ORGANIZATIONAL DYNAMICS AND PERFORMANCE OF PUBLICLY QUOTED COMMERCIAL BANKS IN KENYA

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ABSTRACT

The banking sector in Kenya operates in a dynamic and ever-changing environment. The success and sustained performance of these financial institutions are intricately tied to their organizational dynamics, encompassing factors such as organizational culture, market orientation, and organizational learning. Despite the acknowledged importance of these dynamics, there exists a gap in comprehensive empirical research exploring their collective impact on the overall performance of publicly quoted commercial banks in Kenya. In addition, despite the adoption of various organizational dynamics, the performance of commercial banks in Kenya still; remains poor. The purpose of this study therefore was to examine the relationship between organizational dynamics and performance of publicly quoted commercial banks in Kenya. The study was anchored on resource based view theory and survival based theory. The study adopted systematic review. The findings indicated that there is a positive and significant relationship between organizational dynamics and performance of publicly quoted commercial banks in Kenya. The findings indicated that organizational culture, market orientation, organizational learning had a significant relationship with firm performance. Organizational culture sets the tone for the workplace and influences employee behavior, decision-making, and overall performance. In addition, market orientation involves aligning organizational strategies with customer needs and market conditions. Banks that are customer-focused and responsive to market trends are better positioned to adapt, innovate, and succeed. Further, banks that prioritize learning and adaptation are more resilient, agile, and capable of capitalizing on opportunities, positively affecting performance. The study recommends that the management of commercial banks should foster a culture that emphasizes values aligned with the bank's mission, such as customer-centricity, innovation, and ethical conduct. They should implement employee engagement initiatives, recognition programs, and communication strategies that reinforce and embed the desired cultural attributes. To enhance market orientation, the management of commercial banks should invest in understanding customer needs, market trends, and competitive landscapes to inform strategic decision-making.

Key Words: Organizational dynamics, Leadership, Employee Engagement, Firm Performance.

INTRODUCTION

Commercial banks operate in a dynamic and often turbulent business environment characterized by various factors that impact their operations, strategies, and overall performance. Commercial banks face intense competition from traditional peers and non-banking financial institutions, including fintech startups (Hendayana, 2019). The competitive landscape requires banks to differentiate themselves through innovative products, services, and customer experiences. In addition, shifting customer preferences and expectations necessitate a focus on digital banking, personalized services, and seamless customer experiences. The challenges, among others, have contributed to the fluctuating performance of commercial banks. All over the world, commercial banks have been experiencing a decline or fluctuations in operational efficiency, customer satisfaction and employee engagement. According to Besley and Persson (2022), organizational dynamics have an influence in firm performance.

Organizational dynamics refer to the various internal and external factors that influence how an organization operates, including its culture, structure, processes, and relationships among its members (Amugune, 2021). Firm performance, on the other hand, relates to how effectively and efficiently an organization achieves its goals and objectives. Organizational dynamics encompasses culture, leadership, organizational structure, communication, employee engagement, adaptability and change, resources and processes, and external factors. Odwaro (2022) argues that organizational structure is the way an organization is structured can affect how tasks are assigned, communication flows, and decision-making processes. A well-designed structure can enhance efficiency and collaboration, leading to improved performance. Effective communication within an organization is vital for coordinating activities, resolving conflicts, and ensuring that everyone is aligned with the organization's goals. Poor communication can lead to misunderstandings, decreased productivity, and performance issues (Saula *et al.*, 2023). Employee engagement, which is closely tied to organizational dynamics, has a direct impact on performance. Engaged employees tend to be more committed, productive, and innovative, which can lead to improved firm performance.

In Sri-Lanka, Udagedara and Allman (2019) observed that positive organizational dynamics create an environment where employees are engaged, innovation is encouraged, leadership is effective, and learning is ongoing. These factors collectively contribute to improved organizational performance and the ability to navigate challenges in a competitive business landscape. In addition, Obermayer and Toth (2020) observed that effective leadership, as a component of organizational dynamics, provides a clear vision and direction for the organization. Leaders who can navigate uncertainty, inspire their teams, and make informed decisions contribute to improved firm performance.

In Nigeria, Saula et al. (2023) observed that the relationship between organizational dynamics and firm performance is reciprocal and intertwined. The way an organization is structured, its culture, leadership, communication, and ability to adapt to change all contribute to its performance. Conversely, an organization's performance can also influence its internal dynamics, as success often reinforces positive behaviors and strategies. Organizations that pay attention to their internal dynamics and make efforts to align them with their goals are more likely to achieve higher levels of performance. In Kenya, Bebora (2019) established that internal organizational dynamics, including workplace innovation, leadership approaches, and organizational culture, are crucial drivers of competitive advantage. A strategic approach to enhancing these dynamics contributes to strengthening an organization's competitive edge.

Organizational Dynamics

According to Saula *et al.,* (2023) organizational dynamics refers to the ongoing, systematic process of how individuals and groups within an organization interact and work together to achieve their goals. It encompasses the complex and often interconnected elements that influence the functioning and behavior of an organization. Organizational dynamics involve the study and analysis of various factors, including structure, culture, communication, power dynamics, leadership, and change management. The key components of organizational dynamics include organizational structure, organizational culture, communication, power and politics, leadership, and change management. Organizational structure refers to the formal arrangement of roles, responsibilities, and relationships within an organization. It includes aspects such as hierarchy, reporting lines, and departmental divisions. Organizational culture refers to the shared values, beliefs, and norms that shape the behavior of individuals within an organization. Culture influences how employees interact with each other and with the organization's external environment. Communication refers to the flow of information within the organization (Mwangi *et al.*, 2022).
Effective communication is crucial for coordinating activities, making decisions, and maintaining a positive working environment. Power and Politics refers to the distribution and use of power within an organization. Power dynamics can impact decision-making, influence, and the overall functioning of the organization. Leadership refers to the individuals or groups that guide and influence the organization (Saula *et al.*, 2023). Leadership styles, effectiveness, and the ability to navigate change can significantly impact organizational dynamics. Teams and Collaboration refers to the way individuals work together in groups or teams. Effective collaboration is essential for achieving organizational goals and fostering innovation.

Firm performance

Jusufi (2023) posits that firm performance refers to the overall effectiveness, efficiency, and success of an organization in achieving its goals and objectives. It is a comprehensive measure that takes into account various aspects of an organization's functioning, including its financial health, operational efficiency, strategic alignment, employee satisfaction, innovation, and other relevant factors (Peter, Munga & Nzili, 2021).The key components of firm performance include financial performance, operational performance, strategic performance, customer satisfaction, employee performance and satisfaction, innovation and adaptability, and , social and environmental responsibility. Financial Performance involves evaluating an organization's financial health, profitability, and stability. Metrics such as revenue growth, profit margins, and return on investment are commonly used to assess financial performance. Operational Performance focuses on the efficiency of an organization's internal processes and systems. It includes aspects such as production efficiency, supply chain management, and the effectiveness of day-to-day operations. Strategic performance refers measures the organization's success in implementing its strategic plans and achieving long-term objectives. It involves assessing whether the organization is moving in the right direction to meet its goals (Sapkota, 2022).

Customer Satisfaction is a crucial aspect of firm performance and refers to overall customer positive experience (Jusufi, 2023). Satisfied customers are more likely to be loyal and contribute to the organization's success through repeat business and positive word-of-mouth. According to Mwangi *et al.* (2022), performance and satisfaction of employees play a vital role in organizational success. Increasingly, organizations are being evaluated based on their commitment to social and environmental responsibility. Market position and competitiveness, which refers to the organization's position in the market and its ability to compete effectively with other entities in the industry are crucial aspects of firm performance (Saula *et al.*, 2023).

Statement of the Problem

The banking sector in Kenya operates in a dynamic and ever-changing environment. The success and sustained performance of these financial institutions are intricately tied to their organizational dynamics, encompassing factors such as organizational culture, market orientation, and organizational learning (Amugune, 2021). Despite the acknowledged importance of these dynamics, there exists a gap in comprehensive empirical research exploring their collective impact on the overall performance of publicly quoted commercial banks in Kenya. In addition, despite the adoption of various organizational dynamics, the performance of commercial banks in Kenya still; remains poor.

Commercial banks in Kenya registered a decline in performance with the profit before to tax having declined to Ksh.134.00 billion in year 2015 from Ksh.141.10 billion in 2014. Further, this sector recorded profitability decline in 2017 with profit before tax reducing by 9.6% between December 2016 and December 2017 from Ksh.147.40 billion up to Ksh.133.20 billion respectively, though it increased marginally to Ksh 152.7 billion in 2018 (Central Bank of Kenya, 2018). In 2014, return on investment in the banking sector decreased to 3.4%, decreased again to 2.9% in 2015, but increased to 3.9% in 2016. In the year 2017, return on investment decreased to

3.3% in 2017, increased to 3.5% in 2018, decreased to 3.3% in 2019 and decreased again to 2.1% in 2020. However, in 2021 return on investment in commercial banks in Kenya increased to 3.3% (Central Bank of Kenya, 2021). According to the Kenya Bankers Association (2021), the overall customer satisfaction declined from 78.5% in 2020 to 65.6% in 2021.

Several studies have been conducted on organizational dynamics and performance of organizations in Kenya. For instance, Bebora (2019) examined the effect of internal organization dynamics on competitive advantage in Kenya Airways; Zakayo (2022) studied the effect of organizational dynamics on interagency collaborative disaster management in Nairobi City County, Kenya; and Wairimu (2022) studied the effect of organizational dynamics in public participation in Kenya. However, Bebora (2019) used competitive advantage as the dependent variable, Zakayo (2022) used interagency collaborative disaster management while Wairimu (2022) used public participation. In addition, these studies were limited to Kenya Airways, Nairobi City County and the public sector in Kenya. This study therefore sought to examine the effect of organizational dynamics and performance of publicly quoted commercial banks in Kenya.

Theoretical Review

A theoretical review is a comprehensive analysis of existing literature on a specific topic or research question. It aims to provide a critical evaluation of the current state of knowledge in a field and to identify gaps in the research. This study was anchored on resource based view theory and survival based theory.

Resource Based View Theory

Resource Based View Theory was developed by Wernerfelt (1984). The Resource-Based View (RBV) Theory in strategic management posits that a firm's sustained competitive advantage and superior performance are primarily derived from its internal resources and capabilities. Unlike traditional economic theories that focus on external factors such as market conditions, RBV shifts the emphasis to the unique qualities of a company's internal assets. RBV contends that firms vary in their resource endowments (Corbo & Kraus, 2023). Each company possesses a unique set of resources, including tangible assets (like physical infrastructure), intangible assets (such as patents or intellectual property), and organizational capabilities (like a skilled workforce or effective management practices). The theory argues that sustained competitive advantage arises when a firm possesses resources that meet certain criteria (Fenech, Baguant & Ivanov, 2019). These criteria are often summarized as VRIN: Resources must be Valuable, Rare, Inimitable, and Non-substitutable. Resources meeting these conditions are considered the foundation for a firm's long-term success.
One of the assumptions of the RBV is that firms differ in their resource endowments, creating diversity in capabilities and performance. Resources are assumed to be immobile or at least not perfectly mobile between firms, making it challenging for competitors to replicate a firm's unique

resource base (Collins, 2021). Some resources are assumed to be difficult to imitate, providing a basis for sustained competitive advantage. This difficulty may arise from factors like complexity, uniqueness, or tacitness. The theory assumes that resources have durability, meaning they persist over time and are not subject to rapid depreciation or obsolescence (Corbo & Kraus, 2023). In addition, resources are considered firm-specific, implying that a firm's combination of resources and capabilities contributes uniquely to its competitive position.

The Resource-Based View (RBV) Theory provides a valuable framework for understanding the relationship between organizational dynamics and the performance of publicly quoted commercial banks in Kenya. RBV suggests that sustained competitive advantage arises from valuable, rare, inimitable, and non-substitutable resources (Collins, 2021). In the case of publicly quoted commercial banks in Kenya, key resources may include financial capital, human capital (skilled workforce), technological infrastructure, customer relationships, and brand reputation. These resources differentiate banks from competitors and impact their performance (Fenech, Baguant & Ivanov, 2019).

RBV recognizes the significance of tacit knowledge and organizational learning. In the banking sector, tacit knowledge may include insights into customer preferences, effective risk management practices, and efficient operational processes (Corbo & Kraus, 2023). Banks that foster a culture of continuous learning and knowledge sharing are better positioned to enhance their performance. In addition, RBV introduces the concept of resource stocks (existing resources) and flows (acquisition of new resources). Commercial banks must not only manage their current resource base effectively but also invest in acquiring new capabilities. Strategic decisions related to resource allocation and investment impact the banks' ability to sustain and improve their performance.

Survival Based Theory

The survival-based theory was first developed by Herbert Spencer in the 19th century. Spencer argued that organizations, like all living things, are subject to the laws of natural selection. Those organizations that are able to adapt to their environment will survive, while those that are not will fail (Adebisi & Bakare, 2019). The survival-based theory was further developed by Charles Darwin in the 20th century. Darwin argued that organizations are not static entities, but rather are constantly evolving in response to changes in their environment. He argued that organizations must be able to adapt to changes in technology, competition, and consumer preferences in order to survive. According to Herbert Spencer, it is only natural for organizations that evolve in harmony with their surroundings to thrive. Moreover, efficiency emerges as a crucial strategy for survival. The assertion is that organizations thrive when they offer the best product, produced in the shortest time and with the least resource utilization (Khairuddin, 2005). This strategy underscores the notion that an organization cannot rely on a singular approach. Instead, a combination of strategies leading to efficiency must be chosen. By nature, the most effective strategy is one that aligns with and adapts to the current environment (Bu, Wang & Cao, 2019).

This theory finds practical application in the revitalization of companies, grounded in the understanding that many corporate challenges stem from inefficient systems. The remedy, therefore, lies in cultivating efficiency to restore the company's trajectory (Adebisi & Bakare, 2019). The primary objective of turning around an organization is to operate it in an efficient manner that aligns with its environment. To accomplish the ultimate goals of survival and enhanced profitability, a company must strive for efficiency in a competitive market (Baker and Duhaime, 1995). Hence, the survival-based theory emphasizes that companies must proactively adapt to the ever-changing environment; failure to do so implies a risk to their survival.

This theory can be applied to understand the relationship between organizational dynamics and performance of publicly quoted commercial banks in Kenya. Survival-based theory suggests that banks must be able to adapt to changes in their environment in order to survive (Bu, Wang & Cao, 2019). This includes changes in the Kenyan economy, the banking industry, and the regulatory environment. Banks that are able to adapt to these changes are more likely to be successful than those that are not. One way that banks can adapt to their environment is by changing their organizational dynamics. This means changing things like the bank's structure, culture, and decision-making processes (Adebisi & Bakare, 2019). Banks that have flexible organizational dynamics are better able to respond to changes in the environment. Another way that banks can adapt to their environment is by investing in new technologies. Technology can help banks to improve their efficiency, reduce their costs, and reach new customers. Banks that are early adopters of new technologies are more likely to be successful than those that are not. Survival-based theory also suggests that banks must be able to manage their risks effectively. This includes risks such as credit risk, market risk, and operational risk. Banks that are able to manage their risks effectively are less likely to fail.

RESEARCH METHODOLOGY

The study utilized a systematic review of literature. A systematic review of literature is a rigorous and structured approach to synthesizing and analyzing existing research on a specific topic or research question. It involves a systematic and transparent process to identify, evaluate, and summarize relevant studies to provide a comprehensive and evidence-based understanding of the subject matter (Ezeamuzie & Leung, 2022). Systematic review encompasses reviewing of the already existing literature as per the formulated questions and make use of standard methods in the identification, critical appraisal, collection, reporting and analysis of data from selected studies in the review. Generally, systematic review focuses on empirical questions, most of the times posed in the form of cause-effect.

According to Singh and Kumar (2020), systematic review involves formulation of research questions, identification and synthesis of studies directly related to systematic review question. Further, Cooke and Veen (2019) indicated that they are generally designed in a way that they provide exhaustive and complete summary of existing evidence relevant to research questions. Ezeamuzie and Leung (2022) add that systematic review is normally created after the review and combination of information from both unpublished and published studies and then developing a summary of the findings. One of the advantages of systematic review is that it is less costly to review existing literature as compared to collecting data from the field. Also, systematic review of literature reduces the duration of time used in collecting data. Further, results from a systematic review can be extrapolated and generalized to general population as compared to individual studies. Cooke and Veen (2019) indicate that systematic review comprises of five steps which include framing of questions for the review, identification of relevant work, assessment of quality of studies, summarizing of the evidence and interpretation of the studies' findings.

Review of Empirical Literature

Mwangi (2021) carried out research on how innovation affects competition benefit in quickly moving consumer goods: PZ Cussons East case study Africa Limited. Descriptive research design was used in this study, and the population PZ Cussons East Africa Ltd. staff participated in the study. The. The study's target population comprised PZ Cussons East Africa employees. Ltd. headquarters; one hundred respondents were obtained using stratified random sampling for the research. The instrument used to collect the data was questionnaires. Both descriptive and inferential statistics were used in the data analysis. Information was displayed as charts, graphs, and tables. The results showed that it wasn't conclusive if organizations occasionally embrace new methods of doing things time to strengthen one's competitive edge (Odwaro, 2022). The research gap is that it did not factor in other organizational dynamics apart from financial innovation.

Wafula (2020) carried out a study on how innovation affects competitive advantage with a focus on Kenyan telecom firms. There were 250 participants in the co-relational survey research design. A questionnaire was the data collection tool used in the study. Data validity and dependability were confirmed at the time of data collection. Using descriptive statistics, the gathered data was analyzed. According to the research findings, the telecom firms have experienced significant development as a result of financial innovations, giving them a competitive edge in the marketplace. It was determined that the company's performance and its financial innovations were positively correlated.

The relationship between organizational dynamics and performance is significant. The way an organization is structured, its culture, leadership, and communication methods all influence how well it can perform. For example, a positive organizational culture that values teamwork and innovation can lead to higher employee morale and, in turn, better performance (Amugune, 2021).

Conversely, poor leadership or dysfunctional communication can hinder performance. Organizations must continually monitor and adjust their dynamics to optimize performance. This might involve reorganizing structures, addressing cultural issues, improving leadership, or enhancing communication to align the organization with its goals and mission. In summary, organizational dynamics and firm performance are intertwined. A well-managed and adaptable organization that addresses its dynamics effectively is more likely to achieve higher levels of performance and succeed in its objectives (Hendayana, 2019).

Sapkota (2022) in his research in Nepal regarding commercial banks financial innovation effect on the financial performance found that financial innovation was a critical driver of overall financial success of commercial banks in Nepal. The study recommended that commercial banks should ensure that they have constantly undertake and adopt financial innovations to spur financial growth and overall economic growth. The study targeted thirty commercial banks in Nepalese financial sector. The study found out that innovation strategies like internet banking, third-party wallet and mobile banking adoption had positive correlation with financial performance. This study used mixed research method of both qualitative and quantitative research. The research gap is that it did not factor in other organizational dynamics apart from financial innovation (Saula *et al.*, 2023).

Malit *et al.* (2023) carried out a study on financial innovation effect of loan portfolio among commercial banks in Kenya. The study encompassed a sample of 12 commercial banks who were licensed to operate in Kenya by the Central Bank of Kenya. Using secondary data, the data was analyzed using pooled regression and fixed effect of panel data analysis from published financial statement the study found out that there was a positive correlation between financial innovation and loan portfolio of the selected commercial banks. The study found that commercial banks that had adopted financial technologies had a better financial performance as compared to firms that had not adopted financial technology. The study also found that commercial banks that had implemented mobile banking, electronic fund transfer (EFT), and branch networking had improved their loan portfolios and overall firm performance. The study recommended that commercial banks ought to implement financial innovations that have a favorable impact on their lending portfolio. The research gap is that it did not factor in other organizational dynamics apart from financial innovation.

Odwaro (2022) in his study on dynamic capabilities and commercial bank performance in Kenya found out that dynamic capabilities positively affect performance ($\beta=0.364$, $p=0.000$) and account for 12.9% of the variance, and that dynamic capabilities are a positive moderator of the relationship between porters' generic strategies and performance ($\beta=0.030$, $p=0.010$) with a percentage increase of 1.5%. Porter's generic strategies had an impact on commercial banks' performance ($\beta=0.645$, $p=0.000$) and accounted for 41.6% of the variance. The results indicate that, although dynamic capabilities temper the relationship, Porter's generic strategies and dynamic skills have a beneficial impact on the performance of commercial banks. The results suggested that in order for firms to achieve higher performance, they should focus more on improving their cost strategy and dynamic capabilities. By including the moderating effect of dynamic capacities, the study would add to the body of knowledge already in existence. The research gap is that only used secondary data.

Mwangi et al. (2022) did a study on leadership Style, financial innovation and financial performance of Commercial Banks in Kenya. The target population for this study consisted of management personnel at commercial banks, and correlational and cross-sectional research techniques were employed along with positivist philosophy. 385 responders were chosen from among the 10,395 management employees. Primary data were gathered using structured questionnaires, and data analysis was done using both descriptive and inferential statistics. Using parametric test statistics with a 95% level of significance and a 5% confidence interval, the study hypothesis and significance tests were carried out. The findings showed that, with regard to the financial performance of Kenya's commercial banks, transformational leadership had a positive and substantial partial influence while democratic leadership had a similar positive and major partial impact. Conversely, laissez-faire leadership had a negative and substantial partial impact on the financial performance of Kenya's commercial banks, but autocratic leadership had a favorable and significant partial impact. The results also show that the association between commercial banks' financial performance and leadership style is somewhat mediated by financial innovation. The study suggests that in their management programs, commercial bank top managers should adopt an effective transformational and democratic leadership style. The study did not adopt secondary data.

Jusufi (2023) analyzed the relationship between innovation and financial performance in the global environment of exporting companies. A sample was 150 exporting businesses from Kosovo were chosen at random to participate in the study. A weak positive linear association was discovered between organizational innovations, product innovation, and financial performance based on Pearson's correlation study. Furthermore, there is a somewhat positive linear correlation between process and marketing innovations and financial performance. It was discovered using multiple linear regression that innovations account for 46.7% of financial performance. Organizational innovation has less effect on financial success than process and marketing innovation. By concentrating on the kind of innovation that most affects performance, the research's conclusions help to improve the financial performance of exporting businesses in Kosovo.

Conclusion and Recommendations

Based on the research findings, the study concluded that there is a significant positive relationship between organizational dynamics and performance of publicly quoted commercial banks in Kenya. The findings indicated that organizational culture, market orientation, organizational learning had a significant relationship with firm performance. Organizational culture sets the tone for the workplace and influences employee behavior, decision-making, and overall performance. A positive culture fosters collaboration, innovation, and commitment, directly impacting a bank's success. In addition, market orientation involves aligning organizational strategies with customer needs and market conditions. Banks that are customer-focused and responsive to market trends are better positioned to adapt, innovate, and succeed. Further, organizational learning refers to the ability of a bank to acquire, apply, and share knowledge. Banks that prioritize learning and adaptation are more resilient, agile, and capable of capitalizing on opportunities, positively affecting performance.

The study recommends that the management of commercial banks should foster a culture that emphasizes values aligned with the bank's mission, such as customer-centricity, innovation, and ethical conduct. They should implement employee engagement initiatives, recognition programs, and communication strategies that reinforce and embed the desired cultural attributes. To enhance market orientation, the management of commercial banks should invest in understanding customer needs, market trends, and competitive landscapes to inform strategic decision-making. They can be achieved by conducting regular market research, gathering customer feedback, and ensuring that product/service development aligns with market demands. They should also establish a learning culture that encourages continuous development, knowledge-sharing, and adaptability. This can be achieved by providing training programs, workshops, and resources for employees to enhance their skills.

Areas for Further Research

This study sought to examine the relationship between organizational dynamics and performance of publicly quoted commercial banks in Kenya. However, the study was limited to publicly quoted commercial banks and hence the findings cannot be generalized to commercial banks that are not publicly quoted. The study therefore suggests further studies on the relationship between organizational dynamics and performance of commercial banks that are not publicly quoted. In addition, further studies should be conducted on the relationship between organizational dynamics and performance of other financial institutions like microfinance banks and Savings and Credit Cooperative Societies. In addition, this study adopted a systematic review of literature to assess the relationship between organizational dynamics and performance. Therefore, further studies should be conducted using primary data collected from the management and staff of these publicly quoted commercial banks.

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