challenge is to stay ahead by achieving superior shareholder returns or long-term profitable growth. They conclude, that although they are less sanguine about the ability of VBM to foster innovation and growth, essential ingredients for the pursuit of profitable growth, they are certain that, VBM when applied properly as a holistic change agent will solve a great deal of company problems and will put profitability back on track, leading to sustainable shareholder value creation.

2.5 VBM Performance Metrics

There are several traditional financial metrics that are used to measure and compare company performance that have been applied over many centuries. According to Pandey (1999) and Manasseh (1990), the main performance measures, which have a direct impact on shareholder value, can be listed as Dividend per Share (DPS), Return on Capital Employed (ROCE), Return on Shareholder Equity, Earnings per Share (EPS) and Price/Earning ratio (P/E).

The financial measures described above have several weaknesses, which mean they are not efficient indicators of company performance especially where a company has a large capital (shareholders funds). Academics and consultants have come up with other performance metrics, which are founded on shareholder value. These new metrics are meant to address the weaknesses of the financial measures and include, Economic Value Added (EVA), Economic Profit (EP), Market Value Added (MVA), Shareholder Value Added (SVA), and Total Shareholder Return (TSR). Haspeslagh et al (2001), Ameels et al (2002), and McMenamin (1999), have identified some of the above performance metrics as the cornerstone of the VBM approach.

2.5.1 Total Shareholder Return (TSR).

This approach measures shareholder value from the perspective of a quoted company. It is total shareholder return (TSR) that is, share price appreciation plus dividends. The Boulos et al (2001), survey states that TSR is applied in 7.4% of the companies that reported to use value-based measures. TSR represents the change in capital value of a company over a one-year period, plus dividends, expressed as a plus or minus percentage of the opening value. The main weaknesses of TSR is that it cannot be used to calculate shareholder return at business unit level (as there are no market prices), for specific product market segment or for non-listed companies and it is driven by forces outside the control of management.

2.5.2 Market Value Added (MVA).

This is the difference between the equity market valuation of a company and the sum of the adjusted book values. This method is unique in its ability to gauge shareholder value creation because it captures both valuation (shareholder wealth) and performance (market assessment of management effectiveness) and the way they have positioned the company on the long term.
The Boulos et al (2001), survey state that MVA is applied in 7.9% of the companies that reported to use value-based measures. In Kenya, study by Ongwae (2002), showed that 52.6% of respondent companies claimed to use MVA metrics.

2.5.3 Economic Value Added (EVA)

This is a straightforward antecedent of residual income. It is also called Economic profit (EP) and has been advocated as the true measure of a company's profitability. It is calculated by subtracting a cost of capital from the operating profit figure. When EVA is projected and discounted to present value, it accounts for market value that management adds to or subtracts from. the capital

employed (Stewart 1999). EVA is considered a good measure because it's a single period measure and allows for annual measurement of actual non-estimated value created. It can also be used even for non-listed companies because it assesses the capital charge on the firm's economic book values rather than on its market value.

The Boulos et al (2001), survey state that EVA is applied in 47.4% of the companies that reported to use value-based measures. In Kenya, study by Ongwae (2002), showed that 89.5% of respondent companies claimed to use EVA metrics.

2.5.4 Shareholder Value Added (SVA).

Shareholder value added is defined as the difference between the present value of incremental cash flows before new investment and the present value of investment in fixed and working capital. SVA depend on several key value drivers such as sales growth, operating profit margin, cash tax rate, fixed capital needs, working capital need, cost of capital, and capital planning period or value growth duration. SVA is useful in helping managers appreciate and understand the dynamics of value creation.

The Boulos et al (2001), survey state that SVA is applied in 7.9% of the companies that reported to use value-based measures. In Kenya, study by Ongwae (2002), showed that 47.4% of respondent companies claimed to use SVA metrics.

2.6 The Main Weaknesses or Failures of VBM Practice

According to Haspeslagh et al (2000), one problem that companies encounter when introducing VBM is that it requires a fundamental cultural change. However, transforming belief in large organizations is arguably the most difficult of all managerial challenges. Companies may also fail because the commitment of the executive and chief executive officers are in doubt. Many

companies fail to make this commitment explicit for example 36% in the Haspeslagh et al (2000) survey. Companies may fail to make this explicit commitment because of the fear of antagonizing the other stakeholders (up to 16% of the survey respondents).

Other companies fail to make a success of VBM because of failing to make adequate training to employees. In the Haspeslagh et al (2000) survey, 62% of successful VBM companies reported having trained 75% of their management staff while only 27% of the unsuccessful companied reported similar training. Training should usually involve more than workshops and may lead to a shakeout among senior management of those who fail to get thing done the VBM way.

Companies also fail to implement compensation packages that are linked to value targets, where employees can see a clear link between their pay and performance. Haspeslagh et al (2000) found out that successful VBM companies had a larger number of employees in their bonus programs than unsuccessful companies did. Successful VBM companies are more likely to integrate the entire resource-allocation system into a single process driven by VBM. Unsuccessful VBM companies focus their programs entirely on changing their accounting and control systems, investing too much time and effort in developing and applying complex measures of performance, not required by VBM.

VBM success calls for investing of heavy resources on management information systems so that employees have the tools to create value. Many companies fail to make the necessary resources available either due to limitation of resources or failure to commit fully to VBM. Successful VBM companies fund complete strategies rather than discrete projects. This calls for the creation of a virtuous circle, where strategies are implemented over many years and cycles.

VBM focuses on value creation and increasing shareholder value. However, it may be argued that this focus depicts a lack of realism of a perspective that does not do justice to the multi-dimensional requirements of modern business management. It may not be possible to squeeze a

complex organization into a sub-complex (shareholder) model, and corporate performance should be measured by values other than those captured by VBM (HCVI 2003).

2.7 The Reality of VBM in Kenya

Companies in Kenya have not been known to be fervent practioners of VBM. The main forums where companies expound on their principles and strategies are in investor briefings (carried out by most listed companies), annual financial statements and reports filed with the registrar by all companies as required by law and by using corporate newsletters that are published in-house.

A look at some of these statements reveals that companies in Kenya do not declare explicit commitments to shareholder value. Whether this is due to the fact that only a small minority (54 companies) of companies in Kenya is listed in a stock exchange and hence qualifies to be public companies or it is due to the docility of shareholders has not been determined by research. However some Kenyan companies have started to explicitly commit themselves to the goal of increasing shareholder value as seen from statements made in their annual reports.

- In the 2003 financial statements for East Africa Breweries, the chairman states that, "corporate governance is the process by which companies are directed and controlled with the ultimate aim of achieving shareholders' long term value while taking into account the interest of the other stakeholders".
- In its report to society for 2003 (a first of its kind in Kenya), British American Tobacco states that its vision is, "to achieve leadership of global tobacco industry in both a quantitative and qualitative sense. We seek not only to continue creating long term sustainable shareholder value, but to lead the tobacco industry in demonstrating corporate social responsibility."

- Kenya Airways CEO in its 2003 annual report states, "...we have continued to pursue our strategy to develop KA as a world class network airline by the year 2005 for the benefit of our customers and shareholders."

The above statements by senior company executives show the age of shareholder value is catching up in Kenya. Previous researchers have focused on various performance measures while one study has focused so far on VBM practice in Kenya.

Maluki (2000) assessed the use of value analysis by companies in Kenya. The study focused on companies listed at the Nairobi stock exchange.

Osewe (1998) assessed the choice of performance measures in divisionalised companies in Kenya. Its main focus was on traditional performance measurements and did not deal with emergent performance metrics such as EVA, TSR, or SVA.

Ongwae (2002) did a survey on the practices of VBM by companies in Kenya. The survey focused on companies listed at the Nairobi stock exchange. According to the results of the survey a majority (59.4%) of the respondents confirmed to practice VBM.

Studies elsewhere in the world shows a greater number of companies adopting VBM. Of the 1862 companies surveyed by Haspeslagh et al (2001), across four continents, revealed that a majority practiced VBM. A study by Wallace-HCVI (2003), using the ranking of Fortune most admired companies as a proxy of stakeholder benefits and Standard and Poor Compustat database to compute MVA revealed that creating value is a prerequisite to enhancing stakeholder benefits. Therefore, companies that fail to add value to their shareholders generally ended up failing to provide for other stakeholders. They conclude thus, companies generally do well by doing good but at the same time, they must do well to do good. There is need for companies to embrace the practice of VBM in Kenya whether they be listed or be private. Shareholder value is of importance to all.

CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Research Design

Research design can be classified as experimental, survey, case study, archival analysis and historical design. According to Emory and Cooper (1995), research design can be classified by the communication used to gather primary source data. It is also a framework for specifying the relationship among the study's variables, starting with a selection plan, and type of information used to answer the questionnaire.

The research used a survey design, this was because the research needed to collect standard data from all respondents of the study at the same time. A survey design was considered to be best suited for these requirements and also because it provides a comprehensive basis for analysis and could gather primary information specific to this survey. Due to the fact that the experience of the respondents was sought, a survey design was considered more appropriate.

3.2 Population.

The number of operational commercial banks in Kenya in year 2005 is 42 with 7 being listed at the Nairobi stock exchange and the others being unlisted and therefore non-public. Due to the diversity within commercial banks in Kenya, it was not appropriate to sample them for this study but rather all of them were surveyed. Also due to the anticipated divergence in ownership, structures and the experiences of the various banks, some being part of large multinational groups, others being parastatal, while others being small indigenous, it was more appropriate to include the whole population of commercial banks.

3.3 Data Collection

Data was collected using a questionnaire. This was done by mail survey where the questionnaire was dropped and later picked or mailed to the corporate head offices, and where none was in Nairobi, the representative office was selected for all the commercial banks. The questionnaire also included a letter of introduction of the researcher and explained the purpose of the questionnaire and the research. The questionnaire had three parts.

Part one dealt with company information generally and sought to get the bank's bio-data, key variables such as the number of years the bank has been in operation, their core businesses, factors that determined their goals, vision and mission. Answers on factors affecting goal formulation, the frequency of revisions and effects on performance were sought. The second part of the questionnaire sought answers on the duration of service of the CEO and their influences on management practices. Answers on how explicit company goals were; communications and determinants of training needs were also sought.

Lastly the respondents were asked to assess the impact of VBM on their bank's performance, the problems experienced in the implementation and practice of VBM, the length of the practice of VBM, how it was practiced and the performance metrics preferred. Respondents were also required to deal with several variables in some questions, this was to enable the researcher determine the influence of such variables on the performance, outcome or decision of the respondent company.

The questionnaire used open questions requiring simple responses, yes or no questions to confirm or deny preset questions, multiple choice questions to choose among variables and scale responses to gauge the opinions of respondents about particular questions or statements.

3.4 Data Analysis

Data collected was tabulated, classified and coded. The coding was in such a way as to assist the researcher to sort, tabulate and analyze the answered questionnaire received back from the respondents. This was done in order to develop summaries, look for patterns and enable the application of statistical techniques. The SSPS computer analysis package was used to extensively analyze the data using analytical statistics such as tables, frequency distributions and cross tabulations. Frequency count result was in many cases performed.

The research analysis did not reveal preliminary problems that must have been corrected before advanced statistical computations were performed. Frequency and percentage (most common or most applied) analysis was used to determine the extent of the practice of VBM, among the respondents. Variables with the highest score was considered to have been more preferred whereas variables chosen least or by the fewest respondents were considered to have the least effect, influence or to be least used, preferred or applied. Other researchers have used these analysis methods effectively (Gekonge 1999 and Ongwae 2002).

CHAPTER FOUR: RESEARCH FINDINGS

Research data for this study was collected by the use of a questionnaire. The data was checked for completeness and reliability and where some errors were found, the respondent was contacted for confirmation. The data thus collected was coded and fed into a computer package for analysis. The analysis was done and the resulting information presented in the form of tables, descriptive statistics, frequency diagrams, and cross tabulations. The analysis was meant to establish the extent of VBM practice and the extent of awareness and appreciation of the benefits of VBM among commercial banks in Kenya.

The questionnaire was sent to all the operational commercial banks in Kenya at the time of study. There were 44 commercial banks when the study commenced but two banks have since merged and one was closed before the study could be finalized. There were therefore 42 banks who received the questionnaire, out of these, 24 (representing 57%) responded and their responses were thus analyzed.

4.1 Length of operation and core business.

The Table 1(a) and 1(b) below summarizes the banks according to the length of time in years they have been operational in Kenya and their core business respectively.

Table 1(a): Analysis of banks by length of operation

Age	Frequency	Proportion
0-10 yrs	4	17%
11-20 yrs	6	25%
21-30 yrs	1	4%
31-40 yrs	2	8%
Over 40 yrs	8	33%
Not Indicated	3	13%
TOTAL	*24*	*100%*

Source Questionnaire.

Three respondents did not indicate these, the rest of the responses were(table 1(a) above) ; less than 10 years 17 percent, between 11 and 20 years 25 percent, between 21 and 30 years 4 percent, between 31 and 40 years 8 percent and above 40 years 33 percent.

When banks were asked to state their core business, the responses were as Table 1(b) below:

Table1 (b) Core business

	Frequency	Proportion
Corporate	6	25%
Retail	9	38%
Consumer	0	0%
Other/ All above	9	38%

Source Questionnaire

The results show that; 25 percent were in the corporate business, 38 percent in retail and 38 percent were in all the three categories. When the banks are further analyzed based on the strength of their staff compliment, the following are the results.

Table 1(c) Size or staff complement.

	Frequency	Proportion
Less than 200	13	54%
201-500	4	17%
501-1500	4	17%
Over 1501	2	8%
Other/not indicated	1	4%

Source Questionnaire

According to the survey (Table 1(c) above), 54 percent of the respondents had less than 200 staff and only 8 percent had more than 1500. This implies the banking sector in Kenya is mainly populated by small players, who are largely unquoted in the stock market and who have operated for a period of less than twenty years.

4.2 Company Goals, Vision and Mission Statement.

The study sought to get respondents to state their main goals, vision and mission statements. The results obtained are:

Table 2 (a) Do you have goals, vision and mission statement?

	Yes	Proportion	No	Proportion
Mission	20	83%	2	8%
Goals	24	100%	0	0%
Vision	19	79%	2	8%

Source Questionnaire

From the Table, 83 percent had a mission statement, 100 percent had clear goals and 79 percent had vision statements. When the respondents were asked to classify their banks' main goals, the results were as shown by Table 2(b) below. 33 percent stated that their main goals were financial; none had non-financial or social goals as their main goals. However 67 percent stated that their main goals were financial, non-financial and social at the same time.

Table 2 (b) What are Company's main goals?

	Yes	Proportion
Financial	8	33%
Non Financial	0	0%
Social	0	0%
All the above	16	67%

Source Questionnaire

Further analysis was undertaken by going through their written vision and mission statements. The analysis reveals that (Table 2(c) below), banking companies statements put more emphasis on the following factors; 63 percent emphasizes maximizing shareholder value and involvement in corporate social responsibility, 58 percent on attaining market leadership. 54 percent profitability.42 percent product innovation. 33 percent other financial goals and 33 percent other non-financial goals.

Table 2 (c) Mission/Vision Emphasis

	Frequency	Proportion
Maximize Shareholder Value	15	63%
Corporate Social Responsibility	15	63%
Market Leadership	14	58%
Profitability	13	54%
Product Innovation	10	42%
Other Financial	8	33%
Other Non-Financial	8	33%
Staff Development	4	17%

Source Questionnaire

These findings are in tandem with De Jonge (2003) who argues that a firm can only succeed if it defines its purpose. This purpose is usually more than profitability, but mainly encompasses shareholder value and of late social corporate responsibility. Delivering consistent shareholder value is very important for commercial companies and there is great pressure on managers to create and increase shareholder value (Haspeslagh et al 2000).

According to Mcmenamin (1987), the underlying goal of commercial firms is profitability. He argues that a firm has more than one objective and these could include customer focus, improved internal processes, market growth, financial and other improvements. From the findings, it is clear that most banks in Kenya consider shareholder value, corporate social responsibility, profitability, market leadership and product innovation as their important goals. It can be argued that firms have multiple goals, especially shareholder value which is determined by economic value added (Ameels et al 2002) and also that shareholder value directs company strategy, structure and processes, its execution and monitoring of performance (KPMG 1999).

4.3 Factors that Affect Formulation of Company Goals.

The respondents were asked to choose among several variable the effect they had on the formulation and implementation of company goals. The response was on a five point scale ranging from least to major effect. The results were as Table 3(a) below shows.

Table 3(a) Effect of the following factors on goal formulation

	Minor Effect		Moderate Effect		Major Effect	
	Frequency	Percent	Frequency	Percent	Frequency	Percent
Chief exec. Officer	2	8%	1	4%	21	88%
Board of directors	3	13%	0	0%	21	88%
Available resources	0	0%	4	17%	19	79%
Senior management	1	4%	3	13%	19	79%
Competitive forces	3	13%	3	13%	17	71%
Market forces	2	8%	4	17%	17	71%
Economic forces	2	8%	4	17%	16	67%
Government policy	2	8%	5	21%	16	67%
Mission statement	4	17%	3	13%	15	63%
Key shareholders	4	17%	5	21%	14	58%
Legal requirements	5	21%	5	21%	13	54%
Employees	6	25%	5	21%	12	50%
Industry regulator	4	17%	10	42%	8	33%

Source Questionnaire

The results indicated the factors with the most effect on the formulation and implementation of company goals to be; chief executive officer and board of directors at 88 percent, available resources and senior management at 79 percent, competition and market forces at 71 percent, economic forces and government policy at 67 percent, the mission statement at 63 percent, key shareholders at 58 percent, legal requirements at 54 percent, employees at 50 percent and the industry regulator at 33 percent. On the other side, no respondent indicated that available resources had a minor effect on goal formulation and only 4 percent felt senior management had minor effect, 8 percent felt that the chief executive officer, market forces, economic forces and government policy had a minor effect.

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These findings are consistent with findings by Boulos et al (2001), that chief executive officers and senior management have the greatest effect on the formulation and implementation of goals.

When asked how often company goals were revised, the results are as shown on Table 3(b) below. 46 percent of respondents said that their companies revised their goals between 1 and 5 years, 29 percent do it annually and 25 percent do it after 5 years.

Table 3(b) Frequency of goal revision

	Frequency	Proportion
Annual	7	29%
1-5 years	11	46%
After 5 years	6	25%
Other	0	0%

Source Questionnaire

4.4 Factors that Determine Company Performance.

Respondents were asked to indicate how some fifteen variables affected the performance of their bank. They were to indicate on a five point scale ranging from minor to major effect. As Table 4(a) below shows, the result indicated that the factors that most influenced company performance were: investment in information technology 83 percent, prevailing economic climate, leadership commitment and improved customer service at 75 percent each, the choice of chief executive officer and improved internal collaboration at 71 percent each, increased product range at 67 percent and new product development at 58 percent.

On the other hand the respondents who felt the above factors had least influence were in the minority as; 4 percent for investment in information technology, prevailing economic climate, the choice of chief executive officer, improved internal collaboration and increased product range each.

Table 4(b) Factors affecting performance

	Minor Influence		Moderate Influence		Major Influence	
	Frequency	Percent	Frequency	Percent	Frequency	Percent
Investment in information tech	1	4%	2	8%	20	83%
Prevailing economic climate	1	4%	4	17%	18	75%
Leadership commitment	3	13%	2	8%	18	75%
Improved customer service	2	8%	3	13%	18	75%
Choice of C.E.O	1	4%	5	21%	17	71%
Improved internal collaboration	1	4%	5	21%	17	71%
Increased product range	1	4%	6	25%	16	67%
New product development	3	13%	6	25%	14	58%
Shareholder value	7	29%	4	17%	12	50%
Downsizing/cost management	6	25%	6	25%	11	46%
Investment in training	5	21%	8	33%	10	42%
Increases in bad debts	10	42%	6	25%	8	33%
Merger/acquisitions	15	63%	3	13%	4	17%
Creation of value centers	8	33%	11	46%	3	13%
Insider loans	18	75%	4	17%	2	8%

Source Questionnaire

According to the survey by Boulos et al (2001), VBM companies have certain characteristics. They have leadership commitment, invest more in information technology, align internal processes and strategy, train a high number of their staff, empower business units and focus on shareholder value. The survey also identified some of these factors as driving performance. However, respondents did not feel that the creation of value centers, mergers and acquisitions played a major role in influencing performance.

4.5 Company's Management Practices and their Impact on Performance.

In the study, respondents were asked to indicate the average duration of the tenure of the chief executive officer in their banks. Table 5(a), below summarizes the results. Most CEOs serve an average 2-5 years (50 percent). This means there is stability at the top as 38 percent of CEOs serve more than five years. Stability is important in policy formulation and implementation.

Table 5(a) Average duration of CEO tenure

	Frequency	Proportion
Less than 2 yrs	2	8%
Between 2-5 years	12	50%
Over 5 years	9	38%

Source Questionnaire

Respondents were further asked to choose among twelve variables which had the most influences on the formulation and implementation of the banks management practices.

Table 5(b), below shows the results of the respondent's answers. The survey showed that more than one factor influences the formulation of management practices. 88 percent felt the chief executive officer had the most influence, 79 percent chose customer satisfaction. 75 percent the board of directors, 71 percent changes in technology, 63 percent desire for increased market share, 54 percent chose competition and changes in interest rates equally.

Table 5(b) Influences on management practices

	Minor Influence		Moderate Influence		Major Influence	
	Frequency	Percent	Frequency	Percent	Frequency	Percent
Chief executive officer	0	0%	2	8%	21	88%
Customer satisfaction	0	0%	4	17%	19	79%
Board of directors	1	4%	4	17%	18	75%
Changes in technology	1	4%	5	21%	17	71%
Desire for market share	0	0%	8	33%	15	63%
Competitive forces	1	4%	9	38%	13	54%
Changes in interest rate	1	4%	7	29%	13	54%
To increase profits	0	0%	7	29%	12	50%
Industry regulator	0	0%	11	46%	11	46%
Employee compensation	3	13%	12	50%	8	33%
Consultants/advisors	1	4%	13	54%	8	33%
Employee unions	7	29%	8	33%	3	13%

Source Questionnaire

Employee compensation, and advisors/consultants (33 percent each) and employee unions (13 percent) had the least influence.

The choice of the chief executive officer, the changes in technology, shareholder value, and competition and performance variables that drive the value of a company influences its management practices most (Corporate Executive Board 2001).

The study also sought to find the impact management practices had on some twelve variables dealing with company performance, perceptions and measures. The results are shown in Table 5(c) below.

Table 5 (c) Impact of management practices on following

	Minor Impact		Moderate Impact		Major Impact	
	Frequency	Percent	Frequency	Percent	Frequency	Percent
Operational practices	0	0%	7	29%	17	71%
Customer satisfaction	1	4%	5	21%	17	71%
Cost management	1	4%	7	29%	16	67%
Earnings per share	3	13%	6	25%	15	63%
Income diversification	3	13%	6	25%	15	63%
Organizational culture	3	13%	6	25%	14	58%
Public perception	4	17%	6	25%	14	58%
Market price	7	29%	5	21%	11	46%
Employee training	2	8%	11	46%	11	46%
Market share	5	21%	7	29%	11	46%
Need to get public	7	29%	5	21%	11	46%
Profits by SBU	3	13%	8	33%	10	42%

Source Questionnaire

Factors that were to be affected in a major way by management practices are; operational and customer satisfaction at 71 percent, cost management at 67 percent, earnings per share and income diversification at 63 percent each , organizational culture and public perception at 58 percent each.Management practices were judged to have a moderate influence on profits made by SBU (strategic business units) at 42 percent, employee training, market share and the need to get public at 46 percent each.

These findings were consistent with research done by Boulos et al (2001), who found that a successful VBM culture entails introducing fundamental changes to a company's culture, an explicit commitment to shareholder value, broad process reforms or operational processes, education and intensive training, clear value targets and empowerment of the business leaders.

Commercial banks in Kenya appear not to practice VBM in its entireness as they do not seem to be too focused on employee training, market price or shareholder value and empowering leaders in strategic business units. This could be due to the fact that a majority of them are not quoted on a stock exchange, are too small to have vibrant strategic business units and are wary of public perception.

4.6 Company's Management Practices and their Influence on Training.

The study sought to gauge the whether Kenyan banks have clear financial targets, meet their goals, whether changes in management practices affected training and whether they have an employee compensation package which is performance based.

Table 6 (a) Goals, profit, training and compensation

	Yes	Percent	No	Percent
Explicit financial goals	22	92%	2	8%
Explicit profit targets	23	96%	1	4%
Stretching goals	12	50%	12	50%
Achieve goals all time	4	17%	20	83%
Changes in management practice lead to training	19	79%	5	21%
Policy on employee compensation	22	92%	2	8%
Compensation linked to performance	19	79%	5	21%

Source Questionnaire

Table 6(a) above shows the result of the survey; 92 percent had explicit financial goals, 96 percent have profit target, 17 percent achieve their goals all the time, 79 percent had changes in

management practices leading to training, and 79 percent had their employee compensation linked to performance.

The findings were consistent with those by Haspeslagh et al (2000) who found that VBM companies had clear and explicit value targets, align training to changes in strategy and had most staff (especially) managers on performance linked pay. This link to performance targets empowers managers to think like owners.

The study sought to know the level of training conducted as a result of changes in management practices, Table 6(b) below, 54 percent indicated that over 50 percent of senior managers were trained, 63 percent had over 50 percent of middle management and 17 percent and 4 percent had less than 25 percent of senior and middle managers trained respectively.

According to Haspeslagh et al (2000), managing for value is 20% about numbers and 80% about the people, because people create value. Successful VBM companies train almost all managers. They also train a larger portion of their entire workforce than unsuccessful VBM companies. Kenyan commercial banks appear to practice VBM in relation to training and employee compensation.

Table 6(b) Training Conducted

	Percent of staff trained							
	0-25 %		25-50 %		50-75%		Over 75 %	
	Freq.	Percent	Freq.	Percent	Freq.	Percent	Freq.	Percent
Senior management	4	17%	5	21%	6	25%	7	29%
Middle management	1	4%	4	17%	9	38%	6	25%
Supervisory	4	17%	6	25%	8	33%	3	13%
Junior staff	4	17%	6	25%	4	17%	6	25%
Other	7	29%	6	25%	1	4%	2	8%

Source Questionnaire

4.7 The Practice of Value Based Management among Banks in Kenya.

Respondents were asked whether they practiced VBM. This was one of the main objectives of the study. The results were as by Table 6(a) below.

Table 7 (a) Practice VBM

	Frequency	Proportion
Yes	17	71%
No	5	21%
Don't know	2	8%
TOTAL	24	100%

Source Questionnaire

A big 71 percent indicated they practiced VBM, 21 percent did not practice VBM and 8 percent were not aware whether what they practiced was VBM. When the result were analyzed further to see whether there was some relationship between banks that practiced VBM and those that were quoted on the Nairobi stock exchange, the results are as shown on Ttable 7 (b) below.

Table 7 (b) Comparison of being quoted versus practice VBM

Banks quoted on NSE versus Practice VBM

Are you quoted on NSE		Practice VBM			
		Practice VBM			Total
		Don't know	No	Yes	
No	Count	2	4	11	17
	percent	12	24%	65%	100%
	% of Total	8	17%	46%	71%
Yes	Count		1	6	7
	percent		14%	86%	100%
	% of Total		4%	25%	29%
Total	Count	2	5	17	24
	percent	8%	21%	71%	100%
	% of Total	8%	21%	71%	100%

Source Questionnaire

The results show that 86 percent of quoted banks practice VBM as opposed to 65 percent of the non-quoted. This is 25 percent and 46 percent of the total respondents respectively. However. 14 percent of the quoted banks did not practice VBM as opposed to 24 percent for the non-quoted.

More quoted companies were more likely to practice VBM because of its basic requirement to commit to shareholder value, this is more easily determined where companies are listed and thus have easily available market price.

Table 7(c) How is VBM practiced?

	Frequency	Proportion
Formally	10	42%
Informally	6	25%
Explicitly	0	0%
Implicitly	2	8%
Don't know	6	25%
TOTAL	24	100%

Source Questionnaire

The study further sought to find out how VBM was practiced among respondents. Table 7(c) above, shows that 42 percent do it formally, 25 percent informally. 8 percent implicitly and 25 percent did not know how or if practiced.

When asked whether VBM was the main management focus in the banks, the respondents answered yes (38 percent), no (42 percent) and 21 percent did not know. This is shown by Table 7(d) below.

Table 7(d) Is VBM the main management focus?

	Frequency	Proportion
Yes	9	38%
No	10	42%
Don't know	5	21%
TOTAL	24	100%

Source Questionnaire

The study further sought to find out how long VBM had been practiced by the respondent banks. Table 7(e) below show the result. 25 percent had practiced VBM for up to three years. 33 percent for between 4 and 6 years, and 13 percent for 7 years and over. This may help explain why the ingredients of VBM such as training, commitment to shareholder value, investment in information

technology and creation of value centers scored mixed results on the part dealing with management practice.

Table 7(e) How long have you practiced VBM?

	Frequency	Proportion
Less than 3 yrs	6	25%
Between 4 - 6 years	8	33%
7 years and over	3	13%
Not applicable	7	29%

Source Questionnaire

The study sought to know the performance metrics commercial banks adopted for measuring performance. Among the options available were total shareholder returns (TSR), economic value added (EVA), economic profit (EP), market value added (MVA), shareholder value added (SVA) and other (specify).

Table 7(f) Performance metrics adopted

	Frequency	Proportion
Total Shareholder Return-TSR	11	46%
Economic Value Added-EVA	7	29%
Economic Profit-EP	13	54%
Market Value Added-MVA	3	13%
Shareholder Value Added-SVA	8	33%
Other (specify)	2	8%

Source Questionnaire

As the above Table 7(f) shows, 46 percent chose TSR, 29 percent EVA, 54 percent EP, 13 percent MVA, 33 percent SVA and only 8 percent chose other unspecified metrics. This means two things, that banks used more than one performance metric and two, that EVA which is also called EP is the most popular metric with 83 percent. These results were consistent with research findings by Boulos et al (2001) who found that companies that practice VBM adopted EVA or EP as the measure of performance. Further, TSR seems to score more highly than the Boulos et al (2001) findings (at

7.4%), because majority of the sampled banks were not quoted on the stock exchange and did not have market prices. TSR is more popular among non-quoted companies. These can be better glanced from Table 7(g) below that sought to find out which performance metrics were adopted compared against whether banks were quoted on the NSE. The result show that majority of the non-quoted (47%) adopted TSR and EP equally, EVA 24 percent, 18percent SVA and 6 percent MVA. However among the quoted banks, 71percent adopted EP, 43 percent SVA, and only 14 percent for TSR.

Table 7(g) Quoted banks versus performance metrics adopted

Performance metric adopted	Are quoted on the NSE			
	Yes		No	
	Frequency	Percent	Frequency	Percent
Total Shareholder Return-TSR	1	14%	8	47%
Economic Value Added-EVA	2	29%	4	24%
Economic Profit-EP	5	71%	8	47%
Market Value Added-MVA	1	14%	1	6%
Shareholder Value Added-SVA	3	43%	3	18%

Source Questionnaire

The respondents were further asked to state how widely the performance metrics were applied within the banks. The results (Table 7(h) below) indicate that, 50 percent applied them across the bank, 25 percent at head office only and 17 percent among the strategic business units (SBU). This has two implications, one, is that Kenyan banks adopt value based measures in assessing their performance, thus strengthening the case for their being VBM companies and two, this is in accordance with findings by Haspeslagh et al (2000) and Boulos et al (2001), who found VBM companies adopted the chosen performance metrics across the whole company, making broad changes and internalizing the idea of shareholder value creation.

Table 7(h) How widely metrics applied

	Frequency	Proportion
Across bank	12	50%
Head office	6	25%
Strategic business units	4	17%
Not applicable	2	8%

Source Questionnaire

The research study sought to find out how the practice of VBM affected the banks operations and performance. Sixteen variables which are known benefits and ingredients of VBM practice were used for these. The results of the study are summarized on Table 7(I) below.

Table 7 (I) Impact of practice of VBM on banks

	Minor Impact		Moderate Impact		Major Impact	
	Freq.	Percent	Freq.	Percent	Freq.	Percent
Improved investment decisions	0	0%	1	6%	16	94%
Increased profits	0	0%	5	29%	12	71%
Enhanced strategy formulation	0	0%	5	29%	12	71%
Improved the decision making	1	6%	4	24%	12	71%
Increased organization value	1	6%	5	29%	11	65%
Led to goal congruence	1	6%	5	29%	11	65%
Enhanced communication	1	6%	5	29%	11	65%
Enhanced training	3	18%	3	18%	11	65%
Enabled benchmarking	3	18%	3	18%	11	65%
Enhanced employee motivation	2	12%	4	24%	11	65%
Increased shareholder value	0	0%	6	35%	10	59%
Market price	1	6%	7	41%	9	53%
Improved governance	0	0%	6	35%	9	53%
Income diversification	1	6%	8	47%	8	47%
Resulted in culture changes	2	12%	6	35%	8	47%
Led to ownership of decisions	3	18%	6	35%	7	41%

Source Questionnaire

VBM had a major impact as it led to improved investment decisions at 94 percent, increased profit, enhanced strategy formulation and improved decision making at 71 percent each, at 65 percent each we have increased organization value, led to goal congruence, enhanced communication, enhanced

training, enabled benchmarking and increased employee motivation. Increased shareholder value got 59 percent, while 53 percent said increased market price and improved governance.

These findings were consistent with Ameels et al (2002) and Boulos et al (2001) who argue that VBM companies focused on increasing shareholder value, profitability, employee training, communication and increased investment in systems and operations. Their work also identified the benefits of VBM as improved decision making, investment decisions, benchmarking, strategy formulation, employee motivation, better goal definition and increased organizational value.

When asked whether the practice of VBM was desirable, the response was as Table 7(j) below shows. 79 percent said yes, none said no and 21 percent did not know as they did not practice VBM.

Table 7 (j) Is the practice of VBM desirable?

	Frequency	Proportion
Yes	19	79%
No	0	0%
Don't know	5	21%
TOTAL	24	100%

Source Questionnaire

The data collected was further analyzed to find whether those that practiced VBM found it desirable or whether even among the ones who did not practice also found it desirable. The results were tabulated as Table 7(k) below.

Table 7(k) Practice VBM and find it VBM desirable ?

			Is the practice of VBM desirable ?		Total
			Don't know	Yes	
Do you Practice VBM ?	Don't know	Count	2		2
		% within Practice VBM	100%		100%
		% of Total	8%		8%
	No	Count	2	3	5
		% within Practice VBM	40%	60%	100%
		% of Total	8%	13%	21%
	Yes	Count		17	17
		% within Practice VBM		100%	100%
		% of Total		71%	71%
Total		Count	4	20	24
		% within Practice VBM	17%	83%	100%
		% of Total	17%	83%	100%

Source Questionnaire

All those who practiced VBM (100 percent) found it desirable. 60 percent of those who did not practice VBM found it desirable. 8 percent did not practice and did not therefore know whether VBM was desirable.

Finally, the respondents were asked to choose among some ten variables, which were the main problems in implementing VBM .The results were as shown in Table 7(l) below.

Table 7(l) Problems in implementing VBM

	Frequency	Proportion
Inadequate training	14	82%
Difficulty in changing culture	8	47%
Lack of commitment	7	41%
No available benchmarks	7	41%
Resistance to change	7	41%
Inadequate resources	6	35%
Inadequate communication	6	35%
Inadequate preparedness	6	35%
Lack of clear change focus	4	24%
Lack of unifying company goal	3	18%
Other	4	24%

Source Questionnaire

82 percent chose inadequate training, 47 percent difficulty in changing culture, 41 percent had lack of leadership commitment, no available benchmarks, and resistance to change each. 35 percent had inadequate resources, inadequate communication, and inadequate preparedness each. 24 percent chose lack of a clear change focus, 18 percent had lack of a unifying company goal and 24 percent other reasons not chosen above.

These findings support work by Haspeslagh et al (2000) and Boulos et al (2001), who found that companies adopting VBM found changing culture very difficult, others failed to make explicit commitment, failed to train enough staff , lacked leadership focus, did not integrate their entire resource-allocation systems and did not invest enough in management information systems.

CHAPTER FIVE: RESEARCH CONCLUSIONS

The objectives of the research study were to establish the extent of the practice of VBM among commercial banks in Kenya and to establish the degree of awareness and appreciation of the practice of VBM among the same banks. The research was carried out among the 42 commercial banks that were operational during the time of the study. The research adopted a survey mode as the population was considered small to warrant a sample method. A questionnaire addressed to the chief executive or the chief finance officers, who were considered to be in the know concerning the topic, was dropped at the respective head offices of all commercial banks. The questionnaire was later picked, checked for minor errors and clarified with the respondents.

Twenty four (24) filled questionnaires were received (representing 57 percent), the questionnaires thus received were coded and analyzed. The resulting information was tabulated, presented as frequency tables, cross tabulations where more than one variable were being tested and as descriptive statistical tables. These were subjected to further analysis and explanations sought from theory and comparison with other research findings elsewhere.

5.1 The Extent of Practice of VBM among banks in Kenya.

The findings were that a majority of the respondents (71 percent) claimed to practice VBM. 20 percent did not, while 8 percent were not sure whether they did practice. A majority of the banks quoted on the stock exchange (86 percent) practiced VBM while among the non-quoted the proportion was 65 percent. Among the banks that did not practice VBM, 17 percent were quoted

while 46 percent were non-quoted. It seems that VBM is more attractive to quoted companies; this could be due to its emphasis on shareholder value creation.

The findings also showed that a majority (54 percent) of Kenyan banks have been operational for over thirty years. It also shows that 25 percent of banks consider their core business as corporate banking, 38 percent as retail and 38 percent as being in both the retail and corporate banking. On size 54 percent have staff complements of less 200 staff while only 8 percent have more than 1500 staff. This means that most Kenyan banks are small operators.

The findings show that all banks have explicit goals which are 33 percent financial only and 67 percent have financial, non-financial and social goals. 83 percent of the banks have written mission statements and 79 percent have clear vision statements. An analysis of the mission and vision statement shows that Kenyan banks put emphasis on the following; to maximize shareholder value and corporate social responsibility at 63 percent each, achieving market leadership at 58 percent, increase profitability at 54 percent and product innovation at 33 percent

The study reveals that most banks revise their goals within five years (75 percent) and only a minority (25 percent) does it after more than five years. Several factors affected the formulation of the these goals. Among respondents the factors judged to most influence on goal formulation are the chief executive officer and board of directors (88 percent), available resources and senior management (79 percent), market and competitive forces (71 percent), and economic forces and government policy (67 percent). These findings are consistent with the Boulos et al (2000) who found that among VBM companies the chief executive officers' commitment applied to the whole VBM process. According to Ameels et al (2002), factors that affect goal formulation and

implementation are senior management, competition, market condition, key shareholders and the resources that are available for deployment.

A look at the factors identified as having most impact on company performance are investment in information technology (83 percent), leadership commitment, the economic situation and satisfying customers(75 percent), choice of chief executive office and improved internal collaboration (71 percent), increased product range (67 percent) and new product development (58 percent). These findings are consistent with study by Haspeslagh et al (2001), who found that commitment to shareholder value, improved internal processes, investment in information technology, the commitment of the chief executive officer and training and compensation of employees were strong drivers of performance especially among VBM companies.

The findings also reveals that the factors with most influence on management practices are the chief executive officer (88 percent), customer satisfaction (79 percent), the board of directors (75 percent), changes in technology (71 percent), and desire to increase markets share(63) percent. The study further reveals that management practices have major impact on operational practices and customer satisfaction (71 percent), cost management (67 percent), earning per share and income diversification (63 percent) and organizational culture and company image or perceptions (58 percent).

The study further reveals that 92 percent of respondents have financials goals, 96 percent have profit targets, 92 percent have policies on employee compensation and 79 percent have their employee compensation linked to achievement of set goals or performance.

Among respondents, 83 percent have adopted economic value added (EVA) or economic profit (EP), 46 percent total shareholder returns (TSR), and 33 percent shareholder value added (SVA) as their performance metrics. This is consistent with practice of VBM as value metrics together with a value mindset were identified as two dimensions in shareholder value creation (Copeland et al 2000). Leahy (2001), states that the metrics the company chooses to focus on must reflect and support strategic goals and employee compensation must be tied to how well they achieve those metric targets and hence the more value they create to the organization. The study reveals that the practice of VBM is fairly well understood by banks in Kenya.

5.2 The Extent of Awareness and Appreciation of VBM

The study reveals that for 79 percent of the respondent banks, changes in management practice lead to training needs. Training is important for employee to appreciate and understand new management practices. According to Boulos et al (2001), the adoption of a VBM system may lead to a firm reviewing its corporate practices if differences appear between their pursuit of value and its processes.

The study reveals that 54 percent have conducted training on at least 50 percent of their senior management, 63 percent on their middle management and 46 percent of other staff. Ameels et al (2002), argues that training and education programs should be supported by the appointment of a change champion and that the chief executive officer should be a visible leader of the VBM process. The fact that staff training is undertaken on a big scale means that banks in Kenya appreciates the role of staff training in the value process.

When respondents were asked how VBM is practiced, 42 percent said it is done formally, while 25 percent each either did not know or did so informally. This means that 67 percent either practiced formally or informally suggesting that VBM awareness is high among Kenyan banks. The study sought to know how long VBM has been practiced by the respondents. The study shows 25 percent have done so for less than three years, 33 percent between four and six years and 13 percent over seven years. This means the number joining the VBM bandwagon are increasing. 38 percent of the respondents said VBM was their main management focus while only 29 percent said they did not know. This further confirms that VBM is appreciated and there is high degree of awareness.

Asked whether the practice of VBM is desirable, 79 percent said yes, 21 percent did not know and none said it is not desirable. Further checks confirm that all the quoted banks (100 percent) believed that the practice of VBM was desirable as opposed to 60 percent of the non-quoted. This means VBM is more popular among quoted banks and this could be due to the fact that VBM emphasizes value creation and commitment to shareholder value that are easier to measure for quoted banks.

Lastly respondents identified the main problems encountered in implementing the practice of VBM. These were inadequate training (82 percent), difficulty in changing culture (47 percent), lack of commitment, no available benchmarks, and resistance to change at 41 percent each, inadequate resources, communication and preparedness at 35 percent each and lack of change focus at 24 percent.

These results are consistent with other studies by Haspeslagh et al (2001) and Ongwae (2002), who have identified resistance to change, inadequate training, low investment in technology, or processes and difficulty in changing culture as the main problems to VBM implementation. The

degree of awareness and appreciation is quite high for respondents to be able to pinpoint the problems and difficulty in implementing VBM.

5.3 Conclusion.

The focus of the study was on commercial banks that were operational during the time of the study. The questionnaire was sent to all the 42 commercial banks in Kenya and 24 questionnaires were received back as completed, a few were returned unanswered and no amount of persuasion could move some of the banks to agree to answer the questionnaire.

Responses were received from all the 7 quoted banks while only 17 (48.7 percent) of the non-quoted banks responded.

The study revealed that all banks have goals, 83 percent have mission statement and 79 percent have vision statements. A review of the vision and mission statement shows that for most Kenyan banks, their main goals are maximizing shareholder value, being good corporate citizens, attaining market leadership, increasing their profitability and innovating new products and services.

The study also revealed that the chief executive officer, board of directors, resources available for deployment, senior management, market and competitive forces have a major effect on the formulation and implementation of company goals. Most banks revise and review their goals within a period of five years and only a minority (25 percent) did this after five years.

These results are consistent with the result of research by Boulos et al (2001) and Haspeslagh et al (2001), who found that chief executive officers played the largest role in formulating and implementing company goals. When asked which factors had the most influence on management practices, the responses were, the chief executive officer, customer satisfaction, board of directors, changes in technology, desire to increase market share and competitive forces in the market in that order. The study reveals further that management practices have the greatest impact on operational practices, customer satisfaction, cost management, earning per share, income diversification and organizational culture, in that order Because the chief executive played the greatest role on the formulation of goals, their implementation and on the choice of management practices, it was important to know how long they serve in those positions. The response was 58 percent served for period up to five years and 38 percent more than five years.

It was found out also that company performance was affected most by investment in information technology, prevailing economic climate, leadership commitment, improved customer service, choice of chief executive officer, improved internal collaboration and increased product range in that order. A look at the above drivers of performance and management practices reveals most of these drivers have a common theme with the characteristics of VBM companies. VBM companies have management focus, value creation or shareholder value, communication and internal collaboration, strategy development, employee training and education as key prerequisites to the practice of VBM.

Banks also have explicit financial target and goals, have stretching value targets, align training to changes in management practices, have policies on employee compensation, and link compensation

to performance and achievement of set value targets. These characteristics are consistent with the practice of VBM.

The study also reveals that most banks (71 percent) practice VBM. A majority of those practicing do so formally. Among those that practices VBM, 38 percent said that it was their main management focus while 42 percent said it was not. VBM was found to be practiced more widely among banks that were quoted on the stock exchange (86 percent) as opposed to those that were not quoted (65 percent). It was found out that most of those who practice VBM had done so for up to six years (58 percent) and 13 percent had done so for over seven years.

The findings reveals that economic value added (EVA) or economic profit (EP) was the most common measure of performance or metric at 83 percent, total stakeholder return (TSR) at 46 percent and shareholder value added (SVA) at 33 percent. Among quoted banks, 100 percent had adopted EVA/EP while among the no-quoted 71 percent had. However, among the later group, TSR was adopted by 47 percent. These indicate that among VBM banks, the most EVA/EP was the most adopted metric.

The findings also reveal that VBM impacted on performance as it improved investment decisions, led to increased profits, enhanced strategy formulation, improved decision making, led to increased organizational value, led to goal congruence, enhance communication and training, and enabled benchmarking. These are also among the key benefits of VBM, indicating Kenyan banks have adopted VBM to help achieve better corporate results.

Among respondents, 79 percent found VBM desirable and none found it undesirable. Among those who practiced VBM, 100 percent found it desirable, 60 percent of those that did not practice found it desirable. This suggests that VBM is a much desired practice among banks in Kenya. The main difficulties identified as experienced during implementation are inadequate training, difficulty in changing culture, lack of commitment, no available benchmarks, resistance to change, inadequate resources and communication. These were among the problems identified by the Boulos et al (2000) study on VBM.

From the study, it is clear that most banks desire the practice of VBM, a good majority 71 percent practices it and a bigger majority 83 percent adopted EVA/EP as their key performance metrics. These findings are consistent with the practice of VBM and therefore banks in Kenya are highly aware and appreciate VBM.

5.4 Recommendations of the Study

The study shows that among the banks practicing VBM, the practice has been implemented in full. This could be due to the problems identified as hindering implementation or to other factors. A good 29 percent did not practice VBM and among those who practiced, only 42 percent did so formally. Also only among 38 percent did VBM feature as the main management focus. Therefore the practice of VBM among banks in Kenya scores mixed results. The following recommendations are suggested;

First, VBM should be popularized especially companies who do not practice so that they can benefit from the various benefits of VBM. These would help them commit themselves to creating value for their stakeholders, which is a desirable corporate objective. VBM would also ensure a focused, committed leadership, who would guarantee organizational survival and growth through superior performance.

Second, companies especially banks should implement VBM fully. That is to say that they should focus their resources, leadership, training, and strategy towards delivering superior stakeholder value. They should ensure committed leadership, have value centers, enhance their communication, align strategy formulation to goals, choose and designate value metrics, and implement training and education programs. Adoption of these measures will lead to enhanced value creation and sustainable competitive advantage, which is incorporated in their corporate DNA.

5.5 Limitations of the Study

The study was limited by the following reasons;

First, the available time and resources to conduct a more detailed study were limited.

Second, some respondents did not answer some of the questions as they were too conscious of disclosing too much information. From the responses, the effect of this guardedness could not be quantified. In some cases, some information was only disclosed after a lot of verbal persuasion.

Third, was the failure by 18 (43 percent) banks to respond. Although all the major banks responded, the high number of the overall who did not could potentially alter the overall findings of this study.

Fourth, no attempt was made to find out whether the practice of VBM led to better performance among the banks. Also the benefits and cost of implementing VBM was neither quantified nor directly assessed. It was not clear what factors led some banks to practice VBM and others not to.

It is therefore suggested that further studies be carried out to find out why some banks did not practice VBM, what quantifiable benefits can be derived from such practice, and what level of resources need to be deployed to ensure a successful VBM practice.

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Appendix One: Commercial Banks in Kenya (2005).

Non Listed

1. ABC Bank
2. Akiba Bank
3. Bank of Baroda
4. Bank of India
5. Charterhouse Bank.
6. Chase Bank
7. Citibank N A
8. .City Finance Bank
9. Commercial Bank of Africa
10. Consolidated Bank
11. Co-operative Bank of Kenya
12. Credit Agricole Indosuez
13. Credit Bank
14. Development Bank of Kenya
15. Dubai Bank
16. Equatorial Commercial Bank
17. Fidelity Commercial Bank
18. Fina Bank
19. Giro Commercial Bank
20. Guardian Bank
21. Habib AG Zurich
22. Habib Bank Ltd
23. Imperial bank
24. Industrial Development Bank
25. Investments & Mortgages
26. K-Rep Bank
27. Middle East Bank
28. Oriental Commercial Bank.
29. Paramount Universal Bank
30. Prime Bank
31. Prime Capital & Credit
32. Southern Credit Bank
33. Stanbic Bank
34. Trans-National Bank
35. Victoria Commercial Bank

Listed at the NSE

1. Barclays Bank of Kenya
2. CFC Bank
3. Diamond Trust
4. Kenya Commercial Bank
5. National Bank of Kenya
6. NIC Bank
7. Standard Chartered Bank

Appendix Two: Letter of Introduction.

May 11, 2005.

Dear Sir/Madam:

Subject: MBA RESEARCH PROJECT

The undersigned is a post graduate student at the University of Nairobi, Faculty of Commerce, and as part of the requirements for award of the degree of master of Business Administration, is required to undertake a management research project. He is undertaking a study on the practice of Value Based Management (VBM) among commercial banks in Kenya.

You have been selected for inclusion in this study. This is to kindly request you to assist the student by filling out the accompanying questionnaire.

The information collected will used exclusively for research and will be held in strict confidence. Your name will not appear in the final report. The findings of the survey will be coded so as not to disclose the identity of the individual respondents.

Your input and co-operation is highly appreciated.

Yours faithfully,

Paul Kariuki.
MBA student.

Prof. E O Aosa.
Supervisor.

Appendix Three: The Questionnaire.

Part 1

1. How long has your bank been operational in Kenya? ....
2. Do you have goals, vision and mission statements?

Goals	Yes [ ]	No [ ]
Vision statement	Yes [ ]	No [ ]
Mission Statement	Yes [ ]	No [ ]

a) What are these goals?

Financial	[ ]
Non- financial	[ ]
Social	[ ]
All above	[ ]
Other	[ ]

b) What is your vision statement

....

....

b) What is your mission statement

....

....

c) What are your key goals?

Financial:..

....

Non-Financial:

....

....

Social:

....

....

3. What would you say is the core business of your bank?

Retail banking	[ ]
Corporate banking	[ ]
Consumer banking	[ ]
Other	[ ]

4. On a scale of 1(least) – 5(highest). how would you rate the effect of following on your banks formulation of its goals?

	1	2	3	4	5
Chief executive officer	[ ]	[ ]	[ ]	[ ]	[ ]
Board of directors	[ ]	[ ]	[ ]	[ ]	[ ]
Industry regulator	[ ]	[ ]	[ ]	[ ]	[ ]
Key shareholders	[ ]	[ ]	[ ]	[ ]	[ ]
Legal requirements	[ ]	[ ]	[ ]	[ ]	[ ]
Mission statement	[ ]	[ ]	[ ]	[ ]	[ ]
Economic forces	[ ]	[ ]	[ ]	[ ]	[ ]
Competitive forces	[ ]	[ ]	[ ]	[ ]	[ ]
Employees	[ ]	[ ]	[ ]	[ ]	[ ]
Available resources	[ ]	[ ]	[ ]	[ ]	[ ]
Government policy	[ ]	[ ]	[ ]	[ ]	[ ]
Senior management	[ ]	[ ]	[ ]	[ ]	[ ]
Market forces	[ ]	[ ]	[ ]	[ ]	[ ]

5. How often do you revise your goals

Annual	[ ]
1-5 years	[ ]
After 5years	[ ]

6. To what extent have the following factors affected your bank's performance?

	1	2	3	4	5
Choice of Chief executive officer	[ ]	[ ]	[ ]	[ ]	[ ]
Increases in bad debts	[ ]	[ ]	[ ]	[ ]	[ ]
Insider loans	[ ]	[ ]	[ ]	[ ]	[ ]
Commitment to shareholder value	[ ]	[ ]	[ ]	[ ]	[ ]
Investment in information technology	[ ]	[ ]	[ ]	[ ]	[ ]
Improved internal collaboration	[ ]	[ ]	[ ]	[ ]	[ ]
Prevailing economic climate	[ ]	[ ]	[ ]	[ ]	[ ]
Leadership commitment	[ ]	[ ]	[ ]	[ ]	[ ]
Merger/acquisitions	[ ]	[ ]	[ ]	[ ]	[ ]
Investment in training	[ ]	[ ]	[ ]	[ ]	[ ]
Downsizing/cost management	[ ]	[ ]	[ ]	[ ]	[ ]
Increased product range	[ ]	[ ]	[ ]	[ ]	[ ]
Creation of value centers	[ ]	[ ]	[ ]	[ ]	[ ]
New product development	[ ]	[ ]	[ ]	[ ]	[ ]
Improved customer service	[ ]	[ ]	[ ]	[ ]	[ ]

7. What is the size of your bank's staff complement?

Less than 200 [ ]

201-500 [ ]

501-1500 [ ]

Over 1501 [ ]

Part II

8. What is the average duration of your chief executive officer's tenure?

Less than 2 years [ ]

2-5 years [ ]

Over 5years [ ]

9. On a scale of 1(least) – 5(highest), how would you rate the effect of following on your banks management practices?

	1	2	3	4	5
Chief executive officer	[ ]	[ ]	[ ]	[ ]	[ ]
Board of directors	[ ]	[ ]	[ ]	[ ]	[ ]
Industry regulator	[ ]	[ ]	[ ]	[ ]	[ ]
Competitive forces	[ ]	[ ]	[ ]	[ ]	[ ]
Employee compensation	[ ]	[ ]	[ ]	[ ]	[ ]
Desire to increase profits	[ ]	[ ]	[ ]	[ ]	[ ]
Desire to increase market share	[ ]	[ ]	[ ]	[ ]	[ ]
Changes in technology	[ ]	[ ]	[ ]	[ ]	[ ]
Changes in interest rate	[ ]	[ ]	[ ]	[ ]	[ ]
Customer satisfaction	[ ]	[ ]	[ ]	[ ]	[ ]
Employee unions	[ ]	[ ]	[ ]	[ ]	[ ]
Consultants/advisors	[ ]	[ ]	[ ]	[ ]	[ ]

10. On a scale of 1(least) – 5(highest), how would you rate the impact of your management practices on the following?

	1	2	3	4	5
Earnings per share	[ ]	[ ]	[ ]	[ ]	[ ]
Market price	[ ]	[ ]	[ ]	[ ]	[ ]
Employee training	[ ]	[ ]	[ ]	[ ]	[ ]
Profits by SBU	[ ]	[ ]	[ ]	[ ]	[ ]
Operational practices	[ ]	[ ]	[ ]	[ ]	[ ]
Cost management	[ ]	[ ]	[ ]	[ ]	[ ]
Income diversification	[ ]	[ ]	[ ]	[ ]	[ ]
Organizational culture	[ ]	[ ]	[ ]	[ ]	[ ]
Market share	[ ]	[ ]	[ ]	[ ]	[ ]
Customer satisfaction	[ ]	[ ]	[ ]	[ ]	[ ]
Public perception	[ ]	[ ]	[ ]	[ ]	[ ]
Need to get public	[ ]	[ ]	[ ]	[ ]	[ ]

11. Please answer the following questions

Do you have explicit financial goals	Yes [ ]No [ ]
Do you have explicit profit targets	Yes [ ]No [ ]
Do you think your goals are stretching	Yes [ ]No [ ]
Do you achieve your goals all the time	Yes [ ]No [ ]
Changes in management practice lead to training needs	Yes [ ]No [ ]
Do you have policy on employee compensation	Yes [ ]No [ ]
Is compensation linked to performance	Yes [ ]No [ ]

12. a) Has employee training been necessitated by changes in management practice?

Yes [ ] No [ ]

b) What cadre and proportion of staff has been affected by the training conducted?

	0-25%	25-50%	50-75%	over 75%
Senior management	[ ]	[ ]	[ ]	[ ]
Middle management	[ ]	[ ]	[ ]	[ ]
Supervisory	[ ]	[ ]	[ ]	[ ]
Junior staff	[ ]	[ ]	[ ]	[ ]
Other	[ ]	[ ]	[ ]	[ ]

Part 111

13. Does your bank practice Value Based Management (VBM)?

Yes [ ]
No [ ]
Don't know [ ]

14. How is VBM practiced in your bank?

Formally [ ]
Informally [ ]
Explicitly [ ]
Implicitly [ ]
Do not know [ ]

15. Is VBM the bank's main management focus?

Yes [ ]
No [ ]
Don't know [ ]

16. For how long have you practiced VBM?

Less than 3 years [ ]

4-6 years [ ]

Over 7years [ ]

Not applicable [ ]

17. What performance metrics has your bank adopted?

Total Shareholder Return-TSR [ ]

Economic Value Added-EVA [ ]

Economic Profit-EP [ ]

Market Value Added-MVA [ ]

Shareholder Value Added-SVA [ ]

Other (specify) [ ]

18. How widely are the above metrics applied in your bank?

Across the bank [ ]

Head office [ ]

Strategic business units [ ]

Other (specify) [ ]

19. On a scale of 1(least) – 5(highest). how would you rate the impact of VBM practices on your bank under the following?

	1	2	3	4	5
Increased organization value	[ ]	[ ]	[ ]	[ ]	[ ]
Market price	[ ]	[ ]	[ ]	[ ]	[ ]
Led to goal congruence	[ ]	[ ]	[ ]	[ ]	[ ]
Increased profits	[ ]	[ ]	[ ]	[ ]	[ ]
Enhanced communication	[ ]	[ ]	[ ]	[ ]	[ ]
Enhanced strategy formulation	[ ]	[ ]	[ ]	[ ]	[ ]
Income diversification	[ ]	[ ]	[ ]	[ ]	[ ]
Enhanced training	[ ]	[ ]	[ ]	[ ]	[ ]
Improved the decision making	[ ]	[ ]	[ ]	[ ]	[ ]
Enabled benchmarking	[ ]	[ ]	[ ]	[ ]	[ ]
Enhanced employee motivation	[ ]	[ ]	[ ]	[ ]	[ ]
Resulted in culture changes	[ ]	[ ]	[ ]	[ ]	[ ]
Increased shareholder value	[ ]	[ ]	[ ]	[ ]	[ ]
Led to employee ownership of decisions	[ ]	[ ]	[ ]	[ ]	[ ]
Improved governance	[ ]	[ ]	[ ]	[ ]	[ ]
Improved investment decisions	[ ]	[ ]	[ ]	[ ]	[ ]

20. Do you consider the practice of VBM desirable?

Yes [ ]

No [ ]

Don't know [ ]

21. What have been the main problems in implementing VBM?

Lack of commitment [ ]

Inadequate training [ ]

Lack of unifying company goal [ ]

Inadequate resources [ ]

No available benchmarks [ ]

Inadequate communication [ ]

Difficulty in changing culture [ ]

Inadequate preparedness [ ]

Lack of clear change focus [ ]

Resistance to change [ ]

Other [ ]

DETAILS OF THE RESPONDENT

Your position..

Number of years in position...

Number of years in the bank...

Thank you for taking your time.