MANAGEMENT CONSULTING AND THE COMPETITIVENESS OF COMMERCIAL BANKS IN KENYA

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A RESEARCH PROJECT SUBMITTED IN PARTIAL FULFILMENT OF THE REQUIREMENTS FOR THE AWARD OF DEGREE OF MASTER OF BUSINESS ADMINISTRATION, SCHOOL OF BUSINESS, UNIVERSITY OF NAIROBI

NOVEMBER 2017

DECLARATION

This research project is my original work and has not been presented for the award of degree in any other university or institution for any other purpose.

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DEDICATION

I dedicate this research project to the Lord God Almighty, for His kindness and provision of everything good we seek. I also dedicate this thesis to my family, friends and colleagues for their affection and encouragement. I also appreciate my supervisor, Dr. Musyoka for his guidance, encouragement and patience as I conducted this research. Finally I wish to thank the management and staff of the University of Nairobi for their kindness.

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ABSTRACT

Management consulting is a service performed by external individuals or organisations that possess the appropriate professional skills, and carried out independently. Managers and organisations have sought for external support and advice on a myriad of issues from ostensibly procedural matters such as taxation and accounting to critical aspects such as organisational strategy. By on boarding of consulting firms and independent consultants, organisations have been able to achieve various objectives. While the practice of management consulting is commonplace, there is a dearth of literature in the field . The global banking industry offers a multiplicity of services to diverse populations, relies heavily on management consulting in its operations. This situation is mirrored in Kenya where management consultancy firms have and continue to set up shop to offer services to players in various industries including banking. The aim of this study was to examine the effect of management consultancy services on business competitiveness in Kenya's banking sector. Specifically, the study sought to assess the services offered by management consultants to the banks, investigate the various management consultancies responsible for the differentiation in banks; delineate the role played by management consultants in the operational efficiency of commercial banks in Kenya and determine the significance of management consultancy in the profitability of the commercial banks. A cross-section descriptive study design was used. The study population comprised employees of the 11 banks that were purposively sampled on the basis of being listed on the Nairobi Securities Exchange as of 2017: CFC Stanbic Holdings, NIC Bank, Diamond Trust Bank, Barclays Bank, Standard Chartered, Housing Finance, National Bank of Kenya, Kenya Commercial Bank, Equity Bank, Co-op Bank of Kenya and I&M Holdings Ltd. A semi-structured questionnaire arranged according to the objectives was used for data collection. Profitability analysis was carried out using the 2016 financial reports of the selected banks. Spearman's rank-sum correlation coefficient (ρ) was used to assess bivariate relationships while binary logistic regression was used at the multivariate level. From an ethical standpoint all the respondents were consented prior to taking part in the survey and the study was approved by the University of Nairobi School of Business. A total of 120 surveys were sent out and 101 were received. This gives a response rate of 84.2%. The study findings show that the most common services offered by management consultancy firms were Financial and Audit Tasks (78.2%) and Optimization of Operation Processes (58.4%). The results indicate that the most popular management consultancy firms used by Kenyan banks were Mckinsey and Company (36.6%), KPMG (25.8%), PwC (12.9%), Deloitte (7.5%) and EY (4.3%). These consultancy firms were involved in helping banks to differentiate various products and operational areas including Audit, Human Resource, Branding and Strategic Planning. More than 90% of respondents agreed that management consultancy firms had been instrumental in the differentiation of products and services within their banks. The role played by management consultants on the operational efficiency of the banks was assessed, giving an average operational efficiency index of 21.8 (SD=4.0; Min=4, Max=28). This was related to adopting strategy for continuous improvement, optimization of service performance, regular monitoring and evaluation, identification of risks and setting mitigation measures in place. Respondents indicated that management consultancy firms had contributed to competitiveness to a large extent. The results of the correlation analysis indicated that management consultancy services around operational efficiency ($\rho=-0.209$, $p=0.036$) and differentiation ($\rho=-0.263$, $p=0.008$), were statistically

significantly correlated with profitability in the banks sampled. This suggested that provision of these services was linked to higher profitability. The results of the logistic regression indicate that only differentiation services remain statistically significantly linked to profitability at the multivariate analysis (AOR=1.362, CI: 1.013-1.832; p=0.041). This means that banks that received differentiation services from management consultancy firms had 1.362 higher odds of being profitable than those who didn't receive differentiation services. The finding that product and process differentiation can be achieved through engagement of management consultants is supported by other literature. Management consultancy is critical in the banking sector as shown in this study. Appropriate use of management consultancy services is greatly linked to competitive advantage as shown by the profitability analysis and management consultancy assessment of the commercial banks in this study. While other factors are involved, it has been shown that the involvement of management consultancy especially for other services other than just auditing functions leads to high performance indices among the banks.

CHAPTER ONE: INTRODUCTION

1.1 Background

Management consulting as a service performed by external individuals or organizations in an independent form and that possess appropriate professional skills, is one of the earliest forms of consulting (Munchus, 2017). Managers and organizations have sought for external support and advice on a myriad of issues from ostensibly procedural matters such as taxation and accounting to critical aspects such as organizational strategy (Srinivasan, 2014a). By onboarding consulting firms and independent consultants, organizations have been able to achieve various objectives. Over the years, the practice of management consulting has become popular, but there is still a dearth of literature in the field (Ciampi, 2010). The academic work published in the field of consulting has placed its focus on assessing the practice of consulting, the form of consulting assignments that are taken by firms in the field of managing consulting, and the value that clients of management consulting derive from such exercises (Mohe, 2008). The banking industry, especially in the current market environment where they offer a multiplicity of services to diverse populations, relies on management consulting for a great part of their activities.

In the United States, management consulting has been fully embraced, especially in the banking sector. Statistical reports show that management consulting expanded by around 8% in 2015 within firms offering financial services. Financial firms in the USA today account for the largest sectoral expenditure with regards to management consulting services (Shumsky, 2016). The trend is also visible in the United Kingdom, where process innovations in the UK banking sector have seen management consultants in the region gain prominence. Management consulting firms are regarded as key stakeholders in the enhancement of the competitive edge of the banks (Bátiz-lazo & Woldesenbet, 2016). In India, management consulting within the banking sector has also taken shape with authorities such as the Finance Ministry recognizing the services and contributions of management consultants to the sector (Shreyas, 2014). Arguably, the role of management consulting in the banking sector has been noted by banks across the globe, and the benefits thereof taken into keen consideration by consulting clients.

As the banking sector in Sub-Saharan Africa continues to grow and with the entrance of 16 sub-Saharan Africa economies in the global competitiveness ranking of 2013, the need for management consulting is growing (PwC, 2014). PwC notes that management consultancy in the African banking sector is gaining popularity mainly as a result of the surge in volumes of data that is proving to be a major challenge for banks. It is also partly driven by the fact that regulators in the banking sector have set high standards for players in this industry. Many banks in the African banking sector are looking for technological options and advice to deal with the issue of growing workload (Nadri et al., 2014). Even as the array of services that management consultancy firms offer grows it is important to assess the overall efficiency of the management consultancies and consultants. In this study, the efficiency of management consultants in the banking sector in one of the Sub-Saharan Africa regions, Kenya, is assessed by looking at the perceived impact on the competitiveness of the banks in the region.

1.1.1 Management Consultancy Services

Management consultancy "is an advisory service contracted for and provided to organizations by specially trained and qualified persons who assist, in a manner that is objective, the client organization to see management problems, analyze such problems, recommend solutions to identified problems and provide assistance when requested, in the implementation of solutions (Hanisch, 2012)." Consultants are often called for the professional services they offer as they are perceived to be credible sources of knowledge, expertise, new methodologies, and best practices that can spur competitive advantage (Nistelrooij, Caluwé, & Schouten, 2010). They present new solutions to organizational problems and provide an independent and neutral view to organizations in aspects such as organizational change and knowledge transfer. Management consultancy is characterized by three major features: provision of support in diagnosing management problems; the external nature of the service in relation to the clients and services being offered; and the temporary or intermittent nature of their support and services. It is key to note that a management consultant's services can be used by firms for their competitive advantage as they bring in novel expertise into the firm.

Key players in the management consultancy industry include firms such as Deloitte, PWC, EY, and KPMG, which are commonly referred to as the big four and have had a long presence in the Kenyan market. Other players in the industry include PKF, Altima

Africa, AON, Grant Thornton and Parker Randall. New entrants into this market with a strong global presence include McKinsey & Co. and Bain and Company, which intends to set up in Kenya. These management-consulting firms have continued to thrive due to the desire for businesses to enhance their business competitiveness in the face of increased competition and demand for better returns by shareholders. Companies that hire the management consultancies estimate that these firms will improve operational efficiency, enhance service delivery to customers and deliver higher returns to shareholders in the immediate and long-term. While this may be the expectation of these organizations, there is currently little information in Kenya to support this point of view. This study, therefore, aims at increasing the knowledge available on the effects of management consultancy services on business competitiveness in Kenya's banking sector**.**

1.1.2 Business Competitiveness

Business competitiveness "is the ability of a firm to create value through sustainable long-term growth and profitability (Cetindamar & Kilitcioglu, 2013)." A competitive business is defined as one that consistently performs better than the competition in a sustainable manner. Competitive advantages are those factors that enable a business to perform better than the competition. Such advantages are not acquired and sustained by simply matching and exceeding what competitors can do, but by realizing what customers want and then profitably satisfying and exceeding their desires (Karim, 2011). In order to survive and thrive in an industry, organizations must thus meet two expectations: they must supply what customers want to buy and they must survive the competition. A firm's overall competitive advantage stems from the difference between the value it offers to customers and its cost of creating that customer value (Bereznoi, 2015). This can be achieved through a differentiation advantage where "customers perceive the product or service as being superior and are thus willing to pay a premium price relative to a competing offering or a relatively low-cost advantage that enables a company to undercut its competitors (Bereznoi, 2015)."

With shifts in the competitive landscape in Kenya, changes in technology, exposure, and access to global products and services, the advent of a more discerning consumer and competition from cheaper products emanating from liberalized and deregulated markets, companies are being forced to go back to the drawing board and re-evaluate their strategies and operations. In order to survive and maintain their share of the market; companies have had to improve their operational efficiency, leverage on technology, reduce costs, acquire and merge with other firms and differentiate their products and services. Many firms have opted to hire the services of management consultants to drive these changes, with management consultants being seen as the most capable at providing specialist skills and knowledge that Kenyan companies do not possess internally. Additionally, while management may know more about the firm, management consultants are seen as being able to gather the best practices from industry and put this at the disposal of their clients. Management consultants are also neutral and apolitical; this means that the recommendations provided by consultants are less likely to be resisted by powerful blocking coalitions.

1.2 Kenya's Banking Sector

The banking sector in Kenya works under the regulation of the Central Bank of Kenya Act (2015), the Banking Act (2015), the Companies Act, the Microfinance Act (2006), the National Payment System Act (2011), the Kenya Deposit Insurance Act (2012) and guidelines issued by the Central Bank of Kenya. The sector is made up of the Central Bank of Kenya as the regulatory authority and forty-four banking institutions (forty-three commercial banks and one mortgage finance company). Other players in the financial sector include four representative offices of foreign banks, six deposit-taking microfinance institutions (DTMs), one hundred and eighteen forex bureaus and two credit reference bureaus (CRBs) (Kamau & Were, 2013). Of the forty-four banking institutions, thirty-one are locally owned while thirteen are foreign owned, nine of these have been locally incorporated and four exist as branches of foreign incorporated banks. Banks in Kenya are required to hold a core capital of Kshs. 1 billion in order to create a base for financial sector stability and enhance cost reduction from economies of scale the overall result of which is a reduction in lending rates. In terms of asset holding, foreign banks accounted for about 35% of the banking assets as of 2012. To facilitate further financial sector deepening, the Central Bank of Kenya in 2010, allowed regulated commercial banks to operate through third party agents. Further, from May 2012, the Central Bank of Kenya allowed regulated DTMs to operate as agencies as well as via third party agents (Wakiriba, Ngahu, & Wagoki, 2014).

Financial sector reforms, technological developments, and globalization have led to significant transformations in Kenya's banking sector. The banking sector has experienced sustained growth coupled with steady performance over the years. The sector has remained fairly stable in spite of tough economic conditions in some sectors and the global financial crisis of 2008 (Dell'Ariccia, Detragiache, & Rajan, 2008). Increased competition has been characteristic of the banking sector with innovations among old players and new entrants providing new sources of competitive advantage (Oecd, 2010). Banks have responded by hiring the services of management consultants in areas such as technology adoption, human resources, strategy development, operations and customer relations to facilitate differentiation with their rivals and attain cost reductions to enhance profitability.

1.3 Commercial Banks in Kenya

Commercial banks in Kenya emanated from the pre-colonial commercial connections established in East Africa towards the end of the 19th Century. The first commercial bank in Kenya was the National Bank of India in Kenya established in 1896 after Kenya became a British Protectorate. Standard Bank of South Africa thereafter followed in 1910. In 1916, the National Bank of South Africa merged with Anglo-Egyptian Bank Limited to form Barclays Bank (Kamau & Were, 2013). Today, there are forty-four registered commercial banks. While Kenya's commercial banking sector is active, the services that commercial banks offer are similar and there is little differentiation among the banks. This leads to a situation characterised by intense competition amongst commercial banking institutions. This intense rivalry has been further heightened by disruptions occasioned by changes in technology such as the introduction of Mpesa and other mobile banking products that offer substitutes to traditional commercial bank products. In order to effectively compete in the market, banking institutions have been forced to adopt a two-pronged strategy. The first of these strategies consists of undertaking cost-cutting measures mainly through restructuring activities and providing branchless banking services through the internet and agency banking. The second strategy has been to differentiate using mobile platforms to offer services, provision of additional products and services and undertaking initiatives in marketing and branding (Wakiriba et al., 2014). All these initiatives to enhance the competitiveness of commercial banks have necessitated the use of external players in the form of management consultants who provide advice on the necessary actions to be taken to provide the desired results.

1.4 Research Problem

Management consultancy is becoming a common premise in the banking sector globally, and Sub-Saharan African firms are quickly catching up with the trend (Mataen, 2012). Banks in Kenya are increasingly taking up managing consultancy services. For instance, Co-operative Bank of Kenya is reported to have contracted McKinsey & Co. for strategy development (Consultancy.uk, 2014) while Equity Bank Limited has expanded its scope of services to offering mobile and telecommunication services with the help of FinServ Africa Limited (Barton, 2015). Consulting in the Kenyan banking sector is growing in parallel with technological advancements and increasing requirements by regulators in the banking sector (Ugwuanyi, 2015). The stream of regulatory changes imposed by the Central Bank of Kenya and other legal requirements has resulted in increased compliance costs for banks thus reducing their profitability. Commercial banks have therefore had to hire teams of management consultants to help them chart a way forward in this environment of stiff competition and heavy regulation.

In addition to the stream of regulations by the Central Bank, commercial banks are facing stagnation in a competitive environment. Driving for efficiency and devising strategic methods that will assist the banks to come forth as competitive requires external assistance. Yet, management consultancy has not been assessed for efficiency in the banks (Memić & Škaljić-Memić, 2014).

Nonetheless, as the trend of hiring management consultants for core services in the banking sector increases, there are questions on the boundaries that consultants should have with their clients (Kitay & Wright, 2004). In essence, management consultants are hired to increase the competitive advantage of banks while assisting them to meet the minimum regulatory requirements, but with the tensions between the clients and the consultants, it remains an issue of scholarly concern whether management consultancy services actually spurs productivity in the sector, hence competitive advantage. Additionally, a recent spate of incidences of fraud and risky business practices has left the banking industry reeling in turmoil and forced the Central Bank of Kenya to enforce stricter controls (Leah, 2015). Global incidences such as terrorism have also resulted in the imposition of know your customer (KYC) requirements which come at a significant cost to banks both in terms of the volume of transactions they can undertake and the incomes derived from these and the opportunity costs of lost business while complying with risk requirements (Oniala, 2013). In the wake of such pressure from the external environment, banks are turning to management consultants at an unprecedented level without careful consideration of the effect of such strategic decisions and direction on competitive advantage. This paper will assess the interplay between management consultancy and competitive advantage in a bid to present a clearer picture.

1.5 Research Objectives

The general aim of this study is to examine the effect of management consultancy services on business competitiveness in Kenya's banking sector. The specific objectives of this study are:

i) To assess the services offered by management consultants to commercial banks in Kenya.
ii) To investigate the various management consultancies responsible for the differentiation in different commercial banks in Kenya.
iii) To delineate the role played by management consultants in the operational efficiency of commercial banks..
iv) To determine the significance of management consultancy in the profitability of commercial banks.

1.6 Hypothesis

The general hypothesis of this study is:

h0 - Management consultancy has a positive impact on business competitiveness for the banking sector.

h1 - Management consultancy has no impact on business competitiveness for the banking sector

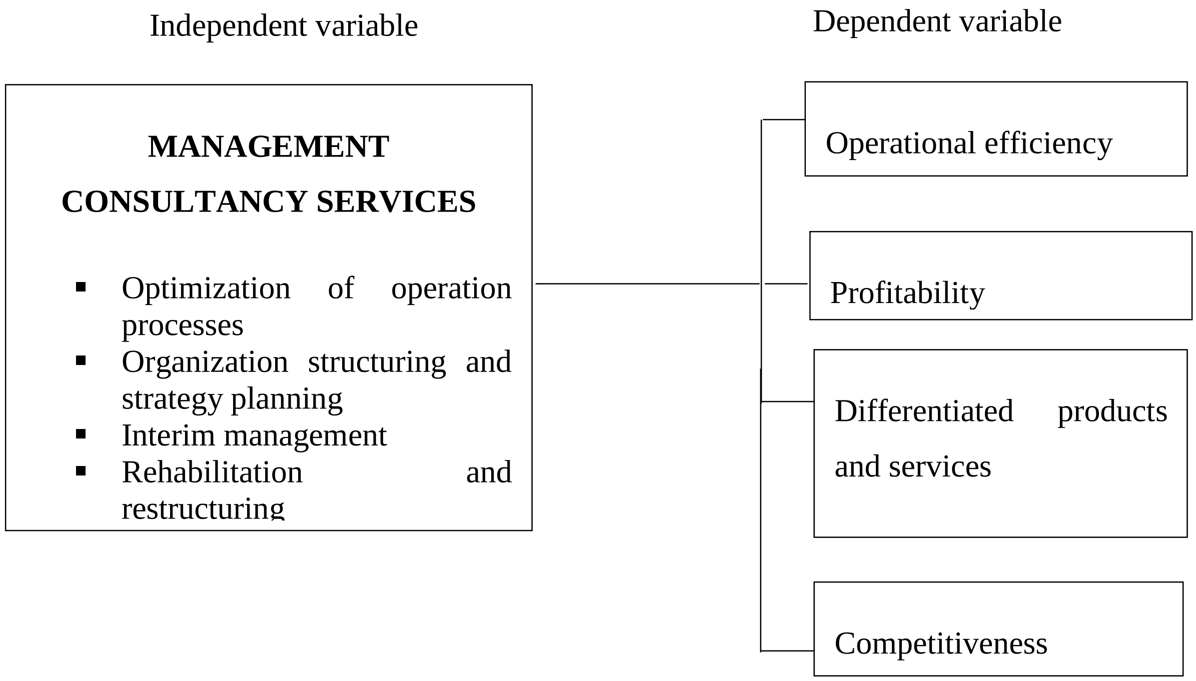
1.7 Significance of Study

The findings from this study will be beneficial to the management of commercial banks as it will enable them to make prudent decisions with regard to the engagement of management consultants. More specifically, the findings will assist commercial banks in Kenya to gain insights into the specific areas where management consultants can assist commercial banks in their objective of gaining competitive advantages. Banks will also take precautions with regard to their core banking services in order to avoid risks that emanate from engagement with management consultants. Management consultants will also benefit from the findings by gaining insights on best practices and key factors that can improve their relationships with clients. The findings will also add to the existing literature on the role of management consultancy in the delivery of efficient banking services.

1.8 Conceptual Framework

This research project is anchored on the research question: is there a relationship between management consultancy and the competitiveness of commercial banks in the Kenyan banking sector? Given the broad nature of the research question, a robust conceptual framework is needed to assist in answering the research question. In the conceptual framework below, organizational competitiveness is considered as the dependent variable and is considered in accordance to management discourse. The various aspects of competitiveness include operational efficiency, profitability, and differentiated banking products which are the expected outcomes of efficient management consultancy services – the independent variable to the study.

Figure 1.1 Conceptual Framework for the Study



CHAPTER TWO: LITERATURE REVIEW

2.1 Introduction

Chapter two analyses the literature, concepts and past studies related to the research topic and the role of management consultancy on the competitiveness of banking sector. The purpose of the chapter is to review the literature related to the competitiveness of commercial banks and their determinants. The banking sector in Kenya is elucidated in detail and theories relating to competitiveness and management consultancy in the banking sector are presented.

2.2 Theoretical Background

Academic scholars, business thinkers, policy advisors, and other key stakeholders have been instrumental in the development of theories in the field of management consultancy.

2.2.1 Transaction Cost Theory

The transaction cost theory involves the actual costs lf allocating financial resources as well as other organizational resources in a manner that is less than perfect that then risk, goals, and the understandings. These costs of production as well as the transaction costs are the directly related with the actions of production whereas transaction costs with the economic activity of the organization and therefore vary with the organization's form (Casson, 2001). The difference between costs of transaction and cost of production is that transaction costs can be varied by shifting the mode of allocating resources while production costs only rely on tastes as well as technologies (Friedman & Medema, 2011).

The inability of one big firm to carry out all production activities is due to the transaction costs that point out what occurs in the market, with the regulating mechanism of price, and what takes place inside the firm, with bureaucracy as the regulating mechanism. All transactions therefore carry a cost. Bureaucratic transaction costs comprise of elements that include cost of administration and costs of misallocated resources while market transaction costs derive from price determination, negotiation of contract and the risk that there will be aberrations from the contract owing to the events beyond the organization's control. To minimise these costs, competitive and other market information is necessary.

Consultants have been able to achieve this market and competitive information quickly due to the nature of their work (Hindle, 1997). Taminiau (2009) has noted that the most common reason for senior leaders seeking the services of management consultants is the necessity for help in selecting suitable management strategies from the variety of change options that exist. Many managers are unsure about how to respond to the quickly changing business environment. It is against this backdrop that management consultants are expected to give clients a sense of control that relieves them from their uncertainty as well as anxiety ("Innovation in management consulting firms through informal knowledge sharing," 2009). When an organization needs transient tools, proficiency and manpower to support a change, the services of a management consultant are most often than not sought. Management consultants not only provide insights, concepts and experiences for which they have been hired, but also influence the client's behaviour to ensure the implementation of new solutions. Management consultants therefore act as transmitters of business techniques and carriers of organizational change methods.

2.2.2 Competitive Advantage Theories

An organization obtains competitive advantages over other organizations when it sets or develops a combination of attributes or implements a series of actions that enable it to perform better than its competitors. The pursuit of competitiveness in the market is the raison d'être of strategic management. Strategic management involves clarifying organizational performance, variables of strategic choice as well as degree of competitiveness in the marekt (O'Shannassy, 2008). Competitive advantage is a major determinant of good performance. The various theories of competitive advantage are detailed in the paragraphs below:

2.2.2.1 The Market-Based View (MBV)

This theory presumes that industry factors and external market orientation are the primary determinants of firm performance (Porter, 1985). The sources of value for the organization are contained in the competitive situation characterizing its end-product strategic position. The strategic space that an organization occupies is its special set of programmes that differ from those of its rivals. Besides, the strategic level of a firm can be defined by how it conducts the same activities that other firms do, but in very different methods. In this view, the profitability of an organization is determined purely by the structure as well as the competitive dynamics of the industry within which it works (Maiga, 2015).

When companies are developing their strategies, they first assess their competitive advantage by assessing the external milieu based on the Porter's model that presents five key forces (Porter, 1985). These five forces consist of; barriers to entry, the threat of substitutes, suppliers' power, power of bargaining among buyers and rivalry among competitors (Porter 1985). Companies also assess the three sources of power in the market, which consist of monopoly, entry barriers, and bargaining power. Monopoly means that a firm has a strong bargaining power in the market, which enables it to perform better. Barriers to entry for new firms to the market means that there will be reduced competition and therefore higher profit margins. Higher bargaining power within an industry means that the firm is able to negotiate favorable trade terms with suppliers and customers resulting in a reduction of costs or an increase in sales revenues (Parker, Don, & McLoughlin, 2010).

2.2.2.2 The Resource-Based View (RBV)

The resource-based school of thought of the organization holds that a firm's internal environment is the key driver for sustaining competitive advantages coupled with the resources that the firm has accumulated to compete in that environment. A firm's resources can be classified into three main classes: physical, fiscal, and human (Wernerfelt, 2007). These three categories can be further delineated into the more detailed descriptions of organisational skills, knowledge and technical expertise (Kraaijenbrink, Spender, & Groen, 2010). Researchers have also proposed another approach requiring physical, human and technological resources and capabilities (Hart & Dowell, 2011). Therefore, firms that can capably deploy their resources to implement initiatives can achieve a competitive advantage.

2.2.2.3 The Knowledge-Based View

Knowledge has special features that make it a vital resource. Organizations today are struggling to cope with a vast and increasing amount of information and they have challenges in trying to convert information into useful knowledge. As a result of this, management consultants have grown in importance and are perceived as being in the front line in bringing new knowledge to organizations. Knowledge is sub-divided into; know-how, intellectual assets, and competencies. Beckmann suggested a five-level grading comprising of data, information, organizational knowledge, capabilities, and expertise (Ziesemer, 2013). Ziesemer (2013) divides knowledge in the organization into three classifications: core knowledge, advanced knowledge, and innovative knowledge. Advanced knowledge enables the organization to gain the same knowledge that competitors are banking on for competitiveness hence leading to strategic advantage in the short term. Innovative knowledge gives the firm its competitive position over its rivals (Hörisch, Johnson, & Schaltegger, 2015). The firm with innovative form of knowledge is able to introduce novel products or services, potentially assisting it become a market leader.

2.2.2.4 The Capability-Based View

Capabilities stand as the source for competitiveness while resources are the source of capabilities (Grant, Wiley, & Grant, 2009). Gottschalg and Zollo (2007) also adopted a similar position and suggested that resources do not contribute to sustained competitive advantages for a firm, but capabilities do. Several scholars including Hass, Hanse, and Vickers-Koch have accepted the importance of capabilities and suggested that a firm can gain competitive advantage from its ability to apply its capabilities to perform important activities within the firm. Gottschalg and Zollo contrasted to resources by defining capabilities, as an organization's capacity to deploy resources, majorly in clever blend in the organizational processes, and affect the desired end. They are based on organizational information and processes that are both tangible or intangible that specific to a firm and developed over certain period through intricate relations with the resources of the organization (Gottschalg & Zollo, 2007). Teece, Pisano, and Shuen (1997) also defines dynamic capabilities as, the firm's ability to integrate, build, and reconfigure internal and external competencies to address rapidly changing environments. Grant et al. (2009) define organizational capability as, the ability of an organization to perform tasks that are productive in a repeated manner in relation to an organization's capacity for creating value through effecting the transformation of inputs as well as outputs. This definition led Grant et al (2009) to divide capability into four main classes; cross-functional, broad functional, activity-related and specialized categories of capabilities.

2.2.2.5 The Relational View

Dyer and Singh (2011) have provided a relational perspective of the competitive advantage that dwells on dynamic/network routines and processes as a critical unit of analysis for comprehending competitive advantage. This view contrasts the view that resources can be owned by one firm suggesting that a company's resources may stretch beyond its boundaries. The researchers also propose that inter-organization connections may be the source of competitive advantage and relational rents. Relational rent is elucidated as 'a supernormal profit mutually produced in an exchange association that cannot be invoked by an organization in isolation and can only be generated through the joint idiosyncratic offerings of the specific association partners' (Dyer & Singh, 2011). They identify the four categories of relational rents as sources of competitiveness: knowledge-sharing routines, complementary resources and capabilities, relation-specific assets, and effective governance.

A contrast between the market-based perspective and the resource-based perspective is seen as the former presents it as the bargaining power of an organization in the market that governs its profitability while the latter suggests that that profitability depends on the set of unique capabilities, resources, and knowledge of a firm. Nonetheless, the relational view notes this is a result of the shared knowledge and complementary resources of the network (Della Corte & Sciarelli, 2011). Similarly, the preservation of profit mechanisms in the market-based perspective are market barriers to entry, while in the resource-based perspective these are firm-level barriers to the imitation of special resources. In the relational perspective, these mechanisms include dynamic/network hindrances to imitation and the scarcity of potential partners.

2.3 Effect of Management Consultancy Services

According to Sturdy et al (2009), clients judge the effectiveness of consultancy services based on three major determinants. These are the financial change in the business, the gaining of new knowledge on operations learned through the consultancy and any new perspective derived from the business gained because of the consultancy. It is widely held that the relationship consultant and the client is an important factor in determining if a consultant's recommendations are adopted or rejected by a client with the success of a project being judged by the client in terms of the project's ability to achieve pre-determined goals (Sturdy, Handley, Clark, & Fincham, 2009). In most cases, this was the improvement in the financial performance of the business.

Studies modeling customer satisfaction with management consulting services have often produced mixed findings prodding some scholars to suggest that customer satisfaction may vary under the different product and situational conditions (Kuo, Wu, & Deng, 2009). In a study aimed at addressing the critique the effectiveness of business consultants in operations development projects in a large multinational firm, results showed that, a positive impact was recorded from a financial performance standpoint after the involvement of management consultants (Buono, 2015). As such, the involvement of management consultants turns out positive for firms.

Management consultancies have also been seen as brand boosters, change agents, and important elements in the productivity and profitability of firms. These studies accentuate the tangible benefits of using management consultancy and provide a quantification of the value that consultants value to both the organization as well as its clients in terms of economic sense and outlook (Crucini & Kipping, 2001; Lory & McCalman, 2002). The results of the study were that 58% of the clients said they were very satisfied with the work their consultants do and 41% said they were satisfied. Very gratified clients reported in interviews that the consultancy's value to them is a multiple of the fees that they expend (Sturdy et al., 2009). The range of services that management consultancies offer also determine the benefits that organizations contracting such agents accrue.

2.4 Types of Management Consultancy

Based on the type of specialty, there are nine types of management consultancies. The first type includes human resource consultants who basically specialize in advising on the hiring, training, advising and rewarding employees. All this happens while retaining the culture and compliance to labor laws of a nation. Strategy consultants help organizations to identify gaps in their work strategy and operations and to enhance their performance through the assessment of an organization's current issues and development of plans for improvements. Techno-consultants deliver software solutions that improve the business performance of the clients. They provide a scalable framework and permit the business of the client to gain a competitive advantage over the competitors. Consultants in public relations specialize in managing the flow of information between an individual organization and the public. This occurs through making available information that builds the reputation of an organization. Marketing consultants focus on coming up with strategies that facilitate the promotion, sale and distribution of goods and services to targeted consumers. They do this by projecting a company into the public eye thus transforming it into a lucrative business. They come up with creative techniques for launching as well as sustaining their business. Legal consultants identify, prevent and solve legal issues facing a company. There are different specializations in legal consultancy; employment, IT, real estate, tax, banking, corporate, intellectual and property consultants. Information Technology consultants recommend computer hardware, software, and networks to build high performing systems and workflow. The various types of IT consultants include; system consultants, system applications consultants, data management consultants and network consultants. Social media consultants help firms in increasing traffic to their websites through search engine optimization, content and social media marketing. Investment/financial consultants are licensed professionals trained to help organizations make intelligent financial decisions (Startup, 2016). Other forms and services of consultancies exist, but they largely offer services in these nine categories or an extrapolation of one of these categories.

2.5 Measure of Business Competitiveness

Various factors determine the competitiveness of a business in its sector or market. Although these factors do not wholly determine market shifts, they contribute to a greater portion of what is happening. Some of these factors include factor conditions, demand conditions, related and supporting industries, firm strategy, chance conditions, and the role of the government. Factor conditions include the company’s position in factors of production such as skilled labor, quality of production, natural resources, fuel, machinery and infrastructure necessary to compete in a given industry.

Demand conditions are the nature of home demand for the industry’s products and services. These include nature of the local customers, internalization of the customers, concerns about ethics, the size and growth of the domestic market. Related and supporting industries refers to the presence or absence of supplier industries and related industries which are internationally competitive. These include availability and access to credit facilities, scientific research institutions, telecommunication, and electricity. Firm strategy, structure, and rivalry refer to the conditions governing the establishment, organization and management of companies as well as the nature of the domestic rivalry. These include investment in research and development, the source of competition in the local market and, approaches in human resource.

Chance conditions subsumes the incidences that have less to do with settings in a nation and that are majorly beyond the effect and power of organization and local government. These include the importance of various issues that surround an organization and its community such as crime and diseases. The role of Government includes the effect of the tax system, trade policies, and administrative regulations. Moreover, government plays a vital role by influencing these conditions, which could be either positive or negative. The policies set by government influences domestic investments as well as exports, which have a bearing on competitiveness (Dlamini, Kirsten, & Masuku, 2014).

CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Introduction

This section outlines the study design, research design, study population, sampling method, sample size and sample size calculation, data collection tool, data collection procedure, data analysis, and ethical consideration that will be idealized in the study.

3.2 Research design

This study employed a descriptive survey design. According to Churchill (2011), a descriptive study design is best suited in describing the characteristics of certain groups, estimate the proportion of persons who possess certain characteristics and make forecasts. The study will seek to collect data from the banking sector at one point in time and determine the effects of management consultancy services on financial performance of banks in Kenya.

3.3 Population

This study will include all the 11 commercial banks in the Kenyan financial markets that are listed at the Nairobi Securities Exchange (NSE) as of 2017 as indicated in Table 1 below. The listed banks were included on the basis that they have the capacity to contract management consultants for banking operations.

Table 3.1. Listed Banks in NSE

No	Bank	Year
1	CFC Stanbic Holdings`	1970
2	NIC Bank	1971
3	Diamond Trust Bank	1972
4	Barclays Bank	1986
5	Standard Chartered	1988
6	Housing Finance	1992
7	National Bank of Kenya	1994
8	Kenya Commercial Bank	2004
9	Equity Bank	2006
10	Co-op Bank of Kenya	2008
11	I&M Holdings Ltd	2013

Source (NSE, 2017)

3.4 Sampling

Purposive sampling method was used to sample banks listed by 2017. Specific banks that met the criteria of hiring and onboarding management consultants in the banking sector were selected for inclusion. The criterion maintained a uniform representation to the analysis of the management consultancy services and competitiveness of commercial banks operating in Kenya.

3.5 Research Instruments and Data Collection

A semi-structured data collection form was used to collect data from the sampled commercial banks. The data was obtained from individual bank's research offices in their headquarters in Nairobi. The semi-structured questionnaire was able to capture both quantitative and qualitative data from the commercial banks. The data collection tool was comprised of three sections, the first section gathered demographic data and the management consultants offering various services in the bank. The second section gathered information on the role that management consultants play in enhancing the operational efficiency of the commercial banks, and the last section contained questions that were aimed at providing insight on the association between management consultancy and the profitability of commercial banks.

Primary data covering the effect of management consultancy services on the operational efficiency, profitability, competitiveness and the level of differentiation of the banking products was collected. Data was collected from representatives of the bank, research departments within the commercial banks where applicable, finance departments, and the operations managers' offices in the commercial banks in order to achieve the objectives of the study. The respondents were issued with a consent letter and after they agreed and signed the consent letter, data was collected.

3.6 Data Analysis

The study used both descriptive and inferential statistics in the analysis. In the case of categorical variables, frequencies and proportions were used to summarize data. For continuous variables, means and standard deviations were used. Descriptive analysis was used to establish the various management consultancy services offered to the commercial banks by management consulting firms. Spearman's rank-sum correlation coefficient was used establish the relationship between the management consultancy services offered and the operational efficiency, profitability, and level of differentiation, at the bivariate level. Inferences were made at the alpha level of 0.05. Further regression analysis was done to establish the strength and direction of association of management consultancy services and the dependent variable.

3.7 Ethical Considerations

All procedures and conduct in the study were scrutinized and approved by the University of Nairobi School of Business. Consent for the inclusion of subjects in this study was sought through a consent form that was read and presented to the informants for their approval or disapproval. Privacy and confidentiality of the information was guaranteed. Participation was voluntary and withdrawal from the study at any stage without victimization was provided for.

CHAPTER FOUR: STUDY RESULTS

4.1 Introduction

This section provides a presentation of the study results based on the data collected. The results are presented according to the study objectives.

4.2 Response Rate

A total of 120 questionnaires were sent out and 101 were returned. This gives a response rate of 84.2%.

4.3 Reliability Analysis

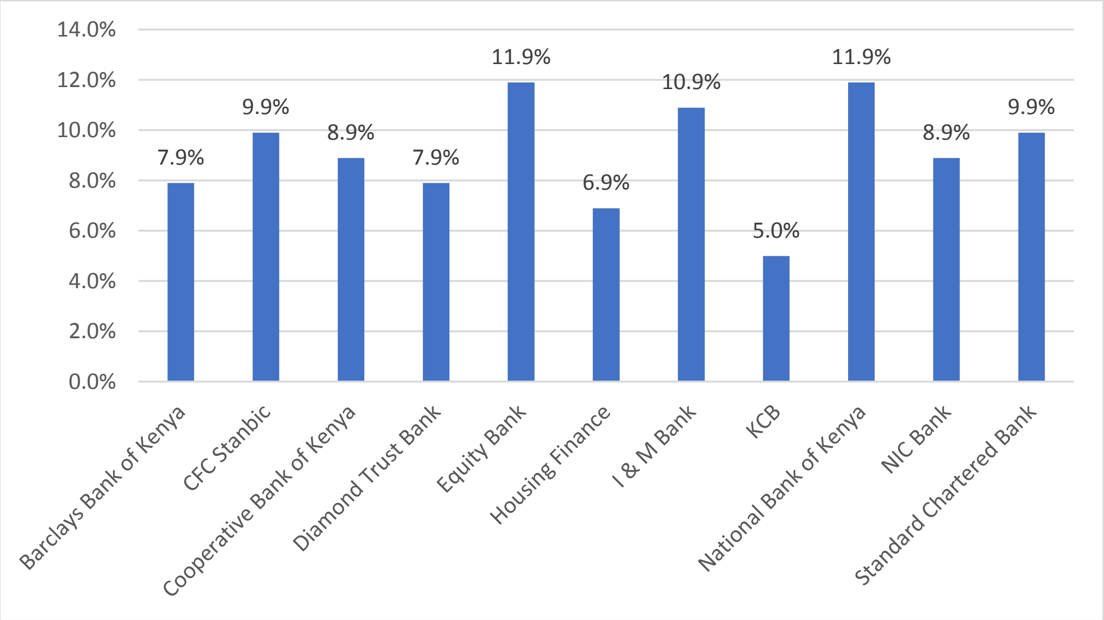
The reliability of the questionnaire used was assessed using Cronbach's alpha. The reliability of the items was 0.89. This is an excellent rating for reliability.

4.4 Socio-demographic Characteristics of Study Respondents

4.4.1 Respondents' Place of Work and Roles

A total of 101 respondents formed the study sample. These respondents were drawn from several banks as seen in Figure 4.1.

Figure 4.1. Distribution of Respondents by Bank



Equity Bank (11.9%), National Bank (11.9%), I & M (10.9%) and CFC Stanbic (9.9%) had the highest representation in the study sample. On the other end of the spectrum respondents from KCB (5.0%) and Housing Finance (6.9%) were the least populous in terms of numbers.

The study respondents reported that they were involved in various roles at their places of work. These ranged from Accounting, to Credit Management, Customer Care and relationship management and Information Technology among others. There was also good representation from managers in different bank departments

4.4.2 Length of Service

The vast majority of study respondents had worked in their current bank industry for at least 6 years. Those with more than 10 years of service accounted for 42.6% of the sample, while those with less than 2 years of service accounted for 7.9% as seen in Table 4.1.

Table 4.1. Length of Service in Current Bank

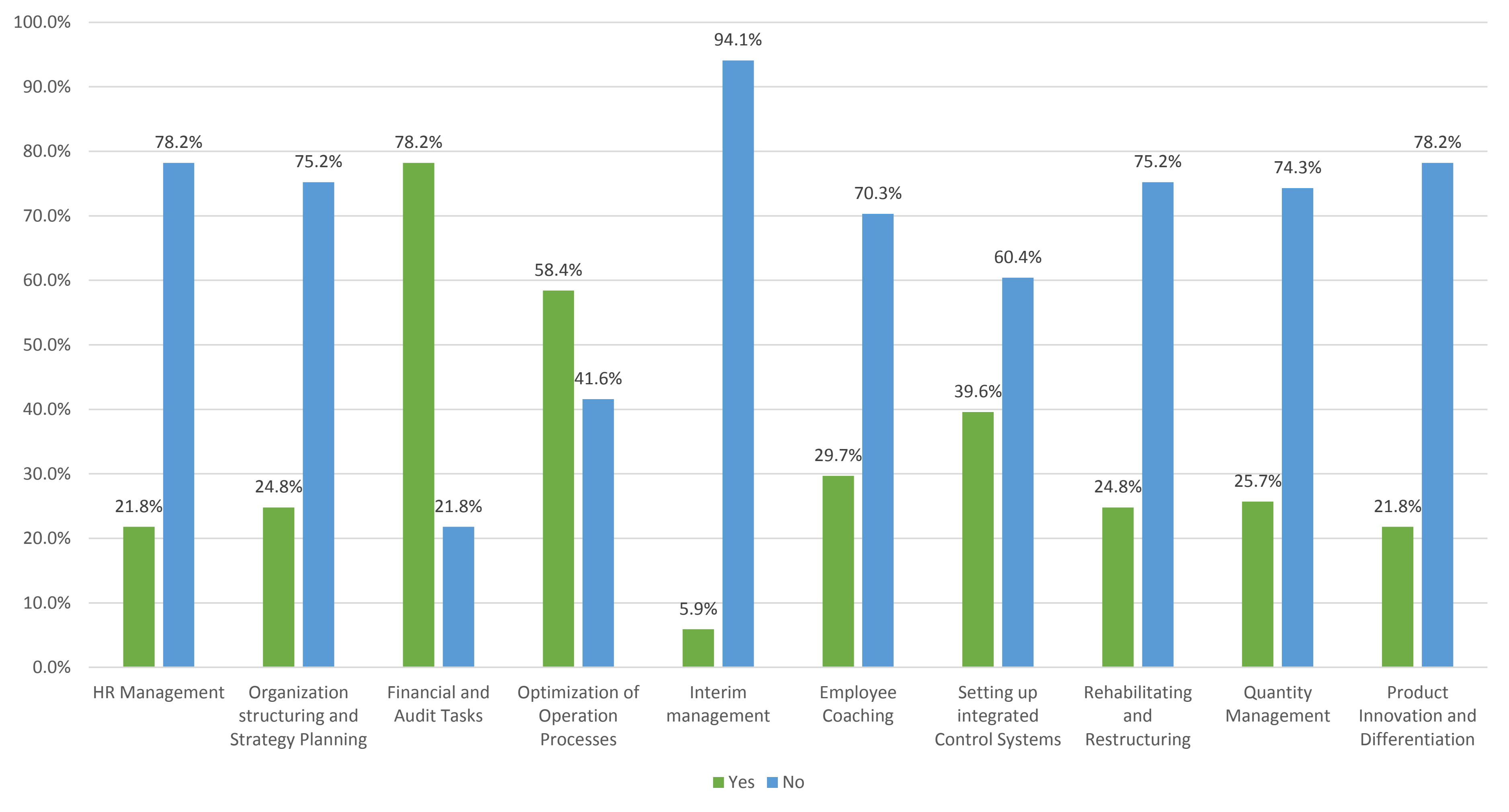
Length of Service	Frequency (n)	Percent (%)
Less than 2 years	8	7.9
2 to 5 years	18	17.8
6 to 9 years	32	31.7
Over 10 years	43	42.6

All respondents reported that their bank uses Management Consultancy Services.

4.5 Services Offered by Management Consultants to Commercial Banks in Kenya

Respondents were queried on the services that their banks received from management consulting firms. The two most common services were related to Financial and Audit Tasks (78.2%) and Optimization of Operation Processes (58.4%), as seen in Figure 4.2.

Figure 4.2. Services Offered to Kenyan Banks by Management Consultancy Firms



According to figure 4.2 above, the most common service for management consultants were involved by banks were financial and audit tasks (78.2%) and optimization of operation processes (58.4%).

4.6 Management Consultancy Firms and Differentiation among Commercial Banks in Kenya

The study data showed that 91.1% of respondents indicated that management consultancy firms were involved in helping them to innovate new products or differentiate their current products. The management consultancy firms are shown in Table 4.2. Of the 101 respondents only 93 indicated the firm that their bank uses.

Table 4.2. Firms Used by Commercial Banks in Kenya

Firm	Frequency (n)	Percent (%)
McKinsey and Company	34	36.6
KPMG	24	25.8
PwC	12	12.9
Deloitte	7	7.5
EY	4	4.3
Others	12	12.9

According to table 4.2 above, the most common management consultant firms working with banks were Mc Kinsey and Company (n=34, 36.6%), KPMG (n=24, 25.8%), PwC (n=12, 12.9%), Deloitte (n=7, 7.5%) and EY (n=4, 4.3%).

Respondents were asked to list the various products for which they had received innovation or differentiation assistance. Some of these products are listed in Table 4.3

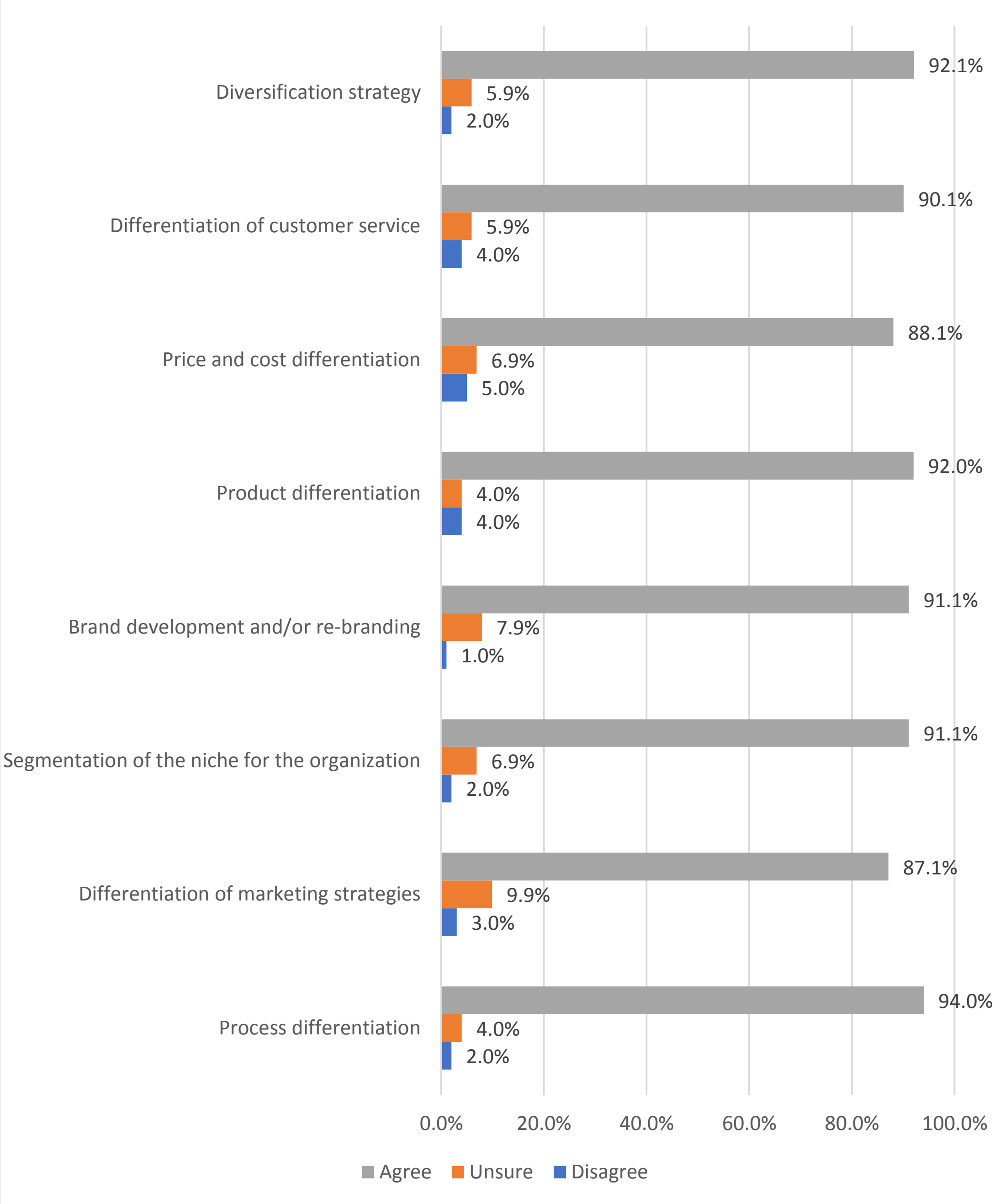
Table 4.3. Products and Services that Management Consultancy firms help to Innovate or Differentiate

Products and Services	
Account deposits	Insurance products (marine insurance)

Audit and branding	Internal processes
Audit and financial analysis	Lending products to SMEs
Audit and optimization	Omni-Channel
Bank processes	Optimization
Banking and credit system	Optimization and audit
Banking system and auditing	Organizing and restructuring
Borderless Banking	Quality and audit
Branding and optimization	Quality and structures
Business processes	Queue management and customer experience
Business strategy	Rebranding
Cheque truncation, Gateways etc	Restructuring
Control Systems	Savings products for the low income
Employee coaching and audit	Service Delivery
Financial and systems audit	Strategic planning
Information security and controls	Virtual banking platforms

Respondents were further asked to give their rating of how various functional areas have improved as a result of management consulting. The summary of this rating is given in Figure 4.3.

Figure 4.3. Areas That Have Improved Because of Management Consulting



The banks contracted management consultants to recommend improvements in various areas and the analysis shown in figure 4.3 above reflects that most of the respondents agreed that management consultancy services helped with regard to process differentiation (94%), product differentiation (92%), segmentation of the niche for the organization (91%), differentiation of customer service (90%), and better diversification strategies (92%).

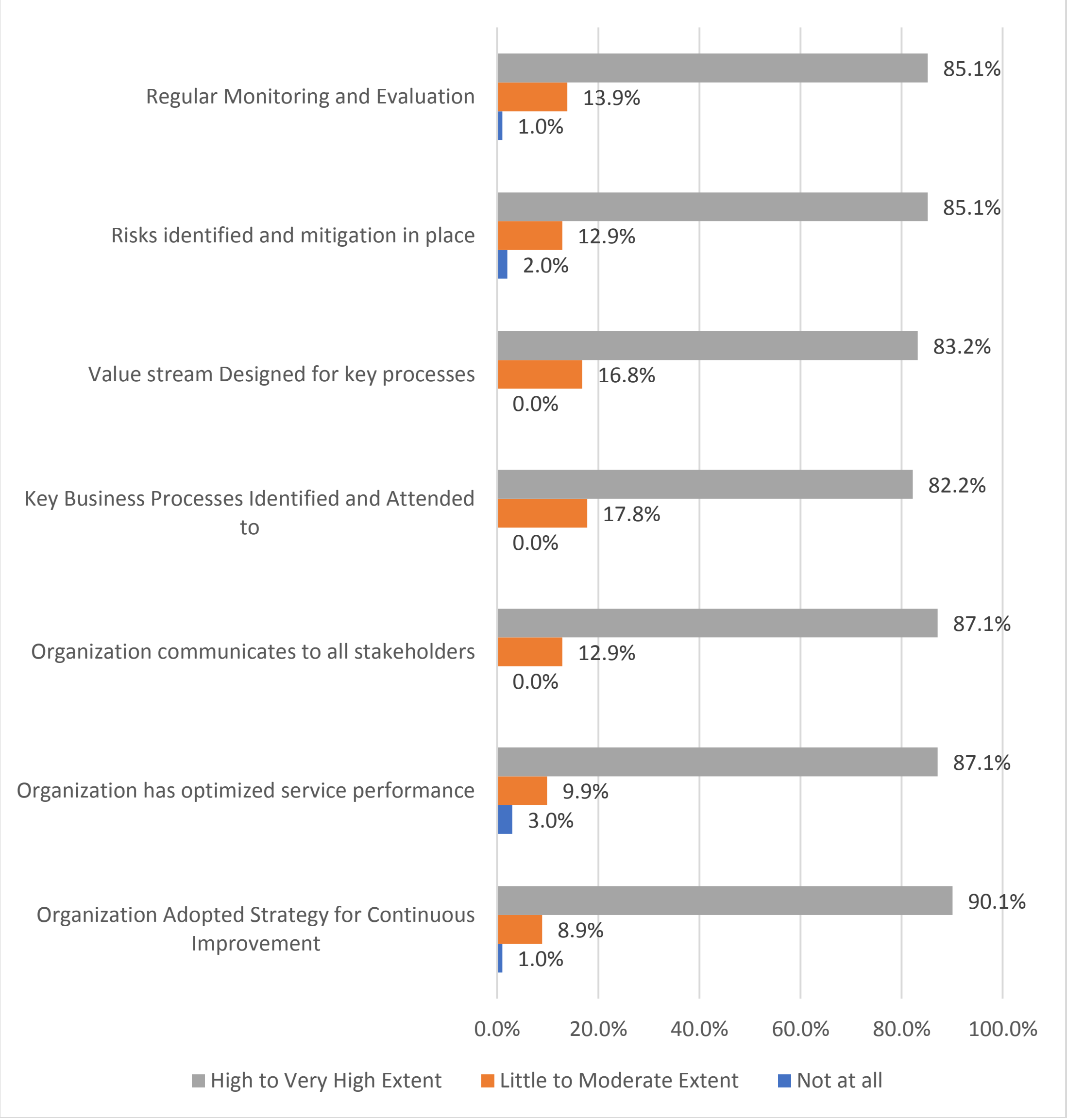
Based on these responses an additive index of level of differentiation was computed for each respondent. This was made based on the coding of responses as follows: 1 Strongly

Disagree, 2 Disagree, 3 Neutral, 4 Agree and 5 Strongly Agree. Thus, the index scale ranged from a minimum of 8 (lowest differentiation) to a maximum of 40 (highest differentiation). Based on the responses the mean differentiation index was 35.1 (SD=4.6; Min=13, Max=40).

4.7 Role Played by Management Consultants in the Operational Efficiency of Commercial Banks in Kenya

The role played by management consultants in the operational efficiency of commercial banks in Kenya was also assessed. This is shown in Figure 4.4

Figure 4.4. Effect of Management Consultancy Services on Operational Efficiency



The role played by management consultants on the operational efficiency of the banks was assessed. The graph above shows that the use of management consultancy services led organizations to adopt strategies for continuous improvement (high to very high extent = 90%), optimization of service performance (high to very high extent = 87.1%), regular monitoring and evaluation (high to very high extent – 85.1%), identification of risks and setting mitigation measures in place (high to very high extent = 85.1%).

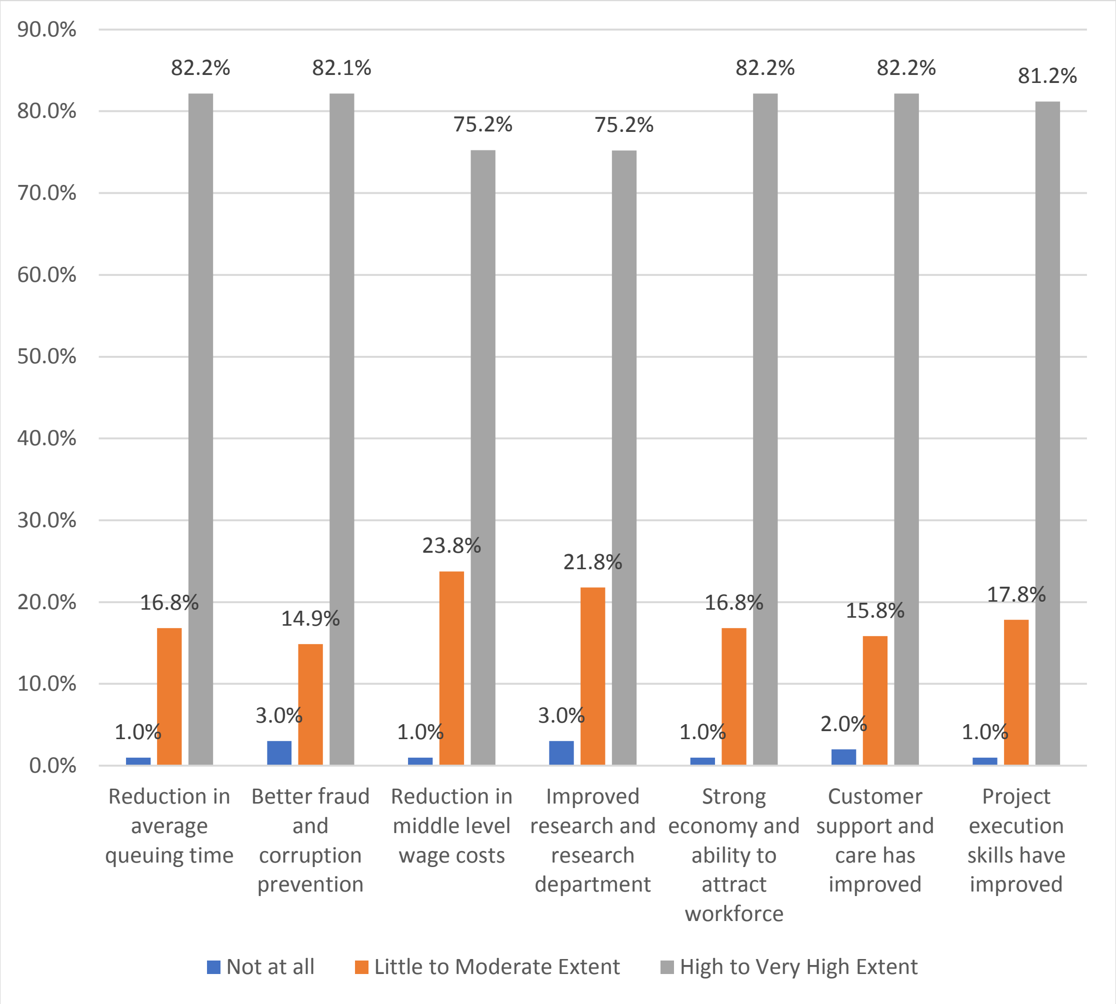
Based on these responses an additive index of level of operational efficiency was computed for each respondent. This was made based on the coding of responses as follows: 0 Not at all, 1 Little Extent, 2 Moderate Extent, 3 High Extent and 4 Very High Extent. Thus, the index scale ranged from a minimum of 0 (lowest operational efficiency) to a maximum of 28 (highest operational efficiency). Based on the responses the mean competitiveness index was 21.8 (SD=4.0; Min=4, Max=28).

4.8 Significance of Management Consultancy in the Profitability of Commercial Banks in Kenya

4.8.1 Competitiveness

All the study respondents indicated that they felt that their banks were competitive in the Kenyan market. Respondents were also queried on the impact management consulting has had on their competitiveness in various functional areas, as well as profitability. The summary of their responses is shown in Figure 4.5.

Figure 4.5. Extent to Which MC Firms Have Impacted Competitiveness of Kenyan Commercial Banks



The findings showed that the various elements of competitiveness had improved in the banks especially with reference to reduction in average queuing time (high to very high extent = 82%), better fraud and corruption prevention (high to very high extent = 82%), strong economy (high to very high extent = 82%) and ability to attract workforce and customer support (high to very high extent = 82%).

Based on these responses an additive index of competitiveness was computed for each respondent. This was made based on the coding of responses as follows: 0 Not at all, 1 Little Extent, 2 Moderate Extent, 3 High Extent and 4 Very High Extent. Thus, the index scale ranged from a minimum of 0 to a maximum of 28. Based on the responses the mean competitiveness index was 20.9 (SD=4.1; Min=5, Max=28).

4.8.2 Profitability Analysis

The profitability of the banks represented in the study was analysed from their 2016 financial reports. This is shown in Table 4.4.

Table 4.4 Profitability Analysis

Bank	Core EPS Growth	CIR	Loan Growth	Total Operating Expenses (Billions)	ROACE	LDR	Non-Performing Loans	Corporate Governance Score
Co-op	8.30%	6	11%	21.4	1	5	2	6
I &M	8.40%	1	5.40%	10.2	2	6	6	6
KCB	0.50%	7	11.70%	40.4	3	2	7	1
Equity Bank	4.60%	5	1.40%	39.1	4	3	5	5
Standard Chartered	43.90%	4	6.60%	14.7	5	8	9	2
DTB	16.60%	2	4.90%	10.3	6	4	1	4
Barclays	12.6	8	15.90%	20.8	7	7	4	3
NIC	3.30%	3	1.30%	10	8	10	5	9
CFC Stanbic	9.90%	10	3.40%	12.5	9	1	10	11
Housing finance	24.30%	9	2.70%	0.8	10	11	8	10
NBK	N/A*	11	12.70%	10.9	11	9	11	8

Note: CIR=Cost to Income Ratio; LDR=Loan to Deposit Ratio; ROACE=Return on Average Common Equity

The above table highlights the profitability, growth, efficiency, soundness, and governance of the banks in the study. The performance metrics ranking assigns a value of 1 for the best performing bank, and a value of 11 for the worst. As such, cooperative bank ranked 1st on achieving a high return on equity. Kenya Commercial Bank ranked 1st in the corporate governance score but recorded poor CIR. Poorly performing banks included HF Group with a rating of 11 in LDR and 9 in CIR and National Bank with a rating of 9 in LDR and 11 in CIR. With respect to the core EPS growth index, Standard Chartered Bank rated the best while the figures for National Bank could not be retrieved as the bank made losses in 2015 which served as the base year for calculating the growth indices. The ROACE ranking was used to derive the variable of profitability that was used in the analysis.

4.8.3 Bi-variate Analysis

Spearman's rank sum correlation coefficient was used to assess the significance of management consultancy services on the profitability of commercial banks in Kenya at the bi-variate level. The results of the correlation analysis are shown in Table 4.5.

Table 4.5 Effect of Management Consultancy on Profitability (Spearman's rho)

	Variables	1	2	3	4
1	Profitability	1			
2	Competitiveness	-0.084	1		
3	Operational Efficiency	-.209*	.447**	1	
4	Differentiation	-.263**	.228*	.211*	1

$^{*}p<0.05$
$^{**}p<0.01$

The results of the correlation analysis indicate that management consultancy services around operational efficiency (ρ=-0.209, p=0.036) and differentiation (ρ=-0.263, p=0.008), are statistically significantly correlated with profitability in the banks sampled. This means that provision of these services is linked to higher profitability.

4.8.4 Multivariate Analysis

Binary logistic regression was used to adjust for confounding in the relationship between management consultancy services and profitability in the sampled banks. The regression is shown in Table 4.6.

Table 4.6. Effect of Management Consultancy on Profitability (Logistic Regression)

				95% C.I.	
Variables Entered	B	p-value	AOR	Lower	Upper
Operational Efficiency	-3.9526	0.099	1.287	0.95329	1.73913
Differentiation	-3.2362	0.041	1.3624	1.01317	1.8315

The results of the logistic regression indicate that only differentiation services remain statistically significantly linked to profitability at the multivariate level (AOR=1.362, CI: 1.013-1.832; p=0.041). This means that banks that received differentiation services from management consultancy firms had 1.362 higher odds of being profitable than those who didn’t receive differentiation services.

CHAPTER FIVE: DISCUSSION AND CONCLUSION

5.1 Summary of Findings

This study sought to assess the impact of management consultancy services in the banking sector. Commercial banks in Kenya were included: Barclays Bank of Kenya, CFC Stanbic, Cooperative Bank of Kenya, Diamond Trust Bank. Equity Bank, Housing Finance, I&M Bank, KCB, National Bank of Kenya, and NIC Bank of Kenya, and Standard Chartered Bank. The most common services that banks procured from management consultancy firms were financial and audit tasks and optimization of operation processes while McKinsey and Company, KPMG, PwC, Deloitte and EY ranked as the most contracted consultancy firms.

Management consultancy firms were shown to assist banks in innovating and differentiating different products ranging from account deposits, banking systems, auditing and borderless banking. In some instances, the management consultancy firms were contracted to assist in on-boarding of the banking products and services in technology platforms such as the virtual banking platforms while in other instances banks that required to rebrand and restructure themselves sought the expertise of management consultants.

As a testament to the importance of management consultants, the banking clients stated that management consultancy assisted them in process, product, and consumer base differentiation while enhancing their diversification strategies. The operational efficiency that banks were able to achieve as a result of management consultancy was high being rated at 21.8 on a maximum scale of 28.

5.2 Discussion

5.2.1 Services Offered by Management Consultants to Commercial Banks in Kenya

In this study, the most common services offered by management consultants included financial and audit services and optimization of operation processes. In a consultancy industry overview, management consultancy firms have been largely associated with cost reduction and audit functions where firms contract management consultants to assist in streamlining costs through enhancement of controls by auditing their finances. Aside from auditing, management consultants have been procured to assist banks cut costs through helping them switch to less expensive methods of operating using superior technologies (Al-Twaijry, Brierley, & Gwilliam, 2004). Studies show that management consultants are valued in this area because they assist banks to make objective decisions revolving around cost reduction.

The role of management consultants in bank as reviewed by other studies presents almost similar findings to those that this study arrives at. For instance, Pries and Stone (2007) show that management consultants are often contracted when implementing plans for operational efficiency through various programs including customer relationship management programs. Often times, banks contract management consultants for both optimization of services and auditing of finances as they deem the two intertwined (Furusten, 2009). The case in European banks supports this as BearingPoint management consultants have been shown to offer their cutting edge services to banks to assist them in auditing tasks and operational efficiency.

The findings on the major areas where management consultants are engaged in this study were not limited to either public or private sector. A review of related findings, though, showed that more studies have been done on the influence of management consultants in operational efficiencies of private sector banks (Pries & Stone †, 2004; Radnor & O'Mahoney, 2013). On the contrary, there are few studies that have been done to assess the impact of management consultants in operational efficiencies in public sector banks. Radnor and Mahoney (2013), however, show that there is a growing trend in involving management consultants in operations management assessments and innovations. In the public sector, though, the management consultants are able to conduct operational management operations with more challenges as compared to the private sector (Radnor & O'Mahoney, 2013).

Still in other studies, management consultants are shown to be in involved in optimization of operations through a function known as business diagnostic. Business diagnostic functions undertaken by management consultants include development of snapshot to assess the business unit of the banks as a way to understand what areas of the bank require attention. One study notes that management consultants in the Indian banking sector assist in diagnosing management and operational issues on a temporary basis (Srinivasan, 2014b). As such, in the banking sector, management consultants offer any services or conduct activities that have apparent justification as far as management aspects are concerned.

5.2.2 Management Consultancy Firms and Differentiation among Commercial Banks in Kenya

The finding that product and process differentiation can be achieved through engagement of management consultants is supported by other literature. Kirui, Ombui, and Omwenga (2016), in their study on Equity Bank, report that the bank has achieved product differentiation through engagement of management consultants. By on-boarding the expertise of management consultants, it has been possible to continuously give consumers the satisfaction they desire from banking products.

More studies supporting the findings in this study show that management consultants are engaged in instances where banks desire to evolve their array of online and mobile banking tools (Chang, Wang, Jiang, & Klein, 2013; Furusten, 2009). The need for management consultants with regards to evolving mobile and online banking tools is even more pronounced where banks work with core systems that are rigid with reference to allowing new application layers requiring huge time and financial capital to evolve.

According to Deloitte Consulting LLP's report on banks, it is evident that banks need management consultants to differentiate their products and processes (Deloitte Consulting, 2017). The consulting firm states that the banking industry's need to evolve legacy systems and invest in advancements in their core system is global. Yet, few banks are able to undertake the IT upgrades by themselves. Heidmann (2010) supports assertions on the need to replace core banking systems and innovate for greater ability to adapt to the dynamic environment in the banking market. As such, banks all over the world are contracting management consultants or are in need of doing so to fix broken data silos, create searchable customer databases, and ultimately transform core banking systems. This step not only solves the inevitable need but it also reduces risks that banks face.

Studies also support findings in this study noting that over the years, differentiating point solutions have accumulated, leading to overhauling of bramble legacy systems and replacement with more innovative ones through the assistance of management consultants(Srinivasan, 2014b). With the help of management consultants, banks have been shown to implement modern core platforms that can implement overdraft protection in a matter of hours. Without the modern core platforms, banks are known to take even six months or more as old systems employed hard codes that are rarely understood in current environment. While sudden overhauls are expensive and daunting, management consultants are shown to assist banks implement these needed technological advancements through small incremental changes that lay groundwork for large extensive changes.

5.2.3 Role Played by Management Consultants in the Operational Efficiency of Commercial Banks in Kenya

In an acceptance to the findings in this study, studies link management consultants to operational efficiencies of banks and other firms. Management consultants are cited as being helpful to organizations assisting them to evolve and adapt in the face of dynamic changes and highly complex environments. Management consultancies also assist their clients with agility opportunities and minimizing threats through delivering continuous performance improvements to allow them to increase their competitive advantage (Ajmal, Nordström, & Helo, 2009). The pragmatic and focussed approach used by management consultants ensure that clients are able to scope up front and deliver results that ensure clients become operationally efficient.

In an assessment of the capabilities of management consultancies, reviewers have noted that management consultants specializing in revenue enhancement and profit improvement services to banks and other financial institutions are able to ensure that the firms increase their operational efficiency. Management consultancies are also linked to business development activities that assist banks in making their processes lean and efficient. Bank wide studies conducted by management consultants are also documented as being key in ensuring that consulting initiatives lead to operational efficiency as well as profitability (Dyer & Singh, 2011). Development of strategies and management methods is also key towards ensuring firms gain operational efficiency.

In a separate study on the effect of business consulting on development contexts, researchers show that consultants lead to positive results in regards to operational efficiencies (Ajmal et al., 2009). The findings indicate that the involvement of business consultants is beneficial and the implications are that internal operations of firms are set to benefit from management consultancy activities.

5.2.4 Significance of Management Consultancy in the Profitability of Commercial Banks in Kenya

In this study, the findings were that management consultancy leads to profitability in commercial banks. While literature on management consultancy agrees to this finding, it shows that there are other variables that are also involved in profitability of banks such as market focus. According to one study, management consultancy services should be augmented with proper market focus for a bank to emerge profitable (Radnor & O'Mahoney, 2013). Another study supported the function of management consultants in bringing profitability to a firm citing that where management consultants enable a bank to innovate its products and improve efficiency, then the result is profitability (Lory & McCalman, 2012).

As highlighted earlier, management consultants lead to product and process innovations, Batiz-Lazo and Woldesenbet (2014) note that this contribution of management consultants leads to profit opportunities. The authors note that product and process innovations introduced by management consultants contribute to the enhanced performance of banks in their own way: efficiency being the process where costs are reduced while investment notion as a product raises the revenue of the banks therefore impacting the profit figure.

Similarly, another study notes that management consultancy activities of process innovation contribute to the positive financial health of banks. However, this finding is not without opposing views that challenge the link between the activities of management consultants and profitability of banks. Conflicting findings link profitability of banks to cost of process of technology, the amortization schedule and timing factors. This is because developing effective and adequate IT systems need substantial upfront expense for banks that wish to match development by competitors. Further, opposing views contend that profitability of banks is more directly linked to the expectations of managers regarding financial margin or fee income related to the introduction of specific service or product.

5.3 Conclusion

Management consultancy is critical in the banking sector as shown in this study. Appropriate use of management consultancy services is greatly linked to competitive advantage as shown by the profitability analysis and management consultancy assessment of the commercial banks in this study. While other factors are involved, it has been shown that the involvement of management consultancies especially for other services other than just auditing functions leads to high performance indices among the banks. The results of the study have support from literature on management consultancy services in banks and from other sectors. As such, this paper contributes to the understanding of the position of management consultancy in the local banking sector as well as the global banking sector. Banks with poor performance could improve their performance through proper consideration and inclusion of consultants in their banking processes.

5.4 Recommendations

This study recommends:

I. That poorly performing banks, especially National Bank of Kenya, consider inclusion of management consultancy services in strategy development and optimization of processes.

II. The study recommends continuous engagement of management consultants in order to ensure independent optimization of processes and risk reduction.

III. The study recommends further studies to assess the engagement and contribution of management consultants by MFIs in order to understand the contribution they can make in transforming their performance.

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APPENDICES

APPENDIX I: QUESTIONNAIRE

INTRODUCTION

My name is Joseph Nahashon Kongoro a student of the University of Nairobi pursuing a masters' degree in Business administration- Registration number: D61/79052/2012. Currently I am done with my coursework. After course work, I am now doing a research project on **Management Consultancy Services on the Competitiveness of Commercial Banks in Kenya**. For this project to be complete, I have to collect data, analyze the data and then write a report. The data that you will provide will be highly confidential. This information will only be used for academic purposes. Your participation will be highly appreciated. If you have any other questions you can reach me at my phone number: 0727092969.

Thank you for your participation.

SECTION A: BACKGROUND INFORMATION

1. What is your role in the organization? ____________________

2. How long have you worked in the firm?

   ☐ Less than 2 years ☐ 6-9 years
   ☐ 2-5 years ☐ Over 10 years

3. How long has your organization been operational

   ☐ Less than 2 years ☐ 6-9 years
   ☐ 2-5 years ☐ Over 10 years

4. Has your organization used management consultancy services?

   ☐ Yes ☐ No

5. Provide the name of the management consultant that your organization has or continues to use its professional services ______________________________

6. What form of management consultancy service did your organization procure?

- ☐ Human Resource (HR) management
- ☐ Organization structuring and strategy planning
- ☐ Financial and audit tasks
- ☐ Optimization of operation processes
- ☐ Interim management
- ☐ Employee coaching
- ☐ Setting up integrated controlling systems
- ☐ Rehabilitating and restructuring
- ☐ Quantity management
- ☐ Product innovation and differentiation

SECTION B: DIFFERENTIATION OF BANKING PRODUCTS

7. Has your organization engaged management consultants for the purposes of innovating or differentiating its products?

   ☐ Yes ☐ No

8. Name the product that the organization has or is still working with management consultants to differentiate for the purposes of competitive strategy

   ____

   ____

   ____

9. Please provide your response to the differentiation that has resulted in the bank as a result of engaging management consultant.

The scale provided 1 – 5 represents 1 = Strongly Agree, 2 = Agree, 3 = Neutral, 4 = Disagree, and 5 = Strongly Disagree

Product/Process/Strategy	1	2	3	4	5
Process differentiation					
Differentiation of marketing strategies					
Segmentation of the niche for the organization					
Brand development and/or rebranding					
Product differentiation					
Price and cost differentiation					
Differentiation of customer service					
Diversification strategy					

SECTION C: COMPETITIVENESS AND COMPETITIVE ADVANTAGE

10. Do you believe that the organization that you work for is generally competitive?

☐ Yes ☐ No

11. On a scale of 1-5 where (1= Not at all, 2= Little extent, 3= Moderate extent, 4= Great Extent, and 5= Very Great Extent); kindly rate the competitiveness of the organization with regards to management consultancy

	1	2	3	4	5
Reduction in average queuing time					
Better fraud prevention and corruption					
Reduction in middle level wage costs					
Improved research and research department					
Strong economy – ability to attract workforce					
Customer support and care has increased					
Project execution skills have improved					

SECTION D: OPERATIONAL EFFICIENCY

12. The overall desire for the engagement of management consultants is to ensure that the organization can improve its services and products and, as such, make its operations more efficient. On a scale of 1-5 where (1= Not at all, 2= Little extent, 3= Moderate extent, 4= Great Extent, and 5= Very Great Extent); kindly rate the operational efficiency of the organization with regards to management consultancy

	1	2	3	4	5
The organization has adopted a strategy for continuous improvement					
The organization has optimized service performance through the execution of a series of practices as designed by management consultants					
The organization communicates with all its stakeholders with clearly defined targets to enhance the culture of excellence					
The key processes and operations relating to business are identified and attended to (i.e. customer service, banking services, banking products etc)					
A value stream has been designed for each of the key processes and operations					
Risk, vulnerabilities, and weaknesses have been identified and corrective actions are in place					
Each of the processes and operations in the organization is measured, monitored and acted on regularly					

THANK YOU.