BENCHMAKING PRACTICES AND PERFORMANCE OF COMMERCIAL BANKS IN BUNGOMA COUNTY, KENYA

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DECLARATION

The study is my original work and has not been presented to any university or institution of higher learning for examination for the award of a degree in any university.

Signature ……………………………. Date ……………………………..

Juma Leonard Gowans

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This research project has been presented for examination with my approval as Kenyatta university project supervisor.

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DEDICATION

Dedicated to my dear wife, Helen Juma and son Denzel for your love, support, patience and understanding and loving dad Isaac Juma for giving the will and determination to complete my studies.

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My greatest gratitude goes to the Almighty God, who is my inspiration, strength and source of comfort and peace in times of difficulties. My appreciation also is to my supervisor Dr. Paul Waithaka who abundantly helped by offering invaluable support and guidance. Special thanks also to all my friends especially group members; Josephine, Wachira, Kamau, Lucy and Leah for sharing the literature and invaluable assistance. Besides, would like to thank the University of Kenyatta for providing enabling environment and facilities to research on my project. Finally, I express my love and deepest gratitude to my beloved parents Sandrine and Isaac Juma for their prayers, love and financial support.

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ABBREVIATIONS AND ACRONYMS

CBK	Central Bank of Kenya
FIN TECH	Financial Technology Companies
ICT	Information Communication Technology
KBA	Kenya Bankers Association
KCB	Kenya commercial bank
NIM	Net Interest Margin
ROA	Return on Asset
ROE	Return on Equity
SACCO	Savings and Credit Cooperative Organization
SAP	Structural Adjustment Programs
SPSS	Statistical Package for Social Sciences
TOC	Theory of Constraints

OPERATIONAL DEFINITION OF TERMS

Benchmarking Practices	These are the company comparison strategies which in this study involved internal, competitive and generic bench marking.
Organizational Performance	The current study will measure organizational performance as a process of satisfying customers, improving market share and risk management of the business.
Competitive Benchmarking	The process of evaluating the customer value creation in comparison with our competitors.
Internal Benchmarking	The process of evaluating the internal job training, information sharing and apprenticeship from time to time.
Generic Benchmarking	The process of evaluating and comparing the ICT adoption level and availability of substitute products.
Financial Institutions	This are commercial banks and other institutions handling cash deposits, investments and offering loans to customers.
Commercial Banks	They are financial institutions who help in cash deposits, loans and other investment services.

ABSTRACT

The past recent years have seen changes in the Kenyan economy and commercial banks have not been spared from the impact of these changes which includes: interest rate capping; increasing competition from financial technology companies and increased Consumer expectations as well as political interference. These challenges possess financial pressure to the bank hence losses and create risk to Kenya's financial stability if allowed to persist in the long term. Majority of commercial banks have experienced decline in return on equity for the period 2014 to 2017. Management theories and practice suggest comparison (benchmarking) as the key tool for evaluating and improving organization performance and therefore minimize risk. This study therefore sought to investigate the influence of benchmarking practices on performance of commercial bank in Bungoma County. The specific objectives of the study to address were; investigating the influence of internal, competitive and generic benchmarking on the performance of commercial banks in Bungoma County. The study used descriptive survey design. The target population was 133 which was the total number of managers in Bungoma County commercial banks. This used census approach, as it utilised the entire population in the research. To ascertain the reliability of the instruments, a pilot study was done in Nakuru County. Quantitative data collected using questionnaires was analysed by the use of descriptive statistics and inferential analysis using SPSS (Version 24) and presented through percentages, means, standard deviations and frequencies, percentages and correlation analysis. Tables and figures were used to present data. The findings showed that there was an effective apprenticeship in the bank. The study presented that the on-job training is frequently carried out to all employees and this has led to improved performance. Majority of commercial Banks' strategic Alliance was done with like-minded firms in order to improve performance. Customer value creation found to be done through competitive pricing in the majority of commercial Banks. The findings indicated that there was an effective ICT system adoption in the majority of the commercial Banks and that ICT adoption affected commercial banks performance. Majority of the commercial banks had improved their market share as a result of ICT adoption. The study indicated that the commercial banks studied had experienced competition from number of substitutes available in the market. From the findings, it was established that majority of the commercial banks had experienced increased profitability for the years 2013 to 2017. Based on the findings summary above, it was concluded that there was a strong positive correlation between benchmarking practices and performance of commercial banks. The study concluded that the relationship between competitive benchmarking and performance of commercial banks was positive and significant. The relationship between generic benchmarking and performance of commercial bank was found to be positive and significant. The study recommended that commercial banks should evaluate the way they compete and serve customers in the market. They should aim at attracting customers, satisfying customers and retaining customers through strategic alliances. The study recommended that commercial banks should ensure that there is effective use of ICT system to enhance performance of commercial banks.

CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

The role and functions of financial institutions in any economy is very important, it is like the role of arteries in the body of human (Poister, 2012). The financial institutions enables flow of financial resources from the surplus and depository units to the deficits persons and organizations (Shanmugan & Bourke, 2001). Commercial banks (CBs) are financial institutions and are key providers of financial information to the economy. They play even a most critical role to emergent economies where borrowers have no access to capital markets (Greuning & Bratanovic, 2003). There is evidence that well-functioning commercial banks accelerate economic growth, while poorly functioning commercial banks impede economic progress and exacerbate poverty (Barth et al., 2004).

Commercial banks however are facing challenges in several areas which could impede economic growth and development. According to Structural Adjustment Programs (SAP) and International Business Machines (IBM) representatives at SAP's Financial Services Forum in London, 2015, they are four major challenges facing banks that stand out in today's market: Regulatory pressure**;** regulatory requirements continue to increase, and banks need to spend a large part of their discretionary budget on being compliant, and on building systems and processes to keep up with the escalating requirements; Increasing competition from financial technology companies; financial technology (FinTech) companies are usually start-up companies based on using software to provide financial services (Poister, 2012). The increasing popularity financial technology companies are disrupting the way traditional banking has been done (Behara& Lemmink, 2007). This creates a big challenge for traditional banks because they are not able to adjust quickly to the changes, not just in technology, but also in operations, culture, and other facets of the industry; Consumer expectations**,** these days it's all about the customer experience, and many banks are feeling pressure because they are not delivering the level of service that consumers are demanding, especially in regards to technology (Barth, 2015).

Political interference is also the major area of concern for the banking industry (CBK, 2016). The government could intervene in the banking operations to raise revenue in a time of budget stress, increase investor protection, and rebuild the national tax base. Uncertainty in several political environments also could result in greater interference over banking management, lending policies, and taxation. These challenges continue to escalate, so traditional banks need to constantly evaluate and improve their operations in order to keep up with the fast pace of change in the banking and financial industry today (Bhutta & Huq 2002). Despite all of the headlines about banking profitability, banks and financial institutions still are not making enough return on investment, or the return on equity, that shareholders require

Management theories and practice suggest comparison (benchmarking) as the key tool for evaluating and improving organization performance. The comparisons may evaluate progress in achieving given goals or targets, assess trends in performance over time, or weigh the performance of one organization against another (Poister, 2003). Benchmarking has become increasingly important that creates new competing opportunities. What was a theoretical process years ago is now a competitive weapon. Competitive advantage gives the firms an edge over the rivals and ability to generate greater value for the company (Bosch &Charest, 2008). The more sustainable the competitive advantage, the more difficult it is for competitors to neutralize the advantage. Benchmarking is a key tool in ensuring improved organizational performance.

1.1.1 Organizational Performance

Organizational performance refers to how well an organization is doing to reach its vision, mission, and goals. It comprises the actual output or results of an organization as measured against its intended outputs (Richard, 2009). It encompasses three specific areas of firm outcomes which includes but not limited to financial performance (profits, return on assets, and return on investment), product market performance (sales, market share, etc.); shareholder return (total shareholder return and economic value). Strategic planners, operations, finance, legal, are specialist that are concerned with organizational performance, many organizations have attempted to manage organizational performance using the balanced scorecard methodology where performance is tracked and measured in multiple dimensions such as: financial performance (e.g. shareholder return),customer service, social responsibility (e.g. corporate citizenship, community outreach), employee stewardship and organizational engineering (Upadhaya, Munir, & Blount, 2014).

Olubukunola (2011) defines financial performance as the measure of how well a firm can use assets from its primary mode of business and generate revenues. This term is also used as a general measure of a firm's overall financial health over a given period of time and can be used to compare similar firms across the same industry or to compare industries or sectors in aggregation. According to the author, there are many different ways of measuring financial performance, but all measures are taken in aggregation. Items such as revenue from operations, operating income or cash flow from operations can be used, as well as total unit sales can be used in measuring the financial performance.

The Banking Sector in Kenya ,registered improved performance in the period ended June 30, 2015, assets increased to KShs 3.6 trillion from KShs 3.0 trillion in June 30, 2014, loans and advances grew to KShs 2.1 trillion compared to KShs 1.7 trillion as at June 30, 2014, the deposit base expanded to KShs 2.6 trillion an increase from KShs 2.1 trillion reported in June 30, 2014 and profit before tax was KShs 76.7 billion compared to KShs 71.0 billion reported in the period ended June 30, 2014 (CBK, 2014). However this is not the case in the current year, where nearly 90% of the banks reported a decline in profitability in the first quarter of 2017 (CBK report, 2017).

The players in this sector have embraced information communication technology in their service provision and continue to benchmark with other sectors by forming strategic alliances such as licensing agreement with telecommunications companies to enable clients to make payments directly into any bank accounts using the mobile money transfer platform. Franchising agreement with Visa and MasterCard to issue debit cards, credit cards and prepaid cards to clients. The banks have also had outsourcing agreements with companies for card acquiring business where the banks provided point of sale (POS) to merchants with an aim of sustainable continuous improvement in their performance (CBK reports, 2017)

1.1.2 Benchmarking Practices

Andersen (1999) posited that there are two main categories of benchmarking which can be defined based on whom it is compared against and what is being compared. Compare against whom such as: Internal benchmarking**:** comparison against the best within the same organization or corporation, often called benchmarking within your own class. Competitive benchmarking**:** comparison against the best direct competitors, which then can be termed benchmarking against someone in the parallel class. Functional/Industry benchmarking: comparison against organizations that are not necessarily competitors, but that performs related tasks within the same technological area, Andersen (1999). This will be benchmarking against someone from another school, but of the same type.

Generic benchmarking: comparison against the best, regardless of industry or markets, which can be said to be benchmarking against someone from a totally different school. Based on what is being compared: Performance benchmarking is the comparison of pure key figures or other performance measures. Process benchmarking: where we go beyond performance measures and also compare how business processes are performed, not only how well they are performed. Strategic benchmarking: comparison of strategic decisions and dispositions at a higher level. This is really a less frequently used variant of benchmarking. Generic benchmarking involving comparisons of processes and practices regardless of the industry (Stella & Woodhouse, 2007)

Benchmarking is an external focus on internal activities, functions, or operations in order to achieve continuous improvement; it is the practice of determining the relative value of something by comparing it to a known standard (Tzu, 2002) and this may entail competitive benchmarking. It is reasonable to assume that the company with the most efficient business processes, best products, shortest delivery and highest quality will lead its industry. Conversely, a company that excels in nothing needs to improve its practices to avoid elimination from competition (Anderson & McAdam, 2007).

Internal benchmarking on competitive advantage of commercial banks maintains, increase competitive advantage and continuous improvement (Brahet, 2010). Internal Benchmarking is done for continuous improvement, development and for regulating data. Participating in internal benchmarking would give firms a better understanding of practice, process, or performance and insights of the academic operations and functions (Tzu, 2002). There are three most critical factors facing the internal benchmarking processes in Kenya: time and resource availability; limited duration; comparability and compatibility which happened to be the probable reason why the institutions don't practice international benchmarking (Magutu, 2010).

Generic benchmarking on globalization has obliged many organizations to adopt ICT in order to survive in the present competitive era especially in the area of competing with large organizations (Ongori & Migiro, 2010). On the same breath Goro (2013) carried out a study on the strategic responses of bottled water companies to threat of substitute products. Whilst lessons may be learnt from this study, not all may be applicable to the banking industry. Bottled water is a convenience good. Convenience goods are usually branded and low priced (Kotler, 1999). However, Banking services are generally homogeneous and competition is centered on service.

Competitive benchmarking strategies applied by commercial banks in Kenya have responded to the challenge of declining quality of loan assets by diversifying income streams to include more of government securities and non-funded income from services like funds management, business advisory services, custodial services like fund management credit cards, forward exchange contracts, funds transfer remittance among others (Gathoga, 2011).

1.1.3 Performance of Commercial Banks

Since the introduction of Structural Adjustment Programs (SAP) in the late 1980's, the banking sector worldwide has experienced major transformations in its operating environment. There has been noticed a significant change in the financial configuration of countries in general and its effect on the profitability of commercial banks in particular. It is obvious that a sound and profitable banking sector is able to withstand negative shocks and contribute to the stability of the financial system (Athanasoglou & Alexandru, 2005)

Since 1980's, many foreign banks have established their branches or subsidiaries in different parts of the world. In the last two decades or so, the number of foreign banks in Africa in general and Sub-Saharan Africa in particular has been increasing significantly. On the contrary, the number of domestic banks declined (Claessens & Hore, 2012). These have attracted the interests of researchers to examine bank performance and contribution of benchmarking practices in relation to these reforms. Benchmarking allows the firm to compare its operational, managerial practices and performance to those of its competitors, or to those of firms which are considered world-class enterprises or the best in their industry in order to achieve continuous improvement (SAP & IBM representatives, 2015).

In Kenya, the players in this sector have embraced information communication technology in their service provision and continue to benchmark with other sectors by forming strategic alliances such as licensing agreement with telecommunications companies to enable clients to make payments directly into any bank accounts using the mobile money transfer platform. Franchising agreement with Visa and MasterCard to issue debit cards, credit cards and prepaid cards to clients. The banks have also had outsourcing agreements with companies for card acquiring business where the banks provided point of sale (POS) to merchants with an aim of sustainable continuous improvement in their performance (CBK reports, 2017). However, challenges continue to escalate whereby nearly 90% of the banks reported a decline in profitability in the first quarter of 2017 (CBK report, 2017) despite registration of performance improvement in the previous years.

Marshall (2011) argued that, Profit is the ultimate goal of commercial banks. All the strategies designed and activities performed thereof are meant to realize this grand objective (Alexandru *et al.,* 2008). Commercial banks however, have additional social, economic and environmental responsibilities to be measured against for continuous improvement. To measure the profitability of commercial banks there are variety of ratios used of which Return on Asset, Return on Equity and Net Interest Margin are the major ones (Murthy & Sree, 2003).

Return on equity (ROE) is a financial ratio that refers to how much profit a company earned compared to the total amount of shareholder equity invested or found on the balance sheet. Return on equity is what the shareholders look in return for their investment. A business that has a high return on equity is more likely to be one that is capable of generating cash internally. Thus, the higher the ROE the better the company is in terms of profit generation. It is further explained by Khrawish (2011) that ROE is the ratio of Net Income after Taxes divided by Total Equity Capital. It represents the rate of return earned on the funds invested in the bank by its stockholders. ROE reflects how effectively a bank management is using shareholders' funds. Thus, it can be deduced from the above statement that the better the ROE the more effective the management in utilizing the shareholders capital.

Return on asset (ROA) is also another major ratio that indicates the financial performance of a bank. It is a ratio of Income to its total asset (Khrawish, 2011). It measures the ability of the bank management to generate income by utilizing company assets at their disposal. In other words, it shows how efficiently the resources of the company are used to generate the income. It further indicates the efficiency of the management of a company in generating net income from all the resources of the institution. Wen (2010) stated that a higher ROA shows that the company is more efficient in using its resources.

Net interest margin (NIM) is a measure of the difference between the interest income generated by banks and the amount of interest paid out to their lenders (for example, deposits), relative to the amount of their (interest earning) assets. It is usually expressed as a percentage of what the financial institution earns on loans in a specific time period and other assets minus the interest paid on borrowed funds divided by the average amount of the assets on which it earned income in that time period (the average earning assets). The NIM variable is defined as the net interest income divided by total earnings assets (Gul *et al.*, 2011)

Net interest margin measures the gap between the interest income the bank receives on loans and securities and interest cost of its borrowed funds. It reflects the cost of bank intermediation services and the efficiency of the bank. The higher the net interest margin, the higher the bank's profit and the more stable the bank is. Thus, it is one of the key measures of bank profitability (Alexandru, 2012).

1.2. Statement of the Problem

The past three (3) years have seen changes in the Kenyan economy and commercial banks have not been spared from the impact of these changes: interest rate capping; Parliament passed the law capping interest rates in August 2016 despite a spirited attempt by banks, Treasury and Central Bank to stop it (CBK, 2016), Banks have maintained their opposition to the law, which limits interest on loans at four percentage points above the Central Bank rate (CBR): increasing competition from financial technology companies and increased Consumer expectations (SAP & IBM representatives, 2015). These changes caused financial pressure to the bank hence losses were reported in 2016 and 2017.

Despite the problems of profitability, regulatory pressure and stiff competition amongst commercial banks in Bungoma County, 90% of the banks reported a decline in profitability in the first quarter of 2017 (CBK report, 2017). Challenges continue to escalate in the commercial banks on the contribution of benchmarking practices on banks performance (SAP & IBM representatives, 2015). Commercial banks in Kenya need to constantly evaluate the significance of benchmarking since different studies in different countries show contradicting results for example; a study by Voss *et al.*, (2013) found a strong direct link between benchmarking and improved organizational performance. They suggested that benchmarking can promote higher performance by identifying best practices and setting challenging performance goals while a study by Ulosoy and Ikiz (2011) found that there is a weak positive correlation between organizations performance and benchmarking practices. Whereas there exist an extensive body of literature that examines benchmarking and financial performance of commercial banks and other financial services firms, little attention has been paid to examine the level of influence of benchmarking practises on performance of commercial banks in Kenya despite the increase in the level of comparison in the industry in the last five years (CBK, 2015). Thus, it is in this light that this study investigated the influence of benchmarking practices on the performance of commercial banks in Bungoma County, Kenya.

1.3 Objectives of the Study

1.3.1 General Objective

The general objective of this study was to determine the influence of benchmarking practices on the performance of commercial banks in Bungoma County, Kenya.

1.3.2 Specific Objectives of the Study.

i) To establish the effect of internal benchmarking on the performance of commercial banks in Bungoma County, Kenya.

ii) To find out the effect of competitive benchmarking on the performance of commercial banks in Bungoma County, Kenya.

iii) To determine the effect of generic benchmarking on the performance of commercial banks in Bungoma County, Kenya.

1.4. Study Hypotheses

The study was guided by the following research hypotheses;

H_{01}: There is no significant relationship between internal benchmarking and the performance of commercial banks in Bungoma County, Kenya

H_{02}: There is no significant relationship between competitive benchmarking and the performance of commercial banks in Bungoma County, Kenya

H_{03}: There is no significant relationship between generic benchmarking and the performance of commercial banks in Bungoma County, Kenya

1.5 Significance of the Study

The study added value to the body of strategic management discipline especially in the more demanding concerns of strategic issues in management and formed the basis of further research by identifying the knowledge gap that arises from this study. The principles as enunciated in the study helped in further research in benchmarking and related areas. In policy making, the results enabled the Government to come up with specific regulations to help Commercial banks achieve performance. Other Organizations also used the findings in policy formulation and implementation with respect to continuous improvement principle of benchmarking. The study findings was of great help to researchers as it identified gaps which are necessary for further research in areas related to benchmarking and organizational performance. Other Organizations also used the findings in policy formulation and implementation with respect to continuous improvement principle of benchmarking.

1.6 Scope of the Study

The study was concerned with influence of benchmarking practices on performance of commercial banks in Bungoma County, Kenya. The study was carried out in Bungoma County which was chosen for this study given the competitive nature of the banking industry and the high number of banks in the County compared to other Counties in the region. The study include data for the last five years that is from 2012 to 2016 since this is the period in which the banks in Bungoma have experienced drastic changes in profitability (CBK report, 2016). The population of the study will be thirteen commercial banks in Bungoma County.

1.7 Limitation of the Study

Like any other type of research, this study had a number of limitations since the study was confined to commercial banks in Bungoma County, the size was limited to its nature given that they are 47 counties in Kenya and not all commercial banks have branches in Bungoma County, this limited generalization of the result to entire country. Other limitation, the study looked at Benchmarking practices in the banking industry and therefore did not include other financial sector players such as the stock exchange, insurance, micro finance institutions, Savings and Credit Cooperatives (SACCO's) and pension funds due to resources constraint. However, this provides an opportunity for further research. The third limitation is bureaucracy: it was expected that to get permission to administer questionnaires to respondent is long and tedious process, however the researcher sought the permission from the relevant authority to protect respondent from being misused by unethical or unauthorized researcher.

1.8 Organization of the Study

This project was structured as follows: the foregoing chapter one provides the research background, research objectives, Research Questions, hypothesis, significance of the study, scope and limitations that was encountered in the course of study. Chapter two presents literature review on Influence of internal, competitive and generic benchmarking and the performance of commercial banks as well as a conceptual framework, while chapter three dealt with research design and methodology employed in the study. Chapter four captured the analysed data while Chapter five presented the study summary, conclusions and recommendations based on the objectives of the study.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter provides a discussion of the various theories relating to benchmarking and performance of companies. The chapter is organized by beginning with theoretical review, empirical literature on internal, competitive and generic benchmarking and finally conceptual framework.

2.2 Theoretical Framework

The study was supported by the following theories;

2.2.1 Contingency Theory

Contingency Theory was proposed by Fiedler (1964). This theory asserts that there is no optimal method for an industry and the institutional structure of the business to be systematized. Further, it argues that in any organization, the most fitting structure is the one that best fits a known operating contingency, for instance the environment. Each business is faced with its own set of inner and outer challenge as well as particular environmental events that affect in distinguishing stages of environmental uncertainties therefore there is no one optimal institutional plan for every firm since each organization has diverse organizational culture and viewpoint towards risk (Delmas & Montiel, 2009).

Benchmarking is recognized as an important means for continuous enhancement of excellence. A huge number of research works by a range of writers mirror the attention in this system. An analysis of literature on benchmarking has been done in the past by a number of scholars. Nonetheless, bearing in mind the contributions in the recent times; an all-inclusive assessment is attempted here. In the business world, a benchmark is a standard of excellence against which to measure and compare (Saxena, 2011). .

2.2.2 Balanced Scorecard Theory

Robert Kaplan and David Norton (1992) developed the balanced scorecard in the early 1990s with the realization that financials alone would not be enough for organizations attempting to thrive, or even compete in the twenty first century. They organized a research study of a dozen of companies attempting to discern the best practices in performance management and this led to development of the balanced scorecard (Niven, 2005). The balanced scorecard is described as “a set of measures that give top managers a fast but comprehensive view of the business “Kaplan and Norton (1992). It is compared to the dials and indicators in an airline cockpit, which pilots need for the complex task of navigating and flying an airplane information on fuel, airspeed, altitude, bearing and destination; and in the scenario, reliance on only one instrument can be fatal. The complexity of managing an organization today, Kaplan and Norton (1992) point out requires that managers be able to view performance in several areas simultaneously. Kahihu (2005) adds that the measures selected for the scorecard represent a tool for leaders to use in communicating to employees and external stakeholders the outcomes and performance drivers by which the organization will achieve its mission and strategic objectives.

The balanced scorecard expands the set of business unit objectives beyond summary financial measures. The objectives and measures view organizational performance from four perspectives: financial, customer, internal business processed, and learning and growth (Kaplan & Norton, 1992). According to Kaplan and Norton (1996), many companies already have performance management systems that incorporate financial and non-financial measures. These organizations are using their financial and non-financial performance measures only for tactical feedback and control of short-term operations. The balanced scorecard emphasizes that financial and non-financial measures must be part of the information system for employees at all levels of the organization. Front-line managers must understand the financial consequences of their decisions and actions; senior executives must understand the drivers of long-term financial success.

The objectives and the measures for the balanced scorecard are more than just a somewhat ad hoc collection of financial and non-financial performance measures; they are derived from a top-down process driven by the mission and strategy of the business unit. The balanced scorecard should translate a business unit's mission and strategy into tangible objectives and measures. The measures represent a balance between external measures for shareholders and customers, and internal measures of critical business processes, innovation, and learning and growth. The measures are balanced between outcome measures the results from past efforts-and the measures that drive future performance. In addition the scorecard is balanced between objective, easily quantified outcome measures and subjective, somewhat judgmental, performance drivers of outcome measures (Kaplan and Norton 1996).

Evidence from Hackett Benchmarking Solutions, the US management consultancy, which surveyed one thousand, four hundred global businesses, shows that almost fifty per cent of companies apply some kind of balanced scorecard approach (Littlewood, 1999). The balanced scorecard in the Kenyan scenario has been generally been adopted by sixty nine percent of the companies according to a survey by (Kiragu, 2005). Some companies were found to be implementing balanced scorecard perspectives though not actually calling it balanced scorecard. The balanced scorecard was developed to communicate the multiple, linked objectives that organizations must achieve to compete on basis of capabilities and innovation, not just tangible physical assets (Kaplan and Atkinson, 1998).

2.2.3 The Theory of Constraints (TOC)

Theory of constraints was proposed by Goldratt in 1984. The fundamental thesis of TOC is that constraints establish the limits of performance for any system. TOC advocates suggest that managers should focus on effectively managing the capacity and capability of these constraints if they are to improve the performance of their organization. Three TOC paradigms that have evolved over the last twenty-five years include logistics, global performance measures, and thinking processes (Blackstone, 2001). More recently Draman (1995) has referred to these three paradigms as decision making, performance measurement systems, and organizational mindset, respectively. Originally, the logistics paradigm had managers looking for, and elevating, system constraints in order to increase throughput. This included using drum-buffer-rope scheduling techniques and the five focusing steps of TOC. In the second paradigm, global performance measures were effectively utilized. These measures, based on throughput, operating expense, and inventory, allow managers to easily assess the impact of any given decision and help the manager to focus on the corporate goal. Most recently, the thinking processes have come into a more widespread use.

Benchmarking is the process of studying industry or competitive practices, functions and products and finding ways to meet or improve upon them. Companies from all different industries use benchmarking to gauge their successes and pinpoint their shortcomings. The use of global performance measures and/or the TOC thinking processes can therefore be beneficial to improve service times, information flows and in reengineering of administrative functions (Spencer & Wathen, 1994). The Theory of Constraints is a methodology for identifying the most important limiting factor (i.e. constraint) that stands in the way of achieving a goal and then systematically improving that constraint until it is no longer the limiting factor. The theory of constraints therefore is an important tool for operations managers to manage bottlenecks and improve process flows which is a basic concern in benchmarking.

2.3 Empirical Review

2.3.1 Internal Benchmarking and Performance of Banks

A study conducted by Whymark (2014) explored differences in attitudes to the adoption of internal best practice benchmarking between manufacturing and financial services through a credit risk management consortium. The result revealed that internal benchmarks enabled organizations to challenge their own policies, procedures and operational processes based on fact and objective analysis which help to boost the high performance culture. However, the study concentrated on a small section of manufacturing companies. The contribution of apprenticeship to jobs and skills in banking has long been appreciated by countries eager to promote growth and ease the transition from full-time education to work for young people. Apprenticeship is about skill development to the benefit of companies, their employees and the wider economy. Apprenticeships accommodate a wide range of abilities and aptitudes because it accurately reflects the equally wide range of skills required in a modern economy.

A study by Brahet (2015) on the influence of internal benchmarking on competitive advantage of commercial banks found out that organizations benchmark to maintain and increase competitive advantage and continuous improvement while Magutu (2011) found public universities in Kenya benchmarked for continuous improvement, development and for regulating data. The two studies failed to measure to what extent the benchmarking practices affects performances. The later study also found that participating in internal benchmarking would give Kenyan public universities a better understanding of practice, process, or performance and insights of the academic operations and functions. The study stated that there are three most critical factors facing the benchmarking processes in Kenya: time and resource availability; limited duration; comparability and compatibility which happened to be the probable reason why the institutions don't practice international benchmarking.

A study by Mutuku (2015) on the relationship between benchmarking and financial performance of SACCOs in Nairobi found out that internal benchmarking is used at the SACCOs as an incremental continuous improvement tool that has enhanced overall business performance realized by the SACCOs by helping to change internal paradigms and see out of the box. This study agrees with a study by Streeck (2012) on influence of benchmarking on formal apprenticeship systems and found out that internal benchmarking purely workplace-based help to pass on skills among employees in their department hence ease the transition and low cost of on-job training. The study found out that a young apprentice learns by way of observation, information sharing and imitation from an experienced master craftsperson, acquires the skills of the trade relevant to business success and is inducted into the culture and networks of the business The study recommended that convincing employers of the benefits of participating in apprenticeship is the most fundamental requirement of a successful apprenticeship system in banking. Employers need: as little bureaucracy as is compatible with good administration; good information and ongoing support from a local organization/college; the right set of incentives to balance costs and benefits; young, well-motivated applicants with a good level of general education and a framework for on-job training.

2.3.2 Competitive Benchmarking and Performance of Banks

Studies by Boot, Milbourn, and Thakor, (2014) on competitive benchmarking on performance of investment Banks found that financial service firms will continue to strategically position themselves in order to gain competitive advantage in the ever evolving competitive marketplace. The study also found out that the most emerging practices amongst financial institutions has been that of forming strategic alliances with organizations such as other investment banks and mobile providers which they think is the best in the industry through benchmarking technique.

A study by Dess (2012) on competitive benchmarking on financial institutions performance found that a competitive advantage is an advantage gained over competitors by offering customers greater value, either through lower prices or by providing similar product but with additional benefits and service that justify or possibly higher, prices. It gives a company an edge over its rivals and an ability to generate greater value for the firm and its shareholders.

Akuma (2015) conducted a study on the use of competitive benchmarking as a continuous improvement tool by the ministry of agriculture in Kenya found that most Parastatals had systems that facilitate the systematic comparison and evaluation of practice, process and performance with any best practices or smarter institutions in improvement and self-regulation. A study by Obiero (2014) on benchmarking on the banking sector regulatory framework pointed out that Kenyan banking system was in trouble in dealing with competitive benchmarking. The study noted that in between 1984-2001 there were 39 bank failures in Kenya due to the poor competitive benchmarking. These banks cost the economy about Kshs 19,685 million in terms of loans and grants to restructure the consolidated banks, compensation to deposits and outright losses due to deposits or funds not covered by the deposits protection fund. The result of the study was that the dominant factor causing bank failures are ineffective boards and management, poor lending practices. There have been changes in the banking sector and a strategy employed in 2001 may not work in the current dynamic environment.

Kiyai (2013), studied competitive bad debts restructuring techniques used by banks and found out that some restructuring techniques used by banks such as extended repayments periods, interest waivers, interest holidays, capital holidays concessions, additional facilities and conversions influences the performance of commercial banks in Kenya. Another study by Kithaka (2014) on competitive benchmarking in queue management in financial institutions identified the following factors that contribute to efficient customer service and thus improved performance; education of the tellers and their managers, area of specialization, motivation in the work environment, involvement in decision making, availability of ATMs, continuous training and the awards of merit to the personnel.

A study by Gathoga (2014) on competitive benchmarking strategies applied by commercial banks in Kenya found that banks have responded to the challenge of declining quality of loan assets by diversifying income streams to include more of government securities and non-funded income from services like funds management, business advisory services, custodial services like fund management credit cards, forward exchange contracts, funds transfer remittance among others. She concluded that all banks however regardless of their proportion of non-performing loans are paying greater emphasis on their restructuring. According to KPMG (2009) study on Joint ventures, strategic alliances enable the companies gain access to greater markets, reduce on costs, reduce risk as joint ventures can share or spread risk between partners better than alternative forms of corporate strategies hence improving on their profitability.

2.3.3 Generic Benchmarking and Performance of Banks

According to a study by Ongori and Migiro (2016) on the effects of generic benchmarking on organizational performance found that the impact of globalization has obliged many organizations to adopt ICT in order to survive in the present competitive era especially in the area of competing with large organizations. On the same breath Goro (2013) carried out a study on the strategic responses of bottled water companies to threat of substitute products. Whilst lessons may be learnt from this study, not all may be applicable to the banking industry.

Adongo (2015) carried out a study on factors influencing efficiency of Namibian Banks. The study found that the efficiency of overall financial sector is allocating credit to investment that offer the highest returns is a necessary condition for increased economic growth. The study also found out that the effect of concentration of efficiency in Namibian banking sector between 2008-2013 was that the market power hypothesis for Mergers is positively associated with the measures of efficiency and the effects of adverse pricing on the welfare of the society work in the opposite direction and should be considered by the regulator in any anti-trust assessment of potential M&A deals. Whilst lessons may be learnt from his study, not all may be applicable to the Kenyan banking industry.

A study by Sachan and Ali (2015) on generic benchmarking and its applicability found out that generic benchmarking is achievable with the help of technological efficiency which result in lower transaction costs and increased revenue for banks. The study found that technology can allow banks to cross to a new market and existing products to customers. The study recommended that application of ICT in the enhancement of banking services is not only limited to cost reduction benefits alone, the innovation is found also to have significant contribution to giving access to customers residing outside the branch network and create opportunities for effective cross – selling among others, therefore increase in number of customers.

Mushkin and Strahan (2014) study on contribution of ICT on benchmarking in commercial banks found out that information technology can make it easier for banks to screen out good from bad credit risks or to monitor corporations, thus reducing adverse selection and moral hazard problems that would otherwise impede the efficiency of financial markets. The inefficiencies occurring as a result of adverse selection and moral hazard can adversely affect the banks‟ balance sheet (through increase in non-performing loans) and make them vulnerable to external shocks. Such vulnerabilities could translate into full- blown banking crises in emerging markets.

2.4 Summary of Literature Review and Research Gaps

There is sufficient literature on factors that influence the performance of banks in Kenya, A lot of studies have taken a general look at these factors, however, this study was different in that it narrowed down the influence of benchmarking practices on performance of commercial banks in Bungoma County. The Studies discussed above on benchmarking showed clearly that most of the studies have been done in the developed world while studies in developing countries such as East Africa region are scanty and broad. However, it is also notable that the commercial banks in Kenya have not taken the issue of benchmarking practices seriously (Gathoga, 2011).

Table 2.1 Knowledge Gap Summary

Authors	Focus	Findings	Gaps	Focus of Current Study
Obiero(2012)	Benchmarking studies on the banking sector regulatory framework in Kenya	Kenyan banking system was in trouble in dealing with competitive benchmarking. There were 39 bank failures in Kenya due to poor competitive benchmarking in the year 1984-2001 as a result of poor lending practices.	The study broadly focused on challenges facing competitive Benchmarking implementation	This study focused on the effect of competitive benchmarking on commercial bank performance.
Mushkin and Strahan (2014)	The study on contribution of ICT on benchmarking in commercial banks in Kenya	ICT make it easier for banks to screen out good from bad credit risks, thus reducing adverse selection and moral hazard problems hence efficiency.	The study focused on credit performance	Effect of generic benchmarking on commercial banks performance.
Adongo (2015)	The study on factors influencing efficiency of Namibian Banks	The efficiency of overall financial sector on allocating credit to investment that offer the highest returns is a necessary condition for increased economic growth.	The study focused on factors influencing efficiency of Namibian banks.	This study focused on benchmarking factors influencing efficiency of Kenyan banks in Bungoma County.
Mutuku (2015)	The study on the relationship between benchmarking and financial performance of SACCOs in Nairobi	Internal benchmarking is used at the SACCOs as an incremental continuous improvement tool that has enhanced overall business performance realized by the SACCOs by helping to change internal paradigms and see out of the box	The study focused on financial performance of Sacco in Nairobi.	This study focused on organization performance of commercial bank in Bungoma County.
Whymark (2014)	Differences in attitudes to the adoption of internal best practice	The result revealed that internal benchmarks enabled organizations to challenge their own policies,	The study concentrated on a small section of	This study will focus on effects of internal benchmarking and performance of Commercial bank

	benchmarking between manufacturing and financial services.	procedures and operational processes based on fact and objective analysis which help to boost the high performance culture.	manufacturing companies.	in Bungoma County.
Sachan and Ali (2015)	Generic benchmarking and its applicability	The study found that technology can allow banks to cross to a new market and existing products to customers.	The study used descriptive methods	Both descriptive and inferential
Ongori and Migiro (2016)	effects of generic benchmarking on organizational performance	The impact of globalization has obliged many organizations to adopt ICT in order to survive in the present competitive era	The concept was on ICT adoption	The concept was on organization performance
Kiyai (2013)	Competitive bad debts restructuring techniques used by banks	Some restructuring techniques used by banks such as extended repayments periods, interest waivers, interest holidays, capital holidays concessions, additional facilities and conversions influences the performance of commercial banks in Kenya	The concept was on bad debt restructuring	The current study was on competitive benchmarking on organizational performance.
Boot, Milbourn, and Thakor, (2014)	Competitive benchmarking on performance of investment Banks	Financial service firms continued to strategically position themselves in order to gain competitive advantage in the ever evolving competitive marketplace	The study was on investment banks	The current study concentrated on commercial banks.

Source: Researcher (2019)

2.5 Conceptual Framework

The study was guided by a conceptual framework in a diagrammatic representation containing all variables and indicators. This is an Operationalization of the dimension of the independent variable of the topic. The Operationalization is based on the literature.

Independent variables **Dependent Variables**

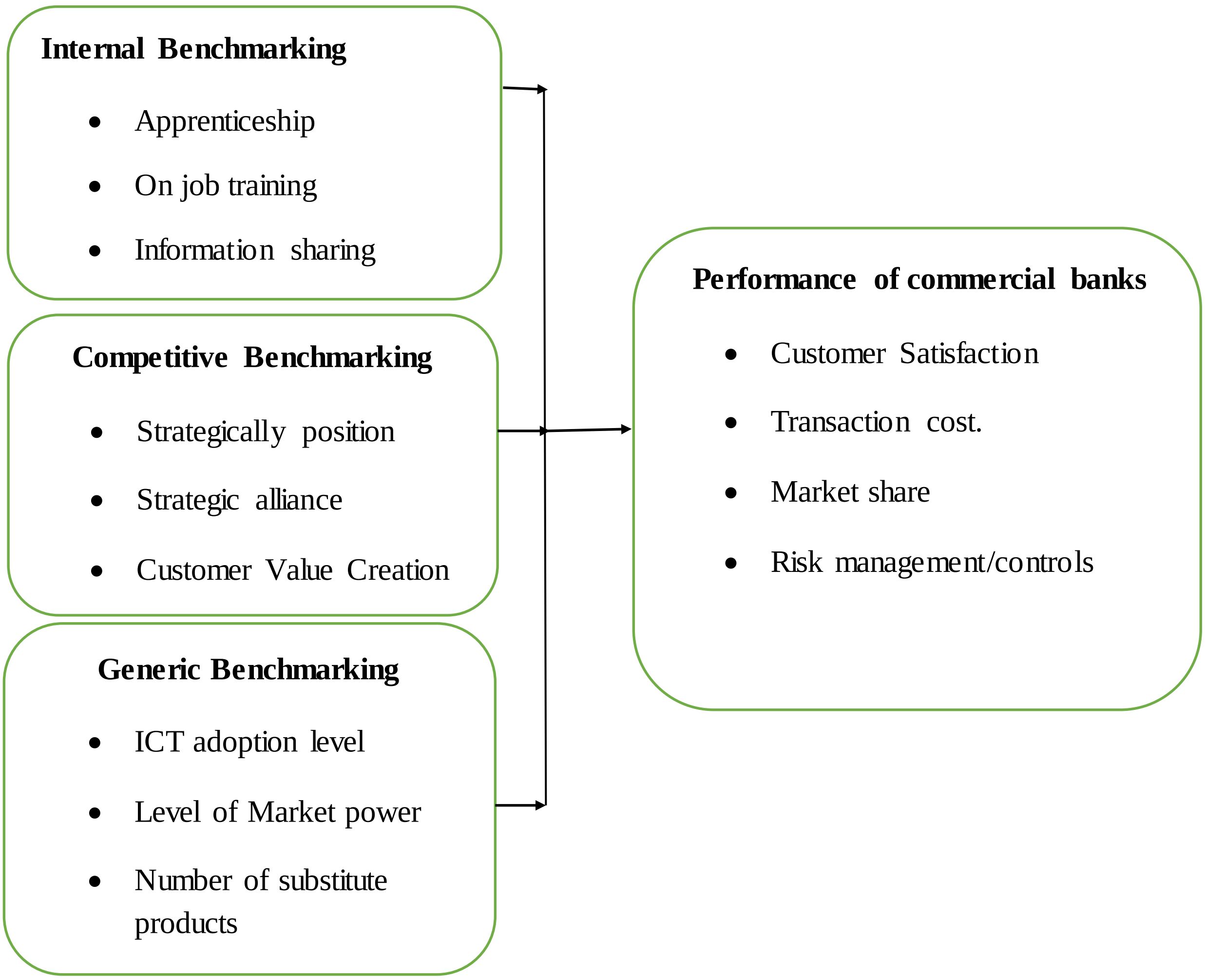


Figure 2.1 Conceptual Framework

Source: Researcher (2018)

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

The chapter presents and explains the research design and methodology that was used in the study. The chapter thus, outlines into research design, target population and sample, description of research instrument, data collection procedure and data analysis technique.

3.2 Research Design

The research design that was adopted in this research study is the descriptive survey design. This design was adopted because it involves extensively observing and describing a phenomenon. Descriptive survey is a method of collecting information by interviewing or administering a questionnaire to a sample of individuals (Orodho, 2003). It can be used when collecting information about people's attitudes, opinions, habits or any of the variety of education or social issues (Orodho & Kombo, 2002).The design was chosen because it enables the researcher to generalize findings to a larger population and answers the questions where, what, when and how. It explained the relationship between variables.

3.3 Target Population

The target population of the study was drawn from all commercial banks operating in Bungoma County. There are 13 commercial banks in the County namely: Bank of Africa, Kenya commercial bank (KCB), National bank, Diamond trust bank, Barclays bank, Post bank, Equity bank, Cooperative bank, Standard chartered bank, Sidian bank, Kenya women bank, Faulu bank and Family bank limited. The respondents under consideration were managers and supervisors in the commercial banks totaling to 133 respondents. These are the key strategic leaders/persons in the best position to answer on issues of performance and benchmarking. The study targeted all the 133 employees in the 13 commercial bank in Bungoma County and since the population was of manageable size the study was a census. The data was collected from the two strata; managers and supervisors of respective commercial banks.

Table 3.1 Target Population

Category	Population	Percentage (%)
Managers	48	36.09
Supervisors	85	63.91
Total	**133**	**100.00**

Source: Bank Database (2019)

3.5 Data Collection Procedures and Instruments

The data was collected by use of semi-structured questionnaire. In this study a questionnaire was chosen as the method of collecting data for it is easier to administer and analyze the data collected from the field. Secondary data was also obtained from the financial statements of the banks for the last five years that is from 2012 to 2016.This assisted in measuring the financial performance of the company. The researcher engaged research assistants who was trained to undertake data collection.

3.6 Validity and Reliability of Research Instrument

3.6.1 Validity of Research Instrument

Mugenda and Mugenda, (2005) define validity as the degree to which results obtained from the analysis of the data actually represent the phenomenon under study. To assess the validity, the researcher consulted the supervisor to determine the validity of the instruments and offer suggestions on content. The purpose of pre-testing the research instrument was to: Verify whether the questionnaire is clear to the respondents, establish whether the questionnaire effectively addresses the data needed for the study, assess and identify any problems respondents would encounter in completing the questionnaire that may not have been foreseen when constructing the questionnaire this was used to test the correctness of the data collection tools.

3.6.2 Reliability of Research Instrument

Reliability of the research instrument is its level of internal consistency over time (Kothari, 2003). A reliable instrument therefore, is the one that constantly produces the expected results when used more than once to collect data from two samples drawn from the same population. Reliability of the instrument was enhanced through a pilot study; split half method of randomly selected Respondents (Joppe, 2000). The instrument were split half into all odd numbers put them in one subset and all even numbers in another subset. The scores of all the odd numbered items of the respondents in the pilot study were computed separately and then compared to see the suitability of the instrument using Cronbach's alpha. A Score above 0.7 was accepted.

3.7 Data Analysis and Presentation

Once the questionnaires were collected, they were scrutinized to ensure they are duly completed and are consistent, after which they were numbered. This was followed by checking that all items are answered according to instructions to reduce errors and maintain the validity of the data. The researcher analyzed the quantitative data by tallying responses of closed ended questions. The data was coded, and entered into the computer for analysis using the SPSS. Data was analyzed through descriptive and inferential statistics. Descriptive statistics involved generating summary statistics in the form of means, standard deviations, and percentages and was presented in form of graphs, tables and pie charts whereas inferential statistics involved regression analysis to indicate the magnitude to which every independent variable affected performance of commercial bank in Bungoma County.

The model will be; $Y = \beta_0 + \beta_1X_1 + \beta_2X_2 + \beta_3X_3 + \varepsilon$

Where: Y= Performance of Commercial Banks

β_0= Constant

β_1 to β_4 =Coefficient of independent variables

X_1 =Internal Benchmarking

X_2= Competitive Benchmarking

X_3 =Generic Benchmarking

ε =Error term of the model

3.8 Ethical Consideration

Before collecting data the researcher was guided by the University code of ethics and obtained authority from relevant offices and authorities. This included obtaining research permit from National Commission for Science, Technology and Innovation (NACOSTI) and an authorization letter from University Business School. The researcher also made telephone calls and liaised with the directors of the commercial banks under study to allow employees working under them to participate in the study. The questionnaire also included a clause showing data confidentially, security keeping, safe custody and participants were not required to write their names to avoid exposing them.

CHAPTER FOUR

DATA ANALYSIS AND DISCUSSIONS

4.1 Introduction

This section presents data on the effect Benchmarking practices on performance of commercial banks in Bungoma County, Kenya. Independent variables used in the study include internal benchmarking, competitive benchmarking generic benchmarking. These variables were analysed using descriptive and inferential analysis.

4.1.1 Response Rate

The study targeted 133 respondents. Out of 133 respondents, 121 respondents completed and returned the questionnaire this represented 91% response rate. According to Mugenda and Mugenda (2003) pointed that 70% of respondents is a good representation of the target population and therefore 91% was an excellent response rate. Figure 4.1 presents the data.

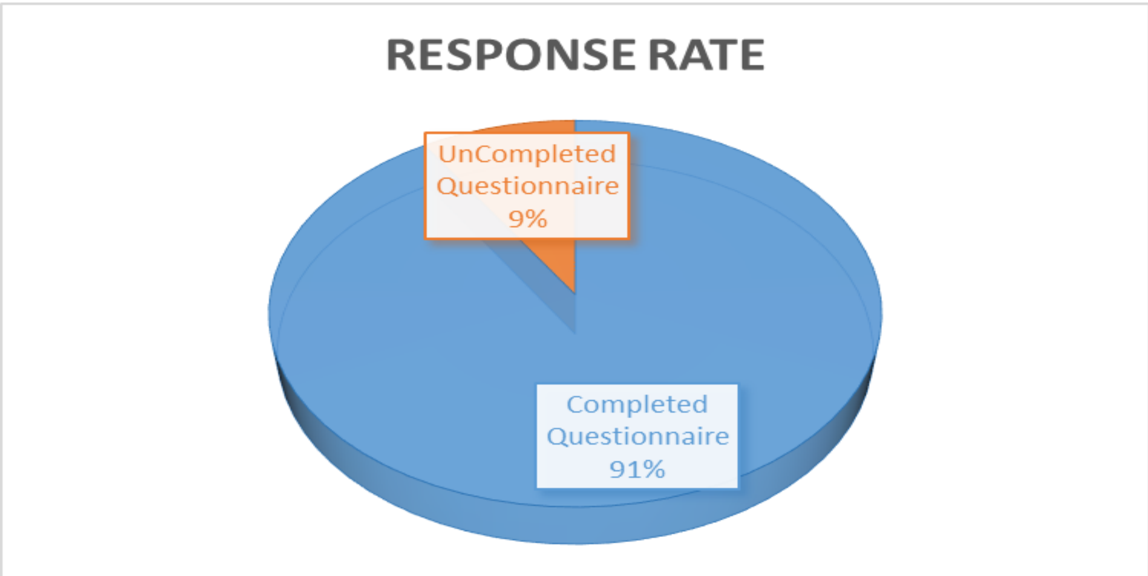


Figure 4.1 Response Rate

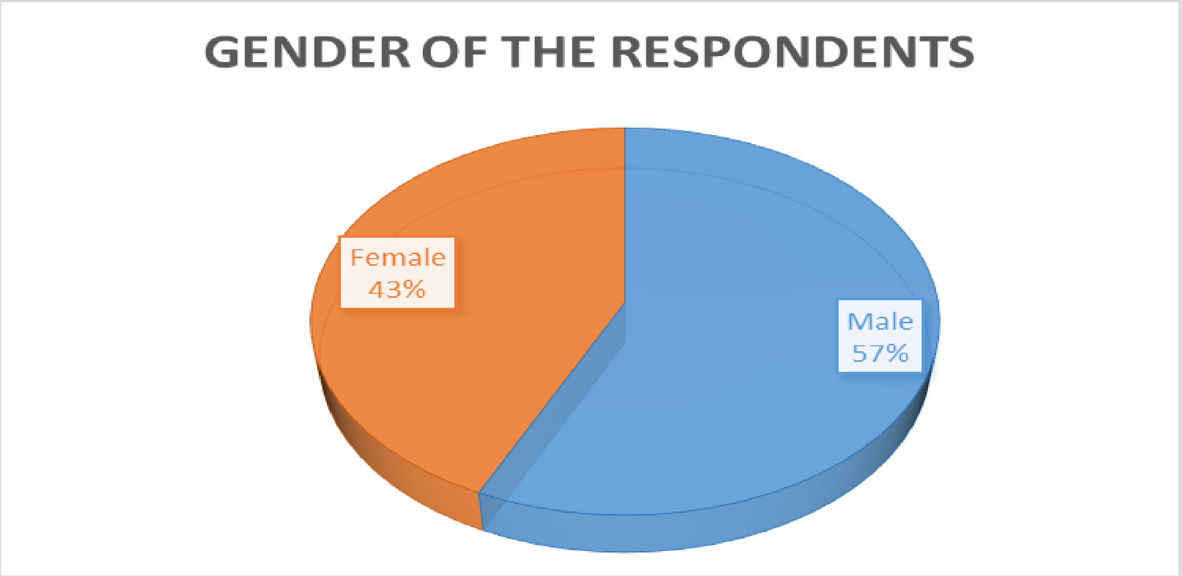
Source: Field Data (2019)

4.2 Demographic Characteristics

This section presents the demographics such as gender, level of education and working experience of the respondents.

4.2.1 Gender of the Respondents

The study sought to establish the number of male and female representatives in the study. The findings were presented in the Figure 4.2 below.



Source: Field data (2019)

Figure 4.2 indicated that 57 per cent were male while 43-percent were female. This indicates that there was a fair gender representation in the study. This was a clear indication that majority of the commercial banks consider gender balance during their recruitment and selection.

4.2.2 Level of Education

The study sought to establish the highest level of education of the respondents. The findings were presented in Table 4.1.

Table 4.1 Level of Education

	N	Percentage
Secondary school level	0	0%
Diploma Certificate level	12	10%
Graduate Degree Holder	92	76%
Master’s degree level	17	14%
Total	**121**	**100**

Source: Field data (2019)

The study in table 4.1 indicated that majority of the respondents had a graduate degree as their highest level of education.14% of the respondents had a master's degree while 10% of the respondents had diploma certificate as the highest level of education. It is evident that majority of the respondents had enough knowledge relating to the aspects being studied.

4.2.3 Work Experience

This section aimed to find out how long the respondents worked in the bank. The findings were presented in the Table 4.2 below.

Table 4.2 Work Experience

	N	Percentage
Less than 5 years	5	4%
6-10 years	18	15%
More than 10 years	98	81%
Total	**121**	**100**

Source: Field data (2019)

Table 4.2 presented that majority of the respondents (81%) had worked in the bank for more than 10 years in the bank and therefore the necessary skills relating to benchmarking. It was evident that 15% of the respondents had worked in the bank for period of 5 to 10 years. The minority (4%) of the respondents had worked in the bank for less than 5 years as shown in the table above

4.3 Descriptive Analysis

The descriptive statistics presented in the sub-sections below indicated the level with which respondents agreed with the statements presented to them through the questionnaire. The parameters used in this subsection were the mean and a standard deviation. The mean ranged from 1 to 5. The high mean indicated that the respondents agreed to very great extent with the statement presented to them. Standard deviation showed the level of variation of the responses.

4.3.1 Effects of Internal Benchmarking

Study collected data on internal benchmarking. The indicators of internal benchmarking included effective apprenticeships, effective on job training and effective information sharing the findings were presented in Table 4.3 below.

Table 4.3 Internal Benchmarking

	N	Min	Max	Mean	Std. Deviation
There is effective apprenticeship in the bank	121	2	5	4.84	1.051
There is effective on-job training in the bank	121	2	5	4.77	0.987
The on-job training is frequently carried out	121	1	5	3.99	1.211
There is effective information sharing on benchmarking in the bank	121	1	5	4.02	0.897
Aggregate Score	**121**			**4.405**	**1.0365**

Source: Field data (2019)

Table 4.3 indicates that there was an effective apprenticeship in the bank as represented by a mean of 4.84 and a standard deviation of 1.051. It is clear that there was an effective on job training in all the commercial Banks as evidenced by a mean of 4.77 and a standard deviation 0.987. The respondents indicated that the on job training is frequently carried out (mean of 3.99, standard deviation of 1.2 11). There was an effective information sharing on benchmarking in all the commercial Banks study aid as indicated by a mean of 4.02 and a standard deviation of 0.897.

The findings of the study agree with Whymark (2014) study on assessment of the attitudes on the adoption of internal best practices among manufacturing and financial services. The findings were that the contribution of apprenticeship to job and skills in the commercial Banks have been utilised in many countries in order to promote growth and educate young bankers.

4.3.2 Effect of Competitive Benchmarking

The researcher collected data on competitive benchmarking. The indicators of competitive benchmarking were strategic positioning, strategic Alliance and customer value creation. The findings were presented in Table 4.4 below.

Table 4.4 Competitive Benchmarking

	N	Min	Max	Mean	Std. Deviation
we strategically position ourselves to improve performance through competitive benchmarking	121	1	5	4.91	1.150
We do strategic alliance with like-minded firms to improve banks performance	121	2	5	4.81	0.887
Customer value creation is done through competitive pricing	121	1	5	4.19	0.911
Customer value creation affects banks performance	121	1	5	4.31	0.991
Aggregate Score	**121**			**4.555**	**0.9848**

Source: Field data (2019)

Table 4.4 below indicates that majority of commercial Banks had positioned themselves strategically improve their financial performance through competitive benchmarking as indicated by a mean of 4.91 and a standard deviation of 1.15. Majority of commercial Banks' strategic Alliance was done with like-minded firms in order to improve performance (mean of 4.81, standard deviation of 0.887). Customer value creation found to be done through competitive pricing in the majority of commercial Banks as shown by a mean of 4.19 and a standard deviation of 0.911. It was also found that customer value creation affects the commercial banks performance to a great extent as evidenced by a mean of 4.31 and standard deviation of 0.991.

The current findings agree with Boot, Milbourn and Thakor (2011) on the investigation of competitive benchmarking on performance of investment Banks. The findings were that majority of the commercial Banks had strategically positioned themselves for the purposes of gaining competitive advantage for ever-evolving competitive marketplace.

4.3.3 Effect of Generic Benchmarking

The study sought to establish extent to which Generic benchmarking affected use of commercial banks selected. Indicators of generic benchmarking variable: Effective ICT system, ICT adoption and ICT competition level. The findings were presented in Table 4.5.

Table 4.5 Generic Benchmarking

	N	Min	Max	Mean	Std. Deviation
There is effective ICT systems adoption in place	121	1	5	4.97	1.118
ICT adoption affects the bank performance	121	1	5	4.77	0.987
We have improved our market share as a result of ICT adoption.	121	1	4	3.59	0.919
We have experienced competition from various number of substitutes	121	1	5	3.98	1.217
Aggregate Score	**121**			**4.33**	**1.060**

Source: Field data (2019)

The findings in the Table 4.5 above indicated that there was an effective ICT system adoption in the majority of the commercial Banks (mean of 4.97 and a standard deviation of 1.118). It was clear that ICT adoption affected commercial banks performance as evidenced by the mean of 4.77 standard deviation of 0.987. A mean of 3.59 and a standard deviation of 0.919 indicated that majority of the commercial banks had improved their market share as a result of ICT adoption. The study indicated that the commercial banks studied had experienced competition from number of substitutes available in the market as shown by 3.98 and a standard deviation of 1.217.

The findings concur with Ongori and Migiro (2010) on the assessment of generic benchmarking on organisational performance. The study found that due to the increasing globalisation many organisations have adopted ICT technology in order to survive in the present competitive environment. The findings also concur with Goro (2013) that majority of the companies had experienced threat from substitute products and need to redesign strategic responses to remain competitive.

4.4 Performance of Commercial Banks

Performance of Commercial was sought from the respondents using the indicators; profitability, customer base and customer satisfaction. The results were presented in Table 4.6.

Table 4.6 Performance of Commercial Banks

	N	Min	Max	Mean	Std. Deviation
We have experienced increase in profitability in the past five years (2013 to 2017)	121	1	4	3.89	0.999
We have experienced increase in customer base in the past five years	121	1	5	4.65	0.971
The bank has increased customer satisfaction overtime due to the benchmarking practices used	121	1	5	4.82	1.107
Aggregate Score	**121**			**4.29**	**1.042**

Source: Field data (2019)

The findings indicated that commercial Bank had experienced increasing profitability for the years 2013 to 2017(Mean=3.89, Standard deviation= 0.999).The results in table 4.6 indicated that the studied commercial Banks experienced increase in customer base for the years 2013 to 2017 (Mean=4.65, Standard deviation=0.971). It is also clear from the findings in the table 4.6 that there was evident increase in customer satisfaction due to the use of benchmarking practices as shown by mean of 4.82 and a standard deviation of 1.1079. The findings agree with Mutuku (2010) on the relationship between benchmarking and financial performance of the Saccos. The study found that benchmarking causes improvement in business performance and also helps in changing the internal paradigms passing on skills to the employees and departments

4.5 Inferential Statistics

Table 4.7 Inferential Statistics

		Internal Benchmarking	Competitive Benchmarking	Generic Benchmarking	Performance of Commercial bank
Internal Benchmarking	Pearson Correlation	1	-.062	-.049	-.078
	Sig. (2-tailed)		.288	.402	.183
	N	121	121	121	121
Competitive Benchmarking	Pearson Correlation	-.062	1	.124*	-.105
	Sig. (2-tailed)	.288		.034	.072
	N	121	121	121	121
Generic Benchmarking	Pearson Correlation	-.049	.124*	1	.034
	Sig. (2-tailed)	.402	.034		.562
	N	121	121	121	121
	Sig. (2-tailed)	.096	.022	.001	.186
	N	121	121	121	121
Performance of Commercial bank	Pearson Correlation	-.078	-.105	.034	1
	Sig. (2-tailed)	.183	.072	.562	
	N	121	121	121	121

Source: Field Data (2019)

Table 4.7 presents the findings on inferential analysis relating to independent variables (internal benchmarking, competitive benchmarking, and generic benchmarking) and their relationship with dependent variable (performance of commercial Banks). The findings indicated that the significance values for each of the correlation coefficient for the four variables (competitive benchmarking, internal benchmarking, generic benchmarking and performance of commercial Banks) were less than 0.8. This is a clear indication that there was no possibility of autocorrelation between variables since all significance values were less than 0.8.

4.5.1 Regression Analysis

This section establishes the extent to which the dependent variable (performance of Commercial Bank) is determined by independent variables (internal benchmarking, competitive benchmarking and generic benchmarking). The R shows the correlation coefficient between variables while adjusted R squared shows the coefficient of determination. The results were presented in table 4.8 below.

Table 4.8 Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.819[a]	.671	.613	1.11911

a. Predictors: (Constant), Internal benchmarking, Competitive benchmarking, Generic benchmarking

A score of 0.819 indicated that there was a strong positive correlation between variables. Adjusted R square value of 0.67 indicated that performance of Commercial Bank is explained by independent variables (internal benchmarking, competitive benchmarking and generic benchmarking) to a point of 61.3 percent and that factors not considered in this study explained the rest of the percentage which is 39.7%. This indicated that internal benchmarking, competitive benchmarking and generic benchmarking was appropriate in explaining the changes in performance of commercial banks.

Table 4.9 ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	20.674	3	6.891	1.068	.001[b]
	Residual	754.894	117	6.452		
	Total	775.568	120			

a. Dependent Variable: Performance of Commercial Banks
b. Predictors: (Constant), Internal Benchmarking, Competitive Benchmarking, Generic Benchmarking

The findings in Table 4.9 indicates that the model was significant (P=0.001) at 95 per cent confidence level in explaining the relationship between dependent and independent variables.

Table 4.10 Regression Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	3.392	1.537		5.126	.000
	Internal Benchmarking	.185	.045	.190	1.536	.000
	Competitive Benchmarking	.291	.060	.117	1.811	.000
	Generic Benchmarking	.061	.059	.085	1.401	.001

a. Dependent Variable: Performance of Commercial banks``

Source: Field data (2019)

Table 4.10 above presents the regression coefficients used to interpret relationship between variables. The constant value 3.39 to indicates that holding other factors constant the values of performance of Commercial Bank will be 3.39 to units. The finding is the study indicates that relationship between internal benchmarking and performance of Commercial Bank was positive and significant (β_1=0.185, P-value=.000). The coefficient also indicates that a unit change in internal benchmarking will result to 0.185 unit changes in performance of commercial Banks. The findings agrees with inferential statistics from the study by Brahet (2010) which found that ship between internal benchmarking and competitive advantage and significant and positive.

Table 4.10 above relationship between competitive benchmarking and performance of Commercial Bank was positive and significant (β_2=.291, P- Value=.000). This is also evident. A unit change in competitive benchmarking will result to 0.291 unit changes in performance of Commercial Bank. The study concurs with Dess (2012) assessment of the relationship between competitive benchmarking and performance of financial institution which found that there was a positive relationship between competitive benchmarking and performance of financial institutions.

The generic benchmarking and performance of Commercial Bank was found to be positive and significant as represented by the β_3 coefficient value of 0.061 and significant value of 0.001 at 95% confidence level. These findings agrees Mushkin and Strahan (2009) on the assessment of the contribution of benchmarking on performance of commercial Banks which found that relationship between generic benchmarking and performance of commercial Banks was positive and significant. Therefore; the study adopted model; $Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \varepsilon$ becomes; Performance of Commercial Banks= 3.392 + 0.185 Internal Benchmarking + 0.291 Competitive Benchmarking + 0.061 Generic Benchmarking + ε

CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

This section presents the summarized study findings, conclusions made based on the summary and recommendations for the study.

5.2 Summary of the Study

The study aimed to determine the effect of benchmarking practices on the performance of commercial banks in Bungoma County, Kenya. The specific objectives of the study were; to establish the effect of internal benchmarking on the performance of commercial banks in Bungoma County, to find out the effect of competitive benchmarking on the performance of commercial banks in Bungoma County and to determine the effect of generic benchmarking on the performance of commercial banks in Bungoma County.

The descriptive statistics on effect of internal benchmarking on performance of commercial banks indicated that apprenticeships, effective on-job training and effective information sharing affected performance of commercial in Bungoma County. The findings showed that there was an effective apprenticeship in the bank and that there was effective on job training in all the commercial Banks. The respondents indicated that the on-job training is frequently carried out to all employees and this has led to improved performance. There was an effective information sharing on benchmarking in all the commercial Banks study. The finding is the study indicates that relationship between internal benchmarking and performance of Commercial Bank was positive and significant.

The findings on the effect of competitive benchmarking on performance of commercial banks presented that strategic positioning, strategic Alliance and customer value creation greatly affected the performance of commercial banks. Majority of commercial Banks' strategic Alliance was done with like-minded firms in order to improve performance. Customer value creation found to be done through competitive pricing in the majority of commercial Banks. The relationship between competitive benchmarking and performance of Commercial Bank was positive and significant.

The findings on the effect of generic benchmarking on performance of commercial banks showed that effective ICT system, ICT adoption and ICT competition level affected performance of commercial banks. The findings indicated that there was an effective ICT system adoption in the majority of the commercial Banks and that ICT adoption affected commercial banks performance. Majority of the commercial banks had improved their market share as a result of ICT adoption. The study indicated that the commercial banks studied had experienced competition from number of substitutes available in the market. The generic benchmarking and performance of Commercial Bank was found to be positive and significant.

From the findings, it was established that majority of the commercial banks had experienced increased profitability for the years 2013 to 2017. The results indicated that the studied commercial banks experienced increase in customer base for the years 2013 to 2017. It was also clear from the findings that there was increase in customer satisfaction due to the use of benchmarking practices

5.3 Conclusions

Based on the findings summary above, it was concluded that internal benchmarking practices affect the performance of commercial banks. The findings in the study indicates that relationship between internal benchmarking and performance of Commercial bank was positive and that the units changes of both internal benchmarking and commercial banks change in the same direction. The study concludes that effective apprenticeship, frequent on-job training and effective information sharing greatly affects the organizational performance.

The study concluded that strategic positioning, strategic alliance and customer value creation greatly affected the performance of commercial banks. The study concluded that through competitive pricing customer value creation is done. The relationship between generic benchmarking and performance of commercial bank was found to be positive and significant. The study concluded that effective ICT system, ICT adoption and ICT competition level affected performance of commercial banks to a great extent.

5.4 Recommendations of the Study

In regard to internal benchmarking, the study recommended that that increased trainings should be encouraged in order to improve the skills and knowledge of the employees. This will ensure that the banks are competitive enough which will enable them maintain a positive trend of performance. Effective on-job training should be encouraged to all levels of the employees for the purposes of effective information sharing.

Concerning competitive benchmarking, the study recommended that commercial banks evaluates the way they compete and serve customers in the market uniquely. They should aim at attracting customers with new unique and quality products, satisfying customers and retaining customers through strategic alliances. In regard to generic benchmarking, the study recommended that commercial banks should ensure that there is increased effective use of ICT system for enhanced performance of commercial banks. Effective use of modern ICT system will help them be in a position to process large data per minute thus remaining competitive in ever dynamic market.

5.5 Suggestions for Further Study

The study aimed to investigate the effects of benchmarking practices on performance of commercial banks in Bungoma County, Kenya. The study used primary data to arrive at the findings and conclusions, therefore the study suggests a further similar study which will use both primary and secondary data. The study was limited to a small scope, an expanded scope should be considered and results compared with the current study.

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APPENDICIES

Appendix I: Letter to Respondents

Juma Leonard Gowans,

P.O Box 1068-50200,
Bungoma.

Dear Respondent,

RE: ACADEMIC RESEARCH QUESTIONNAIRE

I am a postgraduate student at Kenyatta University. As part of the requirements for the degree of Master of business administration, strategic management, I have to undertake a research study. I am doing a research on influence of benchmarking practices on the performance of commercial bank in Bungoma County, Kenya. You have been selected to provide the desired information.

I would be grateful if you could spare some time and complete the enclose questionnaire as honestly as possible. All your responses will be handled with confidentiality and will only be used for academic purposes. Thank you for your cooperation.

Yours Faithfully,

Juma Leonard Gowans

Appendix II: Questionnaire

You are requested fill in the following questions in the space provided by putting a tick (✓)

PART 1: Personal Information

1. What is your gender? Tick one

Male ( )

Female ( )

2. What is your education level?

Secondary school certificate level ( )
Diploma Certificate level ( )
Graduate Degree Holder ( )
Master's degree level and/or above ( )
Any other (specify) ………………………………..

3. How long have you worked in this bank?

i. 5years or less than [ ]

ii. 5- 10years [ ]

iii. 10years and above [ ]

Part II: Effects of Internal Benchmarking

3. In this section, please tick the appropriate option that best reflects the degree to which the following internal benchmarking affects your bank's performance.

5 strongly agree, 4 = agree, 3 = moderately agree, 2 = disagree, 1 = not at all.

To what extent do the following statements relate to bank's performance	5	4	3	2	1
5. There is effective apprenticeship in the bank					
6. Apprenticeship on employees affects performance					
7. There is effective on-job training in the bank					
8. On job training affects banks performance					
9. There is effective information sharing on benchmarking in the bank					

In your own view, how does internal benchmarking factors influence the performance of commercial banks---
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Part III: Effects of Competitive Benchmarking

Using a scale of 1-5 Please choose the best option appropriate.

5 strongly agree, 4 = agree, 3 = moderately agree, 2 = disagree, 1 = not at all

To what extent do the following statements relate to employees performance:	5	4	3	2	1
10. As a bank we strategically position ourselves to improve performance through competitive benchmarking					
11. We do strategic alliance with like-minded firms to improve banks performance					
12. Customer value creation is done through competitive pricing					
13. Customer value creation affects banks performance					

In your own view, how does a competitive benchmarking factor influence the performance of commercial banks?

……………………………………………………………………………………………
………………………………………………………………………………………

Part IV: Effects of Generic Benchmarking

Using a scale of 1-5 Please choose the best option appropriate.

5 strongly agree, 4 = agree, 3 = moderately agree, 2 = disagree, 1 = not at all

To what extent do you agree with the following statements?	5	4	3	2	1
15. There is effective ICT systems adoption in place in our bank					
16. ICT adoption affects the bank performance					
17. We have improved our market share as a result of ICT adoption.					
18. We have experienced competition from various number of substitutes					

In your own view, how does a generic benchmarking factor highlighted above influence the performance of commercial banks?

…………………………………………………………………………………………………
………………………………………………………………………………………

Part VI: Banks Performance

To what extent do the following statements relate to your banks performance	5	4	3	2	1
19. We have experienced increase in profitability in the past five years					
20. We have experienced increase in customer base in the past five years					
21. We have experienced better risk management techniques in the past five years					
22. the bank has increased customer satisfaction overtime due to the benchmarking practices used					

23. In your Bank, indicate briefly any other benchmarking practices which may have resulted to banks improving on Customer satisfaction, Market share and profitability

……………………………………………………………………………………………

………………………………………………………………………………………

24. In your bank, indicate briefly what may have caused the trend of performance indicated in the above table

…………………………………………………………………………………………

25. What are some of the challenges you have faced in your benchmarking practices………………………………………………………………………………………

……………………………………………………………………………………………

Thank you for your participation