BUSINESS PROCESS RE-ENGINEERING PRACTICES ON ORGANIZATIONAL PERFORMANCE OF SELECTED COMMERCIAL BANKS IN NAIROBI CITY COUNTY KENYA

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ABSTRACT

The organizational performance of Kenya commercial banks in Nairobi City County had continually declined of due to stiff competition from other financial institutions. The innovation of lending applications and mobile banking had given room for loan defaults by customers from the main banks hence reduced organizational performance. The main study objective was to establish influence of business process reengineering practices on organizational performance of commercial banks in Nairobi City County, Kenya. Specifically, the research sought to initiate the impact of leadership change, customer focus, information technology and innovation on organizational performance of Commercial banks in Nairobi City County, Kenya. The study scope was limited to Nairobi County commercial banks. The study focused on 43 commercial banks in Nairobi city County, Kenya. A descriptive research design was utilized for the study. A population of 1020 staffs from the 43 commercial banks at Nairobi headquarters in Kenya was used, where a sample of 278 staffs was selected. The researcher based the study on Resource Based View Theory, Institutional Theory and Stakeholder Theory. A descriptive design and stratified sampling were utilized for the research. The study utilized primary information. The data gathered was analysed using inferential and descriptive statistics. Multiple linear regressions was used. The study revealed that leadership change maintaining all the other factors constant would positively change commercial bank performance. Customer focus had a significance influence on commercial banks performance. Most banks identify all its customers and address customer’s complaint immediately. An information technology change while keeping other factors constant could affect commercial bank performance. Most banks had introduced new technologies and adoption of M-commerce was growing fast in the bank. A unit increase in innovation holding all the other factors constant would positively change commercial bank performance. The study recommended that firms
needed to invest in information technology and educate their employees on how to use the technologies to reduce operation costs, increase operation speed and improve service and product quality. The research also recommended that studies in the future need to focus on non-commercial banks since the current study was only limited to commercial banks in Kenya.

**Keywords:** Business Process; Re-Engineering; Practices; Organizational Performance; Commercial Ban

**INTRODUCTION**

Businesses are reengineered in two major areas in the organization. The making of decisions and dissemination of data is enhanced through modern technology (Berrington, & Oblich, 2010). A business process has to go through fundamental changes to improve quality, speed and productivity. Radical changes are preferred when dealing with business reengineering because unlike incremental changes they are made to bring about dramatic improvements. Organizations constantly operate in competitive environments and they need to constantly make changes on how they operate or how work is done. These constant changes and shake ups make it easier for the companies to adapt to shifts in markets and changes in the business environment. Business Process Reengineering is not about marginal changes or fine tuning but about dramatic changes. Business process reengineering is for ambitious companies that are willing to make substantial and significant changes for the purpose of achieving significant improvements on organizational performance. Some of the practices put across by the organizations in reengineering include; leadership change, customer focus, information communication technology and innovation.

Performance should be determined by various factors that an organization needs to recognize so that it can ensure that they are included in the activities planned. The firm goals are defined and performance indicators established by managers in an organization to ensure that organizational performance is improved. The managers use a systematic approach which is effective in measuring of an organization’s performance as affirmed by Timothy (2012). How performance factors relate with each other and the process of identifying them helps an organization in improving its performance.

There are three main areas that define organizational performance which are; the performance of its finances, performance in its product market and returns of the shareholders according to Triandis (2015). The performance of an organization is determined by its plans of strategies, operations, finances, legal factors and the
development of the organization. It involves measuring of the procedure then modifying it, increasing its efficiency and effectiveness. Almost all organizations practice the concept of strategy management as this helps in determination of how the organization performs.

Nairobi City County Commercial Banks

The Central Bank of Kenya Act, (1984), The Banking Act, (1991), The Companies Act, (1978), and other sets of rules that are incredible set by the (CBK) are the acts that run Kenyan banking business. The exchange control was done away with in 1995 when the banking industry’s liberalization begun. The bank’s organizational performance, liquidity and solvency are promoted execution of financial policies through the section of the Finance Minister’s categorized by Central Bank of Kenya (CBK, 2016). The main role played by the Kenya Central Bank is to provide information on all non-banking sectors and Kenyan commercial banks including interest rates and other financial rules and publications. KBA (Kenya Bankers Association) also helps banks in Kenya to table their challenges and find ways in which those challenges can be solved and any other interests (CBK, 2012).

Operations of Kenya and management of monetary policy and the supervising agency are regulated by the CBK. The Institute of Certified Public Accountants of Kenya (ICPAK) work closely together with CBK to ensure that International Financial Reporting Standards (CBK, 2016) through its implementation is the leading sector in banking. Most of the banks have increased their corporate governance through the support they receive where the banks are able to undertake their activities smoothly with the help of the government policies that have been put up to them. Financial data is recorded accurately though the follow up of banks to record all their transactions so that financial reporting process can be overseen successful (Ochieng, 2011).

Problem Statement

Organizational performance of Nairobi City County Commercial Banks had been declining due to stiff competition from other financial institutions, loss of customer base to the mobile money services and growing new technology. The innovation of lending applications and mobile banking had given room for loan defaults by customers from the main banks hence reduced performance. The government introduced interest caps to all banks which made them not to make great profits. Due to those challenges
of innovation and government regulations in the banking, the banks had to re-engineer the strategies to cope with the market competition (Nyambura, 2010).

Nigeria was examined by George (2009), on how their organizational performance was affected by Business process reengineering factors. Most of the banks in Nigeria faced challenges such as increase of pressure on competition due to development in technology, globalization, and demand for customers had changed. Nigerian Banks were also explored by Kabiru (2015) on how their organizational performance was affected by business process reengineering factors. There was reliability and validity in the BPR dimensions as the study established.

Gichuki (2014) carried out a study to establish how manufacturing companies listed on the Nairobi securities exchange performance was affected by business process reengineering. The research study established how innovation affected performance. In a research by Kungu, (2010) on performance strategies, implementation and reengineering of business process at Total Kenya Limited, the outcome of the research study showed that product quality affected organizational performance.

Little had been done on influence of BPR practices on organizational performance on Nairobi City County Commercial Banks, hence the study found conceptual, contextual and theoretical gaps. The study therefore sought to investigate on how Nairobi County’s commercial banks are influenced by BPR.

Objectives of the study

General Objective
To establish the influence of business process re-engineering practices on organizational performance of selected commercial banks in Nairobi City County, Kenya

Specific Objectives
i. To determine the influence of leadership change on organizational performance of commercial banks in Nairobi City County, Kenya.

ii. To determine the influence of customer focus on organizational performance of commercial banks in Nairobi City County, Kenya.
iii. To explore the influence of information technology on organizational performance of commercial banks in Nairobi City County, Kenya.

iv. To establish the influence of innovation on organizational performance of commercial banks in Nairobi City County, Kenya.

**LITERATURE REVIEW**

**Theoretical Framework**

The study based on Resource-based view, institutional theory and stakeholder theory

**Resource Based View Theory**

Penrose (1959) and Barney (1991) outline on organization economics and strategic management were combined in the RBV theory. Resources contained in the competitive advantage of a firm determined the performance of the firm which was a significant determinant as suggested by the RBV theory (Wernerfelt, 1984). The RBV theory motivated organizations to make use of their unique resources so that sustainable competitive advantage could be attained through adopting strategies which were unique and couldn’t be copied by the competitors. By possessing of the unique resources, an organization was able to maintain its competitive advantage as it concurred with the RBV theory which also boosted its performance through individual employees’ talent management by the organization (Wright et al., 1984).

**Institutional Theory**

It was implemented by Scott (1995), in his work on organizations and institutions. The theory was an extensively acknowledged theoretical posture that accentuated isomorphism, legitimacy and rational myths (Powell & DiMaggio, 2010). Institutional theory emphasized on the profound and more robust social structure aspects. According to Scott (2004) this theory reflected the processes through which structures, such as routines, norms, and rules, were established as commanding guidelines that informed social behavior.

The theory explained that, international obligations, national pressures and trading relationships influenced business process re-engineering practices in the institutions. Besides, the public sector should have led by example to prompt other policies, to inspire stakeholders to participate in governments’ policy making processes, to conserve sensitive natural resources, to safeguard vulnerable populations and to fulfill its social responsibilities at various levels of governance (Brinkerhoff, 2002). The theory was used
in this study since each stakeholder needed to have a perfect understanding of the pointers that had been determined for every project objective as this assisted them in business process re-engineering on how the key organizational performance indicators were contributing to the achievement of organizational performance.

**Stakeholder Theory**

Edward Freeman introduced it in 1963. Originally, the stakeholder concept was defined to include those persons who without their support a company would cease to exist, (Donaldson, 1995). A stakeholder analysis process was defined by Mansell (2013) as a process of helping in the understanding of the interaction between stakeholder and a project. The stakeholder analysis was a tool that helped members of the project categorize and give priority to stakeholders playing a crucial role in project success.

The stakeholder’s theory was of value to the study because it showed that every legal person or bank shareholders taking part in Nairobi City County Commercial Banks did so to get benefits, and that the priority of the interests of all legal stakeholders was not obvious (Mansell 2013). He further argued that, even though stakeholder theory is instrumental and descriptive, it is more profoundly normative. Stakeholders in banking sector in Nairobi City County were well-defined by their interests and all interests of stakeholders were said to be fundamentally valuable. Stakeholder theory was managerial, and could be used to recommend attitudes, structures, and practices in banking sector and needed that coinciding attention be accorded to the interests of all authorized shareholders.

**Empirical Reviews**

**Organizational performance and Leadership Change**

Madanchian (2016) investigated the effects of leadership on organizational performance of consulting company in Malaysia. Descriptive research design was applied and correlation analysis was carried out. The study found that leadership was capable of developing an effective organization, ensured that transformational leadership and organizational performance were well understood and how they related as significant factors in the process. Leaders were also required to measure how employees performed and developed their performance through effective approaches and methods. The study
targeted consulting companies; however, the study did not focus on the effects of business process re-engineering on performance.

The Kenyan Health sector was studied by Kuria, Namusonge, and Iravo, (2016), to investigate how organizational performance was affected by leadership. The study adopted a descriptive survey design. The study’s respondents were selected through stratified sampling techniques where 384 employees were targeted from Kiambu and Machakos Level 5 hospitals and Kenyatta National Hospital. How employee participation and organizational performance related was influenced by leadership according to the study findings. Employees and leaders were found to have very poor relations by the study done recently. Therefore, the Kenyan Health care performance was found to be influenced by leadership.

Customer Focus and Organizational performance

Customer focus was crucial in the banking industry. In a study conducted by Ongoto (2015) on how Kenya commercial bank, Nakuru branch customer focus was affected by various factors. The Cross Sectional Survey Design was adopted by the study. The findings of the study indicated that customer satisfaction was crucial for the organizational performance of all banking institutions. The study revealed that for customer satisfaction to be achieved, staff members had to be trained and fit to serve the demanding customers. Finding an employee who was able to serve all types of individuals within a firm comfortably was difficult, thus affecting organizational performance. It was based on commercial banks; however, it didn’t explain the effects of information technology, customer focus and innovation on organizational performance.

Information Technology and performance of Organizations

The Kenyan commercial banks’ performance was studied by Wachira (2013), and how it was affected by technological innovation. All the Kenyan commercial banks were targeted using descriptive cross sectional design which was employed by the study which was a census. The Central Bank of Kenya was the source for the annual financial reports which was the study’s secondary data. A structured questionnaire was used in the customer care departments to collect primary data from the personnel. IBM SPSS Statistics 21.0 was used to analyze the data and frequencies, descriptive statistics and multiple regression analysis were involved in computation. Technological innovations
in the banks were valued by the customer care employees. The banks had adopted customer independent technology, customer assisted technology and customer transparent technology which led to high profits and a better performance from the banks. The research failed to establish the innovation, cost reduction, and customer satisfaction relationship and their effects on organizational performance. The study left a research gap to be filled, in that it only focused on all commercial banks and did not focus on individual banks.

**Innovation and Performance of an Organization**

Innovation in the modern world influenced the work carried out by employees, hence their organizational performance. How the productivity of workers was impacted by communication technologies was studied by Kekkonen (2012). The case study design was adopted by the study. The study established that innovation facilitated the work of employees. The study indicated that through innovation employees found work to be easier and faster. In this manner innovation affected organizational performance negatively. The reason is that when staff members found work to be easier and faster, they tended to remain in the same organization thus lowering organizational performance. He failed to establish how organizational performance was influenced by leadership change, customer focus, information technology and innovation.

In a study conducted by Collince (2014) on factors influencing high organizational performance in Kenyan commercial banks, descriptive research design was used with a sample size of 104. The data collected was analyzed using SPSS. The findings of the research indicated that innovation affected organizational performance. It was established that through innovation, an organization may experience organizational performance by firing less skilled staff for more skilled staff. This resulted in a high organizational performance.
Conceptual Framework

Independent Variables

Business Process Re-Engineering Practices

- Leadership Change
  - Transformational leadership
  - Inspirational motivation
  - Intellectual stimulation

- Customer focus
  - Customer need
  - Customer satisfaction
  - New customers

- Information technology
  - Technology Transfer
  - Technology strategy selection
  - Technology absorption

- Innovation
  - Availability
  - Maintenance
  - Implementation

Dependent Variables

Organizational performance

- Organizational Performance
  - Efficiency
  - Effectiveness
  - Customer retention
  - Quality

Figure 2.1: Conceptual Framework

Source: Researcher (2019)
RESEARCH METHODOLOGY

Research Design
For the purposes of this study, descriptive research design was utilized for the study. The research design gave the researcher the ability to designate the features of the variables of interest. Organizational performance was the dependent variable and the independent variables included leadership change, customer focus, information technology and innovation.

This research was about how Nairobi City County Commercial Banks organizational performance was influenced by business process re-engineering practices. The descriptive design was well suited to the study. The method was useful for this study as it described the characteristics of a large population.

Target Population
Target population in research is the exact population about which data is needed. According to Sekaran (2005), a population is a distinct set of individuals, services, events, and elements, households or group of things that are being studied. The study emphasized on Kenyan commercial banks staffs working in the management department. The study focused on 43 County of Nairobi’s commercial banks. The study targeted 1020 staffs from the three levels of management from the banks.

Data Collection Instrument
Primary information was utilized and structured questionnaires were employed in collecting the information. Questionnaires were dropped and picked later. The questionnaires promoted uniformity on the way they were asked. As indicated by Brotherton (2008), reaction consistency to questionnaires was considered in the utilization of structured questionnaires while unstructured questionnaires were open for the respondents to give reactions which the researcher had to infer using his/her own words.

Data Analysis and Presentation
Data analysis included various activities which were performed with the reason for outlining the gathered information and uniting them in such a way, to the point that they answered the research questions (Sekaran, 2005). The quantitative information gathered was analysed utilizing
descriptive statistics with the help of Statistical Package for Social Sciences (SPSS) version 21. The results were presented utilizing tables, frequencies and rates.

Multiple linear regressions model was used to show the correlation between leadership change, customer focus, information technology and innovation and organizational performance of Commercial Banks in Nairobi City County Kenya

DATA ANALYSIS, PRESENTATION AND DISCUSSION

Response Rate
278 questionnaires were administered out of which 247 were completely answered and returned recording a response rate of 88.8%. Therefore the instruments were regarded as responsive and formed the basis for data analysis. Mugenda (2008) explained that response rate of 50% was deemed adequate, 60% was good, and 70% was excellent. Similarly Babbie (2010) stated that a response rate of 70% was very good. The high response rate was due to the procedures of data collection where the researcher first notified the sampled responses prior to collecting the data, used questionnaires that were distributed by the researcher and also through the follow up calls that were made to ensure the respondents didn’t forget to fill the questionnaires.

Reliability Analysis
For each objective, a Cronbach’s alpha test was determined. This is to measure the internal consistency of the research items. A co-efficient of over 0.7 implies the sufficient reliability of the research instruments. While a Co-efficient of below 0.7 implies the inconsistency of the research items.

Table 4.1 Cronbach's Alpha

<table>
<thead>
<tr>
<th>Variables</th>
<th>Cronbach's Alpha</th>
</tr>
</thead>
<tbody>
<tr>
<td>Leadership Change</td>
<td>.856</td>
</tr>
<tr>
<td>Customer Focus</td>
<td>.846</td>
</tr>
<tr>
<td>Information Technology</td>
<td>.794</td>
</tr>
<tr>
<td>Innovation</td>
<td>.813</td>
</tr>
<tr>
<td>Organizational performance</td>
<td>.932</td>
</tr>
</tbody>
</table>

Source: Author, 2019
From the analysis cronbach's Alpha fell between .794 and .932 which is within the acceptable levels. Therefore the tool data was reliable.

**Regression Analysis**

The study conducted a multiple regression analysis to test the impact among the study predictor variables made possible through the use of SPSS by coding, entering and computing the measurements of the multiple regressions. The summary of the model is as shown in Table 4.9.

**Table 4.2 Model Summary**

<table>
<thead>
<tr>
<th>Model</th>
<th>R</th>
<th>R Square</th>
<th>Adjusted R Square</th>
<th>Std. Error of the Estimate</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>0.848114</td>
<td>0.719298</td>
<td>0.714658</td>
<td>1.22801</td>
</tr>
</tbody>
</table>

The model had an average adjusted coefficient of determination (R²) of 0.715 which showed independent variables focused on this study that is; leadership change, customer focus, information technology and innovation. The ANOVA technique was used to test the model significance, the study results are as tabulated in Table 4.10.

**Table 4.3 ANOVA Results**

<table>
<thead>
<tr>
<th>Model</th>
<th>Sum of Squares</th>
<th>df</th>
<th>Mean Square</th>
<th>F</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Regression</td>
<td>946.743</td>
<td>4</td>
<td>236.6858</td>
<td>155.0307</td>
<td>.000</td>
</tr>
<tr>
<td>Residual</td>
<td>369.462</td>
<td>242</td>
<td>1.526702</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>1316.205</td>
<td>246</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

The ANOVA statistics showed a valid regression model at (F = 155.031, P < 0.05). This implies that the independent variables are good predictors of performance of commercial banks. Moreover, the research employed the coefficient table to assess the model of the study among the independent and dependent variables. The results are as tabulated in Table 4.11.
Table 4.4 Coefficients

<table>
<thead>
<tr>
<th>Model</th>
<th>Unstandardized Coefficients</th>
<th>Standardized Coefficients</th>
<th>t</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>B</td>
<td>Std. Error</td>
<td>Beta</td>
<td></td>
</tr>
<tr>
<td>(Constant)</td>
<td>3.315</td>
<td>0.999</td>
<td>3.318</td>
<td>.001</td>
</tr>
<tr>
<td>Leadership Change</td>
<td>0.562</td>
<td>0.187</td>
<td>0.506</td>
<td>3.005</td>
</tr>
<tr>
<td>Customer Focus</td>
<td>0.493</td>
<td>0.156</td>
<td>0.437</td>
<td>3.160</td>
</tr>
<tr>
<td>Information Technology</td>
<td>0.408</td>
<td>0.139</td>
<td>0.376</td>
<td>2.935</td>
</tr>
<tr>
<td>Innovation</td>
<td>0.327</td>
<td>0.100</td>
<td>0.309</td>
<td>3.270</td>
</tr>
</tbody>
</table>

The generated output as per the SPSS is as presented in Table 4.11 above, thus the equation is as shown below:

\[ Y = 3.315 + 0.562X_1 + 0.493X_2 + 0.408X_3 + 0.327X_4 \]

As shown from the regression model, a change in leadership keeping all other factors constant would positively change commercial bank performance by a factor of 0.562. Regression results also revealed that leadership change has significance and positive influence on commercial bank performance as indicated by \( \beta_1 = 0.562, p = 0.002 \). The implication is that an employees increased change leadership would lead to an increase of commercial bank performance by \( \beta_1 = 0.562 \). Customer focus has a significance influence on commercial bank performance as indicated by \( \beta_1 = 0.493, p = 0.001 \) while a change in information technology while holding all the other factors constant would affect commercial bank performance by a factor of 0.408. This implies that the more the new technology was adopted by a bank, the better the performance of the bank. Further it was revealed that an increase change in innovation holding all the other factors constant would positively change commercial bank performance by a factor of 0.327. Innovation has a significance influence on commercial bank performance as indicated by \( \beta_1 = 0.327, p = 0.001 \). These findings were in line with Gichuki (2014) who concluded that new innovations affected performance of Total Kenya Limited at great extent.
SUMMARY OF FINDINGS CONCLUSION AND RECOMMENDATIONS

Summary of Findings

The study revealed that bank leaders had a worldview of information and for effective leadership it needed to maximize on its strengths and be able to handle its weaknesses. Bank leaders had necessary skills to manage the bank to the next level and bank managers had excellent communication skills and understood the vision of the bank. Prediction model indicated that change in leadership holding all the other factors constant would have positively changed commercial bank performance. The implication was that an employee’s increased change leadership would have led to an increase of commercial bank performance.

Customer focus had a significance influence on commercial bank performance which implied that an increase on customer focus led to an increase on commercial bank performance. It was also noted that most banks identify all its customers and address customer’s complaint immediately. The communication channel in the bank with its customers increased its service delivery and bank institution researches each customer thoroughly to serve them better and put the customers’ satisfaction first.

The results showed that information technology change while keeping all other factors constant would affect commercial bank performance. Therefore, the more new technology was adopted by a bank, the better the performance. Further, it was noted that most banks had introduced new technologies and adoption of M-commerce was growing fast in the bank. In most banks there was a technology transfer and the adoption of technology had reduced the costs of operation and increased on returns in the banks. Most banks had a working technology strategy selection plan. The diffusion and the speed of penetration increases with increased benefit in the organization.

Prediction by regression model revealed that a unit increase in innovation keeping all other factors constant could positively change commercial bank performance. Innovation had a significance influence on commercial bank performance. Further, it was identified that bank products and services were available across the branches. The maintenance of product innovation in the banks was done regularly and data on innovations was developed mainly within the bank. The implementation of products innovation programs in the bank had taken effect across its branches. The bank process innovation varied significantly across the country.
Conclusions

The study drew the conclusion that bank leaders had a worldview of information and for any effective leadership needed to maximize on its strengths and be able to handle its weaknesses. Bank leaders had necessary skills to manage the bank to the next level and most managers had excellent communication skills and understood the vision of the bank. Change in leadership holding all the other factors constant would positively change commercial bank performance.

It also concluded that customer focus had a significance influence on commercial bank performance. Most banks identified all its customers and addressed customer’s complaint immediately. The communication channel in the bank with its customers increases its service delivery and bank institution researches each customer thoroughly to serve them better and put the customers’ satisfaction first.

Further, the study concluded that information technology changed while keeping all other factors constant could affect commercial bank performance. Most banks had introduced new technologies and adoption of M-commerce was growing fast in the bank. In most banks there was a technology transfer and the adoption of technology had reduced the costs of operation and increased on returns in the banks. Most banks had a working technology strategy selection plan. The diffusion and the speed of penetration increased with increased benefit in the organization.

A unit increase in innovation holding all the other factors constant would positively change commercial bank performance. Commercial bank products and services were available across the branches. The maintenance of product innovation in the banks was done regularly and data on innovations was developed mainly within the bank. The implementation of products innovation programs in the bank had taken effect across its branches. The bank process innovation varied significantly across the country.

Recommendations for Study

The study noted that leaders with necessary skills for management moved the bank to the next level. Therefore, this study recommends commercial banks to recruit qualifies leaders and train them with regards to the vision and mission of the firm.
Study concluded that customer focus has a significance influence on commercial bank performance. Therefore, recommendation was done to commercial banks management to be quickly responding to customer’s complaint and firms ought to take the time to make available the services and goods that may ensure customer satisfaction. Further, all banks needed to ensure they implement effective communication channels in all bank levels. This could easily be attained through a change in the bank’s strategic approach.

The study recommended commercial banks to invest in information technology and educate their employees on how to use the technologies to reduce operation costs, increase operation speed and improve service and product quality.

Investment on innovation was found to positively change commercial bank performance. Hence the researcher recommended commercial bank management to promote innovations in their firms to achieve higher performance.

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