

## Environmental Factors and Performance of Commercial Banks in Kenya

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### ABSTRACT

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*The performance of commercial banks in Kenya determines the financial position of the nation. This performance, over the past period, has not been inspiring and various reforms have been put in place in to increase it. Yet, performance of commercial banks on average has been erratic. The business environment in which the commercial banks function is turbulent, and it is through understanding the environmental forces, that they can improve their performance. The study's general objective involved finding out the impact of environment factors on Commercial bank's Performance. Specifically, the study focused on the following objectives; to find out the influence of the organizational resources on the performance of the commercial banks in Kenya; to determine how organizational structure influences the performance of commercial banks in Kenya; to establish the influence of competition on the performance of the commercial banks in Kenya; and to establish the moderating effect of government policies on the influence of environmental factors on performance of commercial banks in Kenya. The contingency theory, resource based view and the theory of competitive advantage informed this study. The research employed a descriptive research design. The population of this study comprised of the 43 commercial banks operating in Kenya. The study targeted the head office of each of the commercial banks and the respondents were the marketing managers. A pilot study was conducted using customer experience executives of four commercial banks. The study conducted a census of the 43 head marketing managers of the financial Institutions in Kenya. The study used structured questionnaires to collect data. The study used face, content and construct validity and reliability was measured using the Cronbach's Alpha coefficient. Analyzing of data was done through descriptive and inferential statistics using the SPSS software. The findings were presented using charts, tables, and graphs. The study concludes that organizational resources had significant influence on performance with and without government policies. Organizational structure had a great impact on commercial banks performance. Competition had significant influence on performance of commercial banks with or without the moderating influence of government policies. The government policy had significant moderating influence in the relationship between environmental factors and performance of commercial banks. The research recommends that the top management team of all commercial banks operating in Kenya should improve on their organizational resources by ensuring adequate number of employees is in place in various departments and functions. The management of all firms in the financial sector in Kenya should improve on their structures by engaging subordinate staff in decision making on daily operations of the firm. The management team of all commercial banks should come up with better strategies of remaining competitive in the industry in view of other industry participants with similar product offering like other banks, microfinance institutions and SACCOs. The Central Bank of Kenya should increase its supervisory and monitoring role among commercial banks to positively influence their performance. There is need for strong market intelligence to collect information on products and services of competitors for constant improvement and thus performance among commercial banks.*

**Key Words:** *Environmental Factors, Organizational Resources, Organizational Structure, Competition, Government Policies, Performance of Commercial Banks in Kenya*

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## 1. Introduction

Performance of a bank is a move towards establishing the level to which it realizes its predetermined targets within a given time period (Aebi, Sabato & Schmid, 2012). In the Euro area, the aggregated return on equity of listed banks was below 3% in 2016 which was a slight decline from 2017. In a global comparison, the performance of banks in the euro area remains to lag behind compared their international peers. Banks in the United States (US) reported 8% return on equity in 2016 with Nordic banks recording return on equity (ROE) beyond 9%, with the Swedish banks leading with a ROE of 12%, which was an outstanding performance (Constancio, 2016). Concerning cross-nation variations, Italian and German banks reported negative average return on equity in 2016. In the same period, French and Spanish banks documented a return of asset of 5% and 7% respectively. In reference to Onakoya and Onakoya (2013) In the United Kingdom (UK), conventional banks generate more profits than Islamic banks and are also able to effectively and timely meet the banks' financial obligations (Onakoya and Onakoya, 2013). Islamic banks and conventional banks in the UK have significant variations in their performance with regard to profits, solvency, efficiency, risk and liquidity. In Jordan, there is a high profitability of largest banks, relative to the all the other commercial banks (Al-Shatti (2014). In India, private banks perform better compared to the government owned banks as revealed by Dash and Das (2013). The private banks do well compared to banks owned by government and the two reasons for this were profitability, management soundness and earnings. In commercial banks in Pakistan, return on asset (ROA) and ROE (the indicators of bank profitability) significantly related with performance (Ishaq, Karim, Zaheer & Ahmed, 2016).

The banking sector in Kenya recorded better performance in the year ended December 2014. There was a 12.2% increase in pre-tax profitability in that year (Wayiera, 2017). Banks have now more than doubled their combined profits in less than one decade, this ranks them as most profitable sectors of the economy. The banks made combined pre-tax profits of Sh73.7 billion in 2010. Several studies have shown that if customers' satisfaction increase by 5%, the average of profitability would rise by 50 percent (Pishkhani, 2014). According to Parmar (2018) digitization has dropped the turnaround time to seconds in some cases. This factor has seen most financial institutions enhancing their disbursements and sanctioning of their loans to borrowers with the objective of taking a greater advantage on the share of the growing market. According to Salihu (2015), the path of performance of a business depends on the environment of the organization. The environment of an organization is the entire surrounding which has a direct or indirect effect on business functioning. The environment of every firm is characterized by change dynamics, resulting to uncertainty which arises from the capability of an enterprise to predict its surrounding, thus making decisions for the entity is influenced by the unpredictability and complexity of the environment (Hussain & Bhatti, 2010). Performance of an organization keeps

on changing because of factors like competitive environment, resources, and technology that the firm employs. Contemporary business is turbulent (Pearce & Robinson, 2011), and is influenced by the organizational resources, organizational structure, and competition (Chandler & McEvoy, 2010).

However, businesses may be monitoring their environments and responding effectively but government policies impact their performance significantly. Policies set by the government are crucial on the performance of the banking industry (Osano, 2018). Financial regulations by the government are the laws that the state puts in place to govern the financial institutions (Agborndakaw, 2010). These regulations are intended to maintain orderly markets, licensing of the financial service providers, enforcing applicable laws, and prosecuting cases of misconduct in the market, protecting clients and investors, as well as promoting the financial system's stability. In Kenya, financial regulations in the banking industry are set by the CBK. Government regulations on banks operations include interest rate capping and liquidity regulation ratio (Anyango, 2014). Performance of an enterprise indicates the level to which the firm accomplishes the set goals within a particular period of time (Illo, 2012). Evaluating the performance of a financial firm involves a complex process of assessing its interaction with the environment. Performance of a business can be estimated by examining its processes to ensure that the result is in line with the objective of the company (Sagar & Rajesh, 2008). Banks performance can be assessed in terms of financial and non-financial terms such as profitability, customer satisfaction, service turnaround time, optimal utilization of resources (Macit, 2011). Many researchers assert that the sustainability of the banks depends on the levels of profits (Ongore & Kusa, 2013). According to Podder (2012), profitability of a bank results from its efficiency to produce the earnings. Some earlier studies that have measured performance using profitability include Baker and Sinkul (2009), Choi and Wang (2009) and Best (2009). Banks that perform better resist negative shocks from their external environments easily and thus contribute towards the stability of the economic system of a country (Athanasoglou et al., 2008). Organizational performance consists of regular actions to create the goals, monitor the advancement toward the set goals, and make the necessary adjustments to realize the goals effectively and efficiently (Deger & Adem, 2011). The indicators of performance that this study focused on were be profits, customer satisfaction, service turnaround time, and optimal utilization of resources. Top banks in Kenya posted impressive profits for 2018, resulting from the CBK's one-year earnings protection window in the application of the International Financial Reporting Standard (IFRS 9) which stresses higher provisioning for bad loans. The analysis of the 2018 financial results of top commercial banks indicated that even though all the banks upheld profitability, the circumstances would have been different if the loan-loss provision coverage had taken full effect in January (Anyanzwa, 2019).

If customers are contented, organizations can easily improve their relations with their clients hence contributing to achievement of its set objective which later leads to success (Kombo, 2015), and the general customer satisfaction level is greater than 60% in the Kenyan banking industry. Customer satisfaction shows the leading indicators, implying that if clients are not contented, in the long run they find other sources that satisfy their needs (Hall, 2008; Granados, 2004). Usually, satisfied clients lead to repeat business. The length of time that a customer takes to be served is essential for the improvement of customer satisfaction. The higher the turnaround time, the lower the quality of service and hence customers are dissatisfied. The Kenyan banking industry was in 2017 ranked as satisfactory in comparison to 2016 where it had a strong rating (CBK, 2017). Also, organizations that have superior performance ensure proper usage of resources such as in training

and development of the staff to improve service delivery. Environment factors comprise of all the aspects that have a bearing on the firm (Obasan, 2014). According to Chandler and McEvoy (2010), the performance of commercial banks is influenced by the internal, industry, and the macro environmental factors. The internal environmental factors are aspects within the control of the firm; factors within the bank that it can manage and manipulate. Internal factors are unique for every bank and influence its performance positively or negatively (Cook & Heiser, 2011). They are influenced by the management and board decisions (Capone, 2012). The internal environmental factors include organizational structure, organizational ownership, organization size, organizational culture, management style, stakeholder expectations, and resources (Khrawish, 2011).

The industry environmental is a set of factors that influence the organization directly and its competitive actions such as customers, suppliers, competitors, publics, and marketing intermediaries. According to Pearce and Robinson (2011), for a firm to have excellent performance it must handle customers and suppliers well because the power they exert in business can affect it significantly. The industry factors are highly intimately linked with the firm (Athanasoglou, Brissimis & Delis, 2008), but do not necessarily affect the firms in a certain industry in a similar way. Some of these factors might apply to a particular company and not the other. A company and the factors in the industry environment operate in a macro environment whose forces capture opportunities and as well threaten the firm. The macro forces are uncontrollable and therefore a firm's success relies on the company's adaptability to that environment (Athanasoglou et al., 2008). The macro-environmental factors are the nonspecific influences in the surroundings of the firm that may affect its performance. These factors affect the firm indirectly and the firm has a limited control over. They include the political, economic, social, technological and legal factors (Pearce & Robinson, 2011). According to Minzberg (2012), the macro environment of an organization refers to "framework of all the external factors and effects which has an impact on its life and development." All the said elements have an impact on the firm's either positively or negatively (Salihu, 2015).

The environmental factors of interest in the study were; organizational resources and organizational structure which represents the internal environment; and competition which is a factor in the industry environment. Government policies are classified under the macro environment but for the study it was a moderating variable. Organizational resources include the human resources, unique technology, and physical resources (Ahsan, 2013). Human resources are the knowledge and experience of the employees, ability, and skills deep-rooted among the workers of the firm (Wang & Mahoney, 2009). Organizations that embrace advancements in technology through innovation as well as research and development produce above usual performance (Tajeddini, 2010). Physical resources include the plant, machinery, and equipment and they lead to superior performance (Ainuddin, Beamish, Hulland & Rouse, 2007). Organizational structure entails the basic elements in a firm since the duties, responsibilities, and jobs are all channeled in the creation of proper communication network among different management levels to ensure easy transfer of information (Al-Ghalibi, 2007). The outline of the internal activities are made to attain the firm's strategic goals and objectives. It sets the boundaries for communication between the workers and their bosses. Additionally, it defines the tasks and roles, assures smooth flow of data, and sets the boundaries in interactions between the various management structure levels up to the worker himself (Hamdan, 2009). The existing structure of an organization influences its strategic

choices (Yin & Zajac, 2004). When a firm has no proper structure that matches the strategy, the whole process collapses.

The business environment is characterized by competitive forces and the strategic performance of an enterprise largely depends on its capability to meet the needs of its customers better than the competitors (Porter, 2008). Competition comes from new entrants and threat of substitutes, and rivalry in the industry. The common form of competition that a company's product experience is differentiated products from rival firms (Ibidunni & Ogundele, 2013). Rivalry in an industry intensifies if there is a lack of differentiation, many or equally powerful competitors, high exit barriers, and slow industry growth (Porter, 2008). The higher the number of rivals, the greater the competitive pressure in the industry (Pearce & Robinson, 2011). Like other businesses, banks can go bankrupt although the failure of banks, more specifically the larger ones, can have far reaching consequences (Kane, 2000). As it was observed over the great recession and lately during the international financial crisis as well as the resulting recession, the health system of banks can activate economic calamities that can affect numerous individuals. Therefore, banks need to operate in a safer way to avoid failing. With increasing cross-border banking activities, there has been an increasing need for global cooperation in regulation of banks (Larson, 2011). Banks have a vital role in a state's economy and therefore they need proper regulation to protect the investors, consumers from excessive tariffs, as well as ensure systemic stability along with safeguarding the banking industry against risk, and enhance social objectives like stability. For banks to impact the overall performance of a country's economy, regulations must be in place. Peek (2013) found that regulation impacts on small business exporters in the U.S. In a study in Rwanda, Karemera (2013) found that regulation influences the profitability of commercial banks in Rwanda significantly. Government regulations include interest rate capping and liquidity regulation ratio (Osano & Gekara, 2018).

An interest rate cap refers to a series of interest call options that is expressed as a ratio of total net interest revenue to the total income with a certain interest rate each of which expires on the date the floating loan rate will be reset. During each date to pay the interest, the holder decides whether to let the option expire or to exercise it (Chortareas, et al., 2012). Interest rate caps are often used by borrowers to evade floating rate risk. An interest rate cap, also known as the interest rate ceiling refers to a regulatory measure in banks and other financial institutions that prevents them from charging borrowers above a certain interest level. Governments use interest rate caps for economic as well as political reasons, in most instances to support a particular area or industry of the economy (Osano & Gekara, 2018). The government may bring in interest rate caps after having identified an issue it may consider as market failure in a given sector of the economy, or it might be trying to force more attention of financial resources in that industry than the market would decide. An interest rate can as well be measured by the bank's average lending rate to the bank's deposit rate average. Though abstractly simple, the methodologies that the governments use to execute limits on bank lending rates vary. While some states employ a vanilla interest rate cap printed into all regulations for accredited financial organizations, others have tried using a more flexible method. The simplest interest rate control sets an upper limit on every loan from formal financial institutions (Ben-Khadhiri, Casu & Sheik-Rahim, 2005). Rather than fixing an inflexible interest rate edge, governments in several nations find it desirable to distinguish between different types of loans and setting individual caps grounded on the client as well as the type of loan (Chortareas, et al., 2012). As a highly flexible measure, an interest cap is regularly associated with the base rate usually set by the central bank in formulating the monetary policy, implying that the

cap responds in line with conditions in the market rising with budgetary tightening and decreasing with easing.

Liquidity denotes the ability as well as ease the assets of a firm can be converted into cash. In an organization, liquid assets are those that it can quickly transform to cash to meet financial obligations if a need arises. Government debt, cash, and central bank reserves are examples of liquid assets (Barth, 2004). Even if highly stringent regulations on liquidity can lower the bank's bankruptcy rate, it also risks freezing of the interbank market. A vigorous debate has existed on the negative effect of liquidity regulation on the profitability (Ahokpossi, 2013). The liquidity of a bank is measured by its capability to meet all the anticipated expenses like making debts payments, funding loans, using liquid assets only (Ahmed, 2015). Banks should ideally maintain a certain liquidity level that can enable them to cater for any unexpected expenses without necessarily liquidating other assets. Liquidating fixed assets of a firm should be the last-resort answer to a temporal problem that can have overwhelming lasting consequences (Beckmann, 2007). In the directory of the CBK, commercial banks operating in the country are 43 (Njoroge, 2016). The Commercial banks plays a significant role in making money, ensuring a smooth flow of transactions, community deposits, support of payment mechanisms, provision of credit services, and storage of valuable goods. The banking landscape has changed steadily over the last one decade where the large-size and the mid-tier banks have aggressively increased their capital base and extended their branches across the nation and a few expanding to operate regionally (Ngari & Muiruri, 2014).

The Kenya commercial banks have established branches in the low income areas and the rural areas that have previously been known to be the 'unbanked' areas. At the same time, the banks has mainly concentrated on development of banking products and services for the SMEs as resulted to increased competition in the industry thus requiring them to increase their market share and lower their cost deposits for the SMEs as well as the retail market segments (CFC, 2008). Additionally, commercial banks in Kenya are practicing agency banking (Beck et al, 2010). The Central Banks of Kenya belongs to the Treasury docket where it is responsible for the formulation as well as execution of monetary policies and fostering of liquidity and appropriate undertakings of the Kenyan commercial banks (CBK, 2015). The Kenyan banking industry has undergone numerous regulatory and financial reforms in the past that have brought in important changes to the banking sector along with inspiring foreign banks to come in the Kenyan market (Irungu, 2013). The Banking Act provides governance for the Kenyan banking industry. The commercial banks in Kenya are supposed to submit audited annual reports to the CBK concerning their financial performance and disclose various financial risks including liquidity risk, credit risk, and so on; and the management of the risks.

## **2. Statement of the Problem**

In this era of the turbulent economic times contributed by factors such as technological innovations as well as the irresistible forces of globalization, the commercial banks in Kenya need to update their systems for them to thrive and survive in the industry (Maina, 2017). The Kenyan banking industry is experiencing a dynamic business environment and banks such as Chase Bank and Imperial Bank went under receivership because of the alleged harsh economic times (Irungu, 2017). The performance of Kenyan commercial banks in the last ten years has not been good (Onuonga, 2014) and various improvements have been made in the commercial section from 1990s to increases stability, productivity, efficiency, performance and financial access. Nevertheless, the

profitability of the bank has been unpredictable on average. The success of banks is determined by the profits it makes in a given financial year (Adeusi, Kolapo & Aluko, 2014). From a survey by the Cytonn Investment group, Kenyan commercial banks recorded negative earnings per share growth of 8.2% in the third quarter in 2017 when compared to the average positive growth of 14.1% in the 2016's third quarter (Cytonn Report, 2017). While using electronic banking, customers experience problems such as unauthorized access and redirection of websites or emails, credit card fraud or theft, and network problems and in most cases the expectations of the banks' customers are not met (Ronoh, 2015). Therefore, understanding the environmental factors that influence the performance of commercial banks is essential.

A study by Murerwa (2015) sought to evaluate the determinants of banks' financial performance in evolving economies focusing on Kenyan commercial banks and found out that mobile banking, competition and product innovation significantly impacted banks profitability. The variables of the research related to the influence of the industry factors, firm specific factors, and macroeconomic factors on performance. The study adopted a descriptive research design and was a census of the commercial banks. The above study did not use a theory and this study intended to fill the theoretical gap by studying variables that were not examined in the study; organizational resources, competition, and organizational structure. Maina (2017) aimed at examining the impacts of environmental factors on Barclays Bank's performance. The study variables related to the macro-environmental and micro-environmental influences on performance as well as their effects on performance. The research embraced descriptive research design. The study population was 180 while the sample size was 54 respondents. The findings revealed out that both the internal, industry, and environmental factors affect the performance of Barclays bank. However, the study did not use any theory and studied the micro-environmental and macro-environmental factors as the variables in Barclays bank. Therefore, this study focused on how organizational resources, competition, and organizational structure influence performance of commercial banks in Kenya using the RBV, model of competitive advantage, and contingency theory.

Wafubwa (2013) sought to find out the factors influencing performance of commercial banks in Kenya, Bungoma County, and established a significant influence of customers on the commercial banks performance, then competition and finally sources of resources. Leadership and promotional approaches were found to have less influence on performance of the bank. The theory of risk return was employed in the above study. Contrary to the variables that Wafubwa (2013) studied, this study examined the influence of organizational resources, competition, and organizational structure on performance of commercial banks in Kenya unlike the previous study that focused on KCB in Bungoma County. Studies have been done on the environmental factors and performance of commercial banks in Kenya, but none has focused specifically on organizational resources, organizational structure, and competition, and this study therefore intended to fill this gap.

### **3. Objectives of the Study**

The main objective of this study was to find out the influence of environmental factors on the performance of commercial banks in Kenya. Specifically, this study concentrated on the following objectives:

- i) To find out the influence of organizational resources on the performance of commercial banks in Kenya.

- ii) To determine the influence of organizational structure on the performance of commercial banks in Kenya.
- iii) To establish the influence of competition on the performance of commercial banks in Kenya.
- iv) To establish the perceived moderating effect of government policies on the influence of environmental factors on the performance of commercial banks in Kenya.

#### **4. Theoretical Review**

This section details the theories related to this study and their relevance to the study. This study was anchored by the resource based view, the theory of competitive advantage, and the contingency theory.

##### **4.1 Resource Based Theory**

The resource based view (RBV) was designed by Penrose (1959). It presents an extensive analysis of the operating capabilities and competences that exist within a firm. The dominant view of the RBV model in the current period is based on the idea of economic rent as well as the view of the organization as a collection of capabilities and has a coherent and integrative role in strategic decision making (Kay, 2005). Pearce & Robinson (2009) states that the model provides a crucial and primary insight to the reason to why firms with inimitable and effectively structured resources would enjoy superior performance. According to Cort, Griffith, and White (2007), RBV of the firm believes that a desired result of the managerial effort in the organization is sustained competitive advantage (SCA). Achieving SCA allows a business to earn above-average returns. According to this view, a firm achieves a SCA if its resources have value, barriers to duplication, as well as relevance. A firm can obtain a SCA if it effectively deploys these resources in its market. Organization always focus on attaining maximum profits and thus transforming a short run competitive advantage to SCA the firm will need resources which are heterogeneous in nature (Hoopes, Madsen, & Walker, 2003).

The resources of an organization drive its performance by enabling it to develop the competences that allow it to survive and achieve superior performance (Kerama, 2003). The RBV model of the organization aids the understanding of resources that reinforce the other positioning strategies that a firm considers. For instance, when a firm wants to be a low price business, it necessitates resources related to cost control systems, procurement skills, information systems, and TQM processes (Hoopes, Madsen, & Walker, 2003). The RBV model is applicable to this study on the environmental factors influencing the performance of commercial banks in Kenya because every commercial bank in Kenya has unique value creating resources such as the human resources, technology, physical resources that produce a maintainable competitive advantage such that no rival can adopt similar type of resources by imitation or acquisition, (Cort, Griffith & White, 2007). Also, every firm has its unique way of making decisions and the structure of one company may differ from that of another firm. The Resource Based View anchors the first and the second objectives of the study, the influence of organizational resources on the performance of commercial banks in Kenya and the influence of organizational structure on the performance of commercial banks in Kenya.

## **4.2 The Theory of Competitive Advantage**

This theory was developed by Michael Porter (1980). According to this theory, all firms strive to gain a competitive advantage (Porter, 1980). Competitive advantage is a product or service that an organization offers, that its customers value more than a similar one offered by its competitors. A firm achieves competitive advantage if it increases its economic value over that of its competitors (Rothaermal, 2008). According to Papulova and Papulova (2006), organizations achieve a competitive advantage by adding value for their customers. According to Baltzan and Philips (2010), competitive advantages typically last for a short time because competitors always seek ways to duplicate another firm's competitive advantage. For organizations to remain ahead of competition, they need to develop new competitive advantages continually. The model consists of five key forces covering; rivalry of competitors in the industry, threat of new entrants, threat of substitute products, bargaining power of customers, and the bargaining power of suppliers in that industry. For a firm to survive as well as succeed in such an industry, it needs to come up with and implement effective strategies that have the capability to counter these five competitive forces (Johnson & Scholes, 2002). Substitutes lower the demand for other products since customers switch to alternatives from other firms. Rivalry among firms in the industry can take the form of price competition, new product introduction, and advertisement. On the other hand, powerful buyers force the prices down, and at the same time demand quality services at the expense of the organization's profits. Porter's theory of competitive advantage is relevant to this study because the banking industry is facing intense competition as almost every bank is offering similar products and services to the customers. All banks function in a dynamic environment and therefore they need to respond to these forces so as to determine performance how they perform in future (Pearce & Robinson, 2002). Micro-finance institutions, other banks, and exchange bureaus are competitors that a bank faces in the performance of its financial obligation. The model of competitive advantage anchors the influence of competition on the performance of commercial banks in Kenya.

## **4.3 Contingency Theory**

The contingency theory was developed by (Fiedler, 1963). Contingency theory is an organizational theory that argues that there is no single best way to run a corporation (Sirajul & Naveed, 2014). Instead, the optimal way to lead, organize, and make decisions in an organization is contingent (dependent) upon the situation. This theory asserts that under different situations, different solutions may be effective (Dobak-Antal, 2010), implying that different organizational circumstances require different approaches. There is no universal regulation deemed suitable for all the firms and diverse environments require changing organizational relationships to maximize productivity. The primary duty of the managers is finding an appropriate fit between a business and its environment and the suitable organizational decision for efficiency and effectiveness of the firm. The contingency theory is relevant to this study because every firm has different challenges as well as environments and hence there is no one particular management method that fits into every kind of scenario (Glendon, Clarke & McKenna, 2006). In this case, therefore, government policies regulate the financial operations of the commercial banks depending on the situation of the country. The contingency theory anchors the variable on government policies.

## **5. Empirical Review**

This section covers the review of related studies on the environmental factors (organizational resources, organizational structure, and competition) influencing performance of banks. It also

reviews the moderating effect of government policies on the influence of environmental factors on performance of banks and presents the conceptual framework as well as a summary of literature review and research gaps. Gakenia (2015) conducted examined the influence of organizational resources on the performance of mobile phone firms in Kenya and the organizational resources studied included human capital and technology competencies. The study used both a descriptive survey and exploratory design and employed stratified random sampling in selecting the respondents and collected data using a questionnaire. Findings from the study indicated that technology explains the performance variation in mobile phone companies and the human resources showed a positive significant influence on performance. The study concluded that a company should train its personnel to improve on the skills as well as make investments in modern technology to enhance performance. However, the study ignored other environmental factors such as organizational structure and competition on organizational performance and that the study was conducted in mobile phone firms but this present study will target commercial Banks in Kenya. Munjuri, K'Obonyo, and Ogutu (2015) conducted a study on how human capital influences the performance of Kenyan commercial banks and insurance companies in Kenya by adopting a descriptive cross-sectional survey of 43 commercial banks and 45 insurance firms. The study targeted the human resource managers and data collection was through a questionnaire. Hypothesis testing was done using the simple liner regression model. The study findings revealed that human resources are crucial if a business needs to sustain a competitive edge in the industry. The study concluded that the qualifications and experiences of the human resources should be considered in any organization to ensure superior performance. This study investigated how skills, experience, and adequacy of the human resources influence the performance of commercial banks in Kenya while the current study sought to establish the influence of environmental factors (organizational resources, organizational structure, and competition) on performance and the moderating effect of government policies was established.

Othman, Arshad, Aris and Arif (2015) explored how organizational resources affect sustained competitive advantage of cooperative firms in Malaysia by applying descriptive research design and RBV of the firm. The research examined the influence of physical resources on the performance of cooperative organizations. The study employed content analysis of the yearly reports of the cooperatives which was used. The results indicated a significant positive link between physical resources and performance only when measured in terms of total reserve but not in terms of gross profit and net profit, and therefore it was concluded that physical resources partially influence performance. The study concluded that cooperatives are not using the physical resource to enhance the revenues generated from their operations. This study was done in cooperatives in Malaysia and instead of using competitive advantage as the dependent variable this study used performance as the dependent variable. Chen, Cheng, and Hwang (2005) examined the link between intellectual assets of organizations and their market worth as well as financial performance by drawing data from the licensed Taiwanese companies. The study employed a descriptive design. Data was analyzed using multiple regressions. The findings confirmed that physical capital has a positive influence on financial performance of organizations. The study variables related to how physical capital, personnel and structural capital influences performance. However, this study was carried out to show how physical resources influence performance of commercial banks in Kenya since the previous study was done on Taiwanese firms.

Hakala (2011) conducted a study on strategic approaches in management using a descriptive survey design and analyzed data using the structural equation method. The study findings revealed

a significant as well as positive connection between technology and firm performance. However, the study ignored the contribution of other organizational resources as well as environmental factors on performance. Additionally, the current study used descriptive, regression, and content analysis for data analysis. Also, the study was conducted in the commercial banks in Kenya. Isobe, Makino and Montgomery (2002) investigated the performance impact of Technological resources and reconfiguration capabilities among small manufacturing firms in Japan. The study employed a descriptive design and used a sample of 302 small and medium manufacturing companies. Data analysis was done using regression analysis and revealed that organizations with superior technologies perform better than other firms in the industry. In the study, the variables were primary resources (technological assets and reconfiguration capabilities) and secondary resources (internal human resources, inter-firm collaboration, and managerial vision). The current study focused on three types of organizational resources (human resources, physical, and technological resources). It was conducted on Kenyan commercial banks, and data analysis tools used include descriptive, regression, and content to give a clear picture of how they influence performance.

Awino (2015) focused on an empirical investigation on the relationship between organizational structure and performance of large manufacturing firms in Kenya. A cross-sectional survey was adopted where data was collected from 102 large manufacturing companies and it involved interviewing the chief executive officers, top managers, and middle-level managers of these companies. The study employed regression analysis in testing the study's hypothesis, from which it would all be provided that organizational structure, using ROA, has no influence on the performance. Nevertheless, from a further study done on non-financial indicators of performance such as customer perspective and internal processes gave different results that showed that organizational structure influenced the performance of large manufacturing companies. The study findings however contradict (Njiru, 2014), that structure has a significant relationship with financial performance. More so, the study ignored the contribution of organizational resources and competition on performance. Ogbo, Chibueze, Christopher, and Anthony (2015) studied the impact of structure on organizational performance of selected technical and service companies in Nigeria. A survey was conducted and both primary and secondary data was used. Questionnaires were administered to 80 respondents. Data analysis was performed using simple percentage, chi-square, and correlational analysis and it emerged that decentralization enhanced decision making. It was also observed that a narrow span of control has a significant as well as positive relationship with organizational efficiency. Although the study findings supported the observations by Awino (2015), the study failed in establishing the impact of environmental factors on Bank's performance.

Omondi, Rotich, Katuse, and Senaji (2017) the relationship between organization structure and performance in commercial banks in Kenya with the mediating role of innovation. The research adopted a social survey methodology where questionnaire would be employed as the major technique collecting data. The study's data would be attained from the 43 bank's CEOs and would be analyzed quantitatively through the inferential and descriptive statistics. As from the study it would be established that organizational structure had no significant effect on the performance in commercial bank. These findings contradict Ogbo (2015 and Njiru (2014) and thus this current study sought to ascertain the results. Njiru (2014) explored how the company structure affects financial performance of Kenyan commercial state companies using a cross-sectional survey of all the 34 state commercial corporations in Kenya. Data collection used a questionnaire and analyzed through both the qualitative and quantitative means. The study used inferential

statistics and the relationship between the study variables was established through correlation and multiple linear regression and SPSS was used to analyze data. Results revealed that organizational size, structure formalization, centralization, and complexity have a significant relationship with organizational financial performance. However, the study did not look at how loose internal as well as external boundaries influence performance. Additionally, the study did not focus on commercial banks in Kenya and therefore this study filled that gap.

Shabbir (2016) how organizational Structure influences employee performance among Nigerian Brewing Firms. The study employed a descriptive survey targeting 6468 employees. The sample size was selected through the Taro Yamane method and data collection used a structured questionnaire. Data analysis used descriptive statistics and correlation analysis. Study findings indicated that the nature of organizational hierarchical layers, formalization, and internal and external boundaries have a significant and positive influence on the performance of employees. The study however did not focus on the influence of locus of decision making on performance. Again the study focused on employee performance other than overall firm performance and targeted brewing firms in Nigeria. The results from the study cannot therefore be generalized in the commercial banks in Kenya and therefore this study bridged that gap.

Al-Rfou (2012) carried out an empirical study on the effect of competition intensity on the performance of Jordanian firms. The study surveyed 33 manufacturing firms. Data was analyzed using multiple regression analysis. Results indicated that the degree of market competition affects business performance positively. The current study focused on exploring how new entrants and new services influence the performance of commercial banks in Kenya since the previous study was conducted in Jordan. Additionally, the previous study employed multiple regression analysis only, but this study has used descriptive, regression, and content to establish how the variables are related. Kaunyangi (2014) investigated how competition influences the performance of cell phone telecommunication firms in Kenya through adopting a descriptive design. The study reported that competition in terms of new market entrants, buyer power, and competitive rivalry impact on firms' performance. The study used simple stratified sampling and questionnaires were used to collect data that was later analyzed using Microsoft Excel. This study however failed to establish how organizational resources and organizational structure influences performance and the present study intended to bridge this gap. Again, the earlier study targeted telecommunication firms, while this study has targeted commercial banks in Kenya since the findings of the previous one cannot be generalized. Also, Microsoft excel is not sufficient to explain linear relationships and therefore this study used descriptive and multiple liner regression as well as content analysis to study the relationship between variables.

Zainun and Smith (2011) focused on the impacts of competition change, strategy and technology on the performance of organizations in small and medium manufacturing firms in Malaysia. The study used a contingency approach and data was gathered through mails in which questionnaire were administered to manufacturing firms in the Klang Valley. Study findings revealed that most of the firms had recognized competitive changes within their business environment and thus have enhanced their technology. The results of the structural equation modelling exposed a positive relationship between competitive environment and performance. However, the study was conducted in manufacturing firms in Malaysia and focused only on competition ignoring the effect of organizational structure and organizational resources on performance. Muia (2017) explored the effect of competitive strategies on the performance of insurance companies in Kenya

through a descriptive research design. A total of 47 insurance firms authorized to operate in Kenya were targeted. The sampling frame consisted of the employees of the insurance firms and purposive sampling was employed to select 3 employees from the strategic planning department from each of the 47 firms thus giving a sample size of 141. Data was collected using a questionnaire and analyzed through descriptive and inferential statistics. The study results showed that the differentiation strategy, cost leadership strategy, and focus strategy have a positive and significant relationship with performance of insurance firms in Kenya. The study concluded that insurance firms need to aim at being the first to release new products in the market due to intensifying competition to easily maintain their market share. The study results could not however be generalized to this study since it focused on insurance companies and competitive strategies while this study focused on environmental factors (organizational resources, organizational structure, and competition) on performance of commercial banks in Kenya.

Osano and Gekara (2018) focused on the effect of government regulations on the performance of Kenyan commercial banks by use of a descriptive research design and targeted 42 commercial banks. Census was employed in sampling and used secondary data gathered from annual audit reports from the CBK website. Qualitative and quantitative methods of data analysis were employed. After conducting regression analysis, interest rate capping, and liquidity regulation were reported to affect profitability positively. The previous study did not use primary data which can be a reliable source of data, and that's why this study used structured questionnaires to obtain primary data from the study participants. Oyelakin and Kandi (2017) used a partial least square approach to determine the moderating role of government policies on the association between technology, innovation and entrepreneurship development in Nigeria. The research data was collected through distributing questionnaires to small as well as medium scale enterprises in Osun State and data was analyzed using the partial least square methods. Study findings showed that government policies fully moderated the relationship between innovation, technology and entrepreneurship development. However, the study used entrepreneurship development as the dependent variable and technology and innovation was the independent variable and thus the findings could not be generalized to this study.

Mugo, Muathe, and Waithaka (2017) explored the moderating impact on the policies of the government on the correlation between mobile technology services and SACCO's performance. Both descriptive and explanatory research designs were employed and the study used a sample size of 86 deposit-taking SACCOs. The study respondents were two managers in every SACCO giving a total sample size of 172 respondents. The study employed structured questionnaires from which it would be provided that police of the government would positively moderate the link between mobile technology services as well as the SACCO's performance. meaning that appropriate government policies should be formulated. However, the study findings were limited to deposit-taking SACCOs in Kenya and not commercial banks and thus findings could not be generalized. A study by Mwongeli (2016) evaluated the association between government regulations and financial performance of the Kenyan commercial banks (43 commercial banks). The study used Chi-square test of independence for data analysis. The study results proved that there exists no link between government regulations and banks financial performance. Therefore, having contradictory results, this study was carried out to examine whether or not government policies influence the performance of commercial banks in Kenya.

## 6. Conceptual Framework

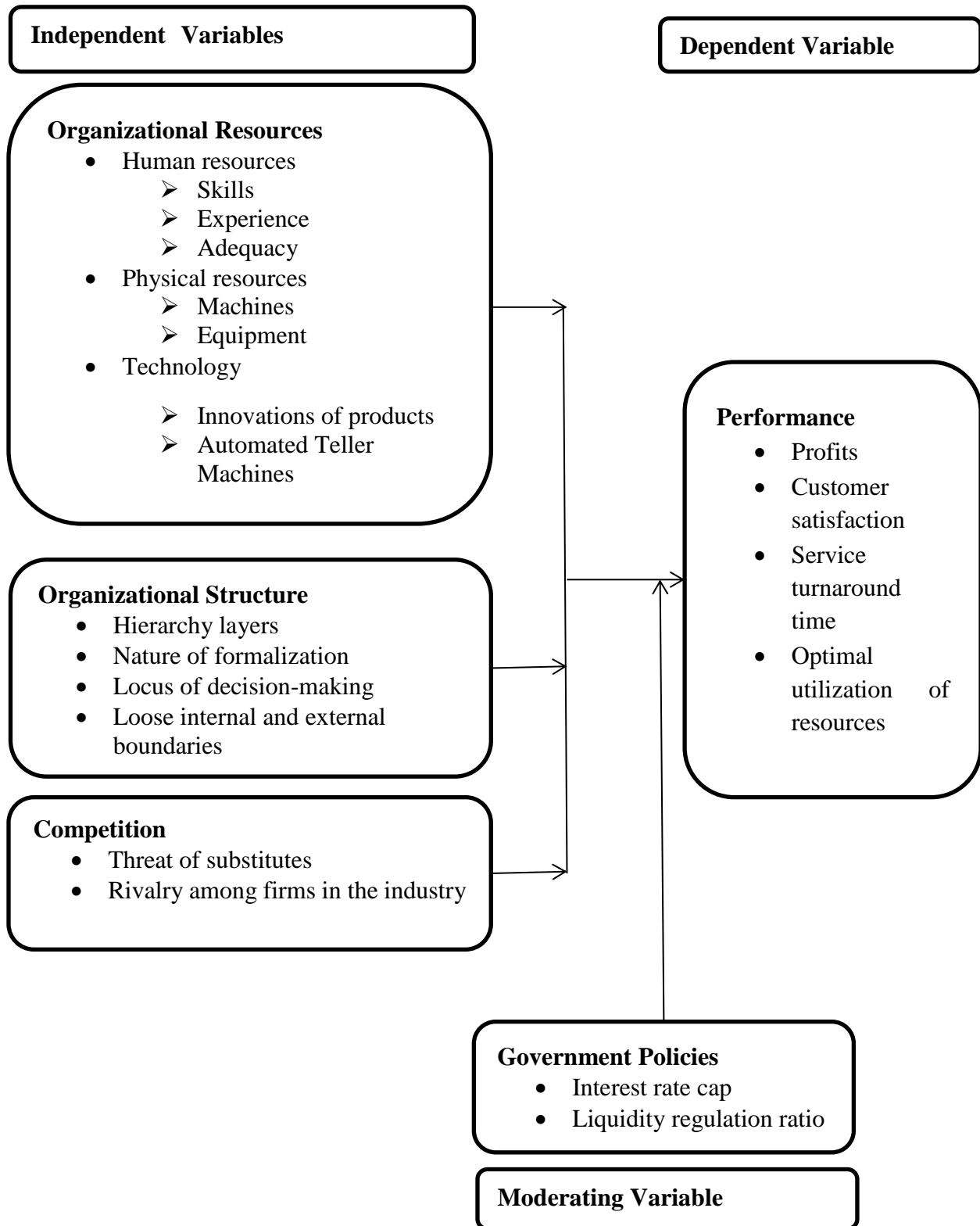


Figure 1: Conceptual Framework.

Source: Author (2018)

The conceptual framework in Figure 1 above shows that the independent variables (environmental factors; organizational resources, organizational structure, and competition) influences the performance of commercial banks in Kenya. Organizational resources that influence performance and of interest in this study are the human resources, physical resources, and technology. The levels of hierarchy, nature of formalization, locus of decision-making and loose boundaries are aspects of organizational structure that influence performance. Commercial banks also are not immune to competition which comes from new entrants and new services. The moderating effect of government policies cannot also be ignored because they largely contribute to the performance of the commercial banks. Government regulations that this study focused on were interest rate capping and liquidity regulation ratio. Performance is the dependent variable and it was defined by profits, customer satisfaction, service turnaround time, and optimal use of resources.

## **7. Research Methodology**

This study adopted a descriptive research design. A research design describes a plan that gives a framework for data collection techniques and data analysis (Bryman & Bell, 2003). A descriptive design was also appropriate because it estimates the population proportion and discovers the associations among various relationships, and measure cause and effect relationships among the research variables. Other studies that have used a descriptive design successful include Kiiyuru (2014) and Maina (2017). This study used the multiple linear regression models because it was establishing the influence of the environmental factors on the performance of commercial banks in Kenya. It is possible to estimate the values of the dependent variable where the study involves several independent variables (Cooper & Schindler, 2011). The study used multiple linear regression model because it was examining the effect of various independent variables; organizational resources, organizational structure, and competition on the dependent variable, performance of commercial banks in Kenya. The population of this study was all the 43 commercial banks in Kenya. The study adopted a census of all the commercial banks operating in Kenya and used the marketing managers.

A census of the head marketing managers from the head office of each bank in Nairobi was conducted. The selected study respondents formed a sample size of 43 respondents who were administered with the questionnaire. The marketing managers were chosen for the study because they had an understanding of the topic under study. The marketing managers were also selected due to their convenience in the banks' head offices located in Nairobi. This study used a questionnaire as the main research instrument. A questionnaire is a research instrument that consists of structured questions and unstructured questions and rating scales (Jackson, 2009). The questionnaire consisted of both open and closed-ended questions. The closed-ended questions had a rating scale while the open-ended questions were meant to collect information on the opinion of the respondents. The questionnaire was divided into various sections according to the objectives of the study. The study used a questionnaire as the research instrument as a questionnaire is easy to administer and appropriate for collecting data from many respondents and thus saving time. SPSS was employed to analyze data. This study produced both qualitative and quantitative data and therefore statistical measures were used. Data was analyzed through descriptive analysis, correlation analysis, and regression analysis. In descriptive analysis, the researcher tries to get the numerical summaries in order to give a better understanding of the characteristics as well as description of the variables. Descriptive analysis produced percentages, frequencies, mean, and standard deviations that were interpreted appropriately.

Correlation analysis examined whether there exists a relationship between quantifiable variables under study and the extent to which they are correlated, and this is usually expressed as a Correlation Coefficient. The regression model focused on measuring the linear relationship existing between the dependent and the independent variables and it attempts to forecast the values of a scaled interval dependent variable from specified values of the independent variable (Mbwesa, 2006). Data analyzed was then presented using charts, tables, and graphs.

## 8. Data Analysis Results

The study analyzed the extent to which the independent variables influenced dependent variable using inferential statistics which include regression and correlation coefficients, F-Statistic and ANOVA. The researcher employed regression analysis to determine the influence of environmental factors as independent variable, government policy as moderating and performance as dependent variable.

Table 1 is the model summary of the study.

**Table 1: Model Summary**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.710 <sup>a</sup>	.505	.450	.87650

**Source; (Research Data, 2018)**

As shown in Table 4.8, the value of R square is 0.505; this shows that 50.5% change in bank performance is explained by environmental factors. An Analysis of Variance ANOVA was conducted at 5% level of significance. The findings are indicated in Table 2.

**Table 2: Analysis of Variance**

	Sum of Squares	df	Mean Square	F	Sig.
Regression	21.128	3	7.043	9.167	.000 <sup>b</sup>
Residual	20.743	27	.768		
<b>Total</b>	<b>41.871</b>	<b>30</b>			

**Source; (Research Data, 2018)**

The ANOVA findings in Table 3 indicate the value of F calculated as 9.167, this shows that the overall regression model is significant. The beta coefficients and p values are indicated in Table 4. This helps in establishing significance between the study variables.

**Table 4: Regression Coefficients**

	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	8.446	3.689		2.290	.030
Organizational resources	.459	.151	.464	3.042	.005

Organizational structure	.105	.047	.335	2.223	.035
Competition	.220	.065	.482	3.407	.002

Source; (Research Data, 2018)

The following equation is formulated from Table 4;

$$Y = 8.446 + 0.459X_1 + 0.105X_2 + 0.220X_3 + e \dots\dots\dots 3.1$$

Where:

Y= Performance of Commercial banks in Kenya

X<sub>1</sub>= Organizational resources

X<sub>2</sub>= Organizational structure

X<sub>3</sub>= Competition

$\beta_0$  = The constant (intercept) which is the value of dependent valuable when all the independent variables are zero.

$\beta_0 + \beta_1, \beta_2,$  and  $\beta_3$  = regression constants/coefficients induced by X<sub>1</sub> X<sub>2</sub> and X<sub>3</sub> on Y

e = the error term.

Therefore, at 5% level of significance, organizational resources p<0.05, has significant effect on performance of the banks. Organizational structure p<0.05 has significant effect on bank performance. Competition p<0.05 has significant effect on performance of the bank.

The study sought to determine the joint influence of environmental factors as independent and government policy as moderating variable on bank performance. Table 5 gives the findings of the model summary.

**Table 5: Model Summary**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.938 <sup>a</sup>	.881	.872	.68557

Source; (Research Data, 2018)

From Table 5, the adjusted coefficient of determination was 0.881. This shows that 88.1% change in performance is explained by environmental factors as independent variables and government polices as the moderating variable. Therefore, there are other factors apart from environmental conditions and government policy that influence performance of commercial bank by 19.9% which future studies should focus on.

**Table 6: ANOVA**

Model	Sum of Squares	df	Mean Square	F	Sig.
Regression	193.942	4	48.486	47.911	.000 <sup>b</sup>
Residual	26.320	26	1.012		

<b>Total</b>	<b>220.262</b>	<b>30</b>			
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**Source; (Research Data, 2018)**

The ANOVA findings in Table 6 indicates that F calculated of 47.911 while F critical is 2.743. This shows that overall regression model was significant in estimating the relationship between environmental factors as independent and government policies as moderating variable on performance of commercial banks.

**Table 7: Regression Coefficients**

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	2.374	1.172		2.025	.048
Organizational Resources	.160	.062	.111	2.574	.019
Organizational Structure	.255	.076	.235	3.365	.013
Competition	.261	.102	.2079	2.559	.043
Government Policies	.525	.215	1.222	2.442	.012

**Source; (Research Data, 2018)**

The following equation is formulated based on the findings in Table 7.

$$Y = 2.374 + 0.160X_1 + 0.255X_2 + 0.261X_3 + 0.525 X_4 + \epsilon \dots \dots \dots (3.2)$$

Where

$X_1$ =Organizational Resources

$X_2$ =Organizational Structure

$X_3$ =Competition

$X_4$ =Government Policies

Thus, holding all independent and moderating variables constant, performance among commercial banks would be at 2.374. Organizational resources ( $p=0.019$ ) had positive and significant influence on performance of commercial banks. The finding is in line with Othman, Arshad, Aris, and Arif (2015) who explored how organizational resources affect sustained competitive advantage of cooperative firms in Malaysia by applying RBV of the firm and indicated a significant positive link between physical resources and performance only when measured in terms of total reserve but not in terms of gross profit and net profit, and therefore it was concluded that physical resources partially influence performance.

Organizational structure ( $p=0.013$ ) had positive and significant effect on performance of commercial banks. The finding is consistent with Shabbir (2016) who examined how organizational structure influenced employee performance among Nigerian brewing firms and revealed that the nature of organizational hierarchical layers, formalization, and internal and external boundaries have a significant and positive influence on the performance of employees. Competition ( $p=0.043$ ) had direct and significant influence on performance of commercial banks. Al-Rfou (2012) carried out an empirical study on the effect of competition intensity on the performance of Jordanian firms and revealed that the degree of market competition affects business performance positively. Government policies ( $p=0.012$ ) had positive and significant moderation effect on performance of commercial banks. Osano and Gekara (2018) focused on the effect of government regulations on the performance of Kenyan commercial banks and revealed that interest rate capping, and liquidity regulation were reported to affect profitability positively. The finding however contradicts with Mwongeli (2016) who evaluated the association between government regulations and financial performance of the Kenyan commercial banks and revealed that there exists no link between government regulations and banks financial performance

In order to test for moderating influence of government policy, the study first determined the composite value of environmental factors, government policy and organization policy. Using these composite values, the study regressed environmental factors and government policy against performance and the findings of the Model Summary are shown in Table 8.

**Table 8: Model Summary**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.832 <sup>a</sup>	.692	.682	1.08115

Source; (Research Data, 2018)

As shown in Table 8 above, 69.2% change in performance of commercial banks is explained by environmental factors and government policy.

**Table 9: Model Validity**

Model	Sum of Squares	df	Mean Square	F	Sig.
Regression	152.467	2	76.234	32.728	.000 <sup>b</sup>
Residual	67.795	28	2.421		
<b>Total</b>	<b>220.262</b>	<b>30</b>			

Source; (Research Data, 2018)

The Model Summary in Table 9 shows the F calculated as 32.728 while F critical is 3.340. Since F calculated is greater than F critical, it shows that the overall regression model was significant.

**Table 10: Regression Coefficients**

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		

(Constant)	.542	1.532		.354	.725
Environmental Factors	.357	.101	.395	3.543	.001
Government Policy	.159	.036	.492	4.406	.000

**Source; (Research Data, 2018)**

The following equation is formulated from the findings of Table 10;

$$Y = 0.542 + 0.357EF + 0.159GvP + \epsilon \dots \dots \dots (3.3)$$

Where **Y**=performance;

**EF**=environmental factors

**GvP**=government policy

Thus holding other variables constant, performance of commercial banks would be at 0.542. Without government policies, environmental factors ( $p=0.001$ ) would significantly influence performance of commercial banks. This finding is in line with Chen, Cheng, and Hwang (2005) who examined the link between intellectual assets of organizations and their market worth as well as financial performance by drawing data from the licensed Taiwanese companies and confirmed that physical capital has a positive influence on financial performance of organizations. Government policy has  $p$  value ( $p < 0.05$ ), this implies that government policy is an explanatory variable. The finding is in line with Dobak–Antal (2010) who indicated that there is no universal regulation deemed suitable for all the firms and diverse environments require changing organizational relationships to maximize productivity.

The study obtained the product of the composite mean of environmental factors and government policy. Thereafter, the resultant composite values were then regressed against performance as the dependent variable. The findings in Table 11 show the Model Summary of the study.

**Table 11: Model Summary**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.848a	.720	.705	1.04086

**Source; (Research Data, 2018)**

The findings in Table 11 show that the coefficient of determination R square is 0.720. This shows that 72.0% change in performance is explained by environmental factors, government policy and the product of government and environmental factors. Table 4.18 presents the findings of the ANOVA.

**Table 12: Analysis of Variance**

	Sum of Squares	df	Mean Square	F	Sig.
Regression	158.509	3	52.836	48.770	.000 <sup>b</sup>
Residual	61.753	27	1.083		

<b>Total</b>	<b>220.262</b>	<b>30</b>			
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**Source; (Research Data, 2018)**

The ANOVA findings at 5% level of significance indicate the value of F calculated as 48.770 while F critical is 2.96. Thus, the overall regression model was significant. The beta coefficients of the study are indicated in Table 13.

**Table 13: Regression Coefficients**

	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	1.268	1.662		.763	.449
Environmental Factors	.398	.098	.441	4.042	.000
Government Policy	.190	.037	.588	5.116	.000
Product of Environmental factors and Government Policy	-.112	.048	-.213	-2.362	.022

**Source; (Research Data, 2018)**

The established equation therefore becomes;

$$Y = 1.268 + 0.398EF + 0.190GvP - 0.112EF * GvP + \epsilon \dots \dots \dots (3.4)$$

Where **Y**=Performance

**EF**=Environmental factors

**GvP**=Government policy

**EF \* GvP**=The product of environmental factors and government policy

From Table 13, the beta coefficient of government policy is positive with p value less than 0.05 while that for the product of environmental factors and government policy is negative with p value less than 0.05. Thus, it can be inferred that government policy is a moderating variable. The finding is in line with Peek (2013) who found that regulation impacts on small business exporters in the U.S. Similarly, Karemera (2013) in Rwanda found that regulation influences the profitability of commercial banks in Rwanda significantly.

## 9. Conclusion

The study concluded that banks invested heavily in innovation by using modern technology. The employees of the bank had the relevant skills to fulfill their jobs and the banks used up to date technology. Possession of better machines and equipment enhanced the performance of the bank. The study further concluded that organizational structure had significant influence on performance of commercial banks. There were formal orientation programs for new employees. Less rules and regulations increased creativity and autonomous work to improve value to the clients. Written formal communications through recognized channels must be applied on each engagement to be

undertaken by the organization. The study also concludes that competition had significant influence on performance of commercial banks with or without the moderating influence of government policies. A number of firms offering financial services existed that intensified the level of competition. Most of the competitors were banks, microfinance institutions and SACCOs. The increased rivalry among commercial banks influenced performance. Substitute products and services offered by competitors affected the performance of the firm. Undifferentiated firm products decreased the performance due to loss of customers to other firm. The study concludes that government policy had significant moderating influence in the relationship between environmental factors and performance of commercial banks. The interest rate capping influenced the performance of commercial banks. Liquid assets influenced bank performance. Liquidity mitigated the risk to solvency. The study further concludes that government policy is both an exploratory as well as a moderating variable.

## 10. Recommendations

On organizational resources, the study recommends that the top management team of all commercial banks operating in Kenya should improve on their organizational resources by ensuring adequate number of employees is in place in various departments and functions. Commercial banks should increase their investment in innovation by using modern technology to positively influence their performance. With regard to organizational structure, the study recommends that the management of all firms in the financial sector in Kenya should improve on their structures by engaging subordinate staff in decision making on day to day operations of the firm. The formal orientation programs for new employees among commercial banks should be strengthened for better performance. In view of competition, the study recommends that the management team of all commercial banks should come up with better strategies of remaining competitive in the industry in view of other industry participants with similar product offering like other banks, microfinance institutions and SACCOs. This calls for a strong market intelligence to collect information on products and services of competitors for constant improvement and thus performance among commercial banks. With reference to government policies, the study recommends that the Central Bank of Kenya should increase its supervisory and monitoring role among commercial banks to positively influence their performance. The formulated rules and regulations should however aim at improving performance.

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