EFFECT OF NEGOTIATION STRATEGY ON THE PERFORMANCE OF COMMERCIAL BANKS IN KENYA

Daniel Mbogo
Jomo Kenyatta University of Agriculture and Technology, KENYA
dmobudo@gmail.com

Dr. Guyo Wario
Lecturer/ Jomo Kenyatta University of Agriculture and Technology, KENYA

Prof. Mike, A. Iravo
Lecturer/ Jomo Kenyatta University of Agriculture and Technology, KENYA

ABSTRACT

The study focused on determine the influence of negotiation strategy on the performance of commercial banks in Kenya. The financial sector is undergoing transformations in order to serve the needs of its clients owing to the existing global environmental dynamism in which the industry is operating in. The sector has been dogged with serious challenges in attempt to manage change in relation to its performance. Negotiation strategy is intended to help government’s planners and banks deal with and adapt to their changing internal and external circumstances. The study population comprised of the 43 commercial banks in Kenya which were in operation during the six-year period of the study that is from 2011 to 2016 chosen using census method. The target population was 436 Bank employees from the commercial banks with a sample population of 272 bank employees of various cadres being selected using the method of stratified random sampling. A descriptive research design was adopted and a positivist paradigm guided the study. Primary data was collected with use of structured questionnaires from employees of commercial banks. The data was analyzed using descriptive statistics of mode, median, mean, standard deviation. The study findings revealed that negotiation strategy had a significant and positive influence on performance of commercial banks in Kenya. These findings put forward that there is need for researchers to adopt and implement appropriate negotiation strategy in order to improve performance of commercial banks. The study recommends further research on other factors that may have an influence on the performance of commercial banks.

Keywords: Negotiation Strategy, Performance, Commercial Banks.

INTRODUCTION

Business change management strategy largely focuses on a firm’s strategic environmental adaptation and aggressiveness towards the market, for survival change management strategies are not and it should not be developed on a vacuum but rather they must be responsive to both external business environment and other forces outside the industry (Pleshko, 2008). An organization’s both external environment consists of competitors and other forces outside its industry that are not under its direct control or its industry (Njagi & Kombo, 2014). Graetz (2006) suggests that faced with increased globalization, deregulation, rapid technological innovations, few will dispute the fact that the primarily task for management today is the leadership of organizational change. In view of the fact that the call for change is often unpredictable it tends to be reactive, discontinues, unplanned and triggered by a situation of organizational crisis (Armstrong, 2009).

There is ongoing debate by numerous researchers on whether change should be always positively related to firm performance or not (Armstrong, 2009). It has been observed that most of the studies speak of change practices leading to performance, such a one way-line of causation is unsatisfied (Ndahiro et al.,2015). Davenport (2007) has noted that creating
brilliant strategy is nothing compared to executing it successfully. The adoption and implementation of change management strategies involves converting the strategic plans into action and then into results. This strategic process is geared towards overall improvement of firm’s performance. Banks are able to focus on areas that give them advantage over their competitors by recognizing their core competencies (Kinyungu & Ogolla, 2017). The management should ensure that the strategies adopted by the banks are in line with its mission and vision. For the organization to be effective and successful, it should respond appropriately to its internal changes. Naughton (2014) referred to this as strategic responds, which are the actions an organization takes to align itself with the environment.

The banking sector has experienced a speedy increase in terms of deposits, revenues and profits in the recent past (CBK, 2012). Kenya’s listed banks posted growth in revenue of Ksh.2.0 billion by September in 2016 and Ksh.2.9 billion in third quarter of the year 2017 (Cytonn report, 2017) where majority having deposit growth averaging 14.3% and with the growth in loan at 14.5%. This trend has triggered a lot of competition among various banks as there was a gradual increase in the growth of private sector credit for the year 2015 that was within target CBK of 18%.(Cytonn report, 2016). To weather this competition and to stand out as successful, Kenyan businesses, commercial banks just like other organizations have adopted changed management strategies for their survival (Njagi & Kombo, 2014). In order to continue to exist in competitive business environment, changing consumer needs and wants, commercial banks have to make use of effective strategies to manage change for improved performance.

African context studies have been carried out on change management strategies such as studies conducted on South African banking sector by (Biniuyo & Aregbeshola, 2014) who observed that ICT adoption increases Return on capital and Return on assets. Ebimobowei (2012) carried out study on customer service studies on customer service strategies and continued survival of banks in Nigerian an era of post-allowance. A research by (Jooste & Fourie, 2009) on the effective strategy implementation that focused on leadership role in the South African perspective where they established that a lack of a strategic leader at the top of the organization was identified as a key obstacle to successful implementation of strategy. The study concluded that strategic leadership in the South African organizations positively contributed to effective strategy implementation.

In Kenya context, the available literature indicates that a lot of studies have been carried out on the influence of change management strategies on the performance of many government institutions. The studies carried on strategic change and change management focused on Kenya Power Company, the national bank of Kenya and Kenya school of Government. One of the studies focused on profitability performance of the organization and the others determined the best methods of implementing change management and one focused on profitability performance of the organization (Kimaku, 2010). A study by Mohammad and Rotich (2017) indicated that most commercial banks in Kenya face challenges in adopting new technology during change process. These studies failed to focus on a developing country like Kenya and those undertaken in Kenya were bank specific.

Thompson, Strickland and Gamble (2007) postulates that essence of developing change management strategies is to build a market position strong enough and an organization capable enough to be capable to make a successful performance. Given the gaps posed by the above studies, there are many areas about influence of change management strategies on performance of commercial banks in Kenya that is however to be fully addressed as these
previous studies failed to focus on all commercial banks in Kenya. It is for this reason that this study will seek to fill the existing gaps by examining the influence of change management strategies on performance of commercial banks in Kenya.

THEORETICAL REVIEW

Zima (2007) defined a theory as a rational type of conceptual and contemplative or a generalized thinking of which results might include a generalized explanation of how nature works. On the other hand, a theoretical framework is that structure that can support or hold a study research theory and consists of concepts and together with their proper definitions and references to the relevant and applicable scholarly literature where the existing theory is being used for a particular study (Weick, 2014). The theoretical underpinning of this study was enriched by theories that basically inform the resource based view theory.

The Resource-Based View

The theory of the firm illustrates attention to the firm’s internal environment as a driver for competitive advantage and emphasis the resources that firms has developed to effectively compete in the industry environment. The term RBV was coined much later by (Wernerfelt, 2011) who viewed firms as a collection of assets or resource that are attached partially permanently to that firm. Peng (2013) established the notice of core competencies, which focus attention on a critical category of resources which are a component of the firm’s capabilities. Barney and Wright (2008) drew attention to “all resources, processes, firms attributes and information by a firm that enable the firms to implement strategies that improve effectiveness and efficiency. Researchers who subscribe to the RBV argue that only strategically important and useful resources of competitive advantage. Powell (2010) has rightly suggested that business strategies include change management strategies can be sighted as a tool to manipulate such existing resources to enable it creates competitive advantage. The core competencies are distinct, rare value firms-level resources that competitors are unable to imitate, substitute or reproduce.

The RBV theory largely emphasizes firms internal funds viewed as fundamental of its performance and these may contribute to competitive advantage of the said firm (Rothaermel, 2012). Resources include all capabilities, assets and firms attributes and knowledge controlled by a company which allows it to conceive of and execute its strategy (Irina, Samaha & Palmatier, 2014). The theory is based on assumptions of heterogeneous-companies within an industry may be heterogeneous in respect to the bundle of resources that they control, skills, and other resources firms possess that differs from the other. It assumes that companies achieve competitive advantage by using their different bundles of resources available through effective application of all useful resources in its possession depending on an assessment of the available amount of a business strategic asset it owns.

The theory I a model that looks at resources as the main key to superior firm performance where a resource is deemed to exhibit VRIO attributes (valuable, rare, costly to imitate and is organized (Rothaermel, 2012). This theory is critical in helping our appreciative of the role resources play in organization during change process. The theory has strengths of promoting resource uniqueness in ensuring platform for sustained competition (Madhani, 2005). However, the theory has faced criticism and faces several limitations in its application to organizations. The critique of the theory is of the view that it lacks significant managerial propositions or operational validity since it puts emphasis on managers developing valuable, rare, inimitable and non-substitutable (VRIN) resources appropriate to the organization, however it remains silent on what is to be done (Gibbert, 2006). The notion of resource
uniqueness—melding of heterogeneity and immobility denied the RBV any potential for generalization where one cannot generalize about uniqueness. The vagueness of terminology associated with RBV that is lack of commonality of terms with RBV research with RBV receiving a lot of criticism in the literature (Rothernnel, 2012) have viewed the many vast definitions.

Scholars have used different terms to explain results of RBV studies make it difficult to compare outcome of diverse studies. Some researchers outline distinct meanings for the core terms; resource, competencies and capabilities while others use the terms interchangeably (Rothernnel, 2012). The theory has a problem with the tautological nature on its views underlying assumptions. RBV is challenged on the premise that the view seems to assume what it seeks to explain as lack of clarity about core aspects of RBV impedes development of theory. The theory faces methodological issues as each of its study varies largely in terms of methodology used and the way RBV research is designed. There is the question of strong bias towards qualitative approach which suggests that the methodology is in appropriate for undertaking RBV research (Madhani, 2005).

Barneys fundamental concept of the RBV from a static point showed that his concept of “valuable, and rare resources does not fulfill the conditions for acquiring and realizing a competitive advantage as this don’t support his framework (Tokuda, 2005). Many studies of RBV tent to be average findings across the industry samples as they only try to uncover the case for average, representative firm and will not only identify those unique aspects of the specific assets of the firm that can result in sustainable profitability with recent assessment of RBV having shown that empirical research examining dynamics of resource use is still in its premature phases (Robinson, 2008). This theory is in line with the negotiation strategies of change management strategy and is widely endorsed by Rothernnel (2012).

A conceptual framework can be looked as that framework which is structured from a set of broad ideas and theories that aid a researcher to identify the problem they are looking at from their ideas and find suitable literature. It is a diagrammatical representation and hypothetical model that shows the relationship between dependent variable and independent variables (Kombo & Tromp, 2009). The conceptual framework of this study was based on the resource based view.

**Figure 1.1**  
**Empirical reviews**  
According to Kothari (2006) a review of similar studies is used along with empirical data collected. A review of empirical literature played a key part in establishing research gaps
upon which a study can aim to build on. The existing literature reviews on influence of change management strategies on performance in organizations is well documented.

The Negotiation strategy is about matching the strategy to the situation (Levine, 2011). Gavin (2006) posts plausible positive relationship between negotiation strategy and performance of commercial banks. Goh (2005) in his related study on the intellectual capital performance of commercial banks operating in Malaysia covering the period of 2001 to 2003 using efficiency coefficient called VAIC and obtained data from annual reports and made findings that all banks operating have a reasonably higher human capital and capital efficiency. Further, the study noted that if accepted, banks to be used as benchmarks based on their levels of efficiency ranking so as to develop priorities and establish strategic plans which will enhance their future performance. A study by Zinaldin (2005) on quality and client relationship management in the Swedish's banking business used descriptive research design to capture quantitative data and affirmed that the industry provides a good reliable example where banks within the market must respond to external environmental changes.


Thompson, Strickland and Gamble (2007) postulates that essence of developing change management strategies is to build a market position strong enough and an organization capable enough to yield a successful performance. Various studies have been done in line to establish the influence of change management strategies and commercial banks performance with varied conclusions. Accordingly, Thompson et al. (2007) in their study involving 36 companies used the approach of looking at performance of each individual company after and before change management was initiated in the organization. The results from the comparisons indicated that change management initiatives in organizations gave impressive performance in banks where there was no change management strategies on all measures of performance were used. The study surveyed companies comparing performance of the banks who had adopted change management and those who hadn’t over the seven years study period. Based on the survey results, the study concluded that banks which had adopted change management strategies out performed those who hadn’t and hence supporting the results.

Obonyo and Kerungo(2015) assert that change management strategies within an organization are inevitable if greater performance is to be achieved. Due to competitive global landscape, organizations ought to continuously adapt their strategies to remain to remain in the market. In Kenya; few of such studies conducted on change management strategies, as majority have focused change on management practices. Otiso (2008) studied change management practices

RESEARCH METHODOLOGY
In this study, the design adopted descriptive research design requiring an analysis of influence of team management strategy on the performance of commercial banks in Kenya. The study fitted in the definition of descriptive design because it involve formulation of objectives of study, design of methods of data collection, selection of sample, data collection and analysis of results (Givens, 2008). This survey methodology conforms to works of (Munyoki & Mulwa, 2012).

Target Population
In this study, the target population was the top level management and the middle management employees of all the 43 commercial banks in Kenya for the period between 2011 to 2016 as provided by CBK, Supervisory report (2016). The target population of the study was the entire bank employees based at the head office comprising of the: top level managers (branch managers, operation managers, directors of ICT, directors of strategy) and middle level managers (departmental supervisors and sales managers) who according to CBK, (2016) were 436. A unit of analysis is considered as that key entity that is being evaluating in the study whereas the unit of observation is that element described by the data one analyzes (Trochim, 2006). For this study, the unit of analysis was all the 43 commercial banks in Kenya whereas the unit of observation was the top management team and middle level bank employees of all the 43 listed banks at the bank’s headquarters involved in strategic decisions (CBK, 2016). These staff was preferred because they are the banks immediate employees who lead change management process in the institution and are better placed to answer question on their perceived influence of employee performance at the bank, a position also supported by (Ngari & Muiruri, 2014).

RESULTS
The study results of respondents showed that 64% of respondents agreed that effective bank negotiation strategy is the main driver of performance, 9% of respondents strongly agreed, 25% of respondents were undecided and only 2% of respondents disagreed. 75% of respondents in the study indicated that they agreed that a successful change management process and performance depends mainly on strong negotiation strategies as 5% of the respondents in the study strongly agreed, while 20% of the respondents were reportedly undecided. Majority of respondents, 75% agreed that the role of negotiation in an organization includes power to break-down the barriers, relieve tension, and create an atmosphere conducive for business while 14% of the respondents strongly agreed and 11% of respondents were undecided.

About 67% of respondents in the study agreed that the factors influencing negotiation process include time, environment, personalities, informal personal issues and hierarchy while 19% of the respondents strongly agreed as 14% of respondents were undecided. A majority of the respondents that is 55% agreed that negotiation strategies of contending, inaction, compromise and problem solving are best used in negotiation as 20% of the respondents in the study strongly agreed and 25% of the respondents point out that they were undecided.

This study sought to find out responses from respondents views on each statement in relationship to team management strategy and study results were as follows where

Table 1.1 Negotiation Strategy and Performance

<table>
<thead>
<tr>
<th>Statement</th>
<th>SA</th>
<th>A</th>
<th>U</th>
<th>D</th>
<th>SD</th>
<th>Total responses</th>
</tr>
</thead>
<tbody>
<tr>
<td>22. Effective bank negotiation strategy is one of the main drivers of performance.</td>
<td>5%</td>
<td>64%</td>
<td>25%</td>
<td>2%</td>
<td>0%</td>
<td>100%</td>
</tr>
<tr>
<td>23. The success of a change management process and performance depends mainly on strong negotiation strategies.</td>
<td>5%</td>
<td>75%</td>
<td>20%</td>
<td>0%</td>
<td>0%</td>
<td>100%</td>
</tr>
<tr>
<td>24. Role of negotiation in an organization includes power to relieve tension, create an atmosphere conducive for business and break down barriers.</td>
<td>14%</td>
<td>75%</td>
<td>11%</td>
<td>0%</td>
<td>0%</td>
<td>100%</td>
</tr>
<tr>
<td>25. Factors that influence negotiation process include time, environment, personalities, informal personal issues and hierarchy.</td>
<td>19%</td>
<td>67%</td>
<td>14%</td>
<td>0%</td>
<td>0%</td>
<td>100%</td>
</tr>
<tr>
<td>26. Negotiation strategies of contending, inaction, compromise and problem solving are best used in negotiations.</td>
<td>20%</td>
<td>55%</td>
<td>25%</td>
<td>0%</td>
<td>0%</td>
<td>100%</td>
</tr>
</tbody>
</table>

Descriptive Analysis for Negotiation strategy

Table 1.2 Results of Descriptive statistics of Negotiation Strategy

<table>
<thead>
<tr>
<th></th>
<th>Mean</th>
<th>Max</th>
<th>Min</th>
<th>Std.Dev</th>
<th>Skewness</th>
<th>Kurtosis</th>
<th>Jarque-B</th>
<th>Prob.</th>
</tr>
</thead>
<tbody>
<tr>
<td>NES</td>
<td>0.0667</td>
<td>0.1130</td>
<td>0.0000</td>
<td>0.03995</td>
<td>-0.5615</td>
<td>2.1059</td>
<td>14.0812</td>
<td>0.0875</td>
</tr>
</tbody>
</table>

Results in table 1.2 indicate that negotiation strategy for 164 observations had a minimum and maximum value of 0.0000 and 0.1130 respectively, a mean of 0.0667 and standard deviation of 0.03995. All banks however reported negative skewness of -0.5615 on their negotiation strategy to show that majority lied on left tail of distribution. The kurtosis coefficient which measures of thickness of the tails of the distribution was 2.1059 and was considered to be moderate and implied it is within normality. Hair et al. (2007) argued that skewness values should not be more than 2 while kurtosis values should not more than 7 for data to be considered normal. The Jarque-Bera test value of 14.0812 with A P-value 0.0875 for team management strategy was more than 0.05, an indication that all variables are estimated to be normally distributed and hence accepted the null hypothesis and conclude that the study data was normally distributed (Gujarat, 2008).

The hypothesis was tested by running a regression model. The acceptance/rejection criteria was that, if the p-value is greater than a 0.05, the Ho isn’t rejected but if it lesser than 0.05, the Ho fails to be accepted. The null hypothesis for second objective was: Negotiation
strategy has no significant influences on performance of commercial banks in Kenya. The alternative hypothesis for the second objective was: Negotiation strategy has significant influences on performance of commercial banks in Kenya.

Results in table 1.3 show that R-squared for model 1 was 0.094 which means that the negotiation strategy in the model explains the changes in ROA by up to 9.4 percent. The 90.4% remaining is explained by the random variables. With regards to ROE model R-squared was 0.043 means that the Negotiation strategy in the model explain the changes in ROE by up to 4.3%. The 95.7% remaining is explained by the random variables.

### 1.3 Model summary for Negotiation strategy and performance

<table>
<thead>
<tr>
<th>Model</th>
<th>R</th>
<th>R²</th>
<th>Adjusted R²</th>
<th>Std. Error</th>
<th>Sig. F</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>0.301a</td>
<td>0.094</td>
<td>0.088</td>
<td>0.0112763</td>
<td>0.000b</td>
</tr>
<tr>
<td>2</td>
<td>0.207a</td>
<td>0.043</td>
<td>0.037</td>
<td>0.0435846</td>
<td>0.008b</td>
</tr>
</tbody>
</table>

Dependent Variable: Model 1 ROA and Model 2 ROE

Predictors: (Constant), Negotiation Strategy

The study results in table 1.4 shows that the F-statistic for model 1 and model 2 were 16.801 and 7.229 with sig. 0.000 and 0.008 respectively which is significant at 5 percent level of significance meaning that the model 1 and model 2 was stable and acceptable for this study.

### Table 1.4 Negotiation strategy Model fitness

<table>
<thead>
<tr>
<th>Model</th>
<th>Sum of Squares</th>
<th>Df</th>
<th>Mean square</th>
<th>F</th>
<th>Sig</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Regression</td>
<td>0.002</td>
<td>1</td>
<td>0.002</td>
<td>16.801</td>
</tr>
<tr>
<td></td>
<td>Residual</td>
<td>0.021</td>
<td>162</td>
<td>0.000</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td>0.023</td>
<td>163</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2</td>
<td>Regression</td>
<td>0.014</td>
<td>1</td>
<td>0.014</td>
<td>7.229</td>
</tr>
<tr>
<td></td>
<td>Residual</td>
<td>0.308</td>
<td>162</td>
<td>0.002</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td>0.321</td>
<td>163</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

a. Dependent Variable: Model 1 ROA and 2 ROE

b. Predictors: (Constant), Negotiation Strategy

### Table 1.5 Coefficient for team Negotiation strategy and Performance

<table>
<thead>
<tr>
<th>Model</th>
<th>Variable</th>
<th>Unstandardized Coefficient (B)</th>
<th>Std. Error</th>
<th>Standardized Coefficient</th>
<th>T</th>
<th>Sig</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Constant</td>
<td>0.046</td>
<td>0.002</td>
<td></td>
<td>27.029</td>
<td>0.000</td>
</tr>
<tr>
<td></td>
<td>Negotiation</td>
<td>-0.091</td>
<td>0.022</td>
<td>-0.307</td>
<td>-4.099</td>
<td>0.000</td>
</tr>
<tr>
<td>2</td>
<td>Constant</td>
<td>0.115</td>
<td>0.007</td>
<td></td>
<td>17.397</td>
<td>0.000</td>
</tr>
<tr>
<td></td>
<td>Negotiation</td>
<td>-0.230</td>
<td>0.085</td>
<td>-0.207</td>
<td>-2.689</td>
<td>0.008</td>
</tr>
</tbody>
</table>

a) Dependent variable: Model 1 ROA Model 2 ROE

b) Predictors: (constant), Negotiation Strategy

### DISCUSSION

The results in table 1.5 revealed that the coefficient of negotiation strategy was -0.091. This demonstrated negative effects of negotiation on ROA. The results yielded a p-value of 0.0000 with respect to ROA showing the significant effect on ROA. Therefore, we fail to accept the null hypothesis that negotiation strategy has no significant effects on ROA of commercial banks operating in Kenya and fail to reject the alternative hypothesis. With regards to ROE, the results revealed that the coefficient of negotiation strategy was -0.230.
This demonstrated the negative effect of negotiation strategy on ROE. The P-value was 0.008 which is lesser than 5% level of significance. This indicates that negotiation strategy had a significant positive effect on ROE. Therefore, we fail to accept the null hypothesis that negotiation strategy had no significant effects on ROE of commercial banks in Kenya and fail to reject the alternative hypothesis. The findings are consistent with resource-based theory and in line with the study of Goh (2005) and Zinaldin (2005) negotiation influence performance. The findings of the study are also consistent with studies by Wischnesvsky and Damanpan (2006), Ebimobowei (2012), Alsamydai, Alnaimi, Ainidamy and Salim (2013), According to O’onge (2015, Muchira (2013), Thompson, Strickland and Gamble (2007), Obonyo and Kerungo (2015) and Otiso (2008) who found out that banks which had adopted change management strategies out performed those who hadn’t.

CONCLUSIONS

Based on findings the study concluded that negotiation strategy has significant influence on performance of commercial banks in Kenya. The sub constructs of negotiation strategy that is forcing, fostering and escape strategies influence performance positively.

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