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Effects of Supply Chain Management Practices On The Performance Of Banks In Kenya: A Case Of Postbank

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ABSTRACT

The paper examines the adoption of the Supply Chain Management practices on the performance of Banks in Kenya. This research conceptualizes and develops four dimensions of SCM practice (outsourcing of goods & services, information & communication technology, strategic supplier partnership, and globalization) and tests the relationships between SCM practices, and organizational performance. The study employed descriptive design. Data for the study was collected using a self-administered questionnaire procedure, where the questionnaires were administered to the selected respondents through drop and pick later technique. A sample size of 33 respondents was drawn from the sample frame using simple stratified random sampling technique to promote the needs for efficiency and representativeness from various branches and outlets of Postbank as an organization in Nairobi County and the relationships proposed in the framework was tested using Chi-square, T-test among other statistical tools. Data was analyzed by aid of Statistical Package for Social Sciences (SPSS). The study will be useful in the academic circles as it will contribute immensely towards filling the gaps in knowledge in the area of service industry. The study found that outsourcing was important to the banks only when the appropriate methods are employed. It also found that ICT had a major role in determining the performance of banks as it dictated the mode of transaction and data they displayed to clients. Strategic partnership was also important based on what it intended to achieve in enhancing the performance of banks. Lastly, globalization is equally vital as it increases competition and exposes local banks to global scene to experience how performance of banks can be improved. The study recommends that correct ICT methods should be applied to promote the competitiveness of banks and improve performance. Also it recommends that outsourcing be done only if they promote the objectives and goals of the banking institute.

Key words: *Outsourcing, information and communication Technology, partnership and Globalization*

1. BACKGROUND OF THE STUDY

Supply chain Management (SCM) entails managing a network of interconnected businesses involved in the ultimate provision of products and services or service packages required by the end users (Harland, 1996). Supply Chain Management practices are increasingly becoming an important feature in the attainment of competitive advantage in most service organizations in the global markets today. The number of competitors is increasing and expanding both locally and globally, organizations not only have to re-establish their operations to produce goods and services of increased quality which will greatly differentiate them from others and make them respond to the changing market dynamics through the efficient and effective management of the Supply Chain (Stock and Boyer, 2009) .

Supply Chain (SC) encompasses all activities associated with the flow of goods and services from raw Hmaterials stage to the final product usable by client and the supply chain management emphasizes on the integration of supply chain activities and information flows associated with them to achieve a competitive advantage of continuity and reliability (Zuckerman, 2004).

Many organizations aim at achieving survival, global leadership and to increase innovation; this will only be achieved by implementing a quality supply chain and continuous improvement of customer management through distinguished services (Ngugi, 2007)

Some supply chain management applications can be based on an open data models that support the sharing of both inside and outside the enterprise i.e. the extended enterprise which includes key suppliers, manufacturers and end customers of a specific company. Hadfield (1999) pointed out that, SCM joins all actions with a stream and changing of products from raw materials inward to the end user connecting the information streams.

Over the years the nature of supply chain management has changed to the extent that organizations no longer compete against companies on the basis of quality as it was practiced in the 90s (Faucette et al, 2007), however, the new source of business competition lies outside the walls of the firm, it is determined by how effectively these organizations link their operations with the supply chain partners. Being able to create effective business relationships with their customers, suppliers and other strategic partners anchored on long term commitment (Mattson, 2002).

The financial sector in Kenya has experienced rapid growth in the post-independence period making it one of the strongest financial markets in the region. The number of licensed commercial banks has risen from 9 in 1963 to 60 by the end of 2012. In addition to the commercial banks, Kenya's financial sector has got over 18 non-bank commercial institutions, 5 building societies and 4 mortgage financing companies. The Kenya's banking industry has continued to be dominated by two multinational banks which are; Barclays Bank and the Standard Chartered Bank, one of the Government controlled bank, and Kenya Commercial Bank (KCB) has also been dominating the market as a local Bank. The three top banks control over 50% of the total deposits in the country's banking sector (Ministry of finance, 2013). Kenya's financial sector has remained fairly very liberal and competitive. Entry into the market by foreign investors has remained largely unrestricted. However to start a new bank, foreign investors were required to have Ksh.150 Million as the minimum core capital. The 1999 budget made large upward adjustments to this minimum core capital. The budget raised the figures to Ksh.500Million for banks and mortgage finances companies and Ksh.375Million for non-bank institutions and Ksh.150Million for building societies (Republic of Kenya, 1999 Budget).

In Kenya's financial sector, supply chain management performs various functions which include; receiving and processing of goods and services from user departments, coordinating the preparation of annual procurement plans as submitted by the respective departments, preparation of annual procurement plans as submitted by the respective departments, advertisement of tenders, preparation and processing of quotations, preparation of tender documents in consultation with the user departments, preparation of the letter of awards, notification and contract agreements as well as management of contracts, order follow up or processing of goods, delivering schedules to user departments, performance of market research and price survey on items and services required by the respective financial institution, maintenance of the updated supplier register and files for the purposes of performance rating and preparation of annual reports. Banking organizations procure various items within different categories of the requirements which include; stationery, printing services, cleaning materials, food stuff, consultancy services, legal services, clearing and forwarding services, security services, computer accessories, vehicles and machinery, insurance services, ticketing and travel services amongst others.

Statement of the Problem

Many researches on supply chain management have been done both locally and internationally and majorly processing and manufacturing sectors. Studies by Blowfield& Dolan (2010), Apopa (2012), (Roath, 2012) and Kasomi (2012) have found varied impacts of SCM on organizational performance. Some of the findings includes, but not limited to; enhanced performance measurement, improvement and management organizational processes. However, the supply chain management within the banking sector has not been well covered.

Effective supply chain management practices in organizations require total understanding of the day to day transactions to collaborate trade chain and the practices enabling SCM facilities and direct organizational performance. This has not been the case in the banking industry especially in Kenya in the recent past. In modern banking sectors, SCM is an important business integration technique which creates a strategic advantage for the organization (Sahan and Mohan, 2011).

Poor accountability in the internal audit of many organizations in the banking sector, have hampered the essential standards of SCM services that make organizations realize their goals and objectives (Woods, 2009). The core and critical challenge mostly experienced by various banks in Kenya include application of ineffective SCM practices and procedures. Poor integration of Information and Communication Technology (ICT) among others. Richard, (2008) observed that with the increased globalization and internationalization of firms, Banks within technologically efficient countries have entered the market hence making competition levels at its peak. As such, Kenyan Banking organizations should adopt the best SCM practices identified in this study i.e. Globalization, implementation of ICT, outsourcing and strategic partnership with key investors.

Several studies have focused on SCM practices but most have failed in their quest to provide enough information on the best practices and their effects on performance of banking organizations. As Richard (2008) states, no emphasis has been made by banks in the sector in managing and creating efficiency in SCM. This justifies the existence of SC flaws and problems in the banking sector in Kenya inhibiting the achievement of competitive advantages and the set goals. It is against this backdrop that the study thus strove to bridge the gap between SCM practices and organizational performance by evaluating the relationship between the SCM variables and the Kenyan banking organization performance.

Research design

The study adopted descriptive research design in order to provide a framework to examine the characteristics of the independent variables (Outsourcing, Information and Communication

Technology, Partnership and globalization). This was appropriate to obtain information concerning the status of the phenomenon, to describe what the current situation is with respect to the variable of the study. Ghauri and Gronhaug (2005) asserts that in descriptive design the problem is structured and well understood a fact that Mugenda and Mugenda (2003) agrees that descriptive design is most preferred because it gives a report on things as they actually are. Thus this study used this design to get clear information from the respondents with much ease.

Sample and sampling technique

This study will use stratified random sampling, to sample staff of POSBANK by cadre, because it enabled the generalization of a larger sample size of percentage of the total population. A sample size of 33 respondents will be drawn from the sample frame using simple stratified random sampling to promote the needs for efficiency and representativeness. This is justifiable by what Kothari (2004) stated that a representative sample could be 30% of target population

Data Collection Instruments

The data collection instruments to be used will be questionnaire which will be designed using the variables identified as important for meeting the study objectives. A closed- ended and open - ended questionnaire will be administered to the respondents. The questionnaire will be used since it will be easy to administer and with data to be obtained will be easy to analyze, Mugenda and Mugenda (2003). Secondary data will also be used to collect data from existing sources in the organization.

Data collection procedure

The questionnaire will be administered using a drop and pick later method. The respondents in the questionnaire will be 33 employees. The primary source of data collection method to be used in the study included use of questionnaire that will be used to source for crucial information. The questionnaire is both open and closed ended questions in order to enable effective data collection filled in the questionnaire.

RESULTS AND DISCUSSION

Effects of outsourcing on bank performance

The Findings of Pen and Littleton (2001) show that effective communication is a key requirement for effective strategy implementation. In this study outsourcing of goods and services was measured using indicators such as expertise and quality of services.

Slightly 42.42% strongly agreed as they said that outsourcing has greatly improved organization performance. 39.39% of the respondents agreed that outsourcing has had great effect on organization performance while only 9.09% of the respondents saying they did not agree that outsourcing has in anyway affected organization performance. 6.06% of the respondents were indifferent to the fact that outsourcing improved organization performance. We therefore note that a majority of the respondents agreed that outsourcing has greatly positively affected performance.

ICT and its role in SCM

The distinctive competencies of any firm arises from two sources, that are its resources(man, machine, m aterials, land, state of art, methods) and capabilities. A differentiating competency ability that allows banking institutions to achieve superior efficiency, quality, innovation or customer responsiveness through. ICT and thereby attain a competitive advantage (Nguyen, 2008). The primary objective of any firm is sustain competitive advantage by maintaining strong growth r ate and high profitability. In this Study, indicators such as adoption of ICT were used to realize this specific objective.

Majority of the respondents (over 57%) said that the main role of ICT in Postbank was to facilitate the faster processing of transactions in the bank, slightly over 33% of the respondents averred that the major role of ICT was to enhance efficient data management of client information, whereas 9.09% said that ICT was intended to prevent fraudulent activities in the banks.
This clearly shows that ICT plays a major role in enhancing and entrenching the SCM practices in the bank.

Strategic Partnership and its extent
Supply Chain Management has been defined to explicitly recognize the strategic nature of coordination between trading partners and to explain the dual purpose of Supply Chain Management: to improve the performance of an individual organization and to improve the performance of the whole supply chain (Li et al, 2006). Okumu (2001) contends that strategy implementation must be owned by everyone, and to achieve this staff meetings are very necessary. Aosa (2002) notes that lack of compatibility of strategy and culture can lead to resistance to change and frustrate strategy implementation efforts. In this study, indicators such as partnership, practices, were used to realize this desired objective.

Majority of the respondents were of the opinion that partnerships were important to the organization in fact 26 (78.8%) of the respondents said that partnerships were either important, very important or extremely important. The remaining 6 (21.2%) were either non-committal or cited the unimportance of the partnership to organizations

Organization performance and Supply Chain management practices.

We further conducted a study to try establishing whether there is any relationship between the performance of the organization and their supply chain management practices. In the study we asked every person whether they agreed with the statement. And evaluated how the company has performed ever since they started actively implementing the supply chain management practices included in the study

From the findings above, 45.5% (15) of the respondents strongly agreed with the statement, 33.3% (11) respondents agreed with the statement whilst 15.15% (5) respondents were not sure whether there was any positive relationship between organization performance and the supply chain management practices only 6% (2) of the respondents disagreed with the statement that there was any positive relationship between organization performance and supply chain management practices.

Globalization of SCM
Globalization has dramatically changed how manufacturers operate, offering an opportunity to reach new customers in new markets while at the same time exposing firms to greater competition. Meanwhile, raw materials and supplier relationships must now be managed on a global scale. Just as there are benefits and costs of globalization, there are similar pros and cons of a global supply chain (Chan & Lee, 2005). In particular, companies need to manage the related risks. With the

onset of globalization, managing supply chains has become more complex and business critical than ever before thus the need for effective risk management along the supply chain for manufacturers to minimize disruptions and resume normal business conditions quickly in the event of an outage.

Another interestingly important fact noted were that majority of the employees thought that the main reason for globalization was it was meant to increase global competition in the sector. More specifically 39.4% whilst only 5 (15.2%) were of the opinion that the main reason for globalization wasdevelopment of government assistance in developing treaties and better global environment.

Conclusion

From the study findings, it is concluded that outsourcing, ICT, strategic partnership and globalization affected performance of the banks in the banking sector. In terms of outsourcing; lack of expertise, improved quality services and strict timelines influenced performance in great extent; lack of expertise in the banking institutions affected performance of banks in mobilization to executing competitive strategies. The role of ICT therefore influenced the implementation of competitive strategies in the banks as it determined the adoption and the appropriate roles that improved performance of the banks. Proper strategic partnership affected performance of banks. Finally, globalization affected performance through its advantages and its roles.

Recommendations

From the study findings, it is concluded that outsourcing, ICT, strategic partnership and globalization affected performance of the banks in the banking sector. In terms of outsourcing; lack of expertise, improved quality services and strict timelines influenced performance in great extent; lack of expertise in the banking institutions affected performance of banks in mobilization to executing competitive strategies. The role of ICT therefore influenced the implementation of competitive strategies in the banks as it determined the adoption and the appropriate roles that improved performance of the banks. Proper strategic partnership affected performance of banks. Finally, globalization affected performance through its advantages and its roles.

Suggestions for further study

The study recommends that further study be done on Integrated ICT tools as most of the existing supply chain packages have a Performance Measurement module as part of it. Future performance measurement systems will have enterprise wide, integrated ICT tools that will extract, collect and elaborate data characterizing their business in the bank as future performance management systems in the SCM will be more ICT dependent.

It is recommended that further studies be conducted on Integration of Operation Research since there have been attempts to integrate multi criteria decision making tools like Analytical Hierarchical Process (AHP) and Data Envelopment Analysis (DEA) with existing PMS frameworks to enhance effectiveness of future SCM.

Additionally, it is recommended that further studies is done on emerging themes in supply chain performance management systems such as: Measure and manage risk in extended supply networks; Aligning performance measures to achieve strategic objectives; Recognizing and incorporating the varying cultural elements in the supply network; and Response to a volatile demand led environment that may include lean and agile elements.

Lastly, further studies should be conducted in the area of Soft Issues as there is a need to develop deeper understanding of the soft issues that make or ruin supply network management and development. There will be more focus on the central relationship between culture and performance measurement and how this varies in different countries in a global context.

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