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Change Management Strategies and Performance of Commercial Banks in Kenya

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Abstract: **The main objective of this study was to assess the effect of change management strategies on the performance of commercial banks in Kenya. Using a descriptive case study design, structured questionnaires were administered to a purposive sample of 68 top-level and middle-level managers drawn from five banks in Kiambu County: KCB in Juja, Family bank Ruiru, Equity bank in Thika, Commercial bank of Africa in Thika, and KCB bank in Thika. Data analysis involved descriptive statistics, correlation analysis, and regression analysis to determine the impact of change management strategies on the performance of the bank. The study found that leadership strategy, stakeholder involvement strategy, communications strategy, and training and development strategy were positively correlated with bank performance with Pearson correlation coefficients of 0.703, 0.499, 0.584, and 0.799, respectively ($p < 0.01$). The four independent variables explain 80% of the variance in bank performance. The study recommends better understanding of stakeholder needs and expectations, tailored communication and engagement efforts, and employee training programs for improved and sustainable performance in the banking sector.**

Keywords: **change management, strategy, performance, commercial bank.**

I. INTRODUCTION

The banking sector is vital to any economy as the intermediary between households and the economic sector. It is a crucial actor in economic growth, and its performance is a critical indicator of the robustness of a country's financial system. In an ever changing business environment, organizations including commercial banks must continually find ways to adapt their competences to new regulations or operating environment [1]. Most recently, the unprecedented COVID-19 pandemic presents challenging operating environment for banks due to declining revenues and loan losses [2]. The industry must transform its operating models to build resilience and thrive through the crisis.

In the Kenyan public sector, change management has been guided by the World Bank's Structural Adjustments Program[3]. In recent years, new public management principles have been adopted to introduce changes in service delivery to Kenyans [4]. Effective change management strategies have been linked to improved organizational performance. Koitie (2015) established that a key part of effective implementation of change in constitutional commissions in Kenya is better internal communication among stakeholders throughout the change process[2]. Communication supports effective relationships and collaboration that reduces resistance to change.

Effective leadership and communication is needed to drive change initiatives. A study of commercial banks in Kenya by Maina (2018) found that their communication strategies are effective for conveying critical change management information[3]. The banks use both formal and informal communication strategies to relay this information. In contrast, Okeyo and Nyaera (2019) found that strategic planning is a critical success factor for effective change management. It helps telecommunication companies determine if their strategies will result in effective change management.

Kenya has a robust financial system that includes local and foreign commercial banks, the Central Bank of Kenya (CBK), savings cooperative unions, and microcredit lenders. The Banking Act of 2019 governs operations in Kenya's banking sector. The CBK also issues guidelines on interest rates, liquidity and solvency requirements for all banks in Kenya (CBK,

2021). Presently, there are 38 commercial banks, one mortgage financing institution, 13 microfinance institutions, 9 subsidiaries of foreign banks, 74 foreign exchange bureaus, and three credit reference bureaus operating in Kenya's financial system[4]. However, according to Faria (2022), nine banks dominate this sector and control about 75% of the market share[5]. These include Kenya Commercial Bank (KCB) that has a market share of about 14%, followed by Equity Bank and NCBA Bank with 11.8% and 9.7% market share, respectively [5]. Their assets, client deposits, branch network, and capital also make them the top three banks in Kenya.

As of 2020, Kenya had 1,063 bank branches countrywide and 1,974 Automatic Teller Machines [6]. Besides main banks, the sector also includes providers without a physical footprint proving e-banking services. Examples include M-Shwari and digital lending applications such as Tala. In terms of asset size, banks have a combined assets amounting to over $27.01 in 2020 (CBK, 2021). The sector has a high concentration of the top 10 banks, with an asset share of 77% [6].

Over the pandemic period, total assets in the banking industry grew by 12.4% to Kshs. 5.4 trillion in 2020 [4]. The main growth drivers were an increase in non-loan assets, including securities and advance loans. Profitability dropped by 30.9%, while average return in investment fell by 2% in 2020, which is attributed to pandemic effects on the economy[4]. Overall, the sector remained resilient due to sufficient capitalization and liquidity resulting from resilient business models and cost-cutting measures adopted.

II. STATEMENT OF THE PROBLEM

Once profit-making commercial banks in Kenya have registered dismal performance over the past few years as indicated by rising nonperforming loans and liquidity/capital deficiencies[7]. As a result, three banks (Dubai bank, Imperial bank, and Chase bank) were placed under statutory receivership in the 2010-2019 period. Further, Kenya's banking space is overbanked with uncompetitive players being merged or acquired, leading to an increase in M&A activity. For example, the National Bank of Kenya was acquired by the KCB Group, Fidelity Bank by SBM Holdings, and Giro Bank by I&M Bank. With these recent developments, innovative change management strategies are required to thrive. Besides, the banking environment is highly competitive with many small banks and e-banking service providers entering this sector. A host of new entrants has emerged that apply new applications tailored to specific segments of the market. Innovation and digitization are expected to drive growth by expediting service delivery. According to the Cytonn (2023) report, 99% of all transactions in the banking sector are completed via mobile or digital banking[8]. Leveraging on digitization for growth requires a change of strategy. Major banks, including KCB, are closing gaps in digital transformation through partnerships with telecommunication companies. However, these developments have made the market highly diversified, competitive and highly concentrated [6]. The COVID-19 pandemic is another recent development requiring a change of the business model of banks. The pandemic has accelerated the shift towards digital transactions and necessitated effective strategies to manage the move to digital banking. With pandemic-related depressed growth, attracting new customers by providing differentiated products and customer relationship management are major challenges requiring effective change management to operate profitability under the new business environment.

Additionally, complying with evolving regulatory conditions and attracting talent and developing key competencies for competitive advantage are needed for superior performance. Most commercial banks adopted a business model of mass market that target low-income traders and SMEs that are less resilient in turbulent economic times. This contributes to unstable revenue that impedes effective long-term planning. In order to attain stability and high performance, effective strategies are needed to manage change in processes, technology, and business models that would guarantee stable revenues in the post-pandemic business environment. Therefore, this study fills this research gap by addressing the question; how does leadership strategy, stakeholder involvement strategy, communications strategy, and employee training and development strategy impact the performance of commercial banks in Kenya?

III. LITERATURE REVIEW

Several studies have analysed the impact of leadership strategy on organizational performance during change implementation. Ozer and Tinaztepe (2014) tested the hypothesis that transformational leadership style is correlated with superior performance of a Turkish export SME[9]. They administered a questionnaire on 215 white-collared individuals occupying managerial and non-management positions in the firm. The results established that relationship-oriented and transformational leadership had the strongest impact on organizational performance. Otieno and Lewa (2020) analysed the effect of strategic leadership on organizational performance within the maritime sector[10]. Using open and close-ended questionnaires, data were collected from executives and managers in organizations in this sector. The results indicated that strategic direction, ethical practices, and strategic control are positively correlated with firm performance. Ng'ang'a (2018)

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evaluated the impact of perceived strategic leadership on performance of six enterprises in the hospitality sector in Kenya[11]. Through a survey of 420 managerial and non-managerial staff, the study found that managers were knowledgeable about organizational strategies but had not implemented them nor informed other staff, which affected performance.

Stakeholder engagement in change management strategy is another key factor that impacts the performance of firms by influence the decision-making process. In one study, Gupta *et al.* (2020) analysed 100 national companies operating in 13 nations, including Australia, Germany, Japan, and the US, between 2004 and 2011 to identify their stakeholder engagement strategies and strategic options linked to superior performance[12]. The study identified that firms adopt a hybrid configuration that involves conforming to local contexts (prioritization of locally critical stakeholders) and differentiating themselves (prioritization of stakeholders neglected by rival firms) to balance between labour and capital requirements. Ingabire *et al.* (2021) studied how stakeholder engagement contributes to a successful strategy implementation[13]. The study used a correlation research design to survey a sample of 92 staff members in Rwanda's Gikondo campus. The authors found a strong positive correlation between stakeholder engagement and success in implementing the strategic plan.

The success or failure of a change initiative is dependent on the effectiveness of communication among staff. Barrett (2002) researched effective employee communication strategies used in Fortune 500 companies to develop an employee communication model[14]. The study applied this model to a case study company to illustrate how a change communication program can be implemented. Based on employee surveys, best practices in communication includes spreading the communication responsibility throughout the firm and normalizing bidirectional, top-down, and bottom-up and open communications. This approach enhances employee morale, leading to better change management and performance. Okora (2021) conducted a systematic review of effective communication strategies by Telecom firms in Kenya[15]. The study used past literature and the communication theory to assess how communication strategies impact performance of firms. The findings included that communication styles positively impacted performance, with the assertive style being the most effective one, as it involves directness and honesty.

Given the reality of change, organizations focus on not only increasing their profitability but also building inimitable resources, which are the employees, through a clear training and development strategy in order to impact their bottom-line. Al Aina and Atan (2020) examined talent management strategies of real estate firms in the United Arab Emirates[16]. A total of 306 managers were surveyed using questionnaires, and the results showed that attracting and retaining top talent did not affect organizational performance. A similar study by Omar and Mahmood (2020) in Malaysia surveyed 219 staff working in a courier service company[17]. The aim of the study was to assess how training and development impacts organizational performance and how corporate culture mediates this relationship. The findings revealed that training and development positively correlate with performance and organizational culture is a mediating variable in this relationship. In contrast, Onichakwe (2013) appraised training and development Nigerian organizations[18]. The study found that the type of training and its design influences employee efficiency and organizational performance.

IV. METHODOLOGY

The study utilized a descriptive research design, including qualitative data collection using structured questionnaires. Data were collected from a purposive sample of 68 top-level and middle-level managers drawn from five banks in Kiambu County: KCB in Juja, Family bank Ruiru, Equity bank in Thika, Commercial bank of Africa in Thika, and KCB bank in Thika. Data analysis involved descriptive statistics, correlation analysis, and regression analysis to determine the impact of change management strategies on the performance of the bank. All data analysis occurred using Statistical Package for Social Sciences (SPSS v. 27), with the findings presented using tables.

V. FINDINGS

The researcher conducted correlation analysis to establish the relationships between the independent variables (leadership strategy, stakeholder involvement strategy, communications strategy, and employee training and development strategy) and the dependent variable, bank performance. The results shown in TABLE 1 show significant positive correlations between the independent variables and the dependent variable with the highest Pearson correlation coefficient of 0.799. Leadership strategy, stakeholder involvement strategy, communications strategy, and employee training and development strategy was positively correlated with bank performance with correlation coefficients of 0.703, 0.499, 0.584, and 0.799, respectively ($p < 0.01$).

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TABLE 1

Correlations

		Leadershipstrategy	StakeholderI	Comm	TrainingDev	Performance
Leadershipstrategy	Pearson Correlation	1	.741**	.524**	.817**	.703**
	Sig. (2-tailed)		.000	.000	.000	.000
	N	66	66	63	66	59
StakeholderI	Pearson Correlation	.741**	1	.803**	.669**	.499**
	Sig. (2-tailed)	.000		.000	.000	.000
	N	66	68	65	68	61
Comm	Pearson Correlation	.524**	.803**	1	.496**	.584**
	Sig. (2-tailed)	.000	.000		.000	.000
	N	63	65	65	65	58
TrainingDev	Pearson Correlation	.817**	.669**	.496**	1	.799**
	Sig. (2-tailed)	.000	.000	.000		.000
	N	66	68	65	68	61
Performance	Pearson Correlation	.703**	.499**	.584**	.799**	1
	Sig. (2-tailed)	.000	.000	.000	.000	
	N	59	61	58	61	61

**. Correlation is significant at the 0.01 level (2-tailed).

The researcher also performed multiple regression analysis to estimate the relative contribution or effect of each independent variable to the bank performance using SPSS software. The analysis results were used to generate a regression model to explain the effect of change management strategies on bank performance. The findings are shown in TABLE 2.

TABLE 2: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics				
					R Square Change	F Change	df1	df2	Sig. F Change
1	.895[a]	.800	.785	.30171	.800	96.554	4	51	.000

a. Predictors: (Constant), TrainingDev, Comm, Leadershipstrategy, StakeholderI

b. Dependent Variable: BankPerformance

The regression model illustrates how the changes in the four independent variables (leadership strategy, training and development strategy, stakeholder account for the variation in the dependent variable (bank performance). The model summary shows a correlation coefficient, R = 0.895, which suggests that the variables are strongly positively correlated. The coefficient of determination, R^2 = 0.800, which suggests that the independent variables of leadership, training and development, stakeholder involvement, and communication explain 80% of the variance in the performance of commercial banks in Kiambu County.

The results of ANOVA analysis at 5% significance level (TABLE 3) show that the calculated F value is 51.059. The F critical from the F table (df1, df2 = 4, 51) is 2.553 at 0.05 probability level. Therefore, because the calculated value (51.059) exceeds the F critical value (2.553), the regression model was significant. Thus, the predictor variables can explain the variance in bank performance.

TABLE 3: ANOVA*a*

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	18.591	4	4.648	51.059	.000[b]
	Residual	4.642	51	.091		
	Total	23.234	55			

a. Dependent Variable: Performance

b. Predictors: (Constant), TrainingDev, Comm, Leadershipstrategy, StakeholderI

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A regression model to explain the effect of change management strategies on the performance of Kenya's commercial banks was as follows:

$Y = \beta 0 + \beta 1X1 + \beta 2X2 + \beta 3X3 + \beta 4X4 + \mu$

Where Y = organizational performance; X1 = leadership strategy; X2 = stakeholder involvement strategy; X3 = communications strategy; X4 = training and development strategy; β0 = constant; μ = explanatory variable.

When the equation is substituted with the coefficients in TABLE 4, it becomes:

$Y = 6.470+0.089X1-0.261X2+0.384X3+0.757X4$

From this equation, assuming all independent variables have a value of zero, Bank performance becomes 6.470. A unit increase in leadership strategy results in a 0.089 increase in bank performance, whereas a unit increase in stakeholder involvement strategy results in 0.261 decrease in bank performance. In addition, a unit increase in training and development and communications strategy result in 0.384 and 0.757 increase in bank performance. Therefore, the most important predictors to bank performance during a change are leadership strategy, training and development, and communications strategy.

TABLE 4: Regression Coefficients

		Unstandardized Coefficients		Standardized Coefficients			Collinearity Statistics	
Model		B	Std. Error	Beta	T	Sig.	Tolerance	VIF
1	(Constant)	6.470	.269		24.060	.000		
	Leadershipstrategy	.072	.090	.089	.797	.429	.317	3.157
	StakeholderI	-.225	.104	-.261	-2.151	.036	.266	3.756
	Comm	.390	.107	.384	3.641	.001	.352	2.842
	TrainingDev	.645	.087	.757	7.381	.000	.373	2.684

a. Dependent Variable: Performance

VI. CONCLUSION AND RECOMMENDATIONS

The findings show that leadership strategy, stakeholder involvement strategy, communications strategy, and training and development strategy are positively correlated with the performance of commercial banks in Kenya. Therefore, it can be concluded that change management strategies used influence bank performance, especially during turbulent periods such as covid-19. Leadership strategy also positively affects the performance of commercial banks. This suggests that using effective leadership strategies when implementing a change improves the bank's performance. The choice of corporate-level strategy (organizational vision and mission are developed), business-level strategy (the vision and mission are translated into actionable strategies) and functional-level strategy (operational functions) affects the performance outcomes in this bank. Stakeholder involvement strategy negatively affects the performance of commercial banks. This implies that higher levels of collaboration, which require effective management of diverse interests and goals to drive organizational performance (Connor, 2017), are lacking at the commercial banks, impacting their performance. Similarly, communications strategy has a positive effect on the performance of commercial banks. The implication of this finding is that commercial banks have streamlined their vertical and horizontal communication and used participatory communication, results-oriented, and multi-channel communication approach to foster information flow and exchange of ideas, positively impacting their performance. Training and development also positively affect the banks' performance. This suggests that commercial banks in Kenya provide adequate training to employees, improving the staff skills, abilities, and knowledge, increasing their productivity and effectiveness [19].

The study found that the current stakeholder involvement strategies negatively affect the performance of the five banks. Therefore, it is recommended that commercial banks understand and balance the unique needs and interests of the stakeholders and manage differences among them in order to better understand and incorporate their perspectives and input in decisions during change management. Based on the study's findings, a better communications strategy is recommended for meaningful stakeholder engagement. Commercial banks should keep stakeholders abreast of its programs, milestones achieved, and changes using multi channels such as emails, social media, and weekly/monthly meetings. These methods will ensure regular updates and enable the bank to address concerns and incorporate their input in the changes.

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