RELATIONSHIP BETWEEN CHANGE MANAGEMENT STRATEGIES AND PERFORMANCE OF COMMERCIAL BANKS IN KENYA

NGUGI Alice Mumbi

Abstract

This study sought to investigate the change management strategies adopted by the commercial banks in Kenya and their effects on the performance. This study adopted a descriptive survey. This study targeted Strategic and Innovations Managers in the 43 commercial banks in Kenya. The 1st tier banks had two Strategic and Innovations Managers while the 2nd and 3rd tier banks had one manager who was based in the banks head offices. In total, there were 64 Strategic and Innovations Managers in the banks. Stratified random sampling was used to group the banks into three tiers. A census survey was adopted since the population was small and manageable. This study utilized a questionnaire to collect primary data and data analysis was done quantitatively and qualitatively by use of descriptive statistics and content analysis. Quantitative data was presented through frequency distribution, tables, percentages, mean and standard deviations. Qualitative data was presented in prose form. Data analysis tools used included statistical package for social science version 21 and Microsoft excel programme which gave statistical output in form of percentages, tabulations, means and other central tendencies. Tables were used to summarize responses for further analysis and facilitate comparison. A multivariate regression model and ANOVA was applied to determine the relative importance of each of the four variables with respect to performance of commercial banks. The study revealed that performance had a positive relationship will all the change management strategies. The study hence recommends that the institution should install systems (for instance technological) that are compatible with the change management practices. They will enable in dealing with challenges of management, roadblocks to collaboration between departments which fails the implementation of change management. The study thus recommends that change agents responsible of leading the change management practices should strive to encourage others for excellence through employees own behaviour and full recognition of high standards of behavior.

Key words: Systems compatibility, change agents, Performance of commercial banks.
Introduction

The major dilemma faced by businesses today is managing strategic change initiatives efficiently and effectively. According to Ulrich (2012), a primary difference between organisations that succeed and those that fail is the ability to respond to the pace of change. In other words, organisations need to monitor and scan their external environments, anticipate, and adapt timely to continual change (Marquardt, 2015). It is paramount to note that individuals and institutions that choose to meddle through turbulence find it very difficult to survive. Indeed, there are many reasons that may inspire change. According to McKinsey Survey on Change Management (2010) organizations will change to reduce costs, to move from a good performance to a great performance, to turn around a crisis situation, to catch up with rivals or to divest part of the organization.

Globally, Coyle-Shapiro and Kessler (2010) found that managers were more positive in their assessment of the employer’s fulfilment of their obligations than the employees were. Through creating an open working environment and effective channels of communication the manager can ensure that the expectations of both employees and the employer are clear and well communicated. Regionally, Heymans and Pycroft (2010) carried out a study on drivers of change in Nigeria: A preliminary overview. Their study established that the drivers of change approach hinges on the various aspects: ‘Pro-poor change’ is taken to mean sustained economic growth; broader access for poor people to services, markets, assets and safety nets; and the state and service providers becoming more accountable to the public, particularly the poor. Change processes are driven through or make an impact upon a society’s structural features, its institutions and the behaviour or interests of agents. There is no clear causality in these relationships. Agents often offer entry points for change and structures fundamentally define the scope for change, but institutions mediate between structural features and agents.

With organizations operating in very volatile environment, the managements concern is how to achieve organizational performance. Organizational performance involves recurring activities to establish organizational goals, monitor progress towards the goals, and make adjustments towards achieve those goals more effectively and efficiently (Carter, 2013). The question is why some organizations perform better than others. The analysis of the change management process of many banks around the world reveals that the challenging issues that represent resisting forces to change are often the soft issues such as social, cultural and human issues across different managerial levels and functional boundaries. These significant issues emerge in the implementation stage, in the centralized unit, within branch operations, during the new product launch, across technical training, and are embedded in the HR relocation, interview and organisational performance activities (Nickols, 2014).
Research Problem

Mainstream banks in Kenya have experienced increased competition over the last few years due to increased innovations among the players and new entrants into the market. Some of the new innovations such as mobile money transfer and more recently mobile banking are creating fierce competition among the banks. This has forced banks to roll out platforms to support mobile banking. Performance of commercial banks in Kenya grew impressively between years 2005 to 2014 where profit before tax grew from Kshs 4.7 billion in 2008 to Kshs 74 billion in 2014. During the same period, total income grew from Kshs 61 billion to Kshs 178 billion while total assets grew from Kshs 425 billion to Kshs 1.7 trillion (CBK, 2016). In comparison with other East African economies, Kenya's banking sector has for many years been credited for its size and diversification. Private credit to GDP, a standard indicator of financial development, was 23.7% in 2008, compared to a median of 12.3% for Sub-Saharan Africa. Based on the same indicator Kenya is ahead of Tanzania which has 12.3% and Uganda with 7.2% (Beck, Demirguc-Kunt and Levine, 2013).

In this light, in organizations strategic change management translates the success or failure of organizations. It is therefore pertinent to find major challenges faced by banks that necessitate such change and the strategic change management practices employed by such banks. Lastly it is also important to determine the challenges faced in implementing change. This is of great essence in the absence of studies that address the subject of strategic change management in banks. The study by Kimaita (2010) focused on strategic change management practices within Teachers Service Commission, Kenya. Kimakus (2010) study only focused on the Barclays bank of Kenya only sought to determine the various strategic change management practices adopted by the bank. Mwarigis (2012) study did not endeavor to determine a detailed account of the challenges that commercial banks are being faced with so as to necessitate strategic change management. Since strategic change management is dynamic and is pegged on the environment in which the business takes place, it is difficult to ascertain why banks undertake strategic change management and the befitting strategic change management practices expedient for such banks. This study therefore sought to fill this research gap.

Objectives of the Study

The general objective of the study was to evaluate the change management strategies and performance of commercial banks in Kenya. The specific objectives were;

1. To determine the influence of system compatibility strategies on performance of commercial banks in Kenya.
2. To analyse the effect of change agents strategies on performance of commercial banks in Kenya.
Theoretical review

Lewin’s Three-Step Change Theory

Lewin (1951) introduced the three-step change model. This social scientist views behavior as a dynamic balance of forces working in opposing directions. Driving forces facilitate change because they push employees in the desired direction. Restraining forces hinder change because they push employees in the opposite direction. Therefore, these forces must be analyzed and Lewin’s three-step model can help shift the balance in the direction of the planned change. According to Lewin (1951), the first step in the process of changing behavior is to unfreeze the existing situation or status quo. The status quo is considered the equilibrium state. Unfreezing is necessary to overcome the strains of individual resistance and group conformity. The unfreezing also prepares people to acquire or learn new behaviour. According to Maalu (2012) people are willing to accept new ways of doing things but this requires a trigger, for example declining sales or profits or threat of closure. The second step is the change itself whereby the organization presents a new alternative. This means introducing a clear and appealing option for a new pattern of behaviour (Maalu 2012).

Theory of Change Management

The practitioners, who to the large consulting firm model of organizational change, are seen as advocating the rational-linear view of organisational change, while the theoreticians are perceived as supporting the systemic-multivariate view of organisational change (Modahl, 2010). It is commonly observed among the advocates of the rational-linear view of organisational change that there is an optimum solution for organizing labour, raw materials and capital and for adopting new organisational practices. Within this view, the focus has been primarily on the contingencies necessary for the success and effectiveness of implementing organisational change.

Although a contingency approach to organisational change has encouraged practitioners to consider aspects of their environment, technology and size as a basis for deciding on the appropriate paths of change, it delineates deterministic assumptions about the nature of change in organisations, presents inadequate appreciation of the role of strategic choice, beliefs and power and neglects the fact that organisations are collections of diverse interests (Dawson, 2010). According to Burnes (2011) there are three schools of thought that form the central planks on which change management theory stands; first there is the individual perspective school, which assumes that individual behavior results from his interaction with the environment. Human actions are conditioned by expected consequences and behavior is rewarded to be repeated and vice versa.

Conceptual Framework

<table>
<thead>
<tr>
<th>System compatibility</th>
<th>Performance of Commercial Banks</th>
</tr>
</thead>
<tbody>
<tr>
<td>Technology adoption</td>
<td>Profitability</td>
</tr>
<tr>
<td>Training and innovations</td>
<td>Efficiency</td>
</tr>
<tr>
<td>Change agents</td>
<td>Markets share</td>
</tr>
</tbody>
</table>

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A study by Maigua and Mouni (2016) investigated the effect of interest rate determinants on banks’ performance. A sample size of 26 banks was used in the study and multiple regression analysis to analyze data. The study results found that inflation rates, discount rates and exchange rates positively affected the banks’ performance whereas reserve requirement ratio negatively influenced the banks’ performance. It was concluded that exchange rates, inflation rates and high discount rates lead to banks’ higher performance whereas high levels of reserve requirement lowered the banks’ performance.

Alemu (2015) examined determinants of commercial banks profitability of eight banks in Ethiopia from for 10 years from 2002 - 2013. The study used multiple linear regressions and the fixed effect regression model to analyze data. The study established that size of banks; capital adequacy and gross domestic product have a positive and statistically significant relationship with profitability of banks. The findings of the study also revealed that liquidity risk, operational efficiency, funding cost and banking sector development have a negative and statistically significant relation with profitability of banks. Finally, the study found that the relationship between efficiency of management, efficiency of employee, inflation and foreign exchange rate was statistically insignificant.

Abebe (2014) assessed the internal and external determinants of financial performance Ethiopia’s banks using panel data of banks for a period between the year 2002 and the year 2013. The study employed the fixed effect regression model. The regression results established that capital structure, income diversification, operating cost had a significant negative relationship with performance while bank size had a positive significant 18 relationships with profitability measured using ROA. The study also established that various macroeconomic variables had insignificant effect on financial performance of Ethiopians commercial banks save for tax rate, which had a negative and significant relationship with profitability.

Anwar (2014) evaluated the factors that improve the profitability of Islamic banks with keen focus on the Gulf African bank in Kenya. The study employed a survey research and used questionnaires
to collect data for the study and then employed the Chi-square test to establish the association between the study variables. The findings of the research established a positive relation between Islamic banking products, Sharia Compliance, customer satisfaction and profitability of Islamic banks in Kenya. It was concluded that Islamic banking products, Sharia compliance and customer satisfaction were the major factors which affected Islamic banks’ profitability.

Chinoda (2014) explored the internal factors that influence bank profitability in Zimbabwe. The study sampled five commercial banks, which were randomly selected and used secondary data from the banks financial reports. Using the general linear regression model the study found that size of the bank; liquidity, gross domestic product and inflation had a positive correlation with profitability (ROA) while operating expenses had a negative association with profitability of commercial banks in Zimbabwe. The study recommended that inflation control policies should be given priority to foster financial intermediation.

**Research Methodology**

This study adopted a descriptive survey design, Kothari, (2011) describes descriptive research as including survey and facts finding enquiries adding that the major purpose of descriptive research is description of affairs as it exists at present. The target population of this study was all the 43 commercial banks operating in Nairobi County. The study only targeted the head offices. Mugenda and Mugenda (2013), explain that the target population should have some observable characteristics, to which the researcher intends to generalize the results of the study.

Before processing the responses, the completed questionnaires were edited for completeness and consistency. The data was then coded to enable the responses to be grouped into various categories. Data collected was quantitative and qualitative in nature. The descriptive statistical tools helped the researcher to describe the data and determine the extent used. Analysis was done quantitatively and qualitatively by use of descriptive statistics and content analysis. To quantify the strength of the relationship between the variables the researcher conducted a multiple regression analysis so as to evaluate the change management strategies adopted by the commercial banks in Nairobi Central Business District and their effects on the performance.

**Results and Discussion**

The researcher administered questionnaires to 32 strategic and innovations managers in 24 Commercial Banks in Kenya. The researcher collected the enclosed questionnaires from 60 out of 64 target respondents who filled in and returned the questionnaire contributing to 93.75% response rate. According to Babbie (2011) any response of 50% and above is adequate for analysis thus 93.75% is even better. From the findings, majority of the respondents as shown by 57% indicated were males and 43% were females an indication that both genders were involved in this study and thus the finding of the study would not suffer from gender bias. Majority of the respondents as
shown by 54% had achieved a bachelor’s degree, 34% had reached master level and only 12% who had reached the diploma level.

**Influence of system compatibility strategies on performance of commercial banks in Kenya**

The study sought to determine whether the respondents’ organization did an overhaul of the systems used and more specifically the hardware’s and the software’s. From the study findings, majority of the respondents indicated that organisation had done an overhaul of the systems used and more specifically the hardware’s and the software’s. This shows that adoption of modern technology had been adopted by all banks to effectively meet the customer satisfaction level. Further the bank management makes sure they procure the best software’s and all employees are in return adequately trained to avoid cases of incompatibility.

The study sought to determine the extent to which the new system compatibility influenced change management in their institution. The results were as shown in figure 4.8. According to the findings, most of the respondents as shown by 43% indicated that the new compatibility influences change management in their institution to a very great extent, 29.1% indicated to a great extent, 20.3% indicated to a moderate extent, 5.1% indicated to no extent and 2.5% indicated to no extent. The findings concur with those of Saddler (2012) who stated that there are three types of technological change: New processes of manufacturing goods or delivering services. This includes new forms of hardware such as automation equipment and ‘just in time’ methods of inventory control, new products and significantly improved products resulting from advances in technology and development in the technology for processing and transmitting information.

**Table 1: Influence of system compatibility strategies on performance of commercial banks in Kenya**

<table>
<thead>
<tr>
<th>Compatibility as a Challenge</th>
<th>Mean</th>
<th>Std deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Installation of new systems poses financial challenge in the change management</td>
<td>4.11</td>
<td>0.19</td>
</tr>
<tr>
<td>Lack of proper knowledge poses a challenge in change management</td>
<td>4.27</td>
<td>0.21</td>
</tr>
<tr>
<td>A mismatch between software tools and company needs challenges change management in the institution</td>
<td>4.23</td>
<td>0.22</td>
</tr>
<tr>
<td>Compatibility of the different systems causes a challenge in management</td>
<td>4.19</td>
<td>0.16</td>
</tr>
<tr>
<td>Roadblocks to collaboration between departments also fails the implementation of change management</td>
<td>4.24</td>
<td>0.20</td>
</tr>
<tr>
<td><strong>Aggregate</strong></td>
<td><strong>4.20</strong></td>
<td><strong>0.19</strong></td>
</tr>
</tbody>
</table>

According to the findings of the study, the respondents agreed that lack of proper knowledge poses a challenge in change management as shown by a mean of 4.27. In addition, they agreed that
roadblocks to collaboration between departments also fail the implementation of change management as shown by a mean of 4.24. They also agreed that a mismatch between software tools and company needs challenges change management in the institution as shown by a mean of 4.23. The respondents also indicated that compatibility of the different systems causes a challenge in management as shown by a mean of 4.19. Lastly, they indicated that installation of new systems poses financial challenge in the change management as shown by a mean of 4.11. The aggregate mean and standard deviation of the variable statements were 4.20 and 0.19. These findings concurs with those of Donar (2010) who revealed that organizations that refuse to adapt are likely to be the ones that won't be around in a few short years. If an organization wants to survive and prosper, its managers must continually innovate and adapt to new situations.

Effect of change agents strategies on performance of commercial banks in Kenya

The study requested the respondents to indicate the extent to which change agents had influence in the change management process. The results were as shown by the figure 4.10. From the findings, most of the respondents as shown by 40.5% indicated that change agents had influence in the change management process to a very great extent, 31.6% indicated to a great extent, 15.2% indicated to a moderate extent, 10.1% indicated to a little extent and 2.5% indicated that change agents did not have influence in the change management process. The findings concur with those of Modahl (2010) who revealed that change agent’s or change leader’s capabilities have a major impact on success or failure of the project, and on the extent of potential unwanted side-effects

Table 2: Statements on Influence of Change Agent

<table>
<thead>
<tr>
<th>Statement</th>
<th>Mean</th>
<th>Std deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>The people responsible hold regular meetings to stimulate ideas for improvement</td>
<td>4.19</td>
<td>0.20</td>
</tr>
<tr>
<td>They regularly spend time agreeing requirements</td>
<td>4.08</td>
<td>0.22</td>
</tr>
<tr>
<td>They talk about the company’s vision and goals</td>
<td>4.06</td>
<td>0.18</td>
</tr>
<tr>
<td>There is encouragement for excellence through employees’ own behaviour</td>
<td>4.06</td>
<td>0.17</td>
</tr>
<tr>
<td>The management fully recognizes high standards of behaviour</td>
<td>4.29</td>
<td>0.22</td>
</tr>
<tr>
<td>The leaders are always punctual and well prepared</td>
<td>4.15</td>
<td>0.19</td>
</tr>
<tr>
<td><strong>Aggregate</strong></td>
<td><strong>4.13</strong></td>
<td><strong>0.19</strong></td>
</tr>
</tbody>
</table>

According to the finding of the study, the respondents agreed that the management fully recognizes high standards of behaviour as shown by a mean of 4.29. The respondents also agreed that the people responsible hold regular meetings to stimulate ideas for improvement as shown by mean of 4.19. They agreed that the leaders are always punctual and well prepared as shown by a mean of 4.15. In addition, the respondents agreed that they regularly spend time agreeing requirements as shown by a mean of 4.08 and lastly the respondents indicated that there is encouragement for
excellence through employees’ own behaviour and there is encouragement for excellence through employees’ own behaviour as shown by a mean of 4.06 in each case. These findings are consistent with those of Modahl (2000) who posit that the change agent’s or change leader’s capabilities have a major impact on success or failure of the project, and on the extent of potential unwanted side-effects.

Correlation Analysis

On the correlation of the study variable, a Pearson moment correlation was conducted. The correlation analysis was conducted to show the relationship between the study variables;

**Table 3 Correlations**

<table>
<thead>
<tr>
<th></th>
<th>Performance</th>
<th>System compatibility</th>
<th>Change agents</th>
</tr>
</thead>
<tbody>
<tr>
<td>Correlation Coefficient</td>
<td>.633</td>
<td>.046</td>
<td>.008</td>
</tr>
<tr>
<td>Sig. (1-tailed)</td>
<td>.002</td>
<td>.000</td>
<td>.000</td>
</tr>
<tr>
<td>N</td>
<td>64</td>
<td>64</td>
<td>64</td>
</tr>
<tr>
<td>Correlation Coefficient</td>
<td>.648</td>
<td>.124</td>
<td>1.000</td>
</tr>
<tr>
<td>Sig. (1-tailed)</td>
<td>.000</td>
<td>.000</td>
<td>.000</td>
</tr>
<tr>
<td>N</td>
<td>64</td>
<td>64</td>
<td>64</td>
</tr>
</tbody>
</table>

From the finding in the table above, the study found strong positive correlation between performance and system compatibility as shown by correlation coefficient of 0.602, this was also found to be significant at 0.002. The study found strong positive correlation between performance and change agents as shown by correlation coefficient of 0.648 at 0.000 levels of confidence.

Regression Model

**Table 4 Table of Coefficients**

<table>
<thead>
<tr>
<th>Model</th>
<th>Unstandardized Coefficients</th>
<th>Standardized Coefficients</th>
<th>T</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>B</td>
<td>Std. Error</td>
<td>Beta</td>
<td></td>
</tr>
<tr>
<td>(Constant)</td>
<td>1.161</td>
<td>.129</td>
<td></td>
<td>9.00</td>
</tr>
<tr>
<td>System Compatibility</td>
<td>1.218</td>
<td>.040</td>
<td>.030</td>
<td>30.45</td>
</tr>
<tr>
<td>Change Agents</td>
<td>2.106</td>
<td>.059</td>
<td>.007</td>
<td>35.69</td>
</tr>
</tbody>
</table>

The established regression equation was as follows;

\[ Y = 1.161 + 1.218 \times x_1 + 2.106 \times x_2 \]
From the above regression model, holding System Compatibility and Change Agents to a constant zero, bank performance would be 1.161, it was established that a unit increase in System Compatibility would cause an increase in bank performance by a factor of 1.218, also unit increase in change agents would cause an increase in bank performance by a factor of 2.106. This clearly shows that there is a positive relationship between bank performance and System Compatibility and Change Agents. The study further revealed that the $P$-value were less than 5% in all the variables, which shows that all the independent variable was statistically significant and thus in position to make conclusion for the study.

Table 5 Model Summary

<table>
<thead>
<tr>
<th>Model</th>
<th>R</th>
<th>R Square</th>
<th>Adjusted R Square</th>
<th>Std. Error of the Estimate</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>.901a</td>
<td>.811</td>
<td>.798</td>
<td>.88195</td>
</tr>
</tbody>
</table>

Adjusted R squared is coefficient of determination shows the variation in the dependent variable due to changes in the independent variable, from the findings in the above table the value of adjusted R squared was 0.798 an indication that there was variation of 79.8% on the bank performance due to changes in Communication strategies, Organization Culture, System Compatibility and Change Agents at 95% confidence level. R is the correlation coefficient which shows the relationship between the study variables, from the findings shown in the table above there was a strong positive relationship between the study variables as shown by 0.901.

Table 6 ANOVA

<table>
<thead>
<tr>
<th>Model</th>
<th>Sum of Squares</th>
<th>df</th>
<th>Mean Square</th>
<th>F</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Regression</td>
<td>2</td>
<td>14.221</td>
<td>15.097</td>
<td>.0018b</td>
</tr>
<tr>
<td></td>
<td>Residual</td>
<td>61</td>
<td>0.942</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>85.904</td>
<td>63</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

From the ANOVA statistics in table above, the processed data, which is the population parameters, had a significance level of 1.8% which shows that the data is ideal for making a conclusion on the population’s parameter as the value of significance ($P$-value) is less than 5%.

Conclusion

The study also concludes that system compatibility influences change management in the institution to a great extent. Compatibility of the different systems causes a challenge in management, roadblocks to collaboration between departments also fails the implementation of change management, installation of new systems poses financial challenge in the change management, mismatch between software tools and company needs challenges change management in the institution and that lack of proper knowledge poses a challenge in change
management. Product and programs changes contribute more to the changes that have been experienced in the institution.

The study concludes that change agents influence change management practices in banks a great extent. There is encouragement for excellence through employees’ own behaviour, the management fully recognizes high standards of behaviour, the change agents talk about the company’s vision and goals, the leaders are always punctual and well prepared. People responsible hold regular meetings to stimulate ideas for improvement and they regularly spend time agreeing requirements.

**Recommendations**

The study also found system compatibility influences change management in the institution to a great extent. The study hence recommends that the institution should install systems (for instance technological) that are compatible with the change management practices. They will enable in dealing with challenges of management, roadblocks to collaboration between departments which fails the implementation of change management. It will also involve installation of new systems whose lack pose financial challenges in the change management and proper knowledge required for successful change management practices implementations.

The study found that change agents influence change management practices in commercial banks to a great extent. The study finally recommends that change agents responsible of leading the change management practices should strive to encourage others for excellence through employees own behaviour and full recognition of high standards of behaviour. The change agents should also talk about the company’s vision and goals, they should always be punctual and well prepared and they should hold regular meetings to stimulate ideas for improvement.

**Areas for Further Studies**

The banking industry in Kenya is comprised of various other commercial banks which differ in their way of management and have different settings all together. This warrants the need for another study which would ensure generalization of the study findings for all the commercial banks in Kenya and hence pave way for new policies. The study therefore recommends another study be done with an aim to investigate the factors influencing change management strategies in Commercial Banks in Kenya.

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