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Influence of Firm Activities on Performance: Case of Commercial Banks Sector in Kenya

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Abstract:
All firms aims toward realization of their vision, goals and objectives. This is mainly via performance and thus strategic leaders have a great task trying to understanding all factors which influence performance. The study addressed the influence of firm activities on performance as one of such factors within commercial bank sector in Kenya. The study concluded that bank activities significantly influence the performance of commercial banks in Kenya.

Keywords: *Bank Activities, Commercial bank, Performance*

1. Background of the Study

A big question that most researchers and scholars on strategizing wrestle with is why some firms succeed in environments that others fail. This has raised the need to research on the causes of a firm's success and the reason behind differences in the performance of firms within the same industry (Rumelt, 1984; Pavlou, 2011). Early researchers assumed that the nature of the firm and its environment determined success or failure of a firm. However, in these days of globalization and internationalization of markets, competition has become stiffer, forcing firms to strategize and develop better business models to enable them gain and sustain competitive advantage and high performance (Porter, 1980, 1998; Teece, Pisano, & Shuen, 1997).

According to Central Bank of Kenya (CBK), Kenya's commercial bank sector exhibits differences in performance, with some banks reporting very high profits while others report losses before tax on their annual report. This implies difference in performance of firms within a sector that is performing highly in comparison with other sectors and industries within Kenya's economic environment (CBK, 2012). Each firm has a unique history, organizational culture, capabilities and current policies. These give the firm skills and resources that are critical for success. Every period of time is also unique, as both company and environment are in a state of constant change. However, firms are seen as possessing considerable ability to build on their strengths and overcome their weaknesses to influence or alter their environment and to engineer change over time and not merely respond to it (Porter, 1991, 1998; Ambrosini, Bowman & Collier, 2009).

Firms create and sustain CA by their capacity to continuously improve, innovate, and upgrade over time. Successful firms improve and innovate in valuable ways (Porter, 1991; Teece *et al.,* 1997; Nielsen, 2006). Morecroft (2010) notes that recently there has been an increased interest in the dynamic processes that raise differentiated performance among competing firms. However, there is no standard way of measuring a firm's performance, and some scholars advocate the use of financial ratios while others go for non-financial parameters or a combination of both. This study used a combination of both financial and non-financial measures of performance.

1.2. Commercial Banks in Kenya

The banking industry in Kenya is governed by the Companies Act, the Banking Act, the Central Bank of Kenya Act plus the various guidelines issued by the Central Bank of Kenya (CBK) with the aim of introducing prudence in the banking activities. As at 30th June, 2012, the banking sector comprised 43 commercial banks, 1 mortgage finance company, 6 deposit-taking microfinance institutions, 5 representative offices of foreign banks, 115 foreign-exchange bureaus and 2 credit reference bureaus (CBK 2012). Kenyan commercial banks have come together under the Kenya Bankers Association (KBA), which serves as a lobby for the banking sector's interests. KBA serves as a forum for addressing issues affecting member banks, according to Nyangosi (2011). Over the last few years, Kenyan commercial banking sector has continuously grown in assets, deposits, profitability and offered products. This growth is mainly attributed to the industry's wide branch network in Kenya and in the East African Community region as well as the automation of a large number of services plus the emphasis on addressing diverse customer needs other than just providing the traditional off-the-shelf banking products (CBK, 2012).

The Kenyan banking environment is characterized by different banking products, increased choices, security and accessibility. Thus, the ability of commercial banks to effectively and efficiently deliver products and services is key to performance and relevance. Over the years, the banking industry has continually introduced a wide range of new products prompted by increased competition, ICT growth and enhanced customer needs. As a marketing strategy, the new products offered assume local brand names to suit the domestic environment in targeting the larger segment of the local customer base (CBK 2012).

1.2. Study's Objective

To determine the influence of bank activities on performance of commercial banks in Kenya.

1.3. Research Hypotheses

This study used the following null hypothesis.

- H_{O1}. There is no relationship between bank activities and performance of commercial bank in Kenya.

2. Literature Review

2.1. Resource-Based View Theory

The Resource-Based View holds the concept of core competencies and treatments that emphasize intangible assets. This is introspective and centered on the firm itself. This theory argues that firms have unique bundles of resources (Kraaijenbrink, *et al.*, 2011). As a result, they should put effort to address the conditions that allow them to achieve and sustain favorable competitive positions over time. Successful firms are viewed as being the result of their unique resources, which must be nurtured. However, it's known that CA is derived from more than just resources (Carlucci, 2010). RBV views firm resources as intermediate between activities and advantages. RBV have the greatest significance on environments where change is incremental, the number of strategic variables and combinations limited and the time period ranging from short to intermediate term (Prahalad & Hamel, 1990; Porter, 1991; Priem & Butler, 2001). The theory enriches this study by explaining the achievement and sustainability of CA within firms. This helps in understanding the drivers of competitive advantage under study and their relationship with performance.

2.2. Knowledge-Based View Theory

KBV approach considers firms as bodies generating, integrating and distributing knowledge (Miller, 2002; Easterby-Smith & Prieto, 2008). The ability to create value is based on a set of intangible knowledge-based resources and not as much upon physical or financial resources. As Ranft & Lord (2002) state, to stand a good chance of generating and sustaining high profits, firms must possess stocks of organizational knowledge associated with the creation of value that can be described as uncommon or distinctive. In this perspective, knowledge is considered a key or strategic resource for firms. Hence, it's established as a basic element of analysis and the processes of generating, developing and applying knowledge assume special importance (Nonaka & Takeuchi, 1995; Nonaka & Konno, 1998).

In the context of an organization, managers play their part in strategic and decision-making roles primarily on the basis of two knowledge-based business assets. These include stocks of knowledge (both of a collective and individual nature), which are resources possessed and controlled by the firm and the dynamic learning processes (collective and individual), which are developed from these stocks of knowledge. These learning processes are business capabilities that are described and studied by different schools of thought as organizational learning (Easterby-Smith & Prieto, 2008). The desired convergence of the KBV and the organizational learning is yet to materialize and they exist as parallel models, the former having economic roots and the latter being more of a sociological nature. According to Pérez-López and Alegre, (2012), the two approaches considerably overlap, working into the same four ontological levels in which organizational learning occurs: individual, group, organizational and inter-organizational.

This theory provides the theoretical understanding of the bank activities as a driver of competitive advantage. The commercial bank sector is considered a knowledge-based sector and hence this theory played an important role in support of the context of studying the sector.

2.3. Empirical Review

Barnes (1997), states that the banking sector seems to be more interested in enhancing a good relationship with customers than with any other industry. However, the increasing deployment of ICT in financial transactions has reduced the physical contact between banks and customers, thus modifying remarkably the general aspect of the relationship. And with the ICT having lowered information costs, customers are able to compare portfolios of investments between banks, or even invest directly (Cooke, 1997).

Another concern when dealing with the customer service in the banking industry is the various issues related to the branches. For instance, access to facilities such as parking lot have a bearing on the mobility of people between the branches; safety and convenience of location make customers access service delivery (Grifell-Tatje & Marques-Gou, 2008). The branches' external and internal architecture may mediate on the perception of service delivery, whereas ATMs inside the branches simplify the customer procedures and lower personnel costs. The number of human attendants is also important and varies according to demand. These are especially useful in reducing time waiting for certain services, providing human interaction and serving elderly and customers who are not technology savvy and thus prefer people instead of machines interfaces for their transactions (Dick, 2003).

Advertising practices and the bank's institutionalized reputation within the community may be related to customer service as well (Dick, 2003). Diversifying the portfolio of services is another strategy for developing a good image within the market. As much as the

person who uses many banking services is not likely to move to another bank, sponsoring social activities should also be considered, as this promotes the image of the bank as one that is willing to give back to society.

The role of customers and customer relationships in value creation is accentuated as we move from a production dominated, inside-out, value chain paradigm towards a knowledge-intensive, collaborative value network paradigm where firm boundaries, as well as industry and country boundaries, are becoming increasingly permeable, fuzzy and fleeting (Day, 1994; Dyer & Singh, 1998). Concurrently, the liquification of resources makes reconfigurations of business operations much easier, not only enabling rapid change but also emphasizing that the ability to understand changes in the value network logic and reconfiguring the firm in relation to the network actors will become a competitive advantage (Normann, 2001; Kaj & Suvi, 2009).

Customer relationships can be seen as longitudinal social and economic processes for the co-creation of value (Payne, Storbacka & Flow, 2008). Three main processes are involved in business-to-business customer relationships. These are: customer value-creating process, in which the customer organization applies its capabilities on its resources in a series of activities and management practices to achieve particular goals; firm value-creating process, in which the firm applies its capabilities on its resources in a series of activities and management practices to improve firm performance; and encounter process, in which dyad actors use relational capabilities in collaborative activities and practices of interaction and exchange for the co-creation of value (Woodruff, 1997; Werner, Manfred & Wayne, 2004).

2.4. Conceptual Framework

The study measured performance using financial and non-financial measures. Financial measures used are ROA, ROE, and profit before tax. Non-financial measures used are: customer base increase, development of new products, growth on branch network and growth on new automated teller machines and sites. The model presented four dimensions of drivers of competitive advantage. These include bank activities, bank activity drivers, initial conditions and managerial choices. These were individually measured to establish how they influence the bank performance.

3. Research Methodology

3.1. Research Philosophy

This study employed positivism philosophy, which seeks to use existing theory to develop hypotheses that are tested and confirmed wholly, in part, or otherwise refuted, leading to further development of the theory to be tested through further research, according to Saunders *et al*., (2009)

3.2. Research Design

The study used a mixed design of explanatory and cross-section research design. Explanatory research attempts to clarify why and how there is a relationship between two or more aspects of a situation or phenomenon (Catherine, 2002; Ranjit, 2005). Explanatory research aims at answering the question why. The researcher's choice of cross-sectional survey method was prompted by the awareness that it allowed collection of quantitative data from a population in an economical way(Saunders *et al*., 2009).

3.3. Empirical Model

The research used the following equation:

$BP=\alpha+\beta BA+\varepsilon$.....(i)

Where α = model equation intercept
β= regression coefficient
ε= error term
BP=Commercial bank's performance
BA=bank's activities

3.4. Target Population

The study population comprised all commercial banks licensed and listed by CBK as at 31st December 2011. According to CBK 2011 Bank Supervision Annual Report, there were 43 commercial banks. Thus, the total population was 43 commercial banks.

3.4.1. Sampling Design and Procedure

Saunders *et al*., (2009) encourage the use of census where the target population is small and within reach for survey studies. Since this target population was only 43 and all respondents were within reach, census design was adopted and therefore there is no need for sampling. The procedure adopted was convenient, as the target respondents were bank's representatives at the head office. Different banks have designated officers who respond on behalf of the bank to public and scholarly research issues. The researcher sought help from each bank's head office for identification of the respondent.

3.5. Data Collection Instruments

The study used semi-structured questionnaires to collect primary data from the respondents. Secondary data was also collected from the various banks as well as CBK's website. Secondary data was mainly on the bank's financial performance over the last five years. A tool was developed to collect secondary data.

3.6. Data Collection Procedures

Before collecting data, the researchers got authorization from the relevant authorities including National Commission for Science, Technology Research and Innovation (NACOSTI) and the various commercial bank CEO's offices. The questionnaires were delivered to the respondents and collected later to increase the chances of a higher rate of response. Secondary data was collected using a developed data collection tool from CBK's Bank Supervision Annual Report.

3.7. Data Analysis and Presentation

The main aim of this process is to assemble or construct data in a meaningful or comprehensible fashion. Yin (1994) observes that data analysis consists of examining, categorizing, tabulating or recombining the evidence to address the initial propositions of a study. Once the questionnaires were received back, they were screened and edited to remove deficient, incoherent and erroneous responses. The study used descriptive statistics for the analysis of the data characteristics and presented results using tables and figures. The frequencies, mean, standard deviations and percentages were used to interpret the information. Exploratory Factor Analysis was used to identify constructs and develop composite indices for all variables which were used for the inferential statistical analysis. Then simple and multiple and hierarchical multiple regressions were run on SPSS Version 20 for inferential statistical analysis. The various analyses carried out using the SPSS were presented and discussed.

3.7.1. Diagnostic Tests Normality of Data

a. Normality Test

Statistical methods are based on various underlying assumptions. One common assumption is that a random variable is normally distributed. When this assumption is violated, interpretation and inference may not be reliable or valid. Statistical tests for normality are more precise since actual probabilities are calculated. The hypotheses used are:

H_0: The sample data is not different from a normal population.

H_a: The sample data is different from a normal population.

This study used Shapiro-Wilks Test, which works best for data sets with n<200 (Field, 2009). This test was run using SPSS analytical program.

4. Research Findings and Discussion

4.1. Response Rate

The researcher distributed 43 questionnaires to the respondents. However, only 40 questionnaires were considered usable for the analysis. Table 1 presents results of the response rate.

Responses	Frequency	Percentage
Completed usable questionnaires	40	93.02%
Unusable, unreturned and disqualified questionnaires	3	6.98%
Total	**43**	**100%**
Source: survey data 2014		

Table 1: Response Rate of the Census

The researcher issued 43 questionnaires (one questionnaire per commercial bank), out of which 41 were received back. One questionnaire was disqualified due to incompleteness, thus 40 questionnaires were considered as suitable for the analysis. This translated to 93.02% of the targeted total of 43 questionnaires. According to Saunders *et al.,* (2009), a response rate of 50 percent is adequate, 60 percent good and a response rate of 70 percent and above considered very good. Therefore, the response rate of 93.02% achieved was adequate for drawing conclusions on the study objectives.

4.2. Descriptive Statistic Analysis

The respondents were required to indicate their banks' position rating on the bank activities on a scale of 1-5, where 1 = below average, 2= average, 3= above average, 4= good, and 5= excellent. The results computed are as presented in Table 3

Statement	N	Min	Max	Mean	Std. Deviation
The bank provides customers the services as promised.	40	1	5	4.18	0.781
The bank provides accurate service to customers	40	1	5	4.03	0.8
The bank honors its commitments.	40	1	5	4.23	0.733
Bank staffs are knowledgeable to solve customers' problems.	40	1	5	4.05	0.815
Staff have the enthusiasm to understand customer needs	40	1	5	3.95	0.904
Staffs consider customer needs in the first place.	40	1	5	4.13	0.822
Staff can provide customers precise personal services	40	1	5	3.9	1.057
The bank ensures security of customers during the transaction process	40	1	5	4.55	0.552
The bank provides quality services, increasing the customers' confident and trust.	40	1	5	4.2	0.723
Bank staffs provide customers with prompt and appropriate services.	40	1	5	3.88	0.853
The bank provides sufficient and visible equipments for the customers' use.	40	1	5	3.85	0.736
The bank provides comfortable facilities and designs for customers.	40	1	5	4.05	0.783
Sufficient staffs are available to provide customers banking services.	40	1	5	3.73	0.933
Staffs understand customers' needs.	40	1	5	4.08	0.944
The bank staffs are helpful to customers.	40	1	5	4.08	0.888
Aggregate score				**4.06**	**0.822**

Table 2: Results of Bank Activities Rating by Respondents
Source: Survey Data 2014

The results produced an aggregate mean of 4.06 and SD of .822, an indication of a high rating and moderate distribution diversion. This shows that the banking sector is doing well in the area of bank activities. The factor of banks' provision of customer services as promised was rated thus: above average, 22.5%; good, 37.5%; and excellent, 40%. The results gave a mean of 4.18 and SD of 0.781. The high mean and moderate SD show that the rating was less dispersed. This is due to the fact that most banks consider customers as the key competitive edge and none of the banks want to lose them to their competitors. The question on bank staff providing personalized services to customers was dispersedly responded to (M=3.90, SD=1.057).

The best rated item on customer service management was security of customers during transaction (M=4.55, SD=.552), where 2.5% was rated above average, 40% as good, and 57.5% as excellent. This means that customers should feel secure at the bank premises during transactions, and, for this, customers become loyal to the banks. With regard to availability of staff to provide banking services to customers, the ratings were: 2.5%, below average; 7.5%, average; 22.5%, above average: 50%, good; and 17.5%, excellent. The results gave a mean of 3.73 and SD of .933. This could be an indication that some banks have sufficient staff, whereas others do not have enough staff.

The entire sector can therefore be considered to be above average on this item. The results were in agreement with earlier studies which linked customer relationship management as a driver of competitive advantage, leading to high performance (Askari, 1991, Yue, 1992, Mavridis, 2004). Also, the results concurred with Zeithmall and Bitner's (1996) recommendation on consideration of the content and delivery of customer service for sustainable market performance. Barnes (1997) argues that the banking industry seems to be the leading service industry on customer service delivery.

Banks value the activities since they are a major driver of competitive advantage. In additional, Alipour (2012) asserts that if the bank fails to handle customer service, then it fails to achieve its goal. This was supported by secondary data and unstructured interview, which showed that the banks consider their financial performance to be pegged on how they handle customers. Hence the reason why commercial banks aim at treating customers as kings. This has led to introduction of differentiated products to cater for the various customer needs, for instance the Sharia-compliant products (CBK, 2008, 2009, 2010, 2011, 2012, 2013).

4.3. Diagnostic Tests

4.3.1. Tests of Normality

The study had 40 observations (n=40) and hence Shapiro-Wilk test of normality, which is recommended for n<2000, is most appropriate. According to Field (2009), if the test is insignificant (p >.05), it implies that the distribution is not significantly different from a normal distribution, hence it is probably normal. However, if the test is significant (p < .05), then the distribution in question is significantly different from a normal distribution, hence it is considered not normal. This test is important because regression model estimation methods are based on the assumption of normality since non-normal data may result in inflated statistics and underestimated standard errors.

Variable	Shapiro-Wilk Statistic (W)	Sig.
Performance	.968	.301
Activities	.962	.190

Table 3a: Shapiro-Wilk Normality Test
Source: Survey Data 2014

Table 8 shows that the p-value for all the variables was more than .05 and hence not statistically significant. Performance had p-value=.301 (p>.05); and Activities p-value=.190 (p>.05). Hence, the study fails to reject H_0 (the sample data is not different from normal population), implying that the collected data assumed normal distribution for all the variables. Hence, the data could be analyzed via regression as recommended by Hair *et al.,* (2009) and Field (2009).

4.3.2. Linearity Test

The correlation coefficient was used to test the linearity of the relationship between the variables. Correlation coefficient shows the strength as well as the direction of the linear relationship. Positive correlation indicates a direct influence, where an increase in one variable causes an increase in the other variable, while a negative correlation indicates an inverse relationship, where an increase in one variable caused a decrease in the other (Field, 2009). The weakest linear relationship is indicated by correlation coefficient closeness to 0. The strongest linear correlation is indicated by a correlation of -1 or 1 (Gupta, 2000). The study run Pearson's correlation test and results used to evaluate linear relationship between independent variables and the dependent variable. Table 9 shows the results.

		Performance
Banks activities	Pearson Correlation	.636**
	Sig. (2-tailed)	.000
	N	40
**. Correlation is significant at the 0.01 level (2-tailed)		

Table 3b: Pearson's Correlation Coefficients
Source: Survey Data 2014

The results show that all variables had linear relationship with performance, according to Gupta (2000) and Field (2009). The relationship was strong between performance and bank activities (r =.636, p=.000). Hence, for the study, the assumption of linearity for regression test was achieved.

4.4. Hypotheses Testing

After the successful running of the preliminary diagnostic tests and confirming that the data complied with the prerequisite assumptions, regression analyses were performed on the data to test the hypotheses.

***$H_0$1**. There is no relationship between bank activities and performance of commercial banks in Kenya.*

To analyze the relationship between banks' activities and performance, the study used Hypothesis One. The following model was used and a linear regression was run to test the Hypothesis One.

$BP=\alpha+\beta BA+\varepsilon$

The relevant regression results for the model are presented in Tables 4

Model	**R**	**R Square**	**Adjusted R Square**		**Std. Error of the Estimate**	
1	.636[a]	.405	.389		.46977	
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	5.700	1	5.700	25.829	.000[b]
	Residual	8.386	38	.221		
	Total	14.086	39			
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	.935	.572		1.634	.111
	Banks Activities	.742	.146	.636	5.082	.000

Table 4: Regression Results for Bank Activities on Performance
a. Dependent Variable: Performance
b. Predictors: (Constant), Banks Activities
Source Survey Data 2014

The summary model shows a positive moderate linear relationship between bank activities and performance (r=.636). Adjusted R^2 of .389 means that 38.9% variance in commercial bank performance can be attributed to bank activities, while the remaining could be attributed to other factors not included in the model.

The overall model was statistically significant ($F_{(1, 38)} = 25.829$, p-value =.000). Based on the regression results, the null hypothesis was rejected and the study concluded that bank activities have a significant effect on Kenyan commercial bank sector. The results are

in agreement with Heffernan, *et al.,* (2008) study which indicated that there is a significant correlation between customer-related activities and performance. Also, the study supported the findings of work by Woodruff (1997) and Payne, *et al*., (2008) that firm activities are key drivers of competitive advantage and positively influence performance significantly. The regression equation of bank activities and performance can be summarized as follows: Performance = 0.935+0.742*banks activities+ε

5. Conclusion and Recommendations

The results indicated a positive significant relationship between bank activities and performance of the commercial banks sector in Kenya. The study concludes that bank activities significantly influence the performance of commercial banks.

Bank activities were found to be positively significant, influencing performance; hence, managers should enhance training to improve the skills of their staff on customer service delivery and management of customer relationship. The firms should empower their research and design departments to facilitate the understanding of customer preference changes of products and services. Customer service department should constitute highly trained personnel with proper knowledge of the customers' current needs and available products so as to respond to customer queries on first meeting. The Kenya government through the Ministry of Finance and in collaboration with CBK and KBA should develop policies on the qualification of customer service officers in the commercial banks and monitor the way they work to ensure world class services are offered to all customers.

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