Effect of Environmental Uncertainties on Performance of Commercial Banks within Kisii Town

PETER OCHIENG NYARANGA[1], LAWRENCE ODOLLO[2]
[1, 2] The School of Entrepreneurship and Business ManagementJomo Kenyatta University of Agriculture and Technology, Nairobi, Kenya

Abstract- The objective of the study was to establish the effects of Environment Uncertainty on performance of banks, to evaluate the effects of government policies and regulations on performance of commercial banks in Kisii. The study was based on Resourced based View, Institutional Theory, Diffusion Theory of Innovation and Social cognitive theory. A descriptive design was used for the study. The unit of analysis was commercial banks located in Kisii town and the unit of observation was Branch Managers department, Sales and Marketing department, Loan and recovery departments, customer service departments, operation departments and Credit department. Census sampling was used to sample all the population. The study used semi-structured questionnaire to collect primary data. The data collected was analysed using Statistical Package for Social Science (SPSS) Version 24. Data was analysed both descriptively and inferentially to determine both the trend and significance of relationships.The findings observed that the environmental uncertainty had a significant positive effect p<.05 on bank performance among commercial banks in Kisii County. It was concluded that that environmental uncertainty has a positive significant influence on performance of commercial banks in Kisii County Kenya. Based on the study findings, the study recommends that commercial banks need to take a note on the external factors such as environment uncertainties and make strategic plans on how to navigate through since they it has been established that it playsa significant effect on bank performance in the study area. Even though the organization may not have direct control over these factors but they should not be forgotten in the master planthis was fully evidenced by the outbreak of the pandemic disease which broke up in the year 2019, if these factor would have been considered then the banking sector would have not realized the loses.

Indexed Terms- Environment Uncertainty on Performance of banks

I. INTRODUCTION

Strategy is defined as the process by which an organization develops, employs, and combines organizational structures, control systems, and culture to implement strategies that result in a competitive advantage and improved performance. Strategy implementation is also viewed as factors that are considered to enable organizations to achieve their goals and objectives. Adoption of strategic planning is critical to a firm's success in today's highly competitive business environment. The commercial banks operating environment is highly dynamic as a result of the rising effects of globalization and advancements in information and communication technology, among other factors (Mbithi, MuendoBonface, 2016).

According to Boggis and Trafford (2014), there is typically more to operationalizing strategy than training employees, revamping procedures, and making structural changes. They argue that in order for strategies to be truly successful, leaders must have a role in creating the conditions that allow the organization to draw itself into a better future, one that not only represents the strategic goal, but also becomes operational reality. In order to achieve this in the banking industry, proper strategy implementation should and must be put in place.

Serfontein (2011) led study on the implementation of strategy and execution of the association in South Africa, and it was discovered that strategic administration is straightforwardly and positively associated with functional greatness and execution in South African commercial associations. The administrative implications of the studies recommended model that authority and leaders in business associations can implement high-performing initiatives.

The International Journal of Logical Research and Management in Nigeria directed research on the impact of strategic analysis and strategy implementation on the help nature of a well-known telecom, and it was discovered that strategic analysis had a positive critical relationship with administration quality in the Nigerian Telecommunication area, strategy implementation thinks up a connection between strategy plan and expected results, and effective execution of hierarchic processes. According to Alaka*et al.,* (2011), most organizations fail to successfully carry out an approach, which causes unexpected misfortune in their presentation in terms of administration conveyance and market share.

Simbarashe Masamba (2020), conducted study on the effect of strategy implementation on organizational execution in Zimbabwe since a great deal of effort was being made by Zimbabwean companies on successful strategy implementation that was not bearing any fruit. This prompted the researcher to conduct research on the effect of strategy implementation on organization execution in Zimbabwe, and it was later discovered that strategy implementation has a positive impact on the benefit of organizations in Zimbabwe, and it was subsequently recognized as a key element that aids the presentation of these organizations.

The current subject has been considered both globally and locally, and a few scholars have raised concerns about it because strategy plays an extremely important role in an exhibition in distinct associations. Coordination, resource allocation, and use of alter the board procedures are all part of the implementation process. The implementation procedure should be more confusing during one of the analysis or determination stages. The data collected during the strategy analysis stage is essential for successful strategy execution. It is critical for organizations to understand their internal strengths and weaknesses, as well as their external opportunities and threats. While strategy creation and application are closely related tasks, strategy execution is the most perplexing and time-consuming aspect of strategic administration (Kyalo, 2015)

Gitonga (2013) conducted study on the effects of strategic plan execution on organizational performance, and four criteria were identified as having a close relationship with strategic performance. Leadership, organization, policies and processes, and resource distribution were among them. Different strategic goals of the methodology implementation process were incorporated in terms of performance. These numerous aspects were discovered to have a significant impact on performance, and improvements in them result in improved performance. Regardless, structure, rules, and procedures were proven to have a greater impact on performance than leadership and resource distribution.

II. LITERATURE REVIEW

Many businesses are being operated under uncertain environments where the management does not know exactly what happened the following day to their business. The same concepts applies to the banking sector where most of the commercial banks management set their performance targets as the year began not knowing what happened to the organization as the year moves by, Pandemic diseases such as COVID 19, drought and flood and earthquake may affects the performance of the organizations in one way or the other, so provisions needs to put in place for these factors when strategies are being formulated and implemented as described below.

According to Dung and Hoang (2021) on their study on economic policy uncertainty affect bank business models, which looked into the impact of economic policy using a large sample of U.S. banks during 2000–2017, revealed that banks are more likely to diversify their income stream into new activities generating non-interest income amid high EPU. The results indicate that economic policy uncertainty affect bank business models had no significant effect on banks' decisions about non-interest income activities. Whereas the study was carried out in the USA, there is paucity of literature on the possible effect of economic policy uncertainty climate hence, this gap the study was to fill.

A study by Xing et al. (2022) on economic uncertainty and bank risk: the moderating role of risk governance revealed that consistent with theory, empirical results suggested the effects of economic uncertainty on bank risk and performance tend to be considerably weaker when there exists a strong risk governance mechanism. These findings stand when subjected to several endogeneity and robustness checks. Risk governance plays a key role in weakening the detrimental consequences of economic uncertainty on banks and promoting a sustainable growth of the banking sector. A financial regulator entity should require banks to establish a sound risk governance system in order to mitigate financial systemic risk and safeguard overall financial stability. Nyaga (2013) conducted a research on the effect of mobile money services on the accomplishment of small with medium sized firm in towns within Kenya. Data was collected in Naivasha municipality. The city was selected in a purposive sample for expediency from 31 municipals and 24 towns in the country. The study used secondary data from literature review even though primary facts were gathered to fill in recognized breaches. The study concluded that mobile money has made a considerable input to the accomplishment of small and medium sized firms in town centers. Many traders depend more on mobile money than the formal banking sector for their daily business operations. Also, it was clear that the contributors in this research had a very good considerate of the primary roles of mobile services. Mobile money services clearly have a positive impact on productivity.

Macharia and Mungai (2021) did Financial deepening and financial performance of Commercial Banks. The research population was 168 branches of the financial institutions operating in the country in 2010. The paper made use of used secondary facts generated from the banks' database. The CCR model was used to compute the relative operational efficiency for each branch. The study found out that the average operational efficiency for the whole bank was 65%. Out of 168 branches, 25 branches were efficient with score of 1. Small and large bank branches were found to be more efficient than middle sized branches in terms of assets. The research results also established that the inefficiency was related to staff cost variable with only 41 branches out of 168 having surplus staff cost units

Study conducted by Gitau (2011) investigated the connection amid economic improvement and fiscal performance of business financial institutions in Kenya over 5 years. The paper used quasi experimental propose. The study targeted 44 commercial banks in Kenya using primary facts assembled using questionnaires and secondary facts obtained from the financial results and publications of banks. The research concluded that 70% of institutions had adopted process innovations, 16% product innovations and 14% institutional innovations. The study also found out that there is an affirmative connection amid economic improvement and fiscal performance of business financial institutions. The paper found that the bank's fiscal performance is affected by the efficiency of financial innovation through a mean of 3.9 answering the question that to what extent did financial innovation affect bank's fiscal performance in Kenya. 23 companies were found to be operating efficiently out of 35 companies analyzed the company.

III. THEORETICAL REVIEW

Social Cognitive Theory started as the Social Learning Theory in the 1960s by Albert Bandura. Social Cognitive Theory describes the influence of individual experiences, the actions of others, and environmental factors on individual health behaviors. Social cognitive theory provides opportunities for social support through instilling expectations, self-efficacy, and using observational learning and other reinforcements to achieve behavior change.This theory suggests that, people do not learn new behaviors solely by trying them and either succeeding or failing, but rather, the survival of humanity is dependent upon the replication of the actions of others. Depending on whether people are rewarded or punished for their behavior and the outcome of the behavior, the observer may choose to replicate behavior modeled. Media provides models for a vast array of people in many different environmental settings.

This theory applies in today's organizations when implementing the strategies, these strategies being implemented must have been learned by the top executives as upper Echelon theory puts it, from somewhere and therefore they may work or may fail. This theory was relevant to the topic under study because due to environmental changes, the organizations may adopt new ways of carrying their daily to daily activities, this is evidenced by the emergence of pandemic disease which enabled most organizations to work from home, therefore strategy should always be put in place for such environmental factors to enable prosperity of the organization under study.

IV. FINDINGS AND DISCUSSIONS

The study sough to establish the effect of environmental uncertainties on bank performance in the commercial banks in Kisii county. The respondents were required to answer the questions using the Likert scale 1-5 where 5 was the highest and 1 was the lowest. Their responses were recorded and analyzed as shown in Table 1.

Table 1Respondents of Environment Uncertainties on Performance

Statements	5	4	3	2	1
Performance of commercial banks depends on prevailing environment conditions	25%	55%	5%	10%	5%
The pandemic diseases I.e. COVID 19 affects performance of Banks	80%	15%	0%	4%	1%
The poor performance of commercial banks for the last few years was as a result of improper strategies.	10%	65%	5%	20%	0%
There are natural disasters such as drought, flood, earthquake etc that can affect performance of commercial banks	20%	70%	3%	5%	2%
There is no proper strategies put in place to curb these environmental uncertainties	85%	10%	0%	4.8%	0.2%

Table 1 observed that the majority of the respondents 75% were in agreement that performance of commercial banks depends on prevailing environment conditions. This implied that the prevailing environment had an effect on the performance of the commercial banks in the study area. The study also observed that majority of the respondents 95% were in strong agreement that the pandemic diseases for instance COVID 19 had a significant effecton the performance of Banks when it struck between 2019 to 2021. Additionally, majority of the respondents 75% were in agreement that poor performance of commercial banks for the last few years was as a result of improper strategies to cope with environmental uncertainties. This implied that majority of the banks did not have strategic plans in place to cope with eventualities of environmental uncertainties and as a result, banks ended up making significant losses. Further, the study observed that majority of the respondents 95% were in agreement that there are natural disasters such as drought, flood, earthquake among others could affect performance of commercial banks. Finally, the study observed that majority of the 98% of the respondents were in agreement that there is no proper strategies put in place to curb these environmental uncertainties.

- Inferential Analysis

Inferential statistics are used to make generalizations from data (Mugenda & Mugenda, 2012). As a result, they are used to test the hypothesis and create an estimate based on sample data. In this study, inferential analysis was used to determine the associations between dependent and independent variables using regression analysis.Linear regression model was employed to analyze the combined effect of independent variables, environmental uncertainties, and the dependent variable bank performance of commercial banks. Table 4.2 recorded the findings.

Table 2: Coefficient of regression for environmental uncertainty and performance

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		Beta	Std. Error	Beta		
1	(Constant)	.316	.144		2.194	.030
	Environmental Uncertainty	.497	.068	.629	7.286	.000
a. Dependent Variable: Performance of Commercial Banks						

Table 2 observed that the environmental uncertainty had a significant positive effect $p<.05$ on bank performance among commercial banks in Kisii County. The study also noted that environmental uncertainty has a positive significant influence on performance of commercial banks (β = 0.497, p = 0.00) which shows that holding all other factors constant, a unit increase in environmental uncertainty results to 49.7% increase in performance of commercial banks. Lastly, the findings revealed that Regression results show that relative size factor has a positive significant effect (β = 0.372, p = 0.000) on performance of commercial banks. This implies that if all other factors are held constant, a unit increase in government policies results into a significant increase in performance of commercial banks by 37.2%.fully a geed while others agreed that environment uncertainties may seriously affects performance of commercial banks if proper strategies are not put into place and this is evidenced by the pandemic disease Covid 19 which affected the performance of almost all sectors in the world. This finding concurs with the scholar Simbarashe Masamba (2020) of Zimbabwe who found that there is a close correlation between strategic implementation and performance.

CONCLUSION

The study concluded that environmental uncertainty has a positive significant influence on performance of commercial banks in Kisii County Kenya

RECOMMENDATIONS

Based on the study findings, the study recommends that commercial banks need to take a note on the external factors such as environment uncertainties and make strategic plans on how to navigate through since they it has been established that it playsa significant effect on bank performance in the study area. Even though the organization may not have direct control over these factors but they should not be forgotten in the master planthis was fully evidenced by the outbreak of the pandemic disease which broke up in the year 2019, if these factor would have been considered then the banking sector would have not realized the loses

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