

EFFECTS OF BUSINESS PROCESS MANAGEMENT PRACTICES ON FINANCIAL PERFORMANCE OF COMMERCIAL BANKS IN NAIROBI COUNTY, KENYA

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ABSTRACT

Today's competitive markets make businesses more dependent on their ability to react to changes and adjust their processes to the new requirements. To raise efficiency as is required by the bank's regulators has a number of limitations that includes a regulated financial market, new customer base and the projected revenue. In this environment, it is a key test for business organizations to transform the vast number of concepts and ideas into products and services. In order to achieve this, a number of banks are thus looking at optimization of internal processes and practices as the front line in the battle for efficiency. In this context Business Process Management is a good support for organizations. The purpose of this study was to establish the effects of business process management practices on financial performance of commercial banks in Nairobi County. The general objective was to establish the effects of business process management practices on financial performance of commercial banks in Nairobi County. The specific objectives were; to establish the extent to which strategic alignment affects financial performance of commercial banks in Kenya, the effects of information technology on financial performance of Commercial banks in Kenya, the role of process improvement on financial performance of commercial banks in Kenya and how employee involvement has affected the financial performance of commercial banks in Kenya. The study was under pinned by the dynamic capability theory, resource-based theory and the contingency theory. The study employed a descriptive research design. The target population of this study was 60 employees from 20 commercial banks spread across

Nairobi County at the Head Offices. Stratified sampling technique was used to select the sample size. Simple random sampling was used to select the sample. The study relied on both the primary and secondary data sources where primary data was collected using both structured and unstructured questionnaires and Secondary data was obtained from audited financial statements over a period of five years for adequate representation. Validity and reliability were assessed through a pilot study. Statistical Package for Social Science (SPSS) version 22.0 was used to present descriptive statistics such as percentages, frequency distributions, measures of central tendencies and measures of variations. Data analysis and interpretation was based on descriptive statistics and measures of dispersion as well as inferential statistics. Multiple linear regression models were employed to establish the influence among variables. Pearson correlation was also used to ascertain the potency of the linear relationship between each of the independent and dependent variables. The study would be useful to banks, academicians and the government in that it will aid in formulation of better policies, source of knowledge and will help determine the extent to which BPM has been adopted in the country. From the study therefore it was recommended Policy makers should highly invest on structures, strategies and that determine changes in markets vis a vis its strengths and abilities to harness its full potential. They should adopt an integrated approach and business processes that transform the entire organization paving way for continuous renewal and lasting adding value. There is also need to develop greater awareness on the business process management practices

that affect the financial performance of commercial banks. From the multivariate regression applied to determine the importance of every variable on the financial performance of commercial banks in Kenya. The study recommended that further research be carried out to establish what other variables significantly affect the

financial performance of banks and the study be extended to non-financial performance.

Key Words: *business process management practices, financial performance, commercial banks, Nairobi County, Kenya*

INTRODUCTION

In the business world, the widespread changes have resulted from economic recession and market forces of demand and supply. This coupled with competition, globalization and information technology have resulted in transformation of business, customers' needs, choices, preferences and knowledge. With increased globalization, the efficient management of an organization's business processes has become very significant. A range of factors such as the increased rate of goods ordered, faster transfer of information, quicker decision making, adoption to varying customer requirements, additional worldwide contenders and demands for decreased cycle times (Simchi –Levi, Kaminsky, Simchi Levi, 2003) are putting a test on the profitability and continued existence of companies. In order to overcome this challenges information technology (IT) was taken up to manage business processes (Davenport, 1993; Georgakopoulos, Hornick & Sheth, 1995). In order to accomplish the main aim of organizations and profit maximizing firms; an effective and efficient Business Process Management (BPM) has become a force to reckon with in today's dynamic world.

The banking industry is a key driver of fiscal development for world economies through provision of services such as enabling money transfers, ensuring savers and borrowers are assembled under well-ordered structures. The sector thus ascertains the countries' fiscal development and long term sustainability. Although critical to world stability, the last six decades have seen the industry experience severe financial challenges which have adversely affected the economic performance of many economies. Most banks worldwide are struggling with several challenges; intricate and divided policies, historical set ups, unsettling designs and technologies, emerging competitors as well as edgy clientele with constantly changing needs. Looking at the East African region, the case is not so different. The economic conditions have been deteriorating largely in Kenya and South Sudan, with the other countries closing the year (2017) with a not so favorable story to tell of uncertainty, change and challenges. The Kenyan banking sector is still struggling with the test of corruption, inability to reach the majority of the rustic population, tax evasion, system challenges, fragmentation, fraudulent activities and ineffective leadership. This has led to a critical juncture in the banking system in Kenya experiencing the collapse and closure of banks, consolidation/mergers. This calls for the adoption of BPM.

Smith and Fingar (2003) recognized business process management as the main tool that supports the management system hence contributes to the firm's efficiency. BPM is resourceful

in obtaining strategic outcomes whose importance is in sustaining the change processes. Singh (2012) highlighted the role of business process management in the achievement of the firms' edge over its competitors. According to him, business process management is made up of management processes, operational processes and supportive processes. This is in addition to other processes that depict the basis of business processes. They are categorized as: clients' approach, customer relationships, employee's growth and retention, process creation, standards, change management, financial analysis, reporting, investment management, responsible management, product innovation and delivery, improved services, proper accounting and technology management which form the basis of competitive advantage.

As in any valuable undertaking by a company, it is imperative to recognize the aspects that will determine whether any BPM initiative will be a success or not. So what factors affect BPM adoption success? As noted earlier on, BPM adoption can be beneficial to businesses if adopted in the right way. Rudden (2007) observed that improved processes result in reduced costs, increased revenues, motivated employees and more contented customers. Doebeli M (2011); Kung, (2007); Pryor (2011) further states that irrespective of the reason for taking up change, managers should find out what the customers and stakeholders require, what changes should be adopted to meet this needs and how they can be made more effectual and well organized. They should also establish whether upon streamlining the processes if they should automate to determine how to improve quality, change cycle times and other key issues. The processes must be reinvented prior to automation failure to which they may produce undesired results.

According to Franz and Kirchmer (2012), BPM is adopted as a highly developed management system that aids in attaining efficiency hence results to superiority, innovativeness and strategic initiatives. Consequently, the organization oversees the rational use of the organizations assets leading to its success. The increased need for continued existence in the market, desire to slam competitive gaps and the need to avoid complacency has compelled banks to take up BPM practices.

STATEMENT OF THE PROBLEM

The conduct of commercial banks in the last few years has not been impressive. Bank profitability on average has been erratic. The net interest margin decreased to 8.0% in quarter three 2018 from 8.5% in Quarter three 2017. The pre - tax profit for the sector decreased by 9.6% from Kshs.147.4 billion in December 2016 to Kshs.133.2 billion in December 2017. Profit before tax increased by Kshs.6.7 billion (9.8%) to Kshs. 76.2 billion in the period June 30, 2018 from Kshs.69.4 billion reported in the period June 30,2017. This is below the five-year average margin of 12.4%. Non funded income grew by 5.9% slower than 10.9% recorded in Quarter 3/2017. The average net interest margin in the banking sector currently stands at 8.0% down from 8.5% recorded in Quarter three of 2017 (Cytonn,2018). This has been attributed to by challenges of corruption, disruptive directives, historical structures, unsettling models and technologies, new business entrants, an edgy clientele with continuously changing needs, failure to access the rustic population, tax evasion, system challenges, fragmentation, fraudulent activities and ineffective leadership. This thus call for the enhancement and strengthening of banks internal control mechanisms, developing sustainable strategies, focus

on improved practices, processes and product development that is aimed at healthy, economic, social and environment friendly activities. From this perspective, Business Process Management is a good support for organizations as it is an effective approach to govern, improve and optimize organization's operations and processes. BPM adoption has been identified as one of the means in which banks can maintain and sustain their competitiveness through a continuous focus on processes. The sector faces cut throat prevalence where BPM is continuously required to boost the performance of industry activities and facilitation of enterprise- wide observation and synchronization (Nikolaidou, Anagnostopoulos & Tsalgatidou, 2001). Pritchard and Armistead, (1999) noted that BPM adoption can help companies to improve their competitive position and performance continuously. Eikebrokk, Iden, Olsen, and Opdahl (2011) observed that despite the importance of BPM, its uptake as a practice in most banks is low and the reason for this lack of acceptance is not clear. Research on BPM practices and the resulting impact on organizational performance have been undertaken in other countries and the findings documented. In the Kenyan context, studies done on BPM include those by Munyi & Ogollah (2017), Kibet (2017), Afanda (2017), Kyunguti & Makau (2014), Mbugua (2013). Munyi & Ogollah (2017) studied on effects of selected factors on process improvement among pharmaceutical firms in Kenya. They concluded that management commitment, organizational culture and staffing had an effect on the BPI. Kibet (2017) sought to determine the effect of business process improvement mechanisms on revenue collection in Nairobi County Government. He concluded that BPI mechanisms played a major part in boosting revenue. The study was applied in the public sector which may differ from the banking sector. Afanda (2017) studied the influence of information communication strategies on BPM in Mkopa Solar Limited. She established that business automation makes organization processes enhance efficiency and effectiveness in service delivery. Afanda's study looked at one dimension of BPM practices and it did not address the effects on financial performance of banks. Kyunguti & Makau (2014) investigated the factors influencing implementation of BPM systems among tour operators in Kenya. They established that despite numerous advantages of BPMS, its implementation has many challenges. The study looked at BPM systems and was carried out in a different environment thus cannot be used as a generalization. Mbugua (2013) sought to examine the extent of BPM adoption by Custody and Shares Registrar in Kenya. He concluded that organizations need to review their set strategies in order to enhance business process management within departments. Mbugua's study looked at a single case operating in a different environment. As demonstrated above, none of the focused on the effects of business process management practices on the financial performance of commercial banks in Kenya. This study therefore aims to bridge this gap.

GENERAL OBJECTIVE

The objective of the study is to establish the effects the business process management practices on the financial performance of Commercial banks in Kenya.

SPECIFIC OBJECTIVES

1. To establish the extent to which strategic alignment has influenced the financial performance of Commercial Banks in Kenya.

2. To examine the effects of information technology on financial performance in Commercial Banks in Kenya.
3. To determine the role of process improvement on financial performance of Commercial Banks in Kenya.
4. To determine how employee involvement affects financial performance of Commercial Banks in Kenya.

THEORETICAL REVIEW

Resource Based Theory

The study hinges on the Resource Based View (RBV) Theory which holds that organizations are rent seeking units that develop and deploy resources (assets and capabilities) to realize competitive advantage. The theory takes a detailed look on why organizations are a success or failure in their area of operation. It analyzes and interprets the internal resources of the organization and places emphasis in the use of resources and capabilities so as to formulate strategies that accomplish sustainable competitive advantages that contribute to improved organizational performance. Areas of study that relate to RBV have looked at resources and competencies. Resources are the assets that an organization focuses on to attain its targets or to do well on its critical success factors (Saqib & Rashid, 2013). Resources consist of economic, people and technical resources, tangible assets and other substances viewed as hardiness based on the Strength, Weaknesses, Opportunities and Threats analysis (Bryson, Ackermann and Eden, 2007).

RBV theory argues that firms should aim to attain strategic fit with the external environment as well as maximize on their internal resources so as to create and dictate potential opportunities (Armstrong, 2011). The RBV approach assumes that the key competencies in the organization are distinctive; people are viewed as an investment rather than a cost that requires sharing of knowledge, encouraged to be innovative and people are involved in decision making (Wright, Dunford & Snell, 2011). The theory assumes that an organization's work force is not only a distinct resource but also an imitable one that if effectively harnessed can produce competitive advantage in the organization (Peteraf & Barney, 2012). A firm should put in place policies and processes that promote the use of VRIN resources. Greater performance and market leadership come into play when a firm's competitive advantage overcomes wear and tear by competitor's behavior over a period of time through imitability and non-substitutability (Kenneth, Anderson & Eddey, 2011).

BPM becomes a veritable tool for reorganization both an organization and the processes in a manner that becomes less time and money consuming. RBV argues that resources have the desired traits required for service delivery, economical production of goods and also address customer wants. Thus, organizations with more refined resources have the ability to deliver greater value to their stakeholders while incurring lower costs (Peteraf & Barney, 2003). In the context of BPM, RBV explains how successful BPM implementation results in business processes that eradicate wasted or outdated resources and an improvement in the efficiency of prevalent resources so as to attain competitive advantage. The new transformations brought to

the firm's processes, framework and information systems result to valuable possessions (Wade & Hulland, 2004). Thus BPM can be used to facilitate how actively and efficiently an organization achieves its mandate and outlined mission by availing effective processes, systems and structure required to uphold and boost the firms' values (Peteraf & Barney 2003; Dzhumalieva & Helfert 2008).

Dynamic Capabilities Theory

This theory underpins the fact that dynamic capabilities grants a firm the ability to decisively create, extend or modify its resource base as they are about transformation. To manage this change, the organization uses processes hence the complex link between dynamic capabilities and the processes. Dynamic capability can be attributed to as the organization's capacity to craft new capabilities and renew its resource base within and outside so as to fit in the developing business environment (Teece, 1997) Competitive environments are changing rapidly, resulting in high levels of improbability. The increasing improbability results from increased customer demands and the increased intensity of competition in the area of operation and its surroundings. With the increased intensity of the environmental players, the build out of strategies that tell apart one firm, from another become key success factor (Feurer 1996). Incremental and far reaching business process changes are the central tasks of BPM hence the ability to practice such BPM initiatives successfully is an important organizational attribute.

The competitive advantage of dynamic capabilities lies in the combination of resources that dynamic capabilities transform (Eisenhardt and Martin 2000). The ideology essentially states that firms are required to grow in response to the prevalent state. The manner in which organizations transform their resources and the expected outcome are the dynamic capabilities that allow them to adjust to the prevalent circumstances (Plattfaut, Niehaves & Becker, 2011). The analyst concurs with Bandara et al (2010) who states that "adopting the dynamic capability view, BPM may be defined as a set of techniques to incorporate, build and construct an organization's business processes for the main aim of achieving its goals within the market environment" Dynamic capabilities is a depiction of a firm's specific resources that provide the knack to incorporate, put together, and reconfigure abilities to attain a fit with the market environment.

This implies that BPM projects should be ongoing projects aimed at improving business processes (Trkman 2010). An organization outshines another by using its dynamic capabilities to position its assets in the most appropriate manner for the prevalent state. Although competitors may replicate the organizations dynamic capabilities, it is not easy to replicate the resources you have to handle with neither dynamic capabilities nor the permutation of the duo. Nonetheless, (Plattfaut et al 2011) states that BPM capabilities are created when their desire for continued existence and are obtained through leaning and replication. This implies that firms ought to call for replication of some of the abilities amongst each other. To achieve that competitive edge, dynamic capabilities are desirable, though not ample on their own (Eisenhardt and Martin, 2000).

Firms are placed under intense pressure (in the short term) to reduce costs, since the impact of dynamic capabilities can only be appraised retrospectively. Zollo and Winter (2002) and Winter (2003) warn that the sustenance of dynamic capabilities can be costly, and an extemporary move could cost less. On the contrary, the cost of an extemporary move basically wanes should there be no issues to resolve (Winter 2003).

Contingency Theory

This theory presumes the fact that there is no spelt out way of effecting policies but the “best way” is dependent on how decisions made fit specific content and context factors. Contingency theory views business alignment as a condition that dictates the need for strategic planning and well planned frameworks when reacting to the challenges prevalent in the business arena. It views business alignment as a scenario that dictates the strategic outlook and a firm’s frameworks in the process of dealing with the business surroundings. As managers make their decisions, they should consider all elements of the current situation and address the primary ones that relate to the issue at hand. According to Garlich (2011), the concept of strategic fit illustrates how a company can achieve strategic advantage in the market by aligning its capabilities and resources to meet the opportunities available in the external environment. This product/market fit ensures that the company is successful in its endeavor, be it an entry into a new market or the introduction of a new product or a new service.

Morgan (2007) argues that businesses are open mechanisms that call for managers to meet and even out its requirements while adapting to the prevailing circumstances. Thus, managers must be at the fore front of attaining alignments and good fits. Ketovi (2006) argues that contingency theory advocates for flexibility strategies. Flexibility according to him implies that managers are using approaches that allow them to best match their potential as demanded in the area of operation. He thus conducted a study that viewed how managers used a variety of flexible strategies to meet environmental demands, demand inconsistency and demand certainty. The outcome showed that the plants with a high certainty and moderate inconsistency were doing better when they used banking strategy which involved building inventory ahead of demand or an adoption strategy which varied output to meet demand. Specialized strategies are thus needed to align management and organizational structure with the required input output model to ensure financial performance of the organization.

The business tries to establish an answer to the question “How will we win in the market place?” for its differentiator to obtain the perfect fit to ensure success. Hambrick and Fredrickson (2005). It aims at finding the reason the customer will chose their product/service against that of competition. It is the management team that decides how to compete in the market place be it by offering lower costs on its products or service, create a distinct product or service or focusing on one area of the market/product spectrum. These can lead to great success when implemented perfectly but can be detrimental if not decided upon upfront as it would be confusing to the lower level of business.

Task Fit Model

The task technology fit (TTF) model is attributed to by Goodhue and Thompson (1995) who appraised the contribution of information technology to performance, the assessment of usage impact, and also criticized the aptness prevalent in the task and technology traits (Wu & Chen,2017). TTF states that there ought to be a fine match between information technology and the tasks it supports for proper utilization and to categorically shape user performance (El Said, 2015). That means that the task characteristics can affect the task – technology fit, and as result determines the user’s uptake of technology and their task performance. This model purports that for information technology to be successful it must fit into the task at hand and success is pegged on the improved individual and group performance (Zigurs & Buckland, 2010).

In BPM, tasks and processes ought to be simplified since there is no need to complicate work as it is faces many hurdles. Technology should be used to make life easy. Dishaw and Strong (1999) asserts that: “IT should be used if, and only if, the functions available to the user support (fit) the activities of the user. Rational, experienced users will choose those tools and methods that enable them to complete the task with the greatest net benefit”. IT positively impacts organizational performance if it equals business processes. It is thus imperative to embrace IT as a key business tactic (Karimi, Somers and Battaherjee, 2007). The IT ideals ought to be appraised in view of the business worth derived.

EMPIRICAL REVIEW

Business Process Management and Performance

BPM is seen to be flourishing if at all times it attains the preset goals within a particular project scope and over prolonged periods. The BPM must be purposefully managed all through so as to ensure the intended benefits are realized and communicated. Various studies have been conducted both locally and internationally on BPM. Kerpedzhiev, Lehnert, Roglinger (2016) studied on the future of business process management in the future and work. The study revealed that BPM will require businesses to be effectual and methodical in their work. In the future, BPM will have deal to with processes that over time are becoming responsive, create awareness and data driven. Organizations will progressively make use of market principles, have fewer management structures and distribute the decision making channels. BPM will have to exploit the budding aptitude of digital technologies to match people involvement and to anchor on process data for novelty. A people centered background that promotes a key role for people in processes is essential as process results will entail resourceful, learning, entrepreneurial and boundary spanning skills. BPM requires openness to new concepts and new ways of doing things to shun away from maintenance of status quo with inner dealings and to maximize on enhancement opportunities. The study is faced with confines that require more studies. Suggestions that capture the essential traits of the ensuing work have diverse stages of implementation in the work place, a different scale and may be taken in a different manner based on how essential they are to the future of work. The proposed study will look at BPM practices and their effects on the financial performance of Commercial banks in Kenya.

Buh, Kovacic and Stemberger (2015) undertook a study on critical success factors for different stages of business process management adoption using a case study in economic research. The study established that well-articulated plan of the BPM project was vital as it helps the organization recognize the expected benefits. It further revealed that top management support and involvement and entitlement of employees' resulting from a rise in customer centricism are important. The firm should place their customers' first place and top management should be responsive to process problems and the need for enhancement. The company should also be open to changes which are critical in BPM adoption. They concluded that managers must identify the organization's critical success factor and thus focus their efforts to overseeing them. The study gives a limited view since the critical success factors tend to be different from one situation to another based on project particulars and organizational traits. The study was based on a single scenario in a different environment which is not a true reflection of the industry outlook hence one cannot make an empirical generalization. This study will look at the commercial banks in Kenya.

Santos, Alves and Santana (2014) undertook a study on identifying strategies for managing critical success factors of BPM initiatives in Brazilian Public organizations using a focus group. The study established that the awareness and challenges of BPM initiatives and competencies amongst internal clients and BPM team is low and trainings, seminars and informal conversations are key. It also revealed the heightened bureaucracies and lack/poor involvement in the BPM initiatives that calls for communication and emphasis on the benefits and importance of BPM initiatives as well as an awareness initiative and a reward system. It also established that the support of executives is key and that the internal team needs to focus on the goals of the initiatives. The study focused one scenario and the outcomes cannot be used to generalize the same for all organizations. This study will look at the effects of BPM practices on the financial performance of bank in Kenya.

Trkman (2010) undertook a case study on the critical success factors of business process management in Skybank - Slovenia which revealed that the company ought to embrace change in order to boost its edge; though it ought to cautiously tailor its business operations to match the environment and ensure flexibility and continuity. The company ought to identify its key business operations that result to the firm's competitive advantage. It ought to denote the business processes that should be regularized and cases where employees can be flexible. The study further established that BPM aids in the implementation of strategic programs by striking a balance between the firms' master plan and the company's business processes. It revealed that the success of BPM originates in establishing the conditional variables that to a large extent influence both the company's strategy and is key success areas. It should facilitate continuous process improvement while ensuring the alignment between processes and the information systems used. This was applied to a lone scenario and this may differ in our set up and environment. The study is rather broad and requires further research into the study. This is a challenge since it is apparent that success is not a binary variable but may differ in enormity and time.

Results of the study carried out by Hernaus et al. (2008) reveals the significance of picking the most favorable master plan for attaining organizational goals. On analyzing the outcome of the research and observing the path model, it was established that there was a major connection and domination of all outlined concepts, other than the impact of performance measures on financial performance. The outcome also established the effects of business process management, human resources management and management of external stakeholders and non-financial performance. The plan should be firmly incorporated with the firm's operations (Spanyi, 2003, 2005; Ndede- Amadi, 2004; Brocke and Rosemann, 2010; Kohlbacher & Gruenwald, 2011). Strategic goals are attained by operations that build the firm with their responses. The enactment and application of the firm's plan depends on the processes and their exchanges with the organizational elements.

Recent studies by Jiraporn, Cristos, James, Tannok & Pawar (2017); Asmare (2012); Hung (2006) underline the influential and compelling power of business process management on organizational performance. Aldiabat B. F, Btaneh S, Abu- Hamor H.M. J (2018) studied the impact of business process management on employees' job performance and concluded that there were statistically significant effects for BPM on job performance and process improvement. This study was confined to one city and one industry. It ought to cover other sectors to give a conclusive generalization.

Strategic Alignment and Performance

Strategic alignment is a dynamic process of constant realignment and change. It entails designing detailed plan of actions to make the most from process reengineering and advancement. Kaplan and Norton (2006, P.59) expounded the alignment process as "...whenever plans are changed at the enterprise or business unit level, executives likely need to realign the organization with the new direction". They arguably stated that a firm can evaluate and handle the extent of fit, and the collaboration attained throughout the firm. Firms utilizing these operations generate competitive advantages that are hard to extricate. Strategies must be harmonized to sustain the stated fit due to a dynamic environment.

Research has been carried out to establish the effect of strategic alignment on organizational performance both locally and internationally. Kasina (2012) studied strategic alignment as a source of competitive advantage at Equity Bank (K) Limited. She found out that organization competitive advantage does not result from the resources that it has but from the proper alignment of procedures and processes that have to be in synchrony so as to capture the opportunities in the market as well as boost the firm's ability to counter threats on its operations that emanate from the market. She also concluded that there is need to match the organization's mission and vision and this should be backed by a flexible organizational structure, risk taking management and that adequate resources, both financial and human should be availed in order to successfully implement firms' strategies as well as process alignment. She recommended that the organizational strategy should be all inclusive and preferably a bottom up approach be adopted. Strategic alignment can be an expensive venture and this should be undertaken when the organization is assured of reaping benefits from the strategy and enough resources allocated. The study was limited to micro finance institutions and it would have been preferable

to cover more than one category of financial institutions to get a better representation. The current study will look at the extent to which strategic alignment has influenced the financial performance of commercial banks in Kenya.

Muthini (2012) studied the effects of strategic alignment as source of performance at Kenya Revenue Authority (KRA). He established that KRA has aligned its internal and external strategies and this has resulted in increased total revenue collection. The alignment has seen the firm roll out new systems for data exchanges, computerization of its receipting system that has cut down on corruption and increased efficiency and flexibility. The alignment of external strategies has enabled it improve on its tax collection as well as improve its strategic planning process. Muthini recommended more resources should be allocated to the firm to boost its efficiency. The study was limited to Kenya Revenue Authority (KRA) and should have been replicated to other organizations to check for consistency.

Jogyato (2007) undertook a study on strategic alignment a source of competitive advantage in the Indonesian Banking industry. He established that banks will attain a competitive advantage if top management is committed to the strategic use of information systems/technology, and appreciate it as a system for building competitive advantage. He also found out that banks are expected to achieve a higher level of performance when two way associations with their strategic allies are supported by electronic relations built upon either information systems/technology tools for architecture networks, and when the work processes intra and inter firms group projects are substantiated by information. The study was carried out in a different environment that may differ if applied in another scenario owing to the culture and practices.

Invented by organizational behaviorists as fit, similarity, uniformity or positioning, the model explains the relationship of a firm's internal mechanisms and plans with its organizational chances and likelihoods (Gelade and Young, 2005). Irrespective of the name used, the idea is a conviction that firms whose internal policies, procedures and systems are all in alignment, with external eventualities, are likely to do better if compared with those that are not aligned. Yin and Zajac (2004) in their study of fit between strategy and governance systems stated that fit results in better performance and that it is significant. BPM has to be viewed as a means of transforming a firm's master plan into clear cut requirements and action the strategy (Jeston and Nelis, 2006). The BPM modus operandi is thus the link between the strategic and the functional levels of management in a more structured way.

Information Technology and Performance

Technology has over the years played a key role in the business process improvement concept. It is looked at as a key enabler for the latest forms of working and collaborating inside and outside an organization (Harry and Schroeder, 2006). According to Buttles – Valdez (2008), today's organizations are mainly reliant on high technology to grow, build and sustain products and services. This has led to reliance on a workforce with expertise in information technology.

The area of IT infrastructure has been a major concern for both analysts and leaders over long periods (Davenport, 2013). The organization's IT infrastructure incorporates technology apparatus in manner that reinforces business requirements; the notion of IT infrastructure however, is more intricate (Vom Brocke et al 2014). Embracing IT has been proven to have the ability to boost the competitive edge and is a major attribute that boosts a firm's outcome (Wang, 2014). It aids in minimizing outlays by embracing IT and managing operations and techniques. Thus, products and services can be positioned in the marketplace at cut throat prices.

In his study on the effects of information technology on organizational performance in Nigerian Banking industries, Balogun (2016) established that it is imperative for managers to plan staff, organize, and control to get the best resources to work capably, well and to encourage the employees to innovate. Regular trainings ought to be availed to the bankers often to ensure they stay atop of the prevailing developments in the use of ICT. This will boost their competence and value of provision of services that will translate to banks profitability. He suggested that a venture in ICT should form a key factor in the general strategy of banking operations to enhance pace, handiness and precise services as well as enable the banks cope with the changes and challenges resulting from ICT controlled globalized economies. The study is confined to one region. Studies should be done in other set ups to come up with a generalized conclusion. This study will look at the Commercial banks in Kenya.

Kamau (2015) studied ICT and performance of commercial banks in Kenya and noted that ICT has had a pragmatic effect on the total income of banks specifically with regard to increasing commission fee based income and expanding the income generating ability of the bank hence enhancing the performance of the organizations. He further found out that the effect of bank ICT on customer deposits in the respondents' bank is positive in terms of attracting depositors as well as ease of transacting. He also concluded that the use of ICT has had a positive effect on the ROA of the banks as it has influenced the income margins, payback periods and reduced the operational costs. He recommended that banks management should consider ICT usage through the various organizational levels. He further posits that although ICT adoption improves organizational performance. Managers need to know that without matching investments, this opportunity may transform to a menace. Banks management ought to avail proper infrastructure so as to reengineer the business processes, stabilize and shore up the contribution of ICT in performance. The scope of the study was limited to ATM's, internet banking, e- banking services without scrutinizing the operating models and the difference in automation in banking structures.

Macharia, Iravo, Ondabu and Ombui (2015) examined the impact of information technology on performance of logistic firms in Nairobi County. It revealed that (50%) of logistics firms experience low service delivery owing to the fact that they are not using ICT in their departments. Findings also showed that the use of ICT infrastructure reduces transaction costs by replacing paper work with electronic processes, improves the level of coordination between members of the supply chain, reduces transaction costs as well as eliminates avoidable errors. The study was done at an organizational level despite the fact that IT is used in a wide array of

organizations hence it cannot be used to conclusively confirm the correlation between IT and performance in a different sector.

Muasa (2009) sought to establish the relationship between information technology conceptualization and bank performance in Kenya. The study established that organizations use ICT to increase their performance. Organizations take up ICT owing to pressure from the industry, organizational financial capabilities and technical features. IT can be taken up as part of the blue print of the execution – examination and upgrading of business processes (Chang, 2006), used in an organization as well as involving external IT interfaces (Poirier et al., 2004; Qrunfleh and Tarafdar, 2014).

Process Improvement and Performance

Process improvement are vital to BPM and comprise of major components such as process view/certification, value stream mappings, process ownership and process measurement (Smart et al., 2009) BPM is a representation of a union of prior enhancement techniques since it avails information and a process management infrastructure for improvement (Chang 2006; Smart et al., 2009).

Banks continuously introduce innovative technology driven products which are more customer friendly, and are designed to meet the needs of a wide range of customers. These products are easily replicated by rival banks which make it difficult to use product or cost differentiation strategies to maintain or improve on competitiveness. The differentiation factor hence is the quality of service and continuous improvements which ensures that banks remain flexible and are able to adopt effectively and efficiently to counter these challenges in the environment. Continuous process improvement is a viewpoint that assumes more advancement are at all times probable and that processes should be constantly re-evaluated and advancements adopted (Juergensen, 2005).

Otieno (2016) carried out a study on continuous practices and efficiency of Commercial banks in Kenya of which she established that the relationship between continuous improvement practices (customer centrisism, decision making and staff engagement) and organizational efficiency was not only positive but also significant. The findings of the study showed that customer focus, quality improvement programs and factual approach to decision making are CIP affecting organizational efficiency in comparison to leadership and engagement of people. She recommended that banks should endeavor to empower employees through constant engagement to boost customer value. This study looked at continuous process improvement and effectiveness of commercial banks whereas this study seeks to look at continuous process improvement and financial performance in banks.

Gatwiri (2014) did a survey on continuous improvement approaches and performance of operations among commercial banks in Kenya. She established that continuous improvement provides a benchmark for employees to continuously look for better ways of doing things to provide excellent services and products to their customers, hence creating an affirmative link between continuous improvement approaches and operation performance among commercial

banks in Kenya. The study looked at continuous improvement approaches and performance of operations whereas this study seeks to look at continuous process improvement and financial performance in banks.

Another study that makes a positive link of CPI and organizational performance was carried out on Continuous process improvement in China's banking sector. It showed that the process improvement in commercial banks is a vibrant and an ongoing process that required systematic thinking at the strategic level as well as effective operation at the implementation level. It revealed that the banks require CPI to match the prevalent economic inclination so as to boost their major competitiveness. The banking sector should thus place more emphasis on the processes as a management starting point. Thus effective process management and improvement are imperative to optimize operations and maximize worth for an organization. (Reijers, 2006; Skrinjar and Trkman, 2013). During the adaptation of a process view of business (Skrinjar et al., 2008), BPM is engaged to bolster processes and efficiently handle and boost organizational performance.

Employee Involvement and Performance

Senior management commitment to employee entitlement allows the employees to involve themselves dynamically and ingeniously. Senior management should be devoted and commune with employees effectively, setting organizational standards and putting in place an appropriate leadership style to advance organizational performance (Chen and Paulraj, 2004; Al Mudimigh, 2007). Staff are drawn in the implementation of processes and can be viewed as important assets for any organization. Robinson et al (2004) declared that staff involvement can be described as the affirmative position that an employee has towards the principles of an organization. In addition, he affirmed that involved employees are of business context, and team up with fellow employees to boost job performance within the job for the good of the firm. Price (2004) contends that employee involvement is a course of action that entails involvement, communication, decision making that leads to equality and employee motivation.

Muthike (2017) undertook a study on the impact of employee engagement on organizational performance in PACT. The study revealed that employees' skills and abilities can only be wholly used by engaging employees in the organization. It established that there is an affirmative link between employee engagement and performance as lack of employee engagement lowers their dedication and proficiency. Similarly, lack of employee engagement impinges on employee understanding of the organization's specified direction. To add to it designing and implementing an effective employee engagement is vital to performance. She suggested that the organization ought to boost and reinforce its employee engagement strategies, let employees contribute to decision making, enhance communication and adopt effective strategy formulation so as to improve the organization's performance. This study looked at a different environment whose studies may not be applicable in a banking set up.

Mokaya and Kipyegon (2014) studied the determinants of employee engagement in the banking industry; a case of Co-operative bank. They discovered a strong connection between organizational performance management, individual growth and development, remuneration

and employee engagement. The study recommended that bank managers should prioritize programs and activities that promote employee engagement as it contributes positively to organizational performance. This should include two-way communication systems, provision of adequate resources to carry out tasks, appropriate training to match knowledge and skills with the right tasks, reward systems to encourage improved performance, attention on top performance to reduce turnover rates and to build a strong unique background that promotes diligence.

Kirubi (2014) carried out a study on employee empowerment practices and performance of commercial banks in Kenya and established that all commercial banks in Kenya have empowerment policies. Through employee empowerment, the staff of commercial banks are informed of their duties, trained on the roles, empowered with management functions such as involvement in policy making and the liberty to make decisions within their jurisdiction. It also established that banks push for efficiency and innovativeness from the employees as well as formulate mechanism that deal with complaints as well as ongoing improvements in service delivery to their customers. He recommended that banks should train their employees in their various roles and that banks should carry out both customer fulfillment and employee fulfillment surveys in order to improve the productivity of both the firm and that of employees. The study is confined to a single institution that may not necessarily give a clear view of the banking industry. This study thus aims to look a larger number and the effects of employee involvement on the financial performance of banks.

RESEARCH METHODOLOGY

Research Design

The study employed a descriptive research design. Descriptive research design is a systematic technique that entails observation and describes the actions of a focus item in a precise manner (Mugenda & Mugenda, 2003). Saunders (2009) notes that descriptive research is aimed at generating statistical information on features of a study that is of concern to policy makers. This research design was considered fit for this study as it helped to describe the connection between the variables of the study. In a descriptive research, a sample of 10-50% is acceptable (Mugenda & Mugenda, 2003).

Target Population

Christensen and Johnson (2014) argue that a population is the derived elements under investigation; inferences for a sample in any study are done from a population that has earlier been defined or selected. The study used stratified sampling to pick out the 20 banks based on the three tiers as per CBK classification as they have more information prevalent. The target population consisted of 60 employees involving three employees from each bank i.e. from the operations department, finance department and the strategic department. The study was based in Nairobi since the Head Quarters are located in Nairobi.

Sampling Design and Sample Size

A sample is a small section of a target population chosen systematically for the study, Wiersma (2008). The study used stratified sampling method to pick out a sample size. Stratified sampling will be used where the population under study is capable of being classified into categories or subclasses or sections (Kothari, 2004). The Central Bank of Kenya has categorized commercial banks into large, medium as well as small banks (CBK, 2016). The categories comprise strata with five large, seven small and eight medium sized banks being randomly drawn to obtain a study sample of twenty banks. Adopting this technique ensured all selected respondents equitably represented all groups that made the banking population heterogeneous in nature. Simple random sampling was then being used to select the actual sample size. Simple random sampling is a probability method in which each factor of the sample frame has an equal chance of being included in the sample (Howitt & Cramer, 2011).

Data Collection Instrument

The study used both primary and secondary data. Primary data was acquired using questionnaires designed based on the objectives. The questionnaire contained both structured and unstructured questionnaires. They also contained a likert scale to establish a relationship between the variables. Secondary data used was collected from audited book financial statements in line with the study variables available from the banks annual reports obtained from the Central Bank of Kenya website. This was in line with the fact that BPM adoption has been on the increase over the last five years. This was all done after obtaining permits from National Commission for Science and Technology.

Data Collection Procedure

The questionnaires were disseminated using the drop and pick later method with a window period of two weeks which allowed respondents adequate time to respond to the questionnaires in order to augment the response rate. The questionnaires were first sent to a pilot sample of 10 participants from Co-operative Bank. This helped in evaluating the clearness of the questionnaire. They were then administered to respondents from the banks under study. The researcher sought informed consent from the study respondents and the respective institutions as required on explaining the reason for the study to the respondents. The study participants were guaranteed that the information given would be dealt with discretion. Secondary data was obtained using panel sheets from the bank's audited books of accounts from the respective websites and that of Central Bank of Kenya. Data collected over a period of five years is seen as a better way of determining trends Kieso, et al., (2007). To realize an ample representation, data collected covered a period of five years from 2013-2018 using panel sheet (Appendix ii). Research permits from National Commission for Science, Technology and Information as well as from the Graduate School of Business.

Data Analysis and Presentation

The responses obtained were first be edited to ensure completion and uniformity before processing them. The data was then coded to enable responses be categorized. Statistical

Package for Social Science (SPSS) version 22.0 was used to present and summarize the data. Descriptive statistics such as percentages, frequency distributions, measures of central tendencies and measures of variations were used to present the data collected for ease of understanding. Data analysis and interpretation was based on descriptive statistics and measures of dispersion as well as inferential statistics. Multiple linear regression models were employed to establish the influence among variables. Pearson correlation was used to establish the strength of the linear relationship between each of the independent and dependent variables.

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \varepsilon$$

Where: Y = Banks performance; X_1 = Strategic alignment; X_2 = Information technology; X_3 = Process Management; X_4 = Employee involvement; $\beta_1, \beta_2, \beta_3$ and β_4 = Coefficients of determination; ε = error term

RESEARCH RESULTS

Strategic Alignment and Financial Performance of Banks

Four items were developed to establish the extent to which strategic alignment has influenced the financial performance of Commercial Banks in Kenya. From the findings, a study to establish the extent to which strategic alignment has influenced the financial performance of Commercial Banks in Kenya indicates that the respondents agree that strategic alignment influences organizational performance as indicated by an average mean of 4.00. They agree that the organization's strategy drives a connection between employees and the organization's mission (M = 4.12, S.D = 0.69); strategy alignment in the organization outlines the structure and clarity of purpose (M=4.08, S.D = 0.72); the structure matches capabilities and competitive advantage (M=3.92, S.D = 0.85) and that the strategy adopted eliminates conflicting priorities (M=3.86). This study concurs with Kasina (2012) study in which she found out that an organization's competitive advantage does not result from the resources that it has only but also from the proper alignment of procedures and processes that have to be in synchrony so as to capture the opportunities in the market as well as boost the firm's ability to counter threats on its operations that emanate from the market. Though strategic alignment can be an expensive venture it should be undertaken as the organization is assured of reaping benefits from the strategy and enough resources allocated.

Information Technology and Financial Performance of Banks

Four items were developed to examine the effects of information technology on the financial performance of Commercial Banks in Kenya. Findings illustrated that all respondents strongly agreed that information technology impacted on the financial performance of commercial banks; mean = 4.36 and S.D = 0.67. The statement with the least mean was creation of environment for information sharing at M=4.26 and S.D = 0.63 to owing to pressure from the industry, organizational financial capabilities and technical features, Muasa (2009). The study participants agreed that technology adoption has simplified the flow of information as well as simplified the transaction processes as indicated by a mean of 4.38 and S.D of 0.70 respectively. This is in agreement with Macharia, Iravo, Ondabu and Ombui (2015) whose

study deduced that the use of ICT infrastructure reduces transaction costs by replacing paper work with electronic processes, improves the level of coordination between members of the supply chain, reduces transaction costs as well as eliminates avoidable errors. Findings further established that 50% of the respondents felt that technology adoption has been adopted to a very large extent, 40% agree it's been taken up to a large extent and 10% feel it's been adopted to a moderate extent. This is in tandem with Balogun (2016) who established that it is imperative for managers to plan staff, organize, and control to get the best resources to work capably, well and to encourage the employees to innovate.

Process Improvement and Financial Performance of Banks

Four items were developed to determine the role of process improvement on financial performance of Commercial Banks in Kenya. From the findings it is clear that all respondents agree that the four aspects used as a measure to show that process improvement influences the financial performance of bank with an average mean of 3.985. The respondents strongly felt that process improved had reduced human error in the organization as shown by $M = 4.10$; $S.D = 0.68$. The standard deviation of < 1 indicates less dispersion from the midpoint. This study is in concurrence with the findings of Gatwiri (2014) who established that process improvement is a benchmark for employees to continuously look for better ways of doing things to provide excellent services and products to their customers, hence creating an affirmative link between continuous improvement approaches and operation performance. The statement the organization has business processes that are easy to adopt and deploy $M=4.06$ $S. D=$ and that $M= 0.64$ as banks continuously introduce innovative technology driven products which are more customer friendly (Juergensen, 2005). The researcher also established that 18% of the respondents felt that continuous process improvement has been adopted to a very large extent, 62% agree it's been taken up to a large extent and 20% feel it's been adopted to a moderate extent.

Employee Involvement and Financial Performance of Banks

Five items were developed to determine how employee involvement has influenced the financial performance of Commercial Banks in Kenya. From the findings, the average mean of 3.81 indicates that from the five tenets, the respondents agree that employee involvement affects the financial performance of commercial banks. With a standard deviation of 0.76, it shows that the respondents did not differ widely on how employee involvement affects the financial performance of commercial banks. Respondents agree that employee involvement has enhanced business process management to a great extent $M = 3.96$ and $S. D = .67$. This thus is in agreement with Mokaya and Kipyegon (2014) who discovered a strong connection between organizational performance management, individual growth and development, remuneration and employee engagement. The statement with the lowest mean was managers leading in change initiatives take into consideration employees involvement and empowerment in order to cultivate the culture of innovation at $M= 3.68$ $S. D = 0.84$. This is due to the fact that this is more of a policy on paper than practically.

INFERENCE STATISTICS

From the results, holding Strategic Alignment, Information Technology, Process improvement and employee involvement to a constant zero results in banking performance of .842 as measured by return on assets (ROA). A unit increase in strategic alignment led to 1.203, information technology .881, process involvement 3.837 and employee involvement -4.567. The summary is as indicated in the resultant regression model:

$$Y = 0.842_0 + 1.203sa + 0.881it + 3.837 pi - 4.567ei + \varepsilon$$

Strategic Alignment: The results in the table indicate that at 5% level of significance the beta coefficient for strategic alignment was positive at 1.203 with a p value of .31 which is greater than the significance value of .05. Therefore, strategic alignment does not affect the performance of commercial banks. This differs with Kasina (2012) who found out that organization competitive advantage does not result from the resources it has but from the proper alignment of procedures and processes that have to be in synchrony so as to capture the opportunities.

Information Technology: At the significance level of 5% the beta coefficient for Information Technology is positive at .881 with a p value of .632 which is greater than the significance value of .05. Thus Information technology has no significant effect on the financial performance of banks. This is contrary to a study Balogun (2016) established that it is imperative for managers to plan staff, organize, and control to get the best resources to work capably, well and to encourage the employees to innovate. Regular trainings ought to be availed to the bankers often to ensure they stay atop of the prevailing developments in the use of ICT. This will boost their competence and value of provision of services that will translate to banks profitability.

Process Improvement: At 5% significance level the beta coefficient for Process Improvement is positive at 3.837 with a p value of .101 which is greater than the significance value of .05. This indicates that process improvement does not affect financial performance. This is contrary Otieno (2016) who established that the relationship between continuous improvement practices (customer centricism, decision making and staff engagement) and organizational efficiency was not only positive but also significant.

Employee Involvement: The results in the table indicate that at 5% level of significance the beta coefficient for employee involvement was was -4.567 with a p value of .001 which is less than the significance value of .05. This implies that employee involvement had a negative significant relationship on the financial performance. This is in agreement with (Chen and Paulraj, 2004; Al Mudimigh, 2007) whose study established that senior management should be devoted and commune with employees effectively, setting organizational standards and putting in place an appropriate leadership style to advance organizational performance.

In addition, from the table the results indicate that holding Strategic Alignment, Information Technology, Process improvement and employee involvement to a constant zero results in

banking performance of 116.84 as measured by return on equity (ROE). A unit increase in strategic alignment led to -.982, information technology -3.026, process involvement 30.028 and employee involvement -25.768. The summary is as indicated by the resultant regression model:

$$Y = 116.84_0 - 0.982sa - 3.026it + 30.028 pi - 25.768ei + \epsilon$$

Strategic Alignment: The results in the table indicate that at 5% level of significance the beta coefficient for strategic alignment was negative at -.982 with a p value of .91 which is greater than the significance value of .05. Therefore, strategic alignment does not affect the performance of commercial banks. This is contrary to the research by Yin and Zajac (2004) who in their study of fit between strategy and governance systems stated that fit results in better performance and that it is significant.

Information Technology: At the significance level of 5% the beta coefficient for Information Technology is negative at -3.026 with a p value of .826 which is greater than the significance value of .05. Thus Information technology does not affect financial performance of banks. This is contrary to a study by Kamau (2015) who concluded that the use of ICT has had a positive effect on the ROA of the banks as it has influenced the income margins, payback periods and reduced the operational costs.

Process Improvement: At 5% significance level the beta coefficient for Process Improvement is positive at 30.028 with a p value of .88 which is greater than the significance value of .05. This indicates that process improvement does not affect financial performance. This is contrary to Skrinjar et al., 2008 study who established that BPM is engaged to bolster processes and efficiently handle and boost organizational performance.

Employee Involvement: The results in the table indicate that at 5% level of significance the beta coefficient for employee involvement was -25.768 with a p value of .01 which is less than the significance value of .05. This implies that employee involvement had a negative significant relationship on the financial performance. This is in line with Muthike's (2017) study which shows a link between employee engagement and performance as lack of employee engagement lowers their dedication and proficiency.

DISCUSSION OF FINDINGS

The general objective of this study was to establish the effects of business process management practices on the financial performance of commercial banks in Kenya. The study looked at strategic alignment, information technology, and process improvement and employee involvement. The financial performance aspect was based on return on assets (ROA), return on equity (ROE) and Net interest margin (NIM).

Though there are a myriad of outcomes from previous studies carried out, this study established that employee involvement had a negative but significant relationship on the ROA and ROE. Strategic alignment, information technology and process improvement had no effect on the ROA and ROE.

From the multivariate regression applied to determine the importance of every variable on the financial performance (ROA and ROE) of commercial banks in Kenya. The model accounted for 53.2% and 41.6% ($R^2 = 0.532$ & 0.416) respectively which is attributed to the independent variables. Thus 46.8% and 58.4% can be attributed to other factors not included in this study.

CONCLUSIONS

From the results we note that there was no significant relationship between strategic alignment, information technology and process improvement and financial performance of commercial banks in Kenya. However, there was a significant correlation between the variables.

The model accounted for 53.2% (ROA) and 41.6% (ROE). The model accounted for 53.2% and 41.6% ($R^2 = 0.532$ & 0.416) respectively which is attributed to the independent variables. Thus 46.8% and 58.4% can be attributed to other factors not included in this study.

Strategic alignment which also played a key role in positively impacting the financial performance of commercial banks should be harnessed. Findings show that firms utilizing these operations generate competitive advantages that are hard to extricate. Strategies must be harmonized to sustain the stated fit due to a dynamic environment.

From the study, employees agreed that information technology impacted on financial performance of commercial banks. The results show it is a key enabler for the latest forms of working and collaborating inside and outside an organization and banks should take it up.

Process improvement also impacted on the financial performance of banks. It provides a benchmark for employees to continuously look for better ways of doing things to provide excellent services and products to their customers, hence creating an affirmative link between continuous improvement approaches and operation performance among commercial banks.

RECOMMENDATIONS

The policy recommendations of this research are in light of the conclusions arrived at from this study. Employee involvement had a negative but significant impact on the financial performance of Commercial banks in Kenya. This implies that policy makers in organizations should highly focus on informing employees of their duties, be trained on their roles and empowered with management functions such as involvement in policy making and the liberty to make decisions within their jurisdiction.

Policy makers should also highly invest on structures and strategies that determine changes in markets vis vis its strengths and abilities to harness its full potential. They should provide suitable infrastructure to afford a proper support framework to businesses processes that positively impact on the performance of the organization.

Since this study has an impact on the employees, researchers as well as the community at large, there is need to develop greater awareness on the business process management practices that affect the financial performance of commercial banks.

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