International Journal of Management and Commerce Innovations ISSN 2348-7585 (Online)
Vol. 4, Issue 2, pp: (276-282), Month: October 2016 - March 2017, Available at: www.researchpublish.com

Link between Process Improvement and Financial Performance in Middle Tier Commercial Banks in Kenya

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Abstract: **This study set to establish the relationship between process improvement and financial performance in middle tier commercial banks in Kenya. This study adopted three theoretical foundations: the management theory; resource-based theory and; customer responsiveness theory. It focused on all the 7 middle tier commercial banks in Kenya. The study adopted the descriptive survey design. The sample for the study was obtained through proportionate stratified sampling. Out the 140 respondents targeted, 131 responded. From the study findings, it is evident that the strategic plans lead to process Improvement. Indeed a strategic plan integrates various processes in the organization so as to enhance effectiveness and efficiency across the organization and this enhances performance in the bank. It is vital to study other benefits of successful implementation of strategic plans in organizations.**

Keywords: **Process Involvement, Financial Performance, Middle Tier Banks.**

1. INTRODUCTION

Strategic plans are currently integral components of organizations in the world over. The concept and practice of implementing such plans has been by businesses across various sectors. According to Thompson and Strickland (2007), this arises from their perceived contribution to organizational effectiveness and productivity. Indeed, most public and private organizations invest a lot of resources within the process of implementing strategic plans in the hope of reaping the associated benefits. The situation is usually different in other organizations. Some organizations do not take strategic plans seriously. In the observation of McNamara (2008), there has had been frequent complaint that some organizations make strategic plans and put them in shelves to gather dust. Such organizations overlook the important role that the information contained in such strategic plans could play in boosting the performance of their organizations. Owing to the ever increasing competition the world over, companies come up with strategies aimed at sustaining competitive edge. These strategies usually cost a lot of money at formulation and implementation stage. As such, poor implementation of strategies is not acceptable (Matanda & Ewing, 2012). This emanates from the fact that organizations expect to reap the crucial benefits anticipated from strategic plans such as enhanced organizational performance. Furthermore, strategy implementation takes a lot of time and money and has high opportunity costs. A lot of money, which could otherwise be put to other use in the organization, is used in this process. Such money could be put to other use (Cater & Pucko, 2010).This means that regularly stock taking should be taken to realize the benefits of implementation of strategic plans. This current study sets to establish relationship between successful implementation of strategic plans and financial performance. Without realizing meaningful financial returns, the efforts put into strategic plan implementation would be futile. Indeed, studies in this direction in Kenya are imperative. Various studies have been undertaken on the subject. This has given rise to theories and models on implementation in the developed world (Rajasekar, 2014). Whereas such a plethora of knowledge on the successful implementation of strategic plans exists, focus on Kenya and especially on the banking sector has still been very scanty. This necessitates this study.

This current study conceptualizes that the implementation of strategic plans affects financial performance This emanates from enhanced process improvement (Project Management Institute, 2014); strong organization structure (Leting, 2009); better resource utilization (Abok, Waititu, Ogutu & Ragui, 2013) and; responsiveness to Market demands (Awino, 2007). This study endeavours to investigate the relationship between these benefits of implementation of strategic plans and financial performance as shown in the following discourse.

On their part, Koller, Goedhart and Wessels (2010) are of the view that enhanced performance is evidenced by more efficient management, better production techniques and increased market power. Increased market power is a show of improved financial performance. Companies have to have enough financial resources to exert control in the market. Having control in the market, means that the company has a high level of financial sustainability. Denis and Rodgers (2007) posit that financial performance in an organization is vital. Any organization strives to be financially healthy. In this regard, these two scholars suggest various ways in which financial performance can be measured. This includes assesses the firm's size of assets, operating income- which is a reflection of the firm's total assets or sales- which must be positive for a period of one or two consecutive years at the time of measurement. Whereas Kalay, Singhal and Tashjian (2007) elicit that financial performance in an organization is indicated by less debt-to-asset ratios, Warren and Westbrook (2009) opine that improved financial performance in a firm can be measured by improved profitability and less debt. Irrespective of the way in which financial performance exhibits itself, its importance to the organization cannot be gainsaid. This necessitates focus by studies such as this current. Although banks manage financial resources, their own financial performance is often taken for granted. In Kenya for example, a bank going into receivership or closing doors is not new. This happens in spite of such banks having strategic plans. This is exemplified in Chase Bank's which had a good strategy (Mwaura, 2013) aimed at strengthening its position in the SME market in Kenya but which closed doors toward the start of the second quarter of 2016.

2. STATEMENT OF THE PROBLEM

Strategic plans are currently integral components of organizations the world over. According to Thompson and Strickland (2007), this arises from their perceived contribution to organizational effectiveness and productivity. Regrettably, some organizations do not take strategic plans seriously. In the observation of McNamara (2008), there has had been frequent complaint that some organizations make strategic plans and put them in shelves to gather dust. When strategic plans are not implemented successfully, the important role that such plans could play in boosting the performance of their organizations would never be realized. As conceptualized in this study, strategic plans accord organizations many benefits. One of these benefits is process improvement (Project Management Institute, 2014). Improved processes mean that the organization can perform effectively and efficiently. Strategic plans also cater for strong organization structure in the organization (Leting, 2009). A strong organization structure makes the organization able to work smoothly. Other possible benefits of strategic plans are better resource utilization (Abok et al., 2013) and; responsiveness to market demands (Awino, 2007). Organizations that use their resources well and which respond well to the emergent needs are able to perform well. The benefits are many. However, studies that focus on the benefits of implementation of strategic plans and how they relate to financial performance in the banking sector in Kenya are scanty. It is regrettable that, although banks manage financial resources, their own financial performance is often taken for granted. In Kenya for example, a bank going into receivership or closing doors is not new. This happens in spite of such banks having strategic plans. This is exemplified in Chase Bank. The bank has a strategic plan aimed at strengthening its position in the SME market in Kenya (Mwaura, 2013) but closed doors toward the start of the second quarter of 2016. This shows that having a strategic plan may not be tantamount to enhanced financial performance. This study endeavours to investigate the relationship between process improvement and financial performance in middle tier commercial banks in Kenya. Without studies in this direction, this relationship may not be properly understood in the banking sector in Kenya and may be left to speculation.

3. LITERATURE REVIEW

Strategic plans have the potential of improving working processes in organizations. According to the Project Management Institute (PMI), work processes in an organization target various stakeholders. These include customers, business partners, the management and, employees, suppliers among others. Strategic plans are able to map out how relationships between these stakeholders can be managed (PMI, 2014). When this happens, the efficiency of work processes in the organization is enhanced. This is in line with this current study which argues that successful implementation of strategic plans can enhance work processes and financial performance in an organization.

On another note, Higgins (2005) points out that one type of strategies employed in organizations concerns processes. A strategic plan should inculcate components on how to manage processes in the organization. This kind of strategy cut across multiple functions in the organization. Its major aim is to integrate various processes in the organization so as to enhance effectiveness and efficiency across the organization. When this happens, the organization can easily garner better performance. This is relevant to this current study which conceptualizes improved operation processes could enhance financial performance in an organization. Streamlined operation processes are also major concerns of most strategic plans. In this accord, strategists aim at enhancing a revitalized operation processes that can identify and respond to future opportunities (Schaap, 2006). In addition, and as argued by Lehner (2004), strategic plans should cater for better working processes. Such processes should be responsive to environmental threats and should enhance continual learning. This would go a long way to realize better operation and performance of the organization.

Furthermore, strategy play a critical role in improving working processes in the organization through alignment of the policies, actions plans and projects of the organizations in such a way that efficiency and effectiveness is ensured (Harrington, 2006). This goes a long way to enable the organization to be economical in the use of its available resources and this gives it agility to make use of emergent opportunities in the competitive market context. Within the context of this current study, a company that works efficiently and effectively could record better financial performance.

In Kenya, there are 42 commercial banks with 2 of them (Chase Bank and Imperial Bank Kenya) being under receivership (Gartner, (2016). The Central Bank of Kenya is the main regulatory authority for such banks. Moreover, and as pointed out by Cytonn Investment (2015), there are 12 microfinance banks as well as 1 mortgage finance institution. With a bank to total population ratio of 42 banks to 44 million people, this is one of the highest ratios in Africa.

According to Gartner (2016), banks are usually categorized into 4 tiers (Tiers I, II, III and IV). This study focuses on Tier II (middle tier) banks. These are banks whose trading volumes are about 30,000 transactions each business day. These banks are known for high responsiveness to technologies, propensity to process improvement and vertical integration of services. This current study focuses on these banks since process improvement is one of the variables guiding this study. In addition, vertical integration of resources cannot work without a strong organization structure, another variable guiding this study. Middle tier banks in Kenya are sixteen. These include: NIC Bank, I&M Bank, CFC Stanbic Bank, Diamond Trust Bank (DTB), Housing Finance Company of Kenya (HFCK), Family Bank and Bank of Africa (Cytonn Investment, 2015). This number shows that the ratio of middle tier banks to other commercial banks in Kenya is 1:7. This current study focuses on this category of banks.

4. RESEARCH METHODOLOGY

This study adopted the descriptive survey design. The population of a study was a conglomeration of the entire groups of individuals or objects which possesses common characteristics within a particular space and at a specific time period (Mugenda & Mugenda, 2003). The researcher employed the proportionate stratified sampling to obtain the study sample. Data was collected through use of structured questionnaires and interviews. Statistical Package for the Social Sciences (SPSS) and Spread Sheets Excel were used to analyze data from the structured questionnaires. After analysis, the findings obtained were presented in form of Tables and Figures. This was for simplified presentation and ease in interpretation.

5. FINDINGS

The researcher sought to determine whether there is any link between process improvement (an attribute of implementation of strategic plans) and financial performance in middle tier commercial Banks in Kenya. Data was collected using questionnaires and interviews.

The researcher assessed the level to which the respondents agreed to a number to selected statement on the link between process of implementation and financial performance. The data was captured in a likert-type scale of 1 to 5 (1-Not at all; 2-to a little extent; 3- to a moderate extent; 4 -to a great extent and; 5-to a very high extent). The closer the mean was to 5 the higher the agreeability and vice versa. The findings are presented in Table 1.

Table 1: Process Improvement According to Likert-Type Statements

Attribute	Rating 1	2	3	4	5	Total	Weighted Mean	Std. Dev.
a) Strategic plans have the potential of improving working processes in banks and this is the scenario in our bank	0	2	4	35	85	126	5	36.38
b) Strategic plans are able to map out how relationships between these stakeholders can be managed and this enhances the efficiency of work processes in the bank	0	0	3	56	67	126	5	33.39
c) A strategic plan integrates various processes in the organization so as to enhance effectiveness and efficiency across the organization and this enhances performance in the bank	0	0	0	34	92	126	5	40.14
d) Strategic plans enhance revitalized operation processes that can identify and respond to future opportunities	0	0	3	36	87	126	5	37.75
e) Implementation of strategic plans lead to processes that are responsive to environmental threats and that enhance continual learning and this leads to better operation and performance of the organization.	0	0	2	15	109	126	5	47.26
f) Implementation strategic plans play a critical role in improving working processes in the organization through alignment of the policies, actions plans and projects of the organizations in such a way that efficiency and effectiveness is ensured.	0	0	1	23	102	126	5	44.04
Average Scores	**0**	**0**	**2**	**33**	**90**	**126**	5	39.02

As shown in Table 1, the respondents agreed to very high extent to all the statements provided to this (weighted mean of 5). This shows that strategic plans have the potential of improving working processes in banks and this was the scenario in the 7 bank. Strategic plans were also able to map out how relationships between stakeholders could be managed and this enhanced the efficiency of work processes in the banks. This agrees with the Project Management Institute (2014) which posits that strategic plans are able to map out how relationships between these stakeholders can be managed. When this happens, the efficiency of work processes in the organization is enhanced and this goes on to influence financial performance in banks.

The respondents also agreed to very high extend that a strategic plan integrates various processes in the organization so as to enhance effectiveness and efficiency across the organization and this enhances performance in the bank. These findings supports the findings of Higgins (2005) points out that one type of strategies employed in organizations concerns processes and that a strategic plan can integrate various processes in the organization so as to enhance effectiveness and efficiency across the organization. When efficiency and effectiveness are enhanced, the financial performance of an organization goes is easily achieved.

Strategic plans also enhanced revitalized operation processes that can identify and respond to future opportunities. This validates the work of Schaap (2006). When processes are revitalized, this would go on to realize better operation and performance of the organization. Since performance of an organization also includes financial performance, these findings confirms that implementation of strategic plans enhances operation processes and consequently improves financial performance in Banks.

By agreeing to a very high extent (weighted mean of 5), and in line with Lehner (2004), the findings of the study show that implementation of strategic plans lead to processes that are responsive to environmental threats and this enhances continual learning and leads to better operation and performance of the organization. When learning and better operation are realized thrive in an organization, financial performance in such an organization is secured. Lastly, the findings show that (agreement to a very high extent (weighted mean of 5)) that implementation strategic plans plays a critical role in improving working processes in the organization through alignment of the policies, actions plans and projects of the organizations in such a way that efficiency and effectiveness is ensured. This agrees with Harrington (2006) who was of the same opinion. This goes a long way to enable the organization to be economical in the use of its available resources and this gives it agility to make use of emergent opportunities in the competitive market context. Since, a company that works efficiently and effectively could record better financial performance.

The research presented open-ended questionnaires to the respondents. Furthermore, top managers from the departments selected by this study were interviewed. The findings obtained were analyzed thematically as shown in Table 2

Table 2: Process Improvement According to Interviews & Open-Ended Questions

Question	Responses	Emergent Relevant Themes
a) Does the strategic plan enhance the working processes of your bank? If yes, please explain. *b) In which other ways does implementation of strategic plans improve work processes in your bank? Please explain*	- Yes, it enhances ease working among various departments - The banks has better mapping of activities that need to be done - The duties and obligation of different stakeholders are well defined and this makes working easy - The bank has better control of its operations - The scope of work of the bank is well detailed and this enhances the performance of the work of the bank	- Streamlined operations - Clear definition of work - Better response to duties and obligation by various stakeholders

As shown in Table 2, strategic plans enhance the work processes in banks. This was realized through streamlined operations, clear definition of work and better response to duties and obligation by various stakeholders among others. When work processes are enhanced, the financial performance of banks is enhance as argued by this study. This supports the findings of Schaap (2006) who argues that when processes are streamlined financial performance in the organization follows.

The researcher sought to determine whether there is any link between process improvement (an attribute of implementation of strategic plans) and financial performance in middle tier commercial Banks in Kenya. The findings show that strategic plans have the potential of improving working processes in banks and this was the scenario in the 7 bank. They are also able to map out how relationships between stakeholders could be managed and this enhanced the efficiency of work processes in the banks. When this happens, the efficiency of work processes in the organization is enhanced and this goes on to influence financial performance in banks. Strategic plans also enhanced revitalized operation processes that can identify and respond to future opportunities. It was also apparent that implementation of strategic plans lead to processes that are responsive to environmental threats and this enhances continual learning and leads to better operation and performance of the organization. Lastly, the findings show that implementation strategic plans play a critical role in improving working processes in the organization through alignment of the policies, actions plans and projects of the organizations in such a way that efficiency and effectiveness is ensured.

6. CONCLUSION

Based on the study findings, a number of conclusions can be made. It is evident that the strategic plans lead to process Improvement. Indeed a strategic plan integrates various processes in the organization so as to enhance effectiveness and efficiency across the organization and this enhances performance in the bank. When efficiency and effectiveness are enhanced, the financial performance of an organization goes is easily achieved.

7. RECOMMENDATIONS

Since strategic plans played crucial roles in enhancing process improvement, strategic planners should ensure that such plans are implemented accurately. Effort should be made to map out the various relationships between stakeholders and ways of enhancing smooth management of such processes investigated. This would go on to enhance efficiency of work processes in the banks. There should be periodic review of strategic plans so as to continue enjoying the benefits of streamlined operations, clear definition of work and better response to duties and obligation by various stakeholders among others. When work processes are enhanced, the financial performance of banks is enhanced. This is particularly so since when processes are streamlined financial performance in the organization follows.

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