

**RELATIONSHIP BETWEEN BENCHMARKING AND
OPERATIONAL PERFORMANCE IN THE KENYAN BANKING
INDUSTRY**

By

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**A Research Project submitted in partial fulfillment of the requirements
for the degree of Master of Business Administration, School of Business,
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DECLARATION

I declare that this is my original work and that this project has never been submitted to any examination body or institution for any other award.

Signed _____

Date _____

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This project is submitted for examination with my approval as the University Supervisor.

Signed _____

Date _____

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DEDICATION

This project is dedicated to my parents and family. Your inspirations keep me going.

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ABSTRACT

This study sought to investigate the relationship between benchmarking and operational performance in the Kenyan Banking Industry. It addresses the type of Benchmarking pursued by the banking industry. Internal, competitor, Industry and World class types of benchmarking practices were studied. It also addressed the issue of the measures in place to ensure that for the benchmarking type pursued, there is information gathering about it.

The major aim of this research was to establish if there is a relationship between the type of benchmarking pursued and the operational performance measured in terms of profitability. This was achieved by circulating a questionnaire to test the type of benchmarking pursued in the various banks in Kenya.

The findings of the study indicated that there was an agreement among the respondents that internal benchmarking is strongly pursued in Kenya. Generally there is presence of all the benchmarking types with world class benchmarking having the least preference.

The study recommended that the Kenyan banking industry should engage in activities to provide them with benchmarking strategy information and should also consider world class benchmarking so as to exploit its benefits. They should share information within the departments and also establish links with their peers/best in industry and world class performers so as to tap their best operations performance. If these recommendations would be implemented, Kenyan banking industry would have an edge above other financial institutions that provide other forms of banking services.

CHAPTER ONE: INTRODUCTION

1.1 Background

Business environment nowadays require companies to compete in globalized and turbulent markets. In order to survive in such a dynamic environment, they have to take care of all their stakeholders' needs and excel at the same time along all performance dimensions. Bank customers expect more and managers have to contend with growing intensity of global competition and pervasive change, (Kandie, 2003). Kenya and indeed the East African region, has in the past decade witnessed an increasingly better performing banking sector and the quality of customer service has been growing by the day (Ogollah, 2006).

Benchmarking recognizes that ideas are available everywhere, the challenge lies in habitually seeking them and adapting them. The Japanese word donatotsu ("striving to be the best of best") captures the essence of benchmarking (Vermuelen, 2003). It requires a little humility and a lot of passion to pursue. The past two decades have seen the complexion of competition change towards a more collaborative approach, while taking to hone ones tacit competencies. This is borne out of a realization that other firms, while facing the same turbulence in the business environment, are doing things better. Indeed, a study by Voss et al (1997) identifies an indirect link between benchmarking and performance as it increased understanding on a firm's position relative to its competitors. Ultimately the aim is to transfer the winning practice to their own operations.

A necessary pre-condition to achieve high organizational performance standards is being able to effectively measure and monitor an organization's performance. The truthfulness of some famous sayings like "What gets measured gets attention" or "What you measure is what you get" is widely recognized both among academicians and management practitioners. Performance Management Systems (PMSs) are considered as a means to gain competitive advantage and continuously react and adapt to external changes. A Performance Management System is a set of metrics used to quantify the efficiency and effectiveness of past actions. It enhances quality of decisions being made as it quantifies efficiency and effectiveness of past actions through the acquisition, collation, sorting, analysis and interpretation of appropriate performance data (Akanga, 2011)

Armstrong & Baron (2004) defined Performance Management as a strategic and integrated approach to delivering sustained success to organizations by improving the performance of people who work in them and by developing capabilities of teams and individual employees. Being the most critical asset of an organization, achieving high performance of an organization's human capital leverages the overall organizational performance. Mullins (2005) defines Performance Management simply as being the process of continuous judgment on the behavior and performance of staff. Armstrong & Murlis (2004) defines Performance Management as a process of establishing shared understanding about what is to be achieved and how it is to be achieved; an approach of managing people that increase probability of achieving success.

1.1.1 The concept of benchmarking

The Operations function is charged with converting inputs into outputs that are of value to customers, by carrying out processes that expend a company's resources. The key to operational improvement is therefore to find out who does what best, or perceived to be the best, at expediting the particular process (Bunney et al, 1998). Benchmarking is the method of determining best practices and continues with the careful study of one's own practices and performance, progresses through systematic site visit and interviews and concludes with analysis of results, development of recommendations and implementation (Gravin, 1993). It is a process of improving performance by continuously identifying, understanding (studying and analyzing) and adopting outstanding practices, and processes found, inside and outside the organization and implementing the results (American and quality center, 1997).

Simply put best practices from successful companies will provide a guideline for other companies to follow. Best practices of productivity and quality contribute to overall organizational competitiveness. For example, the best practice of supply chain management from Dell Computers can be useful to companies in other industries not necessarily within the computer industry. Toyota's just-in-time technique has been popular in almost all types of industry (Gunasekaran, 2006).

Camp's 1979 seminal work in the Xerox Corporation is generally credited with initiating the first comprehensive benchmarking project, where the company managed to enhance its competitive position in the photocopier market and also developed an evolutionally

new management tool. Since then, benchmarking continues to gain more subscribers and occupies more prominence (Dattakumar and Jagadeesh, 2003).

Camp modified his definition of benchmarking in 1989 to take into account a wider focus than just competition. He defined it as the ‘search for best practices that lead to superior performance’. It is this broad perspective that has given benchmarking such wide appeal as it recognizes the need for a regular and documented worldwide scan for organizations that are best at what they do (Gavin, 1987). This is in tandem with the global appeal of business thinking and practice. At the same time benchmarking appreciates that rather than reinvent the wheel, firms should look to others for ideas and bring them home to suit their needs. This again appeals to the short product life cycle and fast paced innovation that characterizes the market place today (Namu, 2006).

1.1.2 Operational performance

Operation performance refers to the measurable aspect of the outcome of an organizational processes, such as reliability production cycle and inventory turns. It affects business performance measures such as market share and customer satisfaction. Operational performance management (OPM) is the alignment of all business units within an organization to ensure that they are working together to achieve core business goals. In manufacturing, OPM software integrates and analyzes data from a variety of plant sources and translates raw data feeds into actionable information. The data is packaged as exception reports and key performance indicator (KPI) dashboards, so that the information can be viewed in context (Voss et al 1997)

OPM software allows manufacturers to establish links between operations, KPIs and critical business metrics. As a result, they gain insight into everything from asset utilization to machine up-time and plant-floor productivity while also monitoring energy usage, uncovering the cause of quality problems, and ensuring consistent production across multiple lines (Voss et al 1997)

1.1.3 Benchmarking and operational performance

The link between the benchmarking and operational performance can be understood in Adam (2004) study which had data collected from 157 US manufacturing businesses. The study revealed four benchmarking measures, that is: internally, competitive (meaning within the industry), functional best, and generic best (Camp 2008). Three of them have a positive effect on performance that is significant. These include: generic best, functional best and internally competitive.

The managements' focus is to see what action the company must take to remain competitive and perhaps gain some competitive advantage. One widely recommended technique for improving ones competitive position is benchmarking products, services and practices (Elnathan et al, 1996; Coburn et al, 1995). The appeal and widespread use of benchmarking is also reflected in the quality literature. Quality literature argues that benchmarking allows organizations to determine what level of performance is achievable, to set challenging but achievable goals and to identify superior methods for designing products and/or processes (Drysdale 1997; Ittner and Larcker 1995).

A lot of effort in the study of practices of benchmarking in the banking industry has been put elsewhere around the world, for instance, Batiz-Lazo (2001) study on Benchmarking Best Practices in Financial Services in the United Kingdom. Among his findings are that the adoption of best practices benchmarking is a contingent on individual organizations gaining experience with benefits emerging from process improvement and innovations associated with formal benchmarking. The future confidence in the best practices benchmarking will develop alongside regulators being assured that links between establishing internal targets do not develop in anti-competitive behavior.

1.1.4 Kenyan Banking Industry

The Banking industry in Kenya is governed by the Companies Act, the Banking Act, the Central Bank of Kenya Act and the various prudential guidelines issued by the Central Bank of Kenya (CBK). The banking sector was liberalized in 1995 and exchange controls lifted. The CBK, which falls under the Minister for Finance docket, is responsible for formulating and implementing monetary policy and fostering the liquidity, solvency and proper functioning of the financial system. As at December 2008 there were forty six(46) banking and mortgage institutions, fifteen(15) micro finance institutions and one hundred and nine(109) foreign exchange bureaus (PWC Kenya, Industries: Banking Industry 2011)

The banks have come together under the Kenya Bankers Association (KBA), which serves as a lobby for the banking sector's interests .The KBA serves a forum to address issues affecting members. Over the last few years, the Banking sector in Kenya has

continued to growth in assets, deposits, profitability and products offering. The growth has been mainly underpinned by an industry wide branch network expansion strategy both in Kenya and in the East African community region. Secondly is the automation of a large number of services and a move towards emphasis on the complex customer needs rather than traditional 'off-the-shelf' banking products. Players in this sector have experienced increased competition over the last few years resulting from increased innovations among the players and new entrants into the market (PWC Kenya, Industries: Banking Industry 2011)

1.1.5 Key issues facing the banking industry in Kenya

The main challenges facing the Banking sector include: New regulations, for instance, the Finance Act 2008, which took effect on 1st January 2009, requires banks and mortgage firms to build a minimum core capital of one billion Kenya shillings by December, 2012. This requirement, it is hoped, will help transform small banks into more stable organizations. The implementation of this requirement poses a challenge to some of the existing banks and they may be forced to merge in order to comply (PWC Kenya, Industries: Banking Industry 2011)

Secondly the global financial crisis experienced in late 2008 is expected to affect the banking industry in Kenya especially in regard to deposits mobilization, reduction in trade volumes and the performance of assets. Others include declining interest margins where the regulator who is the Central Bank of Kenya (CBK) has come in to control the

rates at which banks charge on their loans (PWC Kenya, Industries: Banking Industry 2011)

The banking industry has responded to the various challenges in a number of ways including rationalization of management where we have recently seen reductions of the management team in Kenyan banks like Barclays and the Kenya Commercial Bank where they laid off a large portion of their management team. Banks in Kenya have realized that the strategic plans they have need to have some benchmarks for them to be able to perform effectively in the ever changing environment (PWC Kenya, Industries: Banking Industry 2011)

On the basis of the foregoing the current study seeks to assess the relationship between benchmarking and operational performance in the Kenyan banking industry. The banking sector has always taken a lead role in implementing operations techniques which would lead to a better performance. Benchmarking being one of the operations techniques its relationship with the operation performance is of concern and therefore the reason this study will be commissioned.

1.2 Statement of the Problem

A lot of research has been done on benchmarking and its contribution to organizational continuous improvement empirically tested. Gitonga (2002) notes that there are a lot of challenges that influences the effective application of benchmarking strategy in Kenya which mainly stem from the fact that organizations in Kenya are wary of one another.

This has created a sense of mistrust in giving out information that may be confidential to competitors.

Studies that have been done locally, for instance: Amolo (2002), Ogollah (2006), Namu (2006) and Gitoga (2002), have hardly addressed the understandability of the concept of benchmarking in a developing economy like Kenya and the degree to which the level of understanding of the strategy can and has affected the implementation of the strategy. Gitonga (2002) deals only with the benefits of the study in the construction industry and the challenges in the implementation of this technique without looking at whether the technique is well understood by those who implement decisions in this sector.

Amolo (2002) deals more on the processes in which the technique has been used in the oil industry and the intricacies in its implementation without touching on its understandability or even the linkage between benchmarking technique and performance of the organization. This study therefore will seek to determine whether there is a relationship between benchmarking technique and performance by establishing how the technique influences the various operational performance measures of a bank, that is: quality of service, customer satisfaction, inventory turnover, productivity growth, and operational costs. Additionally by assessing the various variables such as number of years in the organization, the unit size, the frequency of use of the technique in the organization, and the response rate, the study seeks to establish how well the technique is understood in the banking sector. In this regard the study intends to match the understandability of the benchmarking concept and the implementation process. Through

this, the study seeks to evaluate measures that can be taken in order to increase manager's knowledge on this technique, its benefits and the control measures to yield the desired results.

Benchmarking has been proven to indeed lead to improved performance in organizations of various types. At Xerox, AT&T, Eli Lilly and South west Airlines, GE(General Electric), managers seeking a surge in quality have used benchmarking to make dramatic improvements in controlling their costs and speeding up and improving their services. Studies have located other organizations with superior performance in specific areas, established what others excel in and instituted similar or better improvements (Zairi, et al 1996). This study intends to investigate whether benchmarking has played a role in the continued performance improvement in the Kenyan Banking sector.

1.3 Objectives of the Study

The objectives of this study are to:

- a) Establish the benchmarking practices pursued by various banks in Kenya.
- b) Determine the relationship between the different types of benchmarking and operational performance.

1.4 Importance of the Study

As the external environment continues to be unpredictable, the findings of this study are expected to be very essential in several aspects. Benchmarking as a strategy has been

found to highly uplift the standards of performance of organizations by several researchers. The finding of this study therefore would be of benefit:

To the Kenyan banking industry, it is hoped that, the study will aid them to analyze the input of their use of benchmarking technique and identify areas that require further attention to enhance the improvement of its operations.

The study is also hoped to be an eye opener in the banks to benchmark themselves against their peers and identify strengths as well as possible improvements.

The study will seek to add to the body of knowledge in the field of continuous improvement hence will be useful to scholars in areas of operations management who may want to do a further study.

CHAPTER TWO: LITERATURE REVIEW

2.1 Benchmarking

The definition of benchmarking varies substantially across authors. Woodburn (1999) recognizes that benchmarking is now a “bundle of different concepts that are difficult to comprehend”. Despite the uncertainty of definition of benchmarking concepts, its relevance to business to business services can be seen in: the relationship between benchmarking and quality management, the identification and advocacy of the benefits of best practice in services operations and in the emergence of a focus on process benchmarking.

2.1.1 Types of Benchmarking

Significant variation in interpretation of benchmarking exists, as noted by Woodburn (1999), and there is no universally recognized conceptual framework. Nonetheless, there are some broadly identifiable areas, noted by Elmuti and Kathawala (1997) as: Internal - identification of the best internal procedures; industry - incorporating measurement of functional operations across a sector; competitive - comparing companies offering competing services; process - more recently, focusing on best work processes.

Different forms of benchmarking link to different perspectives in QM and TQM. The internal dimension of benchmarking echoes the conformance to specifications argument (Balm, 1996; Balbastre and Moreno-Luzo'n, 2003, Prado and Prado, 2001). Internal benchmarking, according to Maire et al. (2005), is about business comparison of

performances between units of the same organization (as in studies by Tutchter, 1994; Handerson and Evans, 2000; Hyland and Beckett, 2002), whereas external benchmarking is about comparison between different firms, compared to “best in class” or comparative improvement (as in studies by Burgess, 1998; Chapple, 1992; Nath and Mrinalini, 2000). The competitive dimension of benchmarking is strongly linked to comparable firm outcomes (Fuller, 1997; Bowman and Faulkner, 1994; Ulusoy and Ikiz, 2001); and the requirement for meeting and exceeding customers’ expectations (Edgett and Snow, 1996; Levenburg, 2006; Gronroos, 2004; Parasuraman et al., 1985). The industry dimension draws to some extent on integration of functional activities (Gunasekaran et al., 1994); on national comparisons (Corbett, 1998; Crespy et al., 1993); and on comparable, internal monitoring processes (Fowler and Campbell, 2001). This dimension also incorporates externally developed standards of performance by sectoral bodies such as the NHS, the QAA (whose remit is set out in government White Papers, e.g. The Future of Higher Education, 2003) and national regulators such as the Ombudsman.

2.1.2 Emergence of Benchmarking

Elmuti and Kathawala’s (1997) categorization is useful, it must also be recognized that many of the benchmarking approaches adopted in the 1990s and 2000s cut across these categories to some extent. When considering business process reengineering, (Simpson et al., 1999; Grover and Malhotra, 1997; Tennant and Wu, 2005), it requires integration across many firm activities and projects; thus combining both internal and process types of benchmarking. Distinctions between internal and external aspects of benchmarking are less relevant when considering process benchmarking. For instance, Murray et al. (1997)

refer to a “continuous process of identification, learning and implementation of best practices in order to obtain competitive advantages, whether internal or external”. Multiple studies in services focus on internal benchmarking, in particular, the link to quality enhancement, notably in work by Jackson (2001); Keating and Harrington (2002); Lewis and Gabrielsen (1998) and Simpson and Kondouli (2000).

Competitive and Industry elements of benchmarking have been applied to financial services and tourism (Edgett and Snow, 1996; Hwang and Lockwood, 2006), and also emerged in performance measurement in universities (Pursglove and Simpson, 2007), where contextual measures such as academic effectiveness and widening participation have been evaluated. Furthermore, there has been an evolution in benchmarking, identified by Marie et al. (2005), who noted how “benchmarking has thus naturally evolved to a role of comparative evaluation of process”. This change has been evident in three key areas: in the emergence of new comparison techniques; secondly is in the reconsideration of benchmarking to apply to new organizational contexts and in a more qualitative approach, based on process issues.

With regard to new comparison techniques, Yarrow and Prabhu (1999) highlight a shift from “normative (metric) benchmarking” towards “process benchmarking”, a pattern also noted by Codling (1998), who criticized the heavy reliance on metric measures in traditional benchmarking, arguing that financial criteria are limited in perspective. Such critical views are shared by Davies and Kochbar (2002), and the contemporary focus in

benchmarking is not confined to established quality standards and defined metrics, but incorporates links to a broader performance management.

Performance management, as defined by Cheng et al. (2007), drawing on Armstrong and Baron (1998) is “the process of delivering sustained success to organizations by improving capabilities of individuals and teams”. Multiple studies have taken this further (Bottrill and Borden, 1994; Kennerley and Neely, 2003; McAdam and Baillie, 2002).

2.2 Benchmarking in Banking

In terms of new organizational contexts, research on benchmarking has emerged in studies of business-to business call centres (Miciak and Desmarais, 2001); in comparative benchmarking analyses of e-tailing (Halpete and Park, 2006), and of e-commerce in SMEs (Jeffcoate et al., 2002); and in a detailed examination of benchmarking of customer service elements of small scale internet services (Levenburg, 2006); resulting in fresh insights into the process.

An innovative approach also emerged from Bititci et al. (2005), who argue that the measurement of performance in the “extended enterprise” (a knowledge-based organization with distributed capabilities, competences and strengths), is operationally different to existing performance measurement approaches which they see as generic (or at a basic operational level). In Bititci et al.’s (2005) proposed framework, they see a strong role for co-ordinating measures, which may be intrinsic, or extrinsic (Kochbar and Zhang, 2002). Such measures are likely to be more reflective of the business-to-business environment, but many such ideas have yet to be implemented in practice.

With regard to small service organizations, and business-to-business services in particular, a more fundamental change, though less recent, has been the emergence of qualitative benchmarking techniques, reflecting a simpler approach to facilitate comparisons (e.g. Holloway et al., 1997; Freytag and Hollensen, 2001). In line with more qualitative approaches, Ralston et al. (2001) highlighted the importance of the process benchmarking concept both strategically and as a research methodology, a view that builds on the work of Mohr-Jackson (1998), who earlier highlighted how little attention was devoted to business processes. Process benchmarking has been manifest in various ways in services; Hsien-Chen (1998) proposed five process elements that span both front-stage and back-stage operations; people, time, place, tangibles and intangibles, with an emphasis on management to provide support.

Alternatively, Yasin and Zimmerer (1995) simplify benchmarking into two subsystems; operations and service system subsystems. However, they acknowledge that while both subsystems may have different characteristics, they are highly interdependent. Furthermore, best practice emerges from varied organizational contexts (Lee and Howard, 1994; Robson and Prabhu, 2001 and Miciak and Desmarais, 2001). In services marketing literature, process benchmarking is regarded as useful for managers to analyze the effectiveness of client handling, regarded as important within service sector studies (Levenburg, 2006; Hwang and Lockwood, 2006).

More pragmatically, Palmer (2007) suggests that process benchmarking is the efficiency of customer handling procedures, whereas Zeithaml and Bitner (2006) classify it as

generic, comparing against generic functions or processes. This highlights a non-uniform approach to process benchmarking, an overlap between benchmarking and service delivery operations (Simpson et al., 2004), and a varied range of interpretation from broad (Bititci et al., 2006) concepts to relatively specific processes (Palmer, 2007; Levenburg, 2006).

The process of benchmarking may need some adjustment for agile environments. The more proactive use of strategic and futures benchmarking should be considered for adoption in agile environments. These forward thinking approaches will aid organizations in benchmarking for events that are meant to aid in anticipating change. Since these techniques for benchmarking are very recent, their effectiveness needs to be studied.

The use of the plan, do, check, act (PDCA) framework can still be effective, since this general approach allows for incorporation of change characteristics. This framework still requires specific enterprise adjustment of the general approach. Traditionally, the benchmarking process was meant to aid in incremental and anticipated (planned) changes. Benchmarking in the context of revolutionary and unanticipated change has not been as diligently developed and supported. To aid in this, benchmarking approaches will need to be included in the organizational learning and knowledge base, yet little published research exists on the learning required to use benchmarking successfully. A number of benchmarking approaches include: journeyman conferences, secondary sources search, surveying, intuitive benchmarking. The only approach that does not fit well within the PDCA framework is the "intuitive" benchmarking technique. This

approach has been used in other cultures and may prove relatively controversial for domestic use. The intuitive approach is an expert approach which requires expert intuition to determine whether certain benchmarks would be considered competitive or otherwise (Camp, 1989).

The intuitive technique may include extensions for forecasting benchmarks, where expert opinion may be utilized for non-existent data, especially for business processes or practices that may not have existed previously. This approach could be classed into a similar family of intuitive forecasting techniques such as the Delphi approach. A benchmarking process that has been used by the Best Manufacturing Practices (BMP) group of the Office of Naval Research (Purcell, 1994a), relies on expert volunteers to aid in the acquisition of data. It is one of the few information resources where best practices are observed and validated by impartial teams of experts before they are documented. Thus, the impartiality reduces bias and increases accuracy of the processes in organizations.

The result of this process, the BMP benchmarking database, provides a valuable tool for agile acquisition of benchmarking data. Camp's (and Xerox's) approach for performing benchmarking seems to be suitable for agility and in agile environments, the elements within the process may need adjustment and appropriate tools and metrics will certainly be required. Benchmarking processes should be concerned with incorporating internal, external and strategic issues. To perform benchmarking in an "agile" fashion, a consensus requirement is to have everyone prepared and educated in accomplishing the

benchmarking process. This environment includes a corporate culture attuned to benchmarking.

2.3 Operational Performance

A relatively consistent focus on the benefits of benchmarking has been evident in academic studies in benchmarking, as noted in a comprehensive review of 382 publications on benchmarking (Dattakumar and Jagadeesh, 2003). The authors identified the main areas of concentration as exploring more generalized fundamentals of benchmarking (170 publications) or discussing specific case studies/ applications (164 publications). Less than 10 per cent (27) came under the category of new approaches or extensions to benchmarking. Within previous studies, some consistent benefits have been noted for benchmarking; one is the benefits arising in the linkages between benchmarking and TQM; two is a cultural change effect; and three is the “best practice” argument.

The first area where the benefits accrue for benchmarking is in the link with total quality management (TQM). The Quality Foundation (2000) encourages the use of the EFQM model as means to benchmark and insists that “regardless of sector, size or structure. The model is a practical tool helping organization to measure where they are”. Multiple studies forge the link between quality improvement and benchmarking (Aghazadeh, 2002; Behra and Lemmink, 1997).

Second, Elmuti and Kathawala (1997) and Karlof and Ostblom (1995, p. 13) refer to benchmarking’s cultural impact, seeing “a reorientation of culture towards learning, skill

enhancement and efficiency leading to unsurpassed process of development”. The internal change argument is shared by Dervitsiotis (2000), Clarke and Manton(1997) and McAdam and Bannister(2001). Cultural change is, however, not easy to achieve, as noted by Hwang and Lockwood (2006) and can be problematic in smaller firms, where the culture of benchmarking may not match the entrepreneurial approach of SMEs (McKay and Chung, 2005).

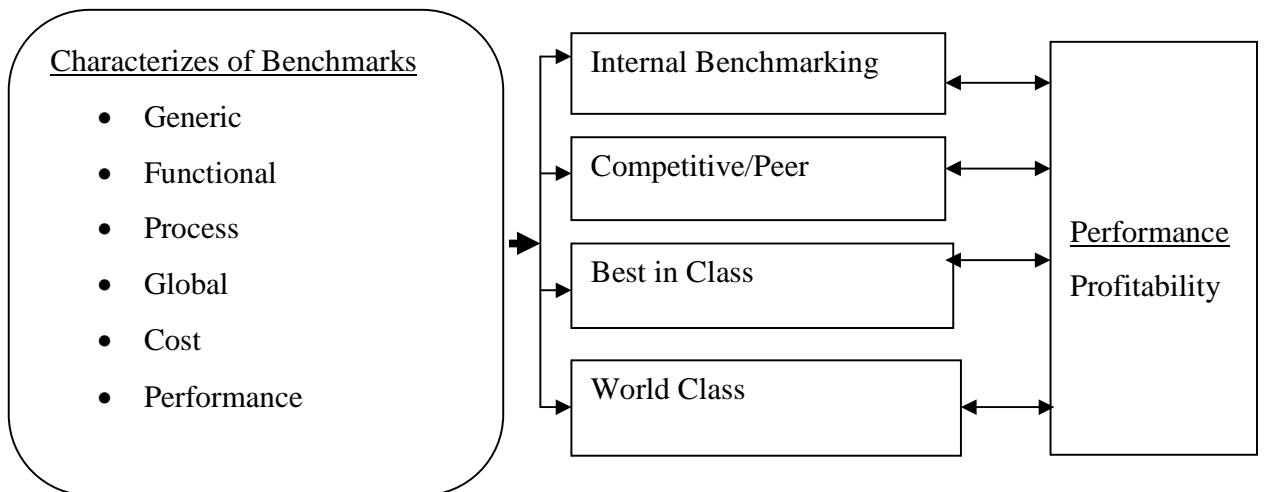
2.4 Benchmarking and Operational Performance

For many firms, benefits of benchmarking can be substantial in the area of best practice. Camp (1989) suggested that benchmarking can be applied across different sectors in order to identify “best practice” and a significant number of studies have taken the best practice forward, not just in manufacturing (Codling, 1997; Fitz-Enz, 1992; Kumar and Chandra, 2001; Davies and Kochbar, 2002), but also in public services (Bruder and Gray, 1994; Davis, 1998; Dorsch and Yasin, 1998). Therefore, emphasis on best practice straddles many contexts; evident in work by Balbastre-Benavent et al. (2005) on self-assessed performance in construction; by Pursglove and Simpson (2007) on efficiency in public services; and by Levenburg (2006) and Jeffcoate et al. (2002) on internet customer service systems.

2.5 Conceptual Framework

According to Porter (1990), “the essence of strategy formulation is coping with competition”. Porter states that competition in an industry is rooted in the economies and will include customers, suppliers, potential entrants and substitute products.

Benchmarking and operational performance tend to move hand in hand as the level of benchmarking increases so does the performance of the organization. The variables in benchmarking are internal, competitors, best in industry and the world class benchmarking components. Operation Performance will have variables like quality of service offered, customer satisfaction, inventory turnover, productivity growth and operational cost reduction.



CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Research Design

This study is of a descriptive type. The study aimed at assessing the Kenya's' banking industry application of benchmarking technique to improve on its operation performance. It is thus a cross-sectional Cooper and Schinder (2003) points out that such a study is concerned with finding out what, where and how a phenomenon is an affirmative.

3.2 Population

The population of interest in this study is the 43 banks in Kenya, both public and private. The unit of analysis is the bank, represented by management staff in charge of performance and benchmarking in the banks. The respondents comprised mainly departmental managers or their equivalent. This is because departmental managers are involved in the major decision making regarding the operational strategies as well as the implementation of the strategies. The study is a census since it used the entire 43 banks in Kenya.

3.3 Data Collection

Primary and secondary data was used. Primary data was used because it addresses specific research issues and there is greater control over how information is collected. The secondary data about the bank's profitability was obtained from the banks website. The primary data was collected using a questionnaire with semi structured and structured

questions shown in appendix 2. The questionnaire is divided into two parts, that is, part A and part B.

Part A includes general questions to the respondents about their title, period in the organization and number of staff they manage. Part B covers the type of benchmarking pursued by the bank. Drop and pick method was used to administer the questionnaires since manager needed time to go through the questionnaire and respond to the questions appropriately.

3.4 Data Analysis

Descriptive statistic was used in the analysis of the data. The mean gave the average level of agreement of respondents concerning their organization's employment of the various types of benchmarking pursued by the bank, that is, internal, competitor, best in industry and world class benchmarking. For the second objective, which is finding out the relationship between different types of benchmarking and operational performance, correlation analysis was used to determine the nature and strength of the relationship between banks profitability and the different types of benchmarking.

Standard deviation was used to measure the dispersion of the various benchmarking techniques from the mean. It measured the variability of the agreements relating to the relationship between benchmarking and operational performance.

Correlation analysis was used to test the relationship between the types of benchmarking pursued and operational performance measured in terms of profitability. The study sought to establish whether there is a relationship between organizational performance and the various benchmarking measures. This was determined by analyzing the two variables and getting a correlation coefficient to measure the linear significance of two attributes.

CHAPTER FOUR

DATA ANALYSIS AND FINDINGS

4.1 Introduction

This chapter covers the summary of the data obtained from the study. The data is analyzed using means and standard deviations and presented in tables and proportions.

4.2 Demographic Information

4.2.1 Response rate

The total number of questionnaires distributed was 43. Out of these, 20 respondents filled the questionnaire. This represents 46.5% percent of all the questionnaires issued, which the study considered adequate for analysis.

4.2.3 Number of years in the management.

This sought to establish the experience of the respondent in the management of the organization. Experience would indicate how familiar one is with the benchmarking strategies of his or her organization.

Table 4.1 Distribution of respondents according to the Number of years in the management.

Number of Years in Management	Frequency	Percent
0 to 3	14	73.7
3 to 6	3	15.8
6 to 9	1	5.3
9 to 12	1	5.3

The results indicate that 73.7% of the respondents had been in the management for less than 3 years.

4.2.4 Number of staff in the organization

The research sought to establish the number of employees in the organization who assist the organization with its benchmarking strategies. A benchmarking strategy for an organization will require a substantial number of employees for it to be successful.

Table 4.2 Distribution of respondents according to the number of staff

Number of Staff in Bank	Frequency	Percentage
Less than 500	12	60
500 to 999	2	10
1000 to 1499	2	10
1500 and more	4	20

The analyzed sample comprises of 20 banks and 80% of them have less than 1500 employees.

4.3 Benchmarking Pursued by the Banks

Table 4.3 shows the level that the respondent agrees to the various statements relating to benchmarking. Descriptive statistics was used to analyze the results where the mean and the standard deviation were found. The level of agreement or disagreement was on a scale from 1 to 5 where: 1 = strongly disagree; 2 = disagree; 3 = neither agree nor disagree; 4 = Agree and 5 = strongly agree.

Table 4.3 Distribution of the level of agreement of respondents concerning their organization’s employment of the various types of benchmarking

Type of Benchmarking	Level of agreement in percentages				
	Strongly Agree (5)	Agree (4)	Neither Agree nor Disagree (3)	Disagree (2)	Strongly Disagree (1)
Internal	47	42	11	0	0
Competitor	35	45	5	0	15
Industry	40	50	5	0	5
World class	20	20	40	15	5

The results indicate that 89% of the respondents agree and strongly agree that their organization is pursuing internal benchmarking, Competitor benchmarking has 80% of the respondents agreeing and strongly agreeing to it. Industry wide has 90% of the respondents agreeing and strongly agreeing to it with world class having 40% of the respondent agreeing and strongly agreeing to it. The respondent’s responses to the various benchmarks were analyzed by means and standard deviations which helped to establish the type of benchmarking followed by the Kenyan banking industry.

Table 4.4 Ranking of the preferred benchmark in descending order.

Type of Benchmark	Mean	Standard Deviation
Internal	4.37	0.684
Competitor	4.25	0.786
Industry	4.00	1.026
World class	3.35	1.137

Internal Benchmarking has a mean of 4.37 with a standard deviation of 0.684. This means that it is the type of benchmarking widely pursued by the Kenyan banking industry. Competitor benchmarking comes second with a mean of 4.25 and a standard deviation of 0.786 meaning that it has a wide variability than the internal benchmarking. Industry wide benchmarking is third in this ranking having a mean of 4.00 and a standard deviation of 1.026 which is higher than any of the above two types of benchmarking. World class benchmarking has the least preference in the Kenyan banking industry with a mean of 3.35 and a standard deviation of 1.137

The researcher sought to establish if the organization has modes in place to support the strategy in place. The modes would usually help in the strengthening the type of benchmark pursued by the organization.

Table 4.5 Ranking of the mode preference in descending order.

Mode	Mean	Standard Deviation
Regular meetings to compare performance within different departments.	3.85	.875
Established links with best in the industry to learn from them	3.50	.946
Inter sectorial team looking at the improvements in the sector	3.20	1.322
Team closely monitoring what the best company in the world	3.05	1.191

The results indicate that regular meeting to compare performance within different departments to support the internal benchmarking has a mean of 3.85 and a standard deviation 0.875. This means that internal benchmarking has the highest support compared to the rest. Best in industry benchmarking has the second support of established links within the industry with a mean of 3.50 and a standard deviation of 0.946. Competitor or peer benchmarking comes third in the modes established by the organization to support it, with a mean of 3.20 and a standard deviation of 1.32, indicating a higher spread than any of the other three modes. World class benchmarking enjoys the least support in terms of the measure or the practices the organizations have put in place to support it. It has a mean of 3.05 and a standard deviation of 1.191.

4.4 Benchmarking and Operational Performance

The second objective of this study was to determine the relationship between the different types of benchmarking and operational performance. The operational performance was measured in terms of the average profitability of the specific banks. The correlation between the different types of benchmarking and profitability was carried out.

Table 4.6 Correlation between internal benchmarking and profitability

		Performance level	profitability
Performance level	Pearson Correlation	1	.228
	Sig. (1-tailed)	.	.174
	n	19	19

The relationship between internal benchmarking and profitability is not statistically significant as per the result ($0.174 > 0.005$) and therefore cannot be used for inference.

Table 4.7 Correlation between competitor benchmarking and profitability

		Competitor analysis	Profitability
Competitor analysis	Pearson Correlation	1	-.429(*)
	Sig. (1-tailed)	.	.029
	n	20	20

The correlation between competitor benchmarking and profitability is statistically significant. The relationship is moderately negative at 0.05 level of significance.

Table 4.8 Correlation between industry benchmarking and profitability

		Industry leaders	Profitability
Industry leaders	Pearson Correlation	1	-.512(*)
	Sig. (1-tailed)	.	.011
	n	20	20

The correlation between industry benchmarking and profitability is statistically significant. The relationship though is moderately negative at 0.05 level of significance.

Table 4.9 Correlation between world best benchmarking and profitability

		World best comparison	profitability
World best comparison	Pearson Correlation	1	-.076
	Sig. (1-tailed)	.	.375
	n	20	20

World best benchmarking and profitability are not statistically significant ($0.375 > 0.05$) and cannot therefore be used for inference.

Table 4.10 Operational mechanisms provided by top management

Operational Mechanisms	Percentage	
	Yes	No
Provide the right climate	85	15
Provide adequate competence	75	25
Provide adequate capacity	70	30

The researcher wanted to know if the top management has provided the right climate for benchmarking. 85% of the respondents had a positive answer to this with only 15% indicating that the right climate for benchmarking has not been provided by the top management. The results indicate that 75% of the respondents felt that the management had provided adequate competence for benchmarking while 25% felt that this had not been done. On capacity provided by the management, 70% of the respondents felt that this has been provided while 30% felt that there was no capacity to benchmark provided by the top management.

CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

From the analysis of data collected, the following discussions, conclusions and recommendations were made. The analysis was based on the objectives of the study.

5.2 Summary and Conclusions

Internal benchmarking is pursued by most banks in Kenya although the communication channel within the departments is not clear. Peer or competitor benchmarking is moderately pursued and there seems to be no active participation of the banks to actually know what is happening in the competitors operation for purpose employing the same in their operations. There is a strong pursuit of the best in the industry type of benchmarking but a low link between the best in the industry and the firm pursuing this type of benchmarking.

The best in the world benchmarking is not actively pursued by the Kenyan banking industry and there is a wide variation on whether there is a team to closely monitor what the best companies in the world are actually carrying out in their operations. The Kenyan banking industry is unwilling to share information with other industry players and also to avail data for research purpose. These may be the reason why there was a low response rate to the questionnaires distributed to the various banks.

There is high staff turnover in the Kenyan banking industry and the reason why a majority of the respondents had held the managerial positions for less than three year. This means that the competition levels are high in this industry and poaching of staff amongst the banks seem to be the communication channel within the banks. There are no clear communication channels which aid the banks in getting information on the various benchmarking strategy they may be pursuing.

When it comes to the relationship between the various benchmarking strategies pursued by the various banks and their performance in terms of profitability, there seems to be no relationship between internal benchmarking and the level of performance. This is also true for world class benchmarking. This means that an organization interested in profitability cannot relate their performance to these two types of benchmarking. Industry and competitor benchmarking have a significant relationship with the level of performance of the organization meaning that managers in these organizations can relate the two for achievement of positive results in terms of profitability.

5.3 Recommendations

From the discussions and findings it is quite clear that benchmarking is not a new term to the Kenyan banking industry. Though the knowledge of the existence of the various benchmarking modes is there, little has been done to effect the benchmarking strategy. The Kenyan banking industry should engage in activities to provide them with information on the benchmarking strategy they wish to pursue. Though most of the benchmarking strategies are in place in the Kenyan banking industry, world class

benchmarking has been left out. The banks in Kenya should consider this type of benchmarking so as to exploit its benefits.

The Kenyan banking industry should share information within the departments by having regular inter-departmental meetings and also establish links with their peers/best in industry and world class performers so as to tap their best operations performance. The Kenyan banks should be more willing to share information for research purpose.

5.4 Limitations of the Study

Due to low response rate the number of banks represented in this study is relatively small. This may affect accuracy and validity of findings and conclusions. The low response rate was due to the difficulties in getting the respondents to fill the questionnaire because most of the managers claimed not to have time to fill in the questionnaires. Further, some of them thought that the researcher was doing the research for another bank.

5.5 Suggestions for Further Research

Benchmarking has become a very important tool of operation performance that affects not only the banking industry but also the other sectors of the economy. It is therefore important to carry out a research that investigates the relationship between benchmarking and operations performance in other sectors of the Kenyan economy.

Benchmarking of the various products offered by the Kenyan banking industry can be studied to determine if there is a relationship between their benchmarking and their performance in the market.

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APPENDICES

APPENDIX 1: LETTER TO THE RESPONDENTS



UNIVERSITY OF NAIROBI
SCHOOL OF BUSINESS
MBA PROGRAMME

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

P.O. Box 30197
Nairobi, Kenya

DATE..... 27th September 2011

TO WHOM IT MAY CONCERN

The bearer of this letter..... MUTUA DANIEL MUTIE

Registration No..... DGI/76634/2009

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.


JUSTINE MAGUTU
ASSISTANT REGISTRAR
MBA OFFICE, AMBANK HOUSE
UNIVERSITY OF NAIROBI
SCHOOL OF BUSINESS
MBA OFFICE
P. O. Box 30197
NAIROBI

APPENDIX 2: QUESTIONNAIRE

PART A:

Name of the bank.....(Optional)

Job Title.....(Optional)

Number of years in management in this organization.....

What is the number of staff in your organization

Benchmarking- This is the practice of learning through comparing

PART B:

2.1 Please indicate your level of agreement or disagreement with the following statements as they related to your bank.

Statement: my bank has always pursued	Strongly Disagree	Disagree	Neither Agree nor Disagree	Agree	Strongly Agree
Looking at the differing levels of performance within our own organization.					
Having regular meetings to compare performance within different departments in the organizations					
Analyzing those firms that we regard as competitors or peers with a focus on learning from them					
Having inter sectorial team looking at the improvements in the sector.					
Focusing on the firm that we consider to be the leader in our own industry sector and finding out what it is that it does that is so much better than us.					
Having established links with best in the industry to learn from them					
Simply deciding that no matter what industry sector we are in, we wish to compare what we do against the best in the world.					
Having a team closely monitoring what the best company in the world (eg Toyota) is doing and borrowing from them.					

PART C:

2.2 What are the products you have in the market? Please list them

- a)
- b)
- c)
- d)
- e)
- f)
- g)

2.3 Has the top management provided the following operational mechanisms? (Tick where applicable)

Operational Mechanism	Yes	No
Providing the right climate (the will to respond)		
Providing competence (ability to respond)		
Proving capacity (volume to respond)		

2.4 What other challenge do you face in pursuing benchmarking strategy?

.....

.....

Thank you for your cooperation.

APPENDIX 3: DIRECTORY OF COMMERCIAL BANKS

African Banking Corporation Ltd. P.O Box 46452-00100, Nairobi	Bank of Africa Kenya Ltd. P. O. Box 69562-00400 Nairobi	Bank of Baroda (K) Ltd. P. O Box 30033 – 00100 Nairobi
Bank of India Postal Address: P. O. Box 30246 - 00100 Nairobi	Barclays Bank of Kenya Ltd. Postal Address: P. O. Box 30120 – 00100, Nairobi	CFC Stanbic Bank Ltd. Postal Address: P. O. Box 72833 - 00200 Nairobi
Charterhouse Bank Ltd. UNDER - STATUTORY MANAGEMENT P. O. Box 43252 Nairobi	Chase Bank (K) Ltd. Postal Address: P. O. Box 66015-00800 Nairobi	Citibank N.A Kenya Postal Address: P. O. Box 30711 - 00100 Nairobi
Commercial Bank of Africa Ltd. Postal Address: P. O. Box 30437 – 00100, Nairobi	Consolidated Bank of Kenya Ltd. Postal Address: P. O. Box 51133 - 00200, Nairobi	Co-operative Bank of Kenya Ltd. Postal Address: P. O. Box 48231 - 00100 Nairobi
Credit Bank Ltd. Postal Address: P. O. Box 61064-00200 Nairobi	Development Bank of Kenya Ltd. Postal Address: P. O. Box 30483 - 00100, Nairobi	Diamond Trust Bank Kenya Ltd. Postal Address: P. O. Box 61711 – 00200, Nairobi
Dubai Bank Kenya Ltd. Postal Address: P. O. Box 11129 – 00400, Nairobi	Ecobank Kenya Ltd. Postal Address: P. O Box 49584- 00100 Nairobi	Equatorial Commercial Bank Ltd. Postal Address: P. O. Box 52467- 00200 Nairobi
Equity Bank Ltd. Postal Address: P. O. Box 75104-00200, Nairobi	Family Bank Limited Postal Address: P. O. Box 74145-00200 Nairobi	Fidelity Commercial Bank Ltd. Managing Director: Mr. Rana Sengupta Postal Address: P. O. Box 34886-00100 Nairobi
Fina Bank Ltd. Postal Address: P. O. Box 20613 – 00200, Nairobi	First community Bank Limited Postal Address: P. O. Box 26219-00100., Nairobi	Giro Commercial Bank Ltd. Postal Address: P. O. Box 46739 – 00200, Nairobi
Guardian Bank Ltd. Postal Address: P. O. Box 67681 – 00200, Nairobi	Gulf African Bank Limited Postal Address: P. O. Box 43683 – 00100, Nairobi	Habib Bank A.G Zurich Postal Address: P. O. Box 30584 - 00100 Nairobi
Habib Bank Ltd. Postal Address: P. O. Box 43157 – 00100, Nairobi	Imperial Bank Ltd. Postal Address: P. O. Box 44905 – 00100, Nairobi	I & M Bank Ltd. Postal Address: P.O. Box 30238 – 00100, Nairobi
Jamii Bora Bank Limited Postal Address: P. O. Box 22741 – 00400, Nairobi	Kenya Commercial Bank Ltd. Postal Address: P. O. Box 48400 – 00100, Nairobi	K-Rep Bank Ltd. Postal Address: P. O. Box 25363 – 00603, Nairobi
Middle East Bank (K) Ltd. Postal Address: P. O. Box 47387 - 0100 Nairobi	National Bank of Kenya Ltd. Postal Address: P. O. Box 72866 - 00200 Nairobi	NIC Bank Ltd. Postal Address: P. O. Box 44599 - 00100 Nairobi
Oriental Commercial Bank Ltd. Postal Address: P.O BOX 14357- 00800, Nairobi	Paramount Universal Bank Ltd. Postal Address: P. O. Box 14001 - 00800 Nairobi	Prime Bank Ltd. Postal Address: P. O. Box 43825 – 00100, Nairobi
Standard Chartered Bank Kenya Ltd. Postal Address: P. O. Box 30003 - 00100 Nairobi	Trans-National Bank Ltd. Postal Address: P. O. Box 34353 - 00100 Nairobi	UBA Kenya Bank Limited Postal Address: : P. O. Box 34154 - 00100 Nairobi
Victoria Commercial Bank Ltd. Postal Address: P. O. Box 41114 - 00100 Nairobi		