INFLUENCE OF STAKEHOLDER ENGAGEMENT ON PERFORMANCE OF COMMERCIAL BANKS IN KENYA

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Abstract: The general objective of this research was to establish the influence of stakeholder engagement on performance of commercial banks in Kenya. The study embraced a Descriptive Research Design. The study collected primary data through administration of questionnaires. The study questionnaires were self-administered to the selected bank officials. The study had a Target population of 126 Managers from the three levels of management of the 42 licensed commercial banks in Kenya. A simple random sampling method was used to select the managers for the study who were 75 in number. The study analyzed the data into a descriptive statistic by help of SPSS software version 23 where measures of central tendencies such as mean and standard deviation was calculated. The variations in the financial performance of banks were due to stakeholders’ engagement. The study findings were presented in form of frequency tables and bar graphs. From the findings of the study, it was revealed that the stakeholders’ engagement influence the operations and functioning of commercial banks in Kenya. The study recommends that commercial banks to strengthen the relationship with its stakeholders for continued engagement.

Keywords: Stakeholders Engagement, Performance, Commercial Banks.

1. INTRODUCTION

This segment encompasses the contextual of the research which shows discussion linking change management practices to performance from a global, regional and local perspective. It defines the Independent and dependent variables and also highlights the problem the researcher is investigating, the intents and inquiries of this research. This research provides the reasoning and range of the study.

The commercial industry today is described as unstable, indefinite, complicated and uncertain. In such a setting, the ability to sense and react to market dynamics promptly is essential for the well-being of the organization (Marquardt, 2015). In this unstable situation, rivalry causes market forces of demand and supply to fluctuate than in a normal situation. In this case, organizations need to be responsive and be in a position to react to economic volatility fast in order to remain competitive over their rivals. This can only be done by firms adopting better change management strategies so as to be able to respond to external changes which affect their internal operations (Ulrich, 2015).

Change is an important component of survival for both individuals and organizations. Berry and Green (2016) argued that many organizations face challenges which force them to adapt to new changes in order to survive. Change is enormously vibrant and as a result, the change management process must be easy to be accustomed.

Change management, according to Wheelen, Hunger, Hoffman and Bamford (2017) involves considerable organization and profound operations discussion with, and participation of the persons touched by the variations. Change management can be said to be a process through which managers control the work force in a professional manner to be able to achieve the requisite results as described in the organization’s vision and mission statements.
Berry and Green (2016), while investigating the British local administration, stated that the main issues influencing the execution procedure of change management policy is changes in the organizational structure. The change management implementation process is intensely influenced by outdated frameworks.

In China’s public administration, Hanif, Kamran, Hanif & Shao (2018) discovered that even after putting in huge investments into technology in an attempt to alter the information technology, the framework remained inflexible, centered on consistent synchronization and regulation mechanisms. This greatly hindered the execution of change management strategies. The main implementation challenge is changing the organizational structure towards an improved decentralization and decreased formalization structure.

In Kenya’s financial sector, commercial banks’ operations is directly reliant on competence and success of managing change and on the contrary, strict controls and guidelines protect the banks from negative effects associated with change management. Commercial banks need to balance between stringent controls and guidelines and efficient management of change (Messis, 2016).

Mbote (2016) informed that the media firms tried to resist the change during the digital migration process in the year 2000. Due to lack of better change management practices, the media firms performed poorly during that period of digital migration. Citing the report by Communications Authority, three chief media houses in Kenya were sabotaging the digital migration awareness campaigns by failing to publish materials that were meant to inform the public about the digital migration process mainly due to the reason that they were not prepared for the change.

The organizations in Kenya, as argued by Odhiambo (2018), uses a lot of time and resources to come up with decisions which takes benefit of the opportunities in the industry and also remain more strategically placed than their competitors. Despite these efforts by the firms in planning change strategies which are aimed at putting the organizations at the top of their competitors, it is becoming clear that organizations are not able to compete effectively because the change management tactics are not executed effectively.

Yabs (2014) established that the key driving forces necessitating change amid manufacturing firms in Kenya were rising from the exterior surroundings. The organizations embraced a top-down change management approach. Accordingly, the research discovered that the Middle level Managers were responsible for crafting strategic change vision and a Strategic Change Project Committee was responsible for change implementation. Change management practices among these firms entailed adoption of people oriented strategic approach to change management practices whilst simultaneously safeguarding shareholder welfares.

2. STATEMENT OF THE PROBLEM

The Banking segment in Kenya is experiencing tremendous fluctuations and growth. The industry is now faced with issues such as customer sophistication, stringent regulation and controls, improved technical knowledge, liberalization of banking license leading to rapid globalization of those institutions and challenges in performance that those financial institutions cannot cope (Obonyo & Kerongo, 2015). More recently there has been a change in the banking act regarding interest rate capping where profitability was mostly affected. Without proper alteration of the commercial banks to the supervisory adjustment, the performance of commercial banks has declined significantly.

The Central Bank of Kenya, 2018 banking sector stability report indicated that commercial banks remained the largest holder of government securities at 55.41% in March 2017. The report specified that there was deterioration in the superiority of properties as reflected in rapid growth of gross non-performing loans (loan defaults) which increased from 8.3% in March 2016 to 9.5% in the same period the following year (2017) due to several factors among them problems of cash flow due to unfavorable business environment and un-serviced loans.

In addition, a difference in the year 2015 was noted where the banking sector documented a growth in profit before tax by 15% while there was simply a growth in earnings by 2.9% in the year 2017 which was counteracted by a rise in total expenses by 21.2% (Central Bank of Kenya Banking Sector Stability Report, 2018).

The report also showed that the banking sector in Kenya was distressed by the regulatory changes which contributed to a rise in credit arrears from Ksh.3.8 billion in March 2015 to Kshs.8.4 billion in March 2017. With a demonstration of three commercial banks collapsing in the last five years - that is Dubai Bank, Chase bank and Imperial bank (CBK Report, 2018) - there is perhaps a need to reevaluate how to compete and gain competitive advantage in this sector by

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adopting to change management practices in this sector. To cope and perform better, the commercial banks might need to be more agile and develop better change management practices as argued by Nyangosi (2011).

Many investigations have been undertaken in connection with change management practices in various sectors. The study by Kibwana (2015) looked at change management practices and focused on the public sector under the local authorities in Mombasa county; the study by Kilu (2016) concentrated on managing change at Judicial Service Commission; Mayende and Wanyoike (2016) studied out on change management in Nakuru Level Five Hospital. Odera and Muendo (2017) concentrated on managing change in the energy sector. All these studies have not considered inspiration of influence of stakeholder engagement on performance of commercial banks in Kenya. This research, therefore, desired to seal this gap by identifying the influence of stakeholder engagement on performance of commercial banks in Kenya.

3. LITERATURE REVIEW

Stakeholder theory is a concept which was advanced by Freeman (1984) as a managerial guide and since then, it has become an instrumental reference book for administrative issues. This theory postulates the interests of the stakeholders as the main watchdog of the organization’s strategy and processes. It meant that the management should put into considerations the interests of the stakeholders as they formulate the strategies of the organization.

According to Gray, Owen, & Adams (1996), many associations in a firm’s environment seems to be multifaceted and vigorous. Thus, there is need to understand the stakeholder’s power and respond to their distresses which would lead to achievement of the organization’s goals. The theory was therefore related to this research in explaining the role of capacity building to impact the stakeholders (employees) with the requisite acquaintances and expertise as well as awareness and desire to adapt to the changes.

An Organization can be described as a group of stakeholders operating together with an aim of managing their welfare, necessities and perspectives. According to Kombe and Wafula (2015), organizations deals with other groups save for the shareholders, which include staff, creditors and public interest groups like environmental organizations, debtors, business partners, broadcasting groups as well as, community observance groups, banking groups, legislative bodies and rivals among others. For an effective stakeholder engagement, it is of great importance for an organization to define the stakeholders to engage with, at what level they may be engaged and also the purpose of engaging them. Kibwana (2015) argues that stakeholders can be engaged by organizations in different capacities to drive change in the organization and this depends on their influence on the required change.

Bourne (2016) describes a stakeholder as any individual, group or society that can affect the actions of a firm or can be influenced by the procedures of an organization both positively and negatively. Stakeholder engagement is a practice steered by fundamental values that guarantees a business to achieve its vision and mission by understanding, inducing the external and internal surroundings and by crafting constructive interactions with stakeholders through proper management of their prospects.

Alwan and Al-Zubi (2016) notes that stakeholder management can be productively achieved by use of the procedure of identification, investigation, stakeholder matrix (choosing who to engage), stakeholder engagement and finally communicating the outcome of the engagement. The idea of stakeholder engagement requires that the management needs to articulate and put into practice procedures which gratify the partners with benefits in the firm. The organization’s management ought to balance the wants of the business and those of stakeholders to be certain of a continuing operation of the organization and enduring working relationship. Kane, Phillips, Kiron & Buckley (2015) claims that when it comes to significant commercial resolutions, it is essential to understand the prospects of various stakeholders and to define to what magnitude they could and may wield an effect on the organization. Also the outcome of such influence on the organization’s overall operation is noted.

4. RESEARCH METHODOLOGY

The study embraced a Descriptive Research Design. The study collected primary data through administration of questionnaires. The study questionnaires were self-administered to the selected bank officials. The study had a Target population of 126 Managers from the three levels of management of the 42 licensed commercial banks in Kenya. A simple random sampling method was used to select the managers for the study who were 75 in number. The study analyzed the data into a descriptive statistic by help of SPSS software version 23 where measures of central tendencies such as mean and standard deviation was calculated.
5. FINDINGS

The study collected data on stakeholder’s engagement on functioning of commercial banks in Kenya.

Table 1 shows that the banks acknowledged the essence of engaging stakeholders on the introduction and execution of change in the banks where a mean of 4.45 with a standard deviation of 0.776 was found. A mean of 4.36 with a standard deviation of 0.710 was established when respondents were asked whether the stakeholder engagements occurs at every level in change management. The study also established that stakeholders are usually given an opportunity to give out their inputs in matters change in the banks where a mean of 4.39 with a standard deviation of 0.751. A mean of 4.60 was established when respondents were asked whether involvement of stakeholders ensured the intended change was achieved smoothly where a standard deviation of 0.753 was established. The respondents approved that consultation of stakeholders with stakeholders occurs continuously where a mean of 4.43 with a standard deviation of 0.597 was found. On the other hand, the study established a mean of 4.75 with a standard deviation of 0.548 where the respondents acknowledged that engagement of stakeholders had seen improvement in the operations of the banks.

The study findings agreed with those of Muli, Bwisa and Kihoro (2016) who found out that engagement of stakeholders led to improvement and success of projects in Machakos county. Engaging stakeholders helps in ensuring that their inputs were considered and this would ensure success and improvement in performance. Failure to engage stakeholders in implementation of key change management matters leads to rebellion and this may cause failure of the intended change. A study done by Kimutai and Kwambai (2018) also identified that engaging stakeholders in university of Eldoret led to improvement in performance of the university and this was an intergral part in decision making. Data outcomes are presented in Table 1.

<table>
<thead>
<tr>
<th>Statement on Stakeholders Engagement</th>
<th>N</th>
<th>Mean</th>
<th>Std. Deviation</th>
</tr>
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<tbody>
<tr>
<td>The bank recognizes the need to involve stakeholders on the introduction and execution of change</td>
<td>75</td>
<td>4.45</td>
<td>.776</td>
</tr>
<tr>
<td>Involvement of stakeholders occurs at all levels in the bank in change management.</td>
<td>75</td>
<td>4.36</td>
<td>.710</td>
</tr>
<tr>
<td>Stakeholders are given an opportunity to air in their input on matters of change in the bank.</td>
<td>75</td>
<td>4.39</td>
<td>.751</td>
</tr>
<tr>
<td>Involvement of stakeholders ensures that the intended change is smooth</td>
<td>75</td>
<td>4.60</td>
<td>.753</td>
</tr>
<tr>
<td>Consultation with stakeholders happens continuously in the bank from introduction to implementation.</td>
<td>75</td>
<td>4.43</td>
<td>.597</td>
</tr>
<tr>
<td>Engagement of stakeholders has seen improvement in the operations of the bank.</td>
<td>75</td>
<td>4.75</td>
<td>.548</td>
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The study results illustrate that stakeholder engagement has a strong positive association with financial performance of the commercial banks in Kenya ($r = 0.734; p < 0.05$).

With reference to Table 2, stakeholder engagement has progressive result on financial operations of commercial banks in Kenya.

The model has thus been realized as follows;

\[
Y = 1.609 + 0.478SH
\]

Whereas 1.609 is financial performance in absence of the study variables, 0.478 is the increase in financial performance in response to a unit increase in stakeholder’s engagement. In addition, the study as per Table 2 has revealed that stakeholder engagement. Notably, a P-Value of less than 0.05 shows that statistically important result indicating that the null hypothesis is rejected. However, strategic communication did not exhibit a statistically significant relationship with financial performance as evidenced by the P-Value of 0.926 which is more than the set threshold of 0.05 at 95% confidence level.
Table 2: Regression Co-efficient

<table>
<thead>
<tr>
<th>Model</th>
<th>Unstandardized Coefficients</th>
<th>Standardized Coefficients</th>
<th>T</th>
<th>Sig.</th>
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<tr>
<td></td>
<td>B</td>
<td>Std. Error</td>
<td>Beta</td>
<td></td>
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<tr>
<td>(Constant)</td>
<td>1.609</td>
<td>.392</td>
<td>4.104</td>
<td>.000</td>
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<tr>
<td>Stakeholder Engagement</td>
<td>.478</td>
<td>.054</td>
<td>.720</td>
<td></td>
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<td></td>
<td></td>
<td></td>
<td>8.852</td>
<td>.000</td>
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6. CONCLUSION AND RECOMMENDATION

Results of data analysis showed that stakeholder’s engagement was pivotal towards improving the financial returns of the lenders that were considered in the study. Most respondents agreed that most aspects of stakeholder’s engagement were vital. Additionally, results showed that involving all stakeholders in change management, considering all levels of management, recognizing all parties’ inputs and consultations in change planning and execution of proposed change ensured that change management was smooth. It also showed that operations of the banks were improved which ultimately positively impacted on financial performance.

Grounded on the discoveries, the study concludes that stakeholder’s engagement impacts the functioning of commercial banks in Kenya. Stakeholder’s engagement has increased the level of co-operation between the bank and the stakeholders and this has led to enhanced performance. The study concludes that the bank recognizes the need to engage stakeholders on the introduction and execution of change and this is good for the operation of the banks. The study also concludes that the banks involve stakeholders in managing change to ensure their support. Equally, the study concludes that the views of the stakeholders are considered by the commercial banks when introducing change in the banks. Further, the study concludes that consultation with stakeholders occurs continuously and this helps in maintaining a good operating atmosphere with the stakeholders. It should be noted that stakeholders play a key role in the success of the banks and therefore their roles cannot be overlooked by the bank management team. For this reason, it is worthwhile to mention that consultation with stakeholders should be done continuously and regularly to ensure the success of the bank is guaranteed. The study further concludes that the engagement of stakeholders is good for the banks as it has led to improvement in the operation of the banks.

REFERENCES


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