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DOES STRATEGIC FLEXIBILITY INFLUENCE ORGANISATION PERFORMANCE OF COMMERCIAL BANKS IN KENYA? THE MODERATING ROLE OF ENVIRONMENTAL DYNAMISM

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ABSTRACT

Commercial banks offer crucial financial services for a country's economic growth. However, a noticeable erratic trend in profitability in this banks has raised a lot of concern. In addition, the banks are facing challenges regarding customer satisfaction, corporate reputation and brand loyalty. Consequently, this study sought to determine whether environmental dynamism has a moderating effect on the relationship between strategic flexibility and organisation performance of commercial banks in Kenya. Positivism philosophy provided the foundation of this study. The study adopted descriptive and explanatory research designs. The target population comprised the 39 commercial banks in Kenya. Stratified random sampling was used to select 207 heads of functional areas. This cross-sectional survey used a semi-structured questionnaire to collect primary data. The questionnaire was administered using the drop and pick method to give respondents ample time to fill them. The validity of the instrument was determined through face, construct and content validity. The reliability was assessed by conducting a pilot study to determine the Cronbach's alpha index whose value was 0.844, thus met the threshold of 0.7. The research yielded a response rate of 72.5%. Diagnostic tests for multicollinearity, homoscedasticity, linearity and normality were conducted. Descriptive and inferential statistics were used to analyze quantitative data. Frequency counts, percentages, sample means, sample standard deviations, and coefficients of variation were all used in descriptive analysis. Regression analysis, correlation, and inferential statistics were utilized to test the hypothesised association at a 95% confidence level and determine the type and strength of the relationships between the variables. While narratives were used to present qualitative data, text, tables, and statistical measurements were used to present quantitative data. The findings indicate that strategic flexibility has a significant effect on organisation performance in commercial banks in Kenya. Secondly, the findings indicate that environmental dynamism partially moderates this association. Consequently, the study recommends that heads of corporate strategy should implement policies that support the need for investing in rigorous environmental scanning processes that can assist them to monitor environmental changes, anticipate potential disruptions and proactively adjust their strategies. Similarly, it is recommended that the chief finance officer should focus on development of financial flexibility in their banks to ensure that resources needed to address changes in the environment are readily available when needed.

Key Words: *Environmental Dynamism; Organisation Performance; Strategic Flexibility; Uncertainty; Unpredictability*

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INTRODUCTION

Commercial banks play a vital role in in facilitating the economic development of a nation (Alam, Rabbani, Tousif & Abey, 2023). The provision of critical financial services encompassing lending, wealth management, deposit accounts, and overdraft facilities provides support across all sectors. Similarly, these banks promote capital formation that is paramount in the development of various sectors by encouraging a culture of saving and investment. Also, this culture plays a key role in enabling citizens from developing countries to in developing countries to escape impoverishment. However, the performance of these banks has raised some concerns in terms of financial and operational metrics.

Organisation performance is critical in determining the survival, growth and success of organisations, thus leading to interest in its evaluation for scholars and practitioners (Ouma, Kinyua & Muchemi, 2022). Ultimately, the major goal of all organisations is the achievement of superior performance (Oketch, Kilika & Kinyua, 2020). According to Taouab and Issor (2019), this has spurred the desire in the field of strategic management to understand why some organisations achieve superior compared. Performance denotes is an indicator of the degree to which an organisation has accomplished its established objectives (Rehman, Mohamed & Ayuop, 2019). According to da Silva and Borsato (2017), a thorough monitoring of performance in all organisations has been elevated by the dynamic environment.

According to the International Monetary Fund (2023), many banks globally face high inflation and fragmentation costs. The USS experienced market volatility, leading to a 10% decrease in bank assets and the collapse of Silicon Valley Bank and Signature Bank (Jiang *et al*., 2023). Banks in Germany have posted low profitability compared to others in the European Union as a result of intense competition and low interest rates (IMF, 2022). Jiger and Koroleva (2023) assert that the performance of banks in Chinese cities in terms of asset quality and profitability lags behind that of the mean national levels.

Although large banks in Africa have reported increased profits, their overall profitability, measured by return on equity (ROE), remains below global standards (Ford, 2023). Commercial banks in South Africa, recognized as the most developed financial market in Africa, encounter heightened risks caused by significant capital outflows, unprecedented energy shortages, and an increase in inflation (South Africa Reserve Bank, 2023). The financial performance of banks in Uganda has been deteriorating, evidenced by rising non-performing loans (NPLs) and diminished profitability (Kamukama *et al*., 2020). Commercial banks in Kenya face challenges from sophisticated customers, intense competition, rising gross NPLs, deteriorating asset quality, low productivity, and technological advancements (CBK, 2023; FSR, 2021).

Strategic flexibility is a dynamic capability that allows organizations to adapt and respond to unpredictable changes in the environment (Min & Park, 2019). It involves the capacity to anticipate, respond, and exploit market shifts, technological advancements, and competitive pressures (Meng et al., 2020). Strategic flexibility has been conceptualized as a multifaceted construct, with dimensions including resource flexibility, production flexibility, marketing flexibility, human resource flexibility, coordination, information and capabilities flexibility, and competitive flexibility (AlHalaseh and Ayub, 2021; Brozovic, 2018; Herhausen et al., 2021; Jedi *et al*., 2022; Mohsin *et al*. 2022). Resource flexibility describes an organization's ability to reallocate and reconfigure resources efficiently to accommodate change, exploit new opportunities, and minimize threats by availing resources where they are most required (Sharma & Starik, 2018; Sirmon & Hitt, 2019). Coordination flexibility denotes the organisation's capacity to manage and realign diverse activities and processes for effective response to change through integration of all efforts across different units, ensuring smooth communication (Huang & Kao, 2019). Human resources flexibility refers to the capabilities in an organisation that focus on matching employee attributes and practices with the requirements of a dynamic environment (Beltrán –Matin, Bou-Llusar & Salvador-Gómez, 2021). This provides an adaptive context within an organisation for it to implement suitable strategies in changing environments. Competitive flexibility describes an organisation's ability to withstand prevailing competitive dynamism through

innovation of new products to satisfy demanding customers faster than competitors and using alternative strategic options to compete effectively (Abu, Hanadi & Alshawabkeh, 2018).

Environmental dynamism refers to the strength and speed of change in an organization's environment, influenced by technological advancements, consumer demands, competitive pressures, regulatory requirements, and market conditions (Saeed et al. 2023). This leads to greater volatility, unpredictability, complexity, and ambiguity, requiring organizations to adapt their strategies and business activities to address emerging threats and exploit opportunities (Seo, Kim, & Kim, 2020).Additionally, there is need for continuous adaptation, innovation and prompt response to emerging opportunities and challenges to remain competitive. Technological dynamism, characterized by rapid pace of change, innovation, and disruption across industries, has revolutionized the banking sector through digital platforms, data analytics, artificial intelligence, and block chain technology (Meng et al., 2020; Surty & Scheepers, 2020). This dynamism supports technological capability in organizations to exploit opportunities and mitigate challenges (Yunita, et al., 2024). Regulatory frameworks, which reduce systematic risk and protect banking confidentiality, impose additional costs and constraints on banks, affecting profitability, risk management practices, and product offerings (Mathenge, 2020; Osano & Gekera, 2018). Rapid changes in customer preferences and composition significantly affect an organization's performance, driven by demographics, technological advancements, and regulatory requirements (Senbetto & Hon, 2020). Price volatility in organizations triggers turbulence in demand and supply, negatively impacting profitability and survival (Agyapong, Mensah & Akomea, 2021). To stabilize the market from fluctuations and losses, organisations may have to influence customers' thinking and develop novel products that satisfy a demanding customer (Surty & Scheepers, 2020).

Strategic flexibility has been suggested as a means through which organisations recognise and adapt to changes and exploit opportunities (AlHalesch & Ayoub, 2021; Ghoban-Bakhsh & Gholipour-Kanani; 2018). Consequently, strategic flexibility enhances the organisation's ability to recognise and address dynamism arising from changes in customers' demands, competitive pressure, technological advances and other factors in the environment. It is expected that high levels of environmental dynamism will lead organisations to adopt strategic flexibility (Xin, 2020).

Statement of the Problem

Commercial banks play a crucial role in Kenya's economic development, but their profitability has fluctuated significantly between 2018 and 2023. The ROE have shown significant fluctuations, with a rebounding trend from 22.1% in 2021 to 26.2% in 2022, but a sharp decline to 22.4% in 2023. The ROA showed a similar trend, fluctuating between 3.7% in 2022 and 2.0% in 2020, and 2.9% in 2023. Additionally, commercial banks face a number of challenges regarding brand loyalty, corporate reputation and customer satisfaction. The Kenya Bankers Association (KBA, 2022; 2023; 2024) annual customer survey reports indicate a significant rise of 16.4 % in 2023 of multi-banked customers, an indication of decrease in brand loyalty. The percentage of customer complaints resolved within two days declined by 2.5 %, negatively impacting the corporate reputation. Additionally, low levels of customer satisfaction as depicted in the Net Promoter Score (NPS) declined by 1%.

Despite the existence of an extensive body of literature on strategic flexibility, a number of gaps remain unaddressed. Awais *et al*. (2023) suggested that strategic flexibility enhanced innovation and performance in dynamic environments. However, the representation of females among participants was only 14.7%, raising concerns about potential gender bias in the data as asserted by Kothari (2006). Similarly, Bashir (2023) indicated that strategic flexibility significantly influenced performance of SMEs in pharmaceutical industry. Nevertheless, the use of convenience sampling may compromise the representativeness of the sample in relation to the population.as suggested by Zikmund and Griffins (2010). Furthermore, Mohsin *et al.* (2022) suggested that strategic flexibility played a significant role in performance of banks. However, the descriptive

design did not examine causality because it emphasized the description of phenomena (Kothari & Garg, 2014).

Inconsistent findings exist regarding the effects of strategic flexibility on organisation performance. Purnama (2024) and Xiao, Yang, and Hu (2021) demonstrated that strategic flexibility significantly influences innovative and organizational performance. Conversely, Lim and Tan (2023) argued that excessive redeployment or reallocation of resources could result in diminished firm performance. Ferraris, Santoro, Giudice, and Papa (2022) posited that strategic flexibility is more suitable in dynamic environments than in stable ones, as firms may face greater costs associated with strategic flexibility than the benefits gained.

Additionally, the contextual disparity in studies restricts their applicability to commercial banks. Yousuf *et al.* (2020) examined the effect of strategic flexibility on performance of pharmaceutical companies in Jordan. Lee and Rhee (2022) examined the impact of strategic flexibility on South Korean firms, while Xiao, Yang, and Hu (2022) analyzed its effect on the performance of Chinese firms. There is need to conduct a study to examine the effect of strategic flexibility on organisation performance of commercial banks in Kenya. Furthermore, this study sought to assess whether environmental dynamism has a moderating effect the relationship between strategic flexibility and organisation performance of commercial banks in Kenya.

Research Objective

To determine the moderating effect of environmental dynamism on the relationship between strategic flexibility and performance of commercial banks in Kenya. The research hypotheses were;

- *H_0: Environmental dynamism has no statistically significant mediating effect on the relationship between strategic flexibility and performance of commercial banks in Kenya.*
- *H_a: Environmental dynamism has a statistically significant mediating effect on the relationship between strategic flexibility and performance of commercial banks in Kenya.*

THEORETICAL REVIEW

The Balanced Scorecard Model

Kaplan and Norton (1992) proposed a model that sought to remove the inadequacies in previous measures that made managers to choose between financial or subjective measures. The balanced scorecard framework aims to provide a balanced view of performance by aligning strategic objectives with performance measures. The framework includes four perspectives: financial, internal business, customer, and learning and growth. Financial perspectives focus on stakeholders' interests, ensuring long-term organizational sustainability and competitiveness (Kaplan & Norton, 1996).

The Internal business perspectives focus on superior internal processes, enhancing customer satisfaction and achieving financial goals. Customer perspectives examine customer satisfaction, retention, market share, and brand perception, focusing on time taken to deliver, product quality, and pricing (Kaplan & Norton, 2001). Learning and growth perspectives emphasize the importance of developing intellectual capital, technology, and organizational culture to remain competitive (Bose & Thomas, 2017). The study adopted both financial and operational performance indicators, with profitability as a financial measure and corporate reputation, brand loyalty, and customer satisfaction as non-financial measures. The study adopted financial and operational performance indicators because they give more current picture about the performance of an organisation.

Strategic Choice Theory

Child (1972) proposed the strategic choice theory (SCT) which focuses on the role of top management in shaping an organization's course of action. The theory emphasizes the link between choices, actions, and environment in influencing an organisation, with top management having the greatest impact. Strategic choice refers to the process through which powerful individuals decide on an organisation's course of action (Child, 1972). The dominant coalition within an organisation has power to make decisions concerning formal

organisational structures, the context within which the organisation operates, and setting relevant performance standards (Child, 1997).The decision-making process in organisations is seen as a political process because the dominant coalition directs the choices and actions of the organisation through power struggles to serve their self-interests.

According to the theory, organisations are flexible, adaptive and continually learning thus mangers are able to reshape their organisations through the strategic choices made (Rohof, 2013). The top management team identifies opportunities and threats by evaluating available information, enabling strategic flexibility and adaptability to the environment. The theory acknowledges the impact of decision makers on the strategic performance of their organizations, emphasizing the moderating role of environmental dynamism in the association of strategic flexibility and organisation performance. The top management team determines the degree to which the commercial bank can be flexible in adjusting their strategies to navigate uncertainty and unpredictability.

Empirical Review

Awais *et al*. (2023) examined the influence of strategic flexibility on organisational performance of projected-based engineering firms in Pakistan. The study adopted a cross-sectional survey and used a questionnaire to collect data from 184 participants. The findings indicated that in dynamic environments, strategic flexibility enhances innovation and organisational performance. This study had 14 percent participation from females, thus putting the data at risk of gender bias (Bryman & Bell, 2007). The current study ensured that there was a fair representation of different genders to mitigate this.

Hussein and Salman (2022) interrogated the effect of strategic flexibility on organisational effectiveness. The unit of observation was 6 directorates in the Ministry of Education of Iraq. The study adopted a descriptive analytical research design. A questionnaire was used to collect data from general and departmental managers and their assistants. The findings indicated that strategic flexibility has a significant effect on organizational effectiveness. This study was conducted in a public service context which operates at significantly different conditions from those of commercial banks in Kenya.

Bashir (2023) interrogated the influence of strategic flexibility in the performance of SMEs in Saudi Arabia. The study adopted a cross-sectional survey design and collected data from 200 SMEs. The data was analysed through structural equation modelling. The findings indicated that strategic flexibility significantly affected the performance of SMEs. However, the study adopted convenience sampling which predisposes the data to sampling bias (Cooper & Schindler, 2006). The current study adopted stratified random sampling to mitigate the risk of bias.

Datche, Kising'u and Kalimbo (2023) interrogated the moderating effect of environmental dynamism in the innovation capability and performance nexus in manufacturing firms. The study adopted a correlational, cross sectional approach. The findings suggested that environmental dynamism significantly moderated this association. Nevertheless, the study focused on financial performance which left out operational indicators which are equally important. The current study included non-financial indicators for a more comprehensive and balanced evaluation of organisation performance.

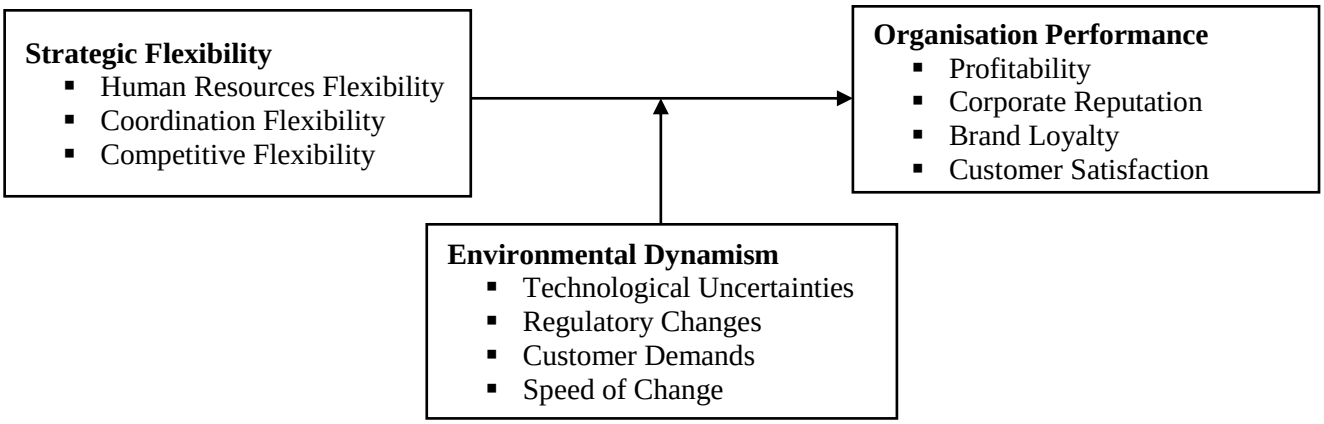
Mukhtar, Nasreen & Khalid (2023) investigated the nexus between environmental dynamism, dynamic capabilities and performance of SMEs in Pakistan. This was a quantitative research based on positivism philosophy. A cross-sectional survey method was adopted. The findings indicated that environmental dynamism moderated the association. This study focused on very diverse industries. Therefore, the scope was too wide which may affect the validity and reliability of the study. The current study was in the banking sector in Kenya, thus narrowing down the scope to allow for an in-depth study.

Rodriguez-Peña (2023) interrogated the moderating effect of environmental dynamism on the corporate entrepreneurship and performance nexus in large firms in emerging economies. This was a quantitative, cross-

sectional survey study that used multivariate second-order hierarchical component model. The PLS-SEM approach was utilised in data analysis. The findings indicated that environmental dynamism does not moderate the corporate entrepreneurship and performance nexus. However, convenience sampling is prone to sampling bias and this limits the validity of the findings (Cohen, Manion & Morrison, 2005). The current study used stratified, random sampling which ensured increased representation and validity of the findings. Hayes Process was used to examine moderation because it offers a more robust method of estimation by using boot strapping techniques (Hayes, 2012).

Conceptual Framework

Following a review of extant literature, a conceptual framework illustrating the association between strategic flexibility and organisation performance of commercial banks was developed This incorporated the moderating influence of environmental dynamism on the association between strategic flexibility and organisation performance. Figure 1 presents this conceptual framework.



Independent Variable **Moderating Variable** **Dependent Variable**

Figure 1: Conceptual Framework

Source: Author (2024)

The independent variable is strategic flexibility which is operationalised as human resources flexibility, coordination flexibility and competitive flexibility. The dependent variable is organisation performance, operationalised as profitability, corporate reputation, brand loyalty and customer satisfaction. The moderating variable, environmental dynamism, is operationalised technological uncertainties, regulatory changes, customer demands and speed of change. As the environment becomes more uncertain and unpredictable, it is expected that commercial banks that are able to adjust their strategies to proactively mitigate threats and exploit opportunities will realize superior performance in terms of in terms of higher profitability, corporate reputation, brand loyalty and customer satisfaction.

METHODOLOGY

Positivism philosophy was the foundation of this study because of its emphasis on objectivity and impartial analysis of societal issues (Saunders, Lewis & Thornhill, 2007; Zikmund & Griffin, 2010). The utilization of descriptive and explanatory research designs in the study focused on providing a broad understanding of the variables. According to Sekaran and Bougie (2016), the combination of multiple designs in a study improves it by facilitating optimal conclusions to be drawn from it. Other studies in the field of strategic management have adopted these research designs (Mirugi & Kinyua, 2018; Odhiambo & Kinyua, 2022; Ouma, Kinyua & Muchemi, 2022).

A total of 39 commercial banks with their headquarters located in Nairobi City constituted the target population. These banks face challenges in declining profitability, brand loyalty, corporate reputation and

customer satisfaction. The unit of observation was 207 respondents who were obtained from 11 functional areas, which are finance, operations, research and development, compliance, marketing, human resources, information technology, corporate strategy, retail banking, corporate banking, and customer relations. The unit of analysis was senior managers in charge of these areas and who are directly involved in ensuring that the banks are able to adjust their strategies promptly in response to change.

The study relied on primary data which was collected through a semi-structured questionnaire. This instrument was deemed suitable for the study because it guaranteed objectivity and participant independence and facilitated a comprehensive understanding of the variables by including open-ended questions that allowed participants to share additional insights on the subject (Desai & Porter, 2006). The questionnaire was self-administered, allowing participants to fill it at their convenience and confidentially (Cooper & Schindler, 2006). The drop and pick method was used to give respondents ample time to fill the questionnaire. Additionally, respondents were allowed to scan and send the filled questionnaires by email.

Kothari (2006) asserts that evaluating a research instrument's validity and reliability enhances the accuracy and consistency of the findings. A pilot research was done to assess the instrument's reliability, comprising 21 randomly selected middle-level managers from the headquarters of commercial banks. These managers possess adequate and relevant information because they work closely with senior managers and are likely to succeed them when openings become available. The middle level managers were HR managers, finance managers, operations managers and marketing managers. A reliability value of 0.7 on Cronbach's alpha was deemed adequate (Cooper & Schindler, 2006). Table 1 presents the results of the reliability test

Table 1: Test of Reliability Results

Research Variables	No. of Items	Cronbach's Alpha	Decision
Strategic Flexibility	24	0.853	Reliable
Environmental Dynamism	8	0.796	Reliable
Organisation Performance	8	0.884	Reliable
Aggregate Score	**36**	**0.844**	**Reliable**

Source: Survey Data (2024)

The results in Table 1 reveal the Cronbach's alpha values for all the variables were above 0.7. Cooper and Schindler (2006) recommend a threshold of Cronbach's alpha value 0.7 for an instrument to be considered reliable. The average Cronbach's alpha value was 0.882 and was considered a valuable research tool and further statistical analysis, following the suggestion by Field (2013).

Taherdoost (2016) recommends that a study instrument should meet the requirements of face, content and construct validity. To determine face validity, a pilot study and a review of other instruments used in studies on the construct were undertaken. To determine both content and construct validity, a thorough literature review on the topic was undertaken. Additionally, an evaluation was sought from the supervisors and other experts in strategic management within the department of Business Administration at the university.

A letter of approval obtained from Kenyatta University was used to seek a research permit from the National Council of Science, Technology and Innovation. The researcher endeavored to protect the safety, privacy and anonymity of the respondents by ensuring no personal information or any that could identify them was captured. All data collected was kept strictly confidential and solely utilised in research. Informed consent was sought by ensuring that participants had adequate information about the study objectives and voluntary participation was emphasized. No inducement, monetary or otherwise, was used to get the respondents to participate.

Descriptive statistics was summarized in form of mean, standard deviation and coefficient of variance while inferential statistics was used to test hypothesis where regression analysis model was used which was reported

using adjusted coefficient of determination (R^2), F statistics (ANOVA), unstandardized coefficients (beta values) and p values at 0.05 level of significance.

Linear regression model was utilised to examine the relationship between strategic flexibility and organisation performance. Normality, linearity, multicollinearity and homoscedasticity tests were conducted to determine suitability of the data for regression analysis. The regression model is shown in Model 1.

$$\mathbf{Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \varepsilon} \text{.....Model 1}$$

Where;

Y	is Organisation Performance
$\boldsymbol{\beta_0}$	is the constant (Y-intercept)
$\boldsymbol{\beta_1, \beta_2, \beta_3}$	are beta coefficients
$\mathbf{X_1}$	is Human Resources Flexibility
$\mathbf{X_2}$	is Coordination Flexibility
$\mathbf{X_3}$	is Competitive Flexibility
$\boldsymbol{\varepsilon}$	is the Error term

In Model 1, the three dimensions of strategic flexibility were regressed on organisation performance. This regression helped in revealing the beta coefficients that were used to test hypotheses H_{01}, $H_{02,}$ and $H_{03.}$ Regression coefficients in independent variables were tested at 95% confidence ($p<0.05$). The predictor variable were judged to be significant where $p<0.05$, hence claims of non-significant effect in a null hypothesis was rejected. A fail to reject conclusion was made when $p>0.05$.

To facilitate the testing of the moderation effect, the composite index for strategic flexibility was calculated by combining its indicators, which are competitive, coordination, and human resource flexibility. Using the Gupta and Kapoor (2020) formula, the weight of each indicator was determined and multiplied by its individual observed value. Finally, the composite index was derived through summation of all the values. The choice of the harmonic mean was determined by its superior ability to accommodate indicators with low values.

Regression equation suggested by Hayes (2022) shown in equation 3.5 was used to determine the effect of moderation.

$$\mathbf{Y = \beta_{0+} \beta_1 Strflex. + \beta_2 Env.dynamism + \beta_3 (StrFlex. * Env.dynamism) + \varepsilon} \text{..... Model 2}$$

Where;

Y	is organisation performance
$\boldsymbol{\beta_0}$	is the constant
$\boldsymbol{\beta_1}$	is the coefficient of relating strategic flexibility on organisation performance when environmental dynamism =0
$\boldsymbol{\beta_2}$	is the coefficient of relating environmental dynamism to performance
$\boldsymbol{\beta_3}$	is the estimate of moderation effect
StrFlex.	is strategic flexibility
Env.dynamism	is environmental dynamism

In equation 3.5, β_1 denotes the conditional effect of X on Y, β2 represents the predicted change in Y resulting from a unit change in W. The β_3 shows change in β_1 due to changes in β_2 across different values of X in W. Therefore, based on equation 3.5 the moderation effect was deemed to be present if β_3 (the interaction term) is statistically significant, that is, there is no zero between the lower level confidence and the upper level confidence intervals and the p-value is less than 0.05 (Hayes, 2012; Hayes & Rockwood, 2020).

RESULTS

Descriptive Results

Response Rate

Two hundred seven (207) questionnaires were distributed to respondents, of which 150 were completed. This indicates a response rate of 72.5%. In surveys, a response rate exceeding 70% is deemed exceptional (Mugenda & Mugenda, 2003). In similar studies involving managers in commercial banks, Oketch (2020) and Wamai (2022) achieved a response rate of 71.6% and 68.3%, respectively. Consequently, the response rate of 72.5% was considered appropriate for subsequent statistical analysis.

Descriptive Results for Strategic Flexibility

Strategic flexibility, the independent variable, was operationalised as human resources, coordination and competitive flexibility. The findings of the descriptive statistics for strategic flexibility are presented in Table 2.

Table 2: Descriptive Results on Strategic Flexibility

	n	Mean	Std. Deviation	CV
Human Resource Flexibility	150	3.86	0.975	0.253
Coordination Flexibility	150	4.04	0.814	0.221
Competitive Flexibility	150	3.96	0.875	0.201
Overall Score for Strategic Flexibility		**3.95**	**0.888**	**0.225**

Source: Survey Data (2024)

The findings in Table 2 indicates the mean score for strategic flexibility was 3.95, with a standard deviation of 0.8888. The mean suggests that all the responses on measures of strategic flexibility were approximately 4 on the Likert scale adopted. This is an indication that the participants on average agreed that all the aspects of strategic flexibility had been adopted in commercial banks. The overall standard deviation denotes that the responses were not widely spread on the rating scale. The coefficient of variation indicates a low variability of 22.5% in responses from participants. Therefore, it can be deduced that the sample mean is a true estimator of the population parameter.

Descriptive Results for Environmental Dynamism

Environmental dynamism was the moderating variable in this study. This was operationalised as marketing, research and development, information technology and managerial competences. The findings of the descriptive statistics for organisational competences are presented in Table 3.

Table 3: Descriptive Results on Environmental Dynamism

	n	Mean	Std. Deviation	CV
Technological Uncertainties	150	3.75	1.08	0.238
Regulatory Changes	150	3.765	0.972	0.258
Customer demands	150	4.035	0.960	0.236
Speed of Change	150	3. 68	0.827	0.224
Overall Score for Environmental Dynamism		**3.805**	**0.960**	**0.252**

Source: Survey Data (2024)

The findings in Table 3 indicate that the overall mean score in environmental dynamism was 3.805, with a standard deviation of 0.96. The mean score is close to 4 in line with the adopted Likert scale, suggesting there is agreement that on average various factors in the environment had an influence on the performance of commercial banks. The overall standard deviation denotes that the responses were not widely spread on the rating scale. This is further confirmed by the coefficient of variation of 25.2%, an indication of moderate

variability in the responses from the participants. Therefore, it can be inferred that the sample mean is a true estimator of the population parameter.

Descriptive Results for Organisation Performance

Organisation performance was the outcome variable in this study. This was operationalised as profitability, corporate reputation, brand loyalty and customer satisfaction. Table 4 comprises the descriptive statistics on organisation performance.

Table 4: Descriptive Results on Organisation Performance

Statements	n	Mean	Std. Deviation	CV
Profitability	150	3.95	0.907	0.230
Corporate Reputation	150	3.87	0.939	0.243
Brand Loyalty	150	3.955	0.956	0.242
Customer Satisfaction	150	3.98	0.672	0.169
Overall scores on Organisation Performance		**3.939**	**0.866**	**0.220**

Source: Survey Data (2024)

The findings in Table 4 indicate the mean score for organisation performance was 3.939, with a standard deviation of 0.866.The mean suggests that all the responses on measures of organisational competences were approximately 4 on the Likert scale adopted. This suggests there is agreement among participants that on average the commercial banks' have realized better performance recently. The overall standard deviation denotes that the responses were not widely spread on the rating scale. This is further confirmed by the coefficient of variation of 22%, an indication of low variability in the responses from the participants. Therefore, it can be inferred that the sample mean is a true estimator of the population parameter.

Inferential Analysis

The composite Index for strategic flexibility was computed by incorporating all its indicators. These are human resource flexibility, coordination flexibility and competitive flexibility. The weight of each indicator was calculated using Gupta and Kapoor (2020) formula. The weight was then multiplied with individual observed values of each indicator. Finally, summation of these products was done, to get the composite index. The harmonic mean was used because, unlike the arithmetic mean, it places greater importance to indicators with low values.

To test the moderating effect, the study adopted Hayes (2022) Process. This is a multiple linear regression analysis where the composite index of the dimensions of strategic flexibility, environmental dynamism and the interaction term are regressed on organisation performance. Table 5 displays these results showing the statistical output.

Table 5: Moderation Results

R	R^2	Adjusted R^2	MSE	F	df1	df2	p
.860	.740	.735	7.958	138.648	3.0	146.0	.000

Predictor	β	SE	t	p	LLCI	ULCI
Constant	-3.794	7.557	-.502	.616	-18.729	11.141
Strategic Flexibility	1.294	.291	4.450	.000	.719	1.869
Environmental Dynamism	1.091	.318	3.432	.000	.491	1.765
Strategic Flexibility*Environmental Dynamism	0.030	.012	2.540	.000	.029	1.017

Source: Survey Data (2023)

In Table 5, the model summary shows that the multiple correlation coefficient (R) is 0.86, an indication of a positive and strong relationship between predictor and outcome variables. The adjusted R^2 is 0.735, indicating that 73.5% of change in performance is explained by the model. The remaining 26.5% may be attributed to factors not included in the study. The F statistic (3,146) =138.648, p<0.001indicates that the overall model is statistically significant.

Furthermore, Table 5 indicates that that when other variables were held constant, organisation performance decreased by 3.794 units. When environmental dynamism was held constant, a unit change in strategic flexibility led to an increase in organisation performance by 1.294 units. When strategic flexibility was held constant, a unit change in environmental dynamism led to an increase in organisation performance by 1.091 units. This is presented in the regression equation as shown;

Y=-3.794 + 1.294str.flex + 1.091 env.dyna + 0.03 (str. flex*env.dyna+ε……...…….Model 1

Where;

Y	Is Organisation Performance
β_0	is the constant
B_1	is the coefficient of relating strategic flexibility on organisation performance when environmental dynamism =0
β_2	is the coefficient of relating environmental dynamism to performance
β_3	is the estimate of moderation effect
str. flex	is strategic flexibility
env. dyna	is environmental dynamism

Moreover, Table 5 shows that strategic flexibility had a positive and significant effect on performance (β1.294, p<0.001). Similarly, environmental dynamism had a positive and significant effect on performance (β1.091, p<0.001). According to Hayes (2022), the moderation effect is deemed to be present if the interaction term ($\beta_{3)}$ is statistically significant and zero is not included in the confidence interval. Partial moderation is indicated where the effects of both the independent and moderating variables are statistically significant. The findings indicate that moderation is present as indicated by a significant interaction term (β0.03, p<0.001). Consequently, the significant interaction term indicates that the nexus between strategic flexibility and performance is moderated by environmental dynamism.

In addition, the moderation model examined the highest order unconditional interaction to establish the effect of including environmental dynamism on the model. The results are presented in Table 6.

Table 6: Test of Highest-Order Unconditional Interaction

Interaction	R^2-chng	F	df1	df2	p
Strategic Flexibility*Environmental Dynamism	.597	101.291	1.00	146.0	.000

Source: Survey Data (2023)

Table 6 indicates that when the interaction term is added to the model, it significantly improves the model by explaining an additional 59.7% of the variation in performance (R^2-change =0.597, F (1,146) =101.29, p<0.001). Hence, this is further support of the presence of a meaningful moderation. This leads to the decision to reject the null hypothesis and the conclusion that environmental dynamism has a positive, partial moderation effect on the strategic flexibility and performance nexus.

Additionally, the moderation analysis examined the effect of strategic flexibility on organisation performance at low, moderate and high levels of environmental dynamism. This is displayed in Table 7.

Table 7: Conditional Effects of the Focal Predictor at Values of the Moderator

EnvDyn	Effect	SE	t	p	LLCI	ULCI
-4.919	1.167	.089	13.080	.0000	.991	1.343
.000	1.136	.078	14.541	.0000	.982	1.291
4.919	1.107	.103	10.707	.0000	.902	1.320

Source: Survey Data (2024)

Table 7 shows that the moderating effect of environmental dynamism on the strategic flexibility and performance nexus is positive and significant at low, average and high levels. At low levels of environmental dynamism (-4.919), the effect of strategic flexibility on organisation performance is statistically significant (1.167) as the confidence interval does not include a zero. At moderate levels of environmental dynamism, this effect is statistically significant (1.136) as confirmed by the confidence interval not having a Zero. However, as environmental dynamism increases (4.919), the effect of strategic flexibility on performance remains significant, but is slightly lower as compared to the low or medium levels. This suggests that as the environment becomes more dynamic, the effect of strategic flexibility on performance is decreased. The graphical representation of this effect is depicted in Figure 1.

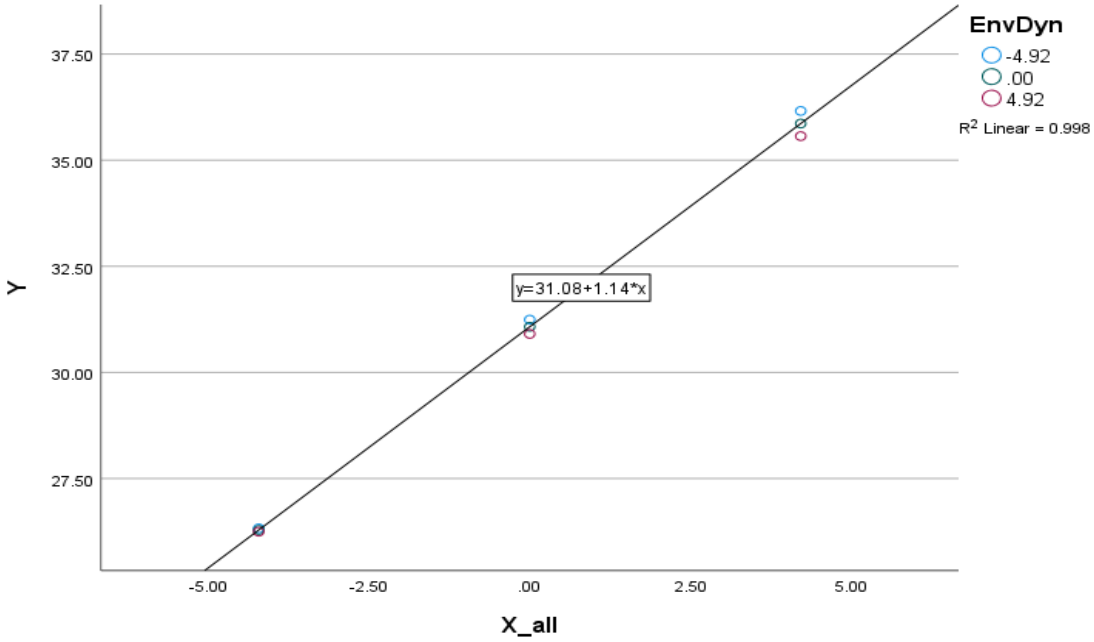


Figure 1: Moderating Effect of Environmental Dynamism
Source: Survey Data (2023)

Figure 1 indicates an inverse relationship of the moderating effect of environmental dynamism on the strategic flexibility and performance nexus. The curve is steeper when environmental dynamism is lower and becomes flatter as environmental dynamism increases this suggests that at low levels of environmental dynamism, the effect of strategic flexibility on performance is high. However, at higher levels of environmental dynamism, this effect becomes less significant. Consequently, the conclusion is that when environmental dynamism is high, banks may not reap a lot of benefits by implementing strategic flexibility. This could arise from the higher costs involved in adopting strategic flexibility and resultant instability.

Previous empirical studies which interrogated the effect of environmental dynamism as a moderator support the findings of this study. Datche, Kising'u and Kalimbo (2023) established that environmental dynamism significantly moderated the innovation capability and performance nexus in manufacturing firms in Nairobi

City County. Mukhtar, Nsreen and Khalid (2023) found out that environmental dynamism moderated the dynamic capabilities and performance nexus in SMEs in Pakistan. Tindika *et al*. (2020) established that the association between opportunity evaluation and growth of NGOs in Kenya was fully moderated by environmental dynamism.

Similarly, Chen *et al*. (2021) suggested that environmental dynamism fully moderated big data capability and financial performance nexus in Chinese firms. The study concluded that positive effects of big data capability on financial performance in these enterprises were significant under conditions of high environmental dynamism. Meng *et al*. (2020) concurred with this finding in their study that suggested that environmental dynamism fully moderated the association between strategic flexibility and bricolage.

However, the findings contradict those of some previous studies. Rodriguez-Peña (2023) established that environmental dynamism does not moderate the corporate entrepreneurship and performance nexus in large firms in emerging economies. Fatoki (2021) found out that environmental dynamism did not affect the association between innovative behaviour and competitive advantage. Similarly, Yuan *et al.* (2022) indicated that environmental dynamism did not moderate the green dynamic capability and green innovation adoption nexus in SMEs from Pakistan and Malaysia. In their study, Wamba *et al.* (2020) concluded that supply chain ambidexterity and big data analytics connection was not moderated by environmental dynamism.

The findings are supported by principles of in resource-based view and dynamic capabilities theory. The resource-based view emphasizes that commercial banks gain a competitive edge through possession and utilisation of their distinctive strategic resources and capabilities. Strategic flexibility is a critical strategic resource that allows commercial banks to proactively adjust their strategies in response to environmental shifts, navigate turbulence and exploit emergent opportunities, leading to superior performance. Similarly, the dynamic capabilities theory emphasizes that the commercial banks' ability to integrate, build and reconfigure internal resources in response to rapid changes in the business environment. Commercial banks face changes in interest rates, regulatory requirements, customer expectations and financial technologies. Since it is a dynamic capability, banks can use strategic flexibility to adjust their strategies and processes, as well as reconfigure their resources in the face of such changes. As a result, strategic flexibility-performance nexus will be impacted by the level of environmental dynamism. In highly dynamic environments, it becomes critical that commercial banks adopt strategic flexibility. This allows them to identify and exploit opportunities, as well as mitigate uncertainty, hence improved performance.

Analysis of Qualitative Data

Respondents indicated that commercial banks' ability to efficiently adapt to changes in the environment facilitated the enhancement of innovation in order to align with market demands. This leads to operational efficiency that triggered ripple effects in customer retention, attraction and improvements in the customer base. Additionally, the respondents expressed their opinions that the ability to respond to change effectively contributed to employee loyalty and attraction of talented employees from their competitors.

CONCLUSIONS AND RECOMMENDATIONS

This study sought to establish the moderating effect of environmental dynamism on the relationship between strategic flexibility and organisation performance. The research findings indicated that strategic flexibility has a positive and significant effect on organisation performance of commercial banks in Kenya. Additionally, environmental dynamism has a positive and significant moderating effect on this association. Consequently, the study concludes that the effect of strategic flexibility on organisation performance of commercial banks in Kenya is stronger when environmental dynamism, characterised by unpredictable competitive conditions, customer demands, regulatory changes and high uncertainty, is high

The study recommends that heads of corporate strategy should implement policies that support the need for investing in rigorous environmental scanning processes that can assist them to monitor environmental

changes, anticipate potential disruptions and proactively adjust their strategies. Similarly, it is recommended that the chief finance officers should focus on development of financial flexibility in their banks to ensure that resources to address changes in the environment are readily available when needed.

Limitations and Suggestions for Further Research

The cross-sectional survey design adopted was ideal in capturing data on the phenomena under study at a point in time. However, it is limited in that it cannot examine the changes occurring in the phenomena over time. Additionally, the study was limited to the context of commercial banks in Kenya, hence the results may not be applicable in other industries.

It is suggested that similar studies examining the moderating role of environmental dynamism in the nexus between strategic flexibility and organisation performance could be extended to include different industries and geographic areas to identify patterns and its applicability in such contexts.

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