BUSINESS PROCESS RE-ENGINEERING AND STRATEGY DEVELOPMENT IN THE KENYA COMMERCIAL BANK LTD

BY:

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DECLARATION

This research project is my original work and has not been presented for examination in any other university.

Signed ………………………… Date ………………………….

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

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DEDICATION

This paper is dedicated my dear mother for setting a strong foundation for my education and to my siblings, Wesley, Gilbert and Faith, for their love and support. I acknowledge and appreciate the time and effort expended by my supervisor and my colleagues at work, which has enabled me, achieve my desire.

ABSTRACT

The purpose of this study was to establishcontribution of Business Process Re-engineering to strategy development at Kenya Commercial to contend with continuously changing conditions due to pressure from competitive markets and the rapid evolution of information communication technology to construct their processes and improve how they conduct business. Researcher was guided by the following research question; what contribution does Business Process Re-engineering give to strategy development at Kenya Commercial Bank?

The research design employed in this study was descriptive in nature. Descriptive studies describe the characteristics associated with the subject population. The target population in the study wasKenya Commercial Bankstaff establishment of about 4000 employees as at December 2012 and we used stratified sampling technique to select the sample. We discovered and measured cause and effect relationships among variables, guided by the independent variables using questionnaires and interview data collection methods and analyzed using content analysis, the results presented herein. The descriptive design gave proper and succinct recommendations to the management of Kenya Commercial Bank. The banking industry is a fast changing environment and so there is a need to improve services and add value to meet customer demands. Business Process Re-engineering is a strategic tool and a core competence to an organization which assists players in the industry to gain competitive advantage and this study seeks to understand its relevance in this fast changing environment. The results from this study is of importance to Kenya Commercial Bank as well as any party interested in the development of the financial

sector in Kenya.

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CHAPTER ONE: INTRODUCTION

1.1 Background of the Study

To survive in today's business environment, a company's management team must be able a react to the changes in the internal and external environment (Meyer and Rowan, 1997). By understanding the business environments and how they affect the businesses, one can locate and correct problems before they become crippling. According to Scherrer (2003), businesses are confronted with unique challenges caused by rapidly changing financial and market conditions. The current business environment is of unpredictable instability which can lead a business into rapid decline if its management team does not understand the signals of a declining business. Jelassi and Enders (2005), outline the fundamental reasons why an organization may find it necessary to have a strategy is to define the long-term direction of the organization, the development of an overall plan for deploying organization resources, determination of the necessary tradeoffs, to define its unique positioning vis a vis competitors and to achieve sustainable competitive advantage over rivals in order to ensure lasting profitability. Ahuja (2004) suggests that a strategic plan and strategic planning process itself offers a competitive edge and enables a company to measure achievements against expectations.

The idea of re-engineering was first propounded in an article in Harvard Business Review in July – August 1990 by Michael Hammer, then a professor of Computer science at MIT. Business Process Re-engineering promised a novel approach to corporate change, and was described by its inventors as a "fundamental rethinking and radical redesign of business processes to achieve dramatic improvements in critical measures of performance such as cost, quality, service and speed", Hammer (1990). Financial management institutions have to contend with continuously changing conditions due to pressure from competitive markets and from the rapid evolution of information communications technology. The ever present competition gives rise to the steady development of new services and financial products that must be developed and sold effectively (Osano, 2009).Osano (2009) wrote "In a fiercely competitive environment the advantage one financial institution has over another lies in the value added services it's prepared to offer.

The essence of the Resource Based View is that competitive advantage is created when resources that are owned exclusively by the firm are applied to developing unique competencies.First coined by Birger Wernefelt (1984), to advance the idea that strategy of a firm, is a function of the complement of the resources held.The resulting advantage can be sustained due to lack of substitution and imitation by the firm's competitors.Companies are different collections of resources (tangible and intangible assets/capabilities). No two companies are alike in terms of the resources they hold. The resources a company holds determine how well that company perform its activities. A company will be positioned to succeed if it has the best and most appropriate stock of resources relevant for its business and strategy.Competitive advantage ultimately can be attributed to ownership of valuable resources that enable the company perform its activities better than competitors. Organizational capabilities are defined by the complex combination of assets, people and processes that companies use to transform inputs into outputs.

This means that the thinking, attitudes, skills and decisions banks make must reflect a new reality of rethinking their role in new markets, new products, oncoming client demand and high technology. A growing number of retail firms are offering financial services that were once a monopoly of banks. Furthermore these non banks are free from the legal reins that apply to commercial banks (Osano, 2009). This presents an opportunity for banks such as KCB to gain competitive advantage in the market by employing strategies such as business process re-engineering.

1.1.1 Concept of Strategy

Quinn (1980) defines strategy as a plan that puts together an organization's major goals, policies and actions to ensure its continuity and survival. The environment is always changing and the survival of organizations will highly depend on their ability to identify potential threats and come up with ways of dealing with them so as to ensure continuity. Organizations must be responsive to the external demands and expectations in order to survive (Meyer and Rowan, 1977). An organizational strategy is a broad based formula on how a business is going to accomplish its mission, what its goals should be, what plans and policies it will need to accomplish these goals. An organizations strategy addresses fundamental questions about the current position of a company and its future directions. (Jelassi and Enders, 2005). Pearce and Robinson (2010), define strategy as large scale, future oriented plans for interacting with the competitive environment to achieve company objectives. It's a company's game plan.

According to Turban et al (2008), strategy is more than determining what a company should do next. Strategy is also about making tough decisions about what not to do. A strategy is important for the reasons cited above but the process of developing a strategy may be even more important. No matter how large or small an organization, the strategic planning process forces corporate executives, a company general manager, or a small business owner to assess the current position of the firm, where it should be and how to get there. The process involves stakeholders such as board of directors, employees, and strategic partners. This involvement ensures the stakeholders buy into the strategy and reinforces stakeholder commitment to the future of the organization.

Turban (2008) outlines four strategic planning phases namely strategy initiation, formulation, implementation and assessment. A cyclical approach to strategic planning is required since during assessment of a strategy, it may be discovered that the strategy is not effective. Grant (2002) argues that a successful strategy is consistent with the organizations goals and values, external environment, resources and capabilities and organization systems. The organization depends on environment for its survival and responses to the environmental situation determine its performance.

1.1.2 StrategyDevelopment

The current business environment is of unpredictable instability which can lead a business into rapid decline if its management team does not understand the signals of a declining business. Jelassi and Enders (2005) outline the fundamental reasons why an organization may find it necessary to have a strategy is to define the long-term direction of the organization, the development of an overall plan for deploying organization resources, determination of the necessary tradeoffs, to define its unique positioning vis a vis competitors and to achieve sustainable competitive advantage over rivals in order to ensure lasting profitability.Strategy is about the long term direction of an organization.

It is typically thought of in terms of major decisions about the future.However it is a mistake to conceive of organizational strategy as necessarily developing through one-off major changes.

In every company there are two independent and simultaneous processes through whichstrategy comes to be defined. The first strategy-making process is conscious and analytical,involving assessments of market structure, competitive strengths and weaknesses, the nature ofcustomer needs, and the drivers of market growth. Strategy in this process typically isformulated in a project with a discrete beginning and end. Top-tier management consultantsoften manage these projects. The result of this process is an intended or deliberate strategy.

The second strategy-making process has been termed emergent strategy. It is thecumulative effect of day-to-day prioritization decisions made by middle managers, engineers,salespeople and financial staff – decisions that are made despite, or in the absence of,intentions. In fact, managers typically do not frame these decisions as strategic at all, at thetime they are being made; they have a decidedly tactical character. Once an organization has adopted a particular strategy, it tends to develop from and within that strategy, rather than fundamentally changing direction. Historical studies of organizations have shown that there are usually long periods of relative continuity. At this point strategy remains unchanged or changed incrementally, there are also periods of flux in which strategies change but in not very clear direction.Transformational change in which there is fundamental change in strategic direction does take place but is infrequent. Strategy development is key in capturing objectives and how the business will go about realising the same.

1.1.3 Business Process Re-engineering

A company periodically needs to shake itself up, regardless of the competitive landscape. The longer things are done in a particular way, the harder it is to adapt when markets shift. Worse, the less people in organizations explore and search for new opportunities the less capable they are of doing so. As James March of Stanford University famously explained: Exploitation (doing what works today) drives out exploration (seeking out risky but potentially valuable new ways of doing things). Business process re-engineering (BPR) relies on a different school of thought than continuous process improvement. In the extreme, re-engineering assumes the current process is irrelevant - it doesn't work, it's broke, forget it. Start over. It involves rethinking all aspects of a business process including its purpose, tasks, structure, technology and outputs, then redesigning them from scratch to deliver value added process outputs more efficiently and effectively (Steve et al, 2001).

It begins with defining the scope and objectives of the re-engineering project, going through a learning process (with customers, employees, competitors and non-competitors, and with new technology). Given this knowledge base and the definition of the "to be" state, create a vision for the future and design new business processes.

Then create a plan of action based on the gap between the current processes, technologies and structures, and the “to be” state and then a matter of implementing your solution.

1.1.4 Kenya Commercial Bank

Kenya Commercial Bank is the largest commercial bank in Kenya with subsidiaries in Uganda, Tanzania, Rwanda, South Sudan and Burundi. The bank has a branch network of more than 170 branches in Kenya alone. This makes it a market leader in the country and in the east African region.

Kenya Commercial Bank is regulated by the Central Bank of Kenya, CBK Act Cap 411 and the Banking Act Cap 488. These acts are intended to primarily facilitate the development and maintenance of a sound monetary policy (GOK, 2006). The CBK which falls under the Ministry of Finance docket is responsible for the formulating and implementing of monetary policy and fostering the liquidity solvency and proper functioning of the financial system. The central issue for the central bank of Kenya is how best to promote access to the financial system by a wider segment of the population.

In the quest for market domination, leading banks have to contend with continuously changing conditions due to pressure from competitive markets and from the rapid evolution of information communications technology. The ever present competition gives rise to the steady development of new services and financial products that must be developed and sold effectively (Osano, 2009).For instance, Kenya Commercial Bank adopted the T24 system and came up with KCB Mobi, KCB mtaani and internet banking changing the way customer’s access finances and issue requests and other banking needs.

This service provides account holders with the flexibility and capability to fit their everyday banking needs into their lifestyles. They no longer have to visit the bank to transact. This is an example of the application of business process re-engineering, where the process of issuance of instructions has been automated and the signature and proof of identity has been replaced with passwords and user identities/ usernames.

1.2 Research Problem

To survive in today's business environment, a company's management team must be able to react to changes in the external and internal environment. By understanding their environments, they can locate and correct problems before they become crippling to them and finally lead to the death of the company. BPR as a term and as a practice has not been fully understood nor appreciated. It is considered as just another management fad and a fashionable buzzword by business executives and managers and as a result many changes being done in organizations end up being called re-engineering. Others see it as a shallow intellectual justification for downsizing, a process of slimming down that was being forced on many corporations by developments in it. It has often been blamed for the widespread lay-offs that have become part of almost every company's radical redesign. Many scholars see re-engineering as a return to the mechanistic ideas of Frederick Winslow Taylor.As explained by Hammer and Champy (1993), the four general themes of BPR are process orientation, the creative use information technology (IT), ambition and rule breaking. Such a clean slate perspective enables the designers of business processes to disassociate themselves from today's process, and focus on a new process.

Various studies have been conducted by scholars on the concept of business process re-engineering. Disii (2011), discussed, on his unpublished paper, implementation of business process re-engineering and benchmarking at Kenya Ports Authority. BPR and benchmarking were undertaken at the port, even though the correctness of their implementation was unconvincing.Hindrances were political interference, changes in top management and wrong attitude to change. Recommendation was business process improvement operations need to be divorced from external interferences if success in the magnitude intended was to be achieved. Mutegi (2010) studied Effectiveness of the BPR practice at the UNDP Kenya office. His recommendation was that companies should not be hesitant to implement radical changes as BPR can actually lead to improved cost management and customer care and thus leading to production efficiency. Organisations should seek to change entire orgs as opposed to some departments. Mutua (2010) discussed the Influence of BPR to customer satisfaction in KPLC. The project talks of a shift from task based thinking to process based thinking. This helped KPLC respond to the customer needs and in turn improved customer satisfaction. These studies have been instrumental in determining BPR is conceptualised, and implemented by institutions across all sectors. This is very important especially to the service industry and the more competitive and robust industry like banking, they help to shed some light on the importance of Business process re-engineering.

The methods used by companies for improving business processes have been effective to obtain gradual, incremental improvement. However, several factors have accelerated the need to improve business processes. Because the rate of change has increased for everyone, few businesses can afford a slow change process. One approach for rapid change and dramatic improvement that has emerged is Business Process Re-engineering (BPR). This study will therefore help in gathering information with regard to;what contribution does BPR give to strategy development at KCB?

1.3Research Objectives

The objective of this study was to determine the contribution of BPR to strategy development at KCB.

1.4Value of Study

The findings in this study will also be beneficial to scholars in the business process re-engineering to identify gaps that need to be expounded upon. This study will also enrich the scholarly work on Business Process Re-engineering.

The study may also be of great use to government institutions such as treasury and ministry of finance in coming up with different policies and regulations for the improvement of the banking industry in Kenya.

The findings in the study will be useful to top management of the different commercial banks in Kenya since they will be able to know the contribution of business process re-engineering to strategy development in KCB.

CHAPTER TWO: LITERATURE REVIEW

2.1 Introduction

This chapter presents a review of literature on the subject under study presented by various researchers, scholars, analysts and authors. The facets in this chapter include the concept of strategy, Business Process Re-engineering and the Resource Based View. The chapter is structured on the basis of the research question:What contribution does BPR give to strategy development at KCB?

2.2 Theoretical Foundation

The environment is always changing and the survival of organizations will highly depend on their ability to identify potential threats and come up with ways of dealing with them so as to ensure continuity. Organizations must be responsive to the external demands and expectations in order to survive (Meyer and Rowan, 1977). An organizational strategy is a broad based formula on how a business is going to accomplish its mission, what its goals should be, what plans and policies it will need to accomplish these goals.Someaspects of theories are thought of long before they are formally adopted and brought together into the strict framework of an academic theory. The same could be said with regard to the resource-based view.

While this influential body of research within the field of Strategic Management was named by Birger Wernerfelt in his article A Resource-Based View of the Firm (1984), the origins of the resource-based view can be traced back to earlier research. Retrospectively, elements can be found in works by Coase (1937), Selznick (1957), Penrose (1959), Stigler (1961), Chandler (1962, 1977), and Williamson (1975), where emphasis is put on the importance of resources and its implications for firm performance (Conner, 1991, p122; Rumelt, 1984, p557; Mahoney and Pandian, 1992, p263; Rugman and Verbeke, 2002). This paradigm shift from the narrow neoclassical focus to a broader rationale, and the coming closer of different academic fields (industrial organization economics and organizational economics being most prominent) was a particular important contribution (Conner, 1991, p133; Mahoney and Pandian, 1992).

The resource based view has been a common interest for management researchers and numerous writings could be found for same. A resource-based view of a firm explains its ability to deliver sustainable competitive advantage when resources are managed such that their outcomes cannot be imitated by competitors, which ultimately creates a competitive barrier (Mahoney and Pandian 1992 cited by Hooley and Greenley 2005, p. 96, Smith and Rupp 2002, p. 48).

Resource Based View explains that a firm's sustainable competitive advantage is reached by virtue of unique resources being rare, valuable, inimitable, non-tradable, and non-substitutable, as well as firm-specific (Barney 1999 cited by Finney et al.2004, p. 1722, Makadok 2001, p. 94). These authors write about the fact that a firm may reach a sustainable competitive advantage through unique resources which it holds, and these resources cannot be easily bought, transferred, or copied, and simultaneously, they add value to a firm while being rare. It also highlights the fact that not all resources of a firm may contribute to a firm's sustainable competitive advantage. Varying performance between firms is a result of heterogeneity of assets (Lopez 2005, p. 662, Helfat and

Peteraf 2003, p. 1004) and RBV is focused on the factors that cause these differences to prevail (Grant 1991, Mahoney and Pandian 1992, cited by Lopez 2005, p. 662).

The essence of the Resource Based Model is that competitive advantage is created when resources that are owned exclusively by the firm are applied to developing unique competencies.First coined by Birger Wernefelt (1984), to advance the idea that strategy of a firm, is a function of the complement of the resources held.The resulting advantage can be sustained due to lack of substitution and imitation by the firm’s competitors.Companies are different collections of resources (tangible and intangible assets/capabilities). No two companies are alike in terms of the resources they hold. The resources a company holds determine how well that company perform its activities. A company will be positioned to succeed if it has the best and most appropriate stock of resources relevant for its business and strategy.Competitive advantage ultimately can be attributed to ownership of valuable resources that enable the company perform its activities better than competitors. Organizational capabilities are defined by the complex combination of assets, people and processes that companies use to transform inputs into outputs.

Desired features to maintain a competitive strategy include; inimitability, durability, appropriability, substitutability and competitive superiority(Barney 1999 cited by Finney et al.2004, p. 1722, Makadok 2001, p. 94). Inimitability, may be in form of physical uniqueness like location, patent rights, skills that are unique gained through learning over time and refined by practice.Continued innovation will ensure durability in the face of changing environment.Value resides in many areas, like customers, suppliers, employees and shareholders. The various value claimants do appropriate a major portion of value added.Substitutabilityrefers to the ability of the firm to deliver on its desired positioning strategy. Building on the key resources necessary for the given strategy will greatly enhance the effectiveness with which a firm will achieve its strategic desires. In competitive superiority, a firm's resources should be assessed and evaluated relative to those of competitors.

2.3 Concept of Strategy and Strategy Formulation

Quinn (1980) defines strategy as a plan that puts together an organization's major goals, policies and actions to ensure its continuity and survival. The environment is always changing and the survival of organizations will highly depend on their ability to identify potential threats and come up with ways of dealing with them so as to ensure continuity. Organizations must be responsive to the external demands and expectations in order to survive (Meyer and Rowan, 1977).

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2.4Strategy Development and Business Process Re-engineering

The current business environment is of unpredictable instability which can lead a business into rapid decline if its management team does not understand the signals of a declining business. Jelassi and Enders (2005), outline the fundamental reasons why an organization may find it necessary to have a strategy is to define the long-term direction of the organization, the development of an overall plan for deploying organization resources, determination of the necessary tradeoffs, to define its unique positioning vis a vis competitors and to achieve sustainable competitive advantage over rivals in order to ensure lasting profitability.Strategy is about the long term direction of an organization.It is typically thought of in terms of major decisions about the future.However it is a mistake to conceive of organizational strategy as necessarily developing through one-off major changes.

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As explained by Hammer and Champy (1993), the four general themes of BPR are process orientation, the creative use information technology (IT), ambition and rule breaking. Such a clean slate perspective enables the designers of business processes to disassociate themselves from today's process, and focus on a new process.

CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Introduction

Research is defined as the process of arriving at a dependable solution to a problem through planned and systematic collection, analysis and interpretation of data. The research methodology used in this study highlighted the overall approach taken in terms of the research design, data collection, respondents, data collection procedures and data analysis. This chapter provides a discussion of the research methodology that has been used in this study. It discusses the research design especially with respect to the choice of the design.

3.2 Research Design

The research was designed in form of a case study of Kenya Commercial Bank. The researcher opted to study Kenya Commercial Bank since it is the largest commercial bank in the East Africa in terms of asset base. It is also a pioneer bank in the region hence has had to adapt to the changing environment over the years making it most suitable for this study.

It will also enable the researcher to probe and obtain an in-depth understanding of the contribution of business process re-engineering to strategic development adopted by Kenya Commercial Bank.

3.3 Data Collection

Data for this study was collected using a semi-structured interview guide. Open ended questions were employed to make the interview guide easy to understand.The researcher also visited the human resources manager for Kenya Commercial Bank and asked for the authority to administer the instruments. The research targeted eight heads of divisions in Kenya Commercial Bank since they are the key informants and are involved in the active process of coming up with different strategies to be employed by the bank, ten middle level managersand ten clerical staff from different branches. Primary data was collected from the key informants above as well as secondary data from using books journals and magazines.

3.4 Data Analysis

All the interview guide forms will be collected and inspected to ensure that they are complete and consistent. Content analysis will be used to analyze the data collected and information was derived from the data thus collected. Content analysis is a technique for making inferences by systematically and objectively identifying specific characteristics of messages and then relating the themes.

Cooper and Schindler (2008), point out that content analysis measures the semantic content or the “what” aspect of the message. Its breadth makes it a flexible and wide ranging tool that may be used as a methodology or as a problem specific technique. The data analysis always kept in mind that the research objective was to find the contribution of BPR to strategic development in KCB.

CHAPTER FOUR: DATA ANALYSIS, RESULTS ANDDISCUSSION

4.1 Introduction

This chapter presents the analysis and findings of the study as set out in the research methodology. The method of data collection was done through an interview guide which was developed in line with the objective of the study. The research objective was to determine contribution of BPR to strategy development at Kenya Commercial Bank.

Primary data was collected from Kenya Commercial Bank’s top management team who included the Divisional Directors of human resources, finance, strategy and research, marketing, retail banking, corporate banking, information technology and the head of communications. These respondents were specifically chosen since they have an in-depth knowledge of the bank and its procedures and are actively involved the formulation and implementation of strategies in the bank.

4.2. Respondents Demographic Profiles

The researcher sought to find out the dominant gender of the respondents being interviewed. Of the eleven respondents chosen, only eight were available for the personal interviews. Of the eight respondents, seven were male and only one was of the female gender. This means that most of the senior management at Kenya Commercial Bank are of the male gender.

4.2.1 Level of Education

The researcher also sought to find out if the bank selects its senior management after completion of a certain level of education. This was fundamental in determining whether the respondents had enough technical knowledge as well as education to be actively involved in the formulation of strategies in the bank.

This would ensure that the respondents are suitable for the study. Of the eight respondents who were available for interviews, all had postgraduate degrees in different fields of study. This means that the respondents have the adequate knowledge base to participate in the study and to formulate sound strategies in the bank.

4.2.2 Number of Years in the Bank

The research also sought to find out the length of time each divisional director had been in employment in the bank. This data was meant to give information as to whether the respondents were sufficiently conversant with issues relating to the bank. It was assumed that the longer the divisional director had been in the bank, the more information he/she had with regard to the formulation of strategies in the bank. From the interviews conducted none of the respondents had worked at the bank for less than one year. Three out of eight, representing 37.5%, of the respondents had been in the bank for between one year and five years. Two out of eight, representing 25%, of the respondents had worked for the bank for a period of between five years and ten years. Three out of eight, representing 37.5%, of the respondents had been in the bank's continued employment for over ten years.

The fact that one of the respondents had been in the bank for a period of less than one year may mean that the bank either has employed new divisional directors in the last year or that the bank had a policy of employing people who have been in the bank to help it chart its way forward. There are three divisions whose director had been in employment with the bank for less than five years. The finding that most of the divisional directors had been in the bank's continued employment for a period of ten years or more may also mean that the bank had persons who are well conversant with the bank and the industry in which it operates.

4.3 Business Process Re-engineering

The respondents were asked to give their understanding of business process re-engineering. This was meant confirm their understanding of the term before we delve further into discussing its use or lack of it in strategy development at KCB. The respondents demonstrated an understanding of the term especially those in senior levels, terming it as a tool that is used to gain sustainable competitive advantage by analyzing business processes and adjusting them accordingly to meet the changing needs of the environment. Respondents at the lower levels understood the term and gave local examples like use of ATMs, internet and mobile banking, customer loan turn-around time reduced to three days due to centralization of the system and such examples.

A great number of the respondents agree that the rate of change is fast. More than half of the respondents agreed that the rate at which the customers' needs are changing is fast while slightly less than half agreed that the rate of change is very fast. However, few of the respondents outlined that the rate of change is slow. This observation implies that the rate of change of our customers' needs is fast tending towards very fast. Whether this rate of change is relevant to organizations will be seen in the succeeding responses.

The respondents were then asked to list in order of priority, the forces that are driving the rate of change. These included; competition, customers, technology and all the above. Majority of the respondents agree that the rate of change of customers' tastes and preferences is significant over time and there is need for willingness within organizations to challenge methods and assumptions to meet their customers' ever changing demands. The driving force to changing customer needs was attributed to current competition, the customers themselves and existing technology i.e. all of the above forces combined. This was supported by majority of the respondents, while few supported only technology. Fewer still said competition drives the rate of change when each force is looked at separately. This observation implies that organisations are operating in an ever changing environment in the area of competition, customers' tastes and preferences and developments within information technology.

These forces are changing the business environment both individually and corporately or combined and there is therefore need for organizations to change appropriately. When asked to list the forces in order of priority, the respondents listed forces driving change, with competition leading, followed by technology then the customer. This implies that the three forces, separately and in combination (as shown above) are driving today's companies deeper and deeper into territory that most executives and managers find frighteningly unfamiliar but need to adapt in order to meet its customers' needs.

Majority of the respondents agreed that willingness to challenge methods and assumptions is directly relevant to achieve process improvement and hence meet customer and/or organisational demands. In a follow-up question on the rate of change required to meet the customer needs they responded as follows: Of the respondents interviewed, slightly more than half of them agreed that dramatic improvement in business processes is required to meet the fast changing customer needs while the remainder of the respondents agreed that small and incremental gains is sufficient to meet the needs of customers. However, none of the respondents outlined that no change is required to meet the customer demands. This observation implies that while customers' needs are changing fast tending towards very fast organizations have also to change through dramatic improvements in their business process in order to meet their customers' demands.

The respondents were then required to list the strongest factor in the need to reorganize between survival, normal profits and supernormal profits. A great number of the respondents agree that there is need to reorganize in the face of a changing environment just to stay even i.e. survival while fewer of the respondents felt that the need to reorganize was driven by a desire to achieve supernormal profits and even fewer to make normal profits. This observation implies that a majority of the respondents believe that the need to reorganize is necessary just to stay even and relevant in the fast changing environment. If these respondents are a true representative of the total workforce then it is evident that today's organizations need to reorganize to survive in business.

The research also sought to find out whether business process re-engineering been applied in strategy implementation at KCB. The respondents opined that has been used extensively over time in strategy development, this they attribute to be in response to the turbulent environment of today and the ever changing customer needs and technological advancements. Those who have been with the bank for longer, suggest an increase in the application of business process re-engineering over the years as compared to yester years. The research sought to determine whether the resource based view has been used in implementing business process re-engineering to obtain a sustainable competitive edge over competition. The respondents opined that, resource based view complements business process re-engineering in that as we change business processes to meet market demands, there is need to reorganize resources to match the new processes hence the complementing nature.

The respondents attributed their complimentary nature to the need to match resources with the changing processes in order to achieve a competitive advantage. Most respondents agreed that business processes needed to adapt to the changing times and that resources needed to match the new or improved processes if the intended strategy is to be realized. The respondents agreed to a large extent that, KCB has sustained its competitive advantage by venturing into the regional block, integrating all its operations using one operating system within the region, sourcing human resource competitively within the region and implementing its strategic intentions cognizant of the different cultures within the region. This they believe has given KCB sustainable competitive advantage and is evidence its adoption of the resource based view.

4.4 Strategy and strategy formulation

The environment is always changing and the survival of organizations will highly depend on their ability to identify potential threats and come up with ways of dealing with them so as to ensure continuity. The respondents interviewed opined that KCB follows a top-down approach to strategy formulation, but they further commented that feedback is collected from staff and customers and this serve as part of the ingredients during strategy formulation. Organizations must be responsive to the external demands and expectations in order to survive. An organizational strategy is a broad based formula on how a business is going to accomplish its mission, what its goals should be, what plans and policies it will need to accomplish these goals. An organizations strategy addresses fundamental questions about the current position of a company and its future directions. Strategy is a large scale, future oriented plans for interacting with the competitive environment to achieve company objectives. It's a company's game plan.

The respondents were then asked to list in order of priority, the forces that are driving the rate of change. These included; competition, customers, technology and all the above. Majority of the respondents agree that the rate of change of customers' tastes and preferences is significant over time and there is need for willingness within organizations to challenge methods and assumptions to meet their customers' ever changing demands.

The driving force to changing customer needs was attributed to current competition, the customers themselves and existing technology i.e. all of the above forces combined. This was supported by majority of the respondents, while few supported only technology. Fewer still said competition drives the rate of change when each force is looked at separately. This observation implies that organisations are operating in an ever changing environment in the area of competition, customers' tastes and preferences and developments within information technology. These forces are changing the business environment both individually and corporately or combined and there is therefore need for organizations to change appropriately. When asked to list the forces in order of priority, the respondents listed forces driving change, with competition leading, followed by technology then the customer. This implies that the three forces, separately and in combination (as shown above) are driving today's companies deeper and deeper into territory that most executives and managers find frighteningly unfamiliar but need to adapt in order to meet its customers' needs.

The respondents opined that in strategy formulation it is key to determine the forces that are driving change, and take this into consideration if we are to gain and maintain a competitive advantage.

4.5Business Process Re-engineering and Strategy Development

The research sought to find out whether business process re-engineering is used in developing strategy at KCB. The respondents opined that, there has been exponential growth of competition and changing market dynamics over the last decade or so and this necessitates change in strategy and adoption of sustainable competitive edge if the organization is to survive over the next coming decades.

The number of banks has grown to about 50 and the stratification of the customer base has become more pronounced with micro-finance playing a major role. In the previous years, the respondents agree that there was an emphasis on corporate customers, middle income and high net worth customer focus with the micro-finance customer taking the back-banner. This has however changed dramatically over the last decade, with the unbanked taking up a bigger role. In this dispensation competition has increased exponentially and old players like KCB have had to rethink strategy in order to remain relevant.

The current business environment is of unpredictable instability which can lead a business into rapid decline if its management team does not understand the signals of a declining business. The fundamental reasons why an organization may find it necessary to have a strategy is to define the long-term direction of the organization, the development of an overall plan for deploying organization resources, determination of the necessary tradeoffs, to define its unique positioning vis a vis competitors and to achieve sustainable competitive advantage over rivals in order to ensure lasting profitability. Strategy is about the long term direction of an organization.It is typically thought of in terms of major decisions about the future.However it is a mistake to conceive of organizational strategy as necessarily developing through one-off major changes.

The mass market demands more flexible rules and acceptable turn-around times in order to remain customers this has necessitated business processes to be reengineered in order to match the demands of the market. This the respondents agree, is the reason for the importance of business process re-engineering in strategy development especially for banks that have been in the industry for a long time.

Strategy is about the long term direction of an organization.It is typically thought of in terms of major decisions about the future.However it is a mistake to conceive of organizational strategy as necessarily developing through one-off major changes.In this regard respondents agree that the bank has embarked on a rigorous process of strategy development using tools like business process re-engineering to gain sustainable competitive advantage.

Competition in banking has never been fiercer. There are more than 43 banks in Kenya today. KCB being the pioneer banks in Kenya has survived through changes in the environment over the last 100 years. However, the respondents agree that the environment has become more turbulent in the recent past and competition has grown fiercer. This calls for adept measures in order to remain relevant in the market or even become market leader and maintain that position. This has brought about challenges and has forced some giants like KCB to adopt strategies like business process re-engineering which are more radical in order to adopt to the ever changing environments. Examples abound at KCB including; T24 system which is deployed in all six countries where it has footprints hence making banking real-time across borders, internet banking, extending banking services beyond their premises and beyond borders, KCB Mobi which is a mobile banking platform that includes an application which can be downloaded to smart phones hence increasing convenience and userability, and the KCB mtaani which is an agent banking platform designed to get banking services to the unbanked and closer to the customer. All this is tailored at meeting and exceeding the customer’s needs hence maintaining a competitive edge over competition.

The respondents mentioned that the company has heavily invested in expansion into new and existing markets. This has led to the opening of many branches. They say that the company had also ventured into the regional East African market such as South Sudan, Rwanda, Burundi, Tanzania and Uganda making the company the largest bank in the region. They say this was mainly aimed at making sure that the services offered by the bank are readily available to different customers in a place easily accessible to them. They state that the company has increased its branch network to more than 200 branches in the last four years.

This was meant to ensure that the services offered by the bank are readily available to their clientele. In the same breadth, the bank has invested in more ATM outlets which are considered to be auto branches. This is because ATM outlets are able to do a number of transactions such as depositing cash, withdrawals, mini statement requests, cheque deposits as well as the transfer of funds. These services are available twenty four hours a day. This is what the bank hopes to cash on since automation is the cheapest way to provide such services.

The research also sought out find out the examples of business processes that have been reengineered at KCB. The respondents argue, for instance, that the bank has had to adopt various technologies such as mobile banking to compete directly with the mobile money service providers. This ensures that banking facilities and services can be provided to the different clients in a convenient manner using their mobile handsets. This is the same way that funds are transferred in mobile money transfer services. Only difference is that the funds are transferred from one's bank account to another account altogether. Some of the respondents also mentioned that the bank was more willing to adopt technological advancements in the field of banking such as internet banking which is the use of internet to transact on one's account. This mode of transacting is more convenient and easily available to the users compared to the traditional way of transacting in the bank which required that the individual has to go to the bank physically to do any form of transaction during normal working hours.

4.6Resource based view and business process re-engineering

The respondents also argued that the resources are limited. Players in the industry have had to find ways to reorganize resources and use them well in order to achieve competitive advantage and increase shareholder value. This has necessitated retraining staff to be able to cope with changing environment and to use new systems, some jobs falling away, shift in allocation of resources from operations only to emphasis in Information Technology, Research and Development, Marketing and penetrating new or existing markets. The emergence of the niche marketing has also played a role in the redistribution of resources, some banks have gone either way, high-end or mass market, but banks like KCB are trying to achieve a balance hence the need for superior strategy and sustainable use of limited resources opined the respondents.

The essence of the Resource Based Model is that competitive advantage is created when resources that are owned exclusively by the firm are applied to developing unique competencies. The resulting advantage can be sustained due to lack of substitution and imitation by the firm's competitors. Companies are different collections of resources (tangible and intangible assets/capabilities). No two companies are alike in terms of the resources they hold. The resources a company holds determine how well that company performs its activities. A company will be positioned to succeed if it has the best and most appropriate stock of resources relevant for its business and strategy.

Competitive advantage ultimately can be attributed to ownership of valuable resources that enable the company perform its activities better than competitors. Organizational capabilities are defined by the complex. KCB the respondents argue has acquired a unique set of resources which it should build on and use effectively if it is to remain relevant and even become first among equals in today's market place. However, they caution that the bank should not rest on its laurels since competition has indicated rather strongly that they are going for the top and nothing less.

Desired features to maintain a competitive strategy include; inimitability, durability, appropriability, substitutability and competitive superiority. Inimitability, may be in form of physical uniqueness like location, patent rights, skills that are unique gained through learning over time and refined by practice.Continued innovation will ensure durability in the face of changing environment.Value resides in many areas, like customers, suppliers, employees and shareholders. The various value claimants do appropriate a major portion of value added.Substitutabilityrefers to the ability of the firm to deliver on its desired positioning strategy. Building on the key resources necessary for the given strategy will greatly enhance the effectiveness with which a firm will achieve its strategic desires. In competitive superiority, a firm's resources should be assessed and evaluated relative to those of competitors.

The respondents agree that KCB has achieved some of this features but needs to do more on others. In the case of inimitability, most respondents agree that KCB still has a lot to do in this regard but it has made successful inroads over the years for example location of some of its branches, regional footprint since it has been in some of our neighboring countries for more than a decade, but majority of the respondents agree that a lot more needs to be done. When it comes to durability, the respondents opined that KCB has made major steps and it has an edge over competition.

They noted that to maintain this KCB needs to invest more in research and development so that it may not lose its position. In regard to the other features appropriability, sustainability and competitive superiority the respondents felt that the bank has an advantage over its peers due to its long history, a huge customer base that it has acquired over the years and the expertise and learning that has come with being a player for long. However the respondents feel that the bank should not take this for granted and should work towards maintaining and growing these features, lest its advantage slips away from it.

CHAPTER FIVE: SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This chapter presents the findings, conclusions, and recommendations from the findings. The overall purpose of the study was to identify the contribution of BPR to strategy development at Kenya Commercial Bank. From the findings, it was observed that Kenya Commercial Bank has adopted business process engineering in strategy development.

5.2 Summary

The researcher targeted a total of twenty eight respondents but only managed to interveiw twenty two respondents. This was a response rate of 78% which can be considered sufficient to give reliable results. Out of the twenty two respondents, fifteen were of the male gender and seven were female. This means that most of the management team at the bank are of the male gender. In addition all the senior respondents had post graduate degrees in their different fields of study. This means that the bank is focused on having a staff that is equipped with the technical knowledge to drive its mission. Most of the respondents had been in the bank for a period of more than five years. This means that the respondents had enough experience in the bank to chart its way forward during the formulation of strategies.

From the findings, it was evident that there is need for organizations to reengineer and make dramatic improvements in their ways of doing business for various reasons but mostly just to stay even and remain relevant in an ever changing business environment. Customers' demands are also changing and there is need for organizations to change to meet their customers' demands. Small and incremental gains are good but in a fast changing environment it is not enough and there is need for dramatic improvements. Various factors that influence successful implementation of BPR were discussed and the respondents outlined communication among other critical factors as key during the implementation process.

The role Information Technology was seen as very important as an enabler and not the driving force of the change. Most of the respondents agreed that IT eases the process of BPR and makes it cost effective among other benefits.

This research found that improving business processes is paramount for businesses to stay competitive in today's marketplace because customers are demanding better products and services. Various forces discussed have accelerated the need to improve business processes thereby raising the competitive bar and the need to improve business processes dramatically. These institutions require a fundamental rethinking of their approach to reorganization. They need breakthrough performance changes, not just incremental changes because the rate of change has increased for everyone, few businesses can afford a slow change process.

Small, incremental change is not enough for today's financial institutions. Institutions looking for a more fundamental shift in their organizational capabilities must realize that change programs treat symptoms and not underlying conditions. These institutions do not need to improve themselves they need to reinvent themselves.

Business Process Re-engineering (BPR) aims to deliver dramatic improvements to response time, service and quality by focusing on customer oriented business process. The golden rule of BPR is ‘be bold, think big’.

The research also found out that in today’s market place it has become increasingly important to incorporate business process re-engineering in strategy development, since today’s business environment is very dynamic and firms must adopt or be swept out of business.

5.3 Conclusion

The objective of this study was to establish what strategic responses Kenya Commercial Bank has adopted business process engineering in strategy development. The bank has been vigilant to protect its clients’ interests and to make sure that they receive the best services possible based on the research done. Every organization has different clients and these clients have special needs and need special attention. However, the bank needs to be more aggressive in the meeting the client’s needs so as to beat competition and survive in this turbulent and dynamic environment.

Various forces discussed have accelerated the need to improve business processes thereby raising the competitive bar and the challenge to improve business processes dramatically. A fundamental rethinking of the approach to reorganization and the need for breakthrough performance changes, not just incremental changes is necessary as few businesses can afford a slow change process.

Institutions looking for a more fundamental shift in their organizational capabilities must realize that change programs treat symptoms and not underlying conditions. These institutions do not need to improve themselves they need to reinvent themselves and Business Process Re-engineering aims to deliver dramatic improvements to response time, service and quality by focusing on customer oriented business process.

5.4 Recommendations

Based on the findings it may be recommended that Kenya Commercial Bank should not only concentrate on targeting new customers and developing extensive customer centered processes in order to gain a competitive edge in the market but to also do thorough research on their client needs and preferences and not just do things based on the fact other banks are doing it. In addition, the bank should continue to look for better ways to come up with customer friendly processes that will in turn grow their customer base, and give them an advantage over. The bank should look at better ways to incorporate this to strategy so as to improve the overall customer experience.

Based on the study findings it could also be recommended that the government organs such as the treasury and the Central Bank can find out the true contribution of business process re-engineering in strategy development as regards staying competitive in today's market place. This could serve as a reference point for new entrants and could provide insights on how to grow industries as a whole, which may position our country above other countries and help us become dominant players in the world market.

5.5 Limitations of the Study

During the study a number of limitations were encountered. This include having very little time with the respondents to inquire very deeply into a number of issues because most of the respondents had allocated a few minutes of time due to their very tight time budgets. In addition, some of the respondents were hesitant to divulge all the information despite being assured of anonymity and the use of the data only for educational purposes. The study was undertaken as a case study of Kenya Commercial Bank and may therefore not relate to the application of business process re-engineering undertaken by banks in the country, to challenges in the environment as most of the packages offered by banks are different and custom tailored to competitively meet with clients preferences as well as boost profitability and market share.

5.6 Areas for Further Research

This study was in case study of only one commercial bank, Kenya Commercial Bank. For further research the banking industry can be studied as a whole where the application of business process re-engineering to strategy development of all banks are sought and compared. This would show the different applications of business process re-engineering adopted by the banks in the industry or it would help in knowing whether each bank applies business process re-engineering uniquely and specific to its internal environment.

The other area that researchers may find especially useful is the study of business process re-engineering and strategy development in Kenya. This is because the area has not been researched exhaustively and not enough information is available with regard to the topic both locally and internationally. Scholars would therefore find this topic of great importance since it has not been researched on conclusively.

This study concentrated on the contribution of Business Process Re-engineering to achieve a dramatic change in business process thereby raising the competitive bar. A similar research is therefore required which will concentrate on the contribution of small incremental changes in improving efficiency and effectiveness of business process since dramatic changes are good when institutions want to reinvent themselves which is not an every so often activity but small incremental improvements are.

5.7 Implication on Policy, Theory and Practice

The findings in this study will also be beneficial to scholars in the business process re-engineering to identify gaps that need to be expounded upon. This study will also enrich the scholarly work on Business Process Re-engineering.

The study may also be of great use to government institutions such as treasury and Ministry of Finance in coming up with different policies and regulations for the improvement of the banking industry in Kenya.

The findings in the study will be useful to top management of the different commercial banks in Kenya since they will be able to know the contribution of business process re-engineering to strategy development in KCB.

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APPENDICES

APPENDIX I: INTRODUCTION

LETTER

UNIVERSITY OF NAIROBI
SCHOOL OF BUSINESS
MBA PROGRAMME

Telephone: 020-2059162
Telegrams: "Varsity", Nairobi
Telex: 22095 Varsity

P.O. Box 30197
Nairobi, Kenya

DATE 26/8/13

TO WHOM IT MAY CONCERN

The bearer of this letter RONO ANDREW KIPROP CHERUIYOT

Registration No. D61/64422/2011

is a bona fide continuing student in the Master of Business Administration (MBA) degree program in this University.

He/she is required to submit as part of his/her coursework assessment a research project report on a management problem. We would like the students to do their projects on real problems affecting firms in Kenya. We would, therefore, appreciate your assistance to enable him/her collect data in your organization.

The results of the report will be used solely for academic purposes and a copy of the same will be availed to the interviewed organizations on request.

Thank you.

UNIVERSITY OF NAIROBI
SCHOOL OF BUSINESS
26 AUG 2013
MBA OFFICE
P.O. Box 30197 - 00100, NAIROBI

PATRICK NYABUTO
MBA ADMINISTRATOR
SCHOOL OF BUSINESS

APPENDIX II: INTERVIEW GUIDE

SECTION A: PERSONAL INFORMATION

i. Gender

a) Male [ ]

b) Female [ ]

ii. Which of the following describes your highest level of education

a) Secondary [ ]

b) College [ ]

c) University [ ]

d) Post graduate [ ]

iii. For how long have you been working for this organization

a) Less than a year [ ]

b) 1 Yr to 5 Yrs [ ]

c) 6 Yrs to 10 Yrs [ ]

d) > 10 Yrs [ ]

SECTION B: CONTRIBUTION OF BUSINESS PROCESS RE-ENGINEERING

i. What forces are driving that rate of change as chosen above

Competition ☐

Customers ☐

Technology ☐

All of the above ☐

ii. List in order of priority of the 3 mentioned above the greatest driving force contributing to the rate of change; (1 – greatest driving force, 4 least driving force)

<u>Force</u>

a) ………………………………………………

b) ………………………………………………

c) ………………………………………………

d) ………………………………………………

Others……………………..……………………………………………………… ……

iii. Willingness to challenge methods and assumptions is directly relevant to achieve processimprovement and hence meet customer and/or organisational demands

Yes ☐

No ☐

iv. What rate of change is required by players in the financial sector to meet its customer's demands

None at all ☐

Small, incremental gains ☐

Dramatic improvement ☐

v. Dramatic improvements in cycle times, process costs and/or customer satisfaction are key indicators of success in any organizations

Yes ☐

No ☐

vi. Has the need to make better and faster decisions increased in today's organization

Yes ☐

No ☐

vii. Is there really need to reorganize/reengineer/restructure

Yes ☐

No ☐

viii. If there is need to reorganize, which is the greatest reason to do so

Survival ☐

Normal profits ☐

Supernormal profits ☐

ix. Please give your comment on how critical the change process is to an organization

…………………………………………………………………………………………

…………………………………………………………………………………………

…………………………………………………………………………………………

SECTION C: KENYA COMMERCIAL BANK

i. In your opinion, has business process re-engineering been applied in strategy implementation at KCB. Kindly explain

ii. The customer alone is responsible for defining what constitutes product or service value

Yes ☐

No ☐

iii. The needs of these customers in the financial sector have significantly changed over the years

Yes ☐

No ☐

iv. Briefly explain your answer above (Optional)

…………………………………………………………………………………………

…………………………………………………………………………………………

…………………………………………………………………………………………

v. At what rate are the needs of our customers in the financial sector changing

- Not changing ☐
- Slow ☐
- Fast ☐
- Very Fast ☐

vi. Any other comment OR suggestions

THANK YOU