International Journal of Business Marketing and Management (IJBMM)
Volume 8 Issue 4 July-Aug 2023, P.P. 168-175
ISSN: 2456-4559
www.ijbmm.com

Effect of Environmental Assessment Practices on Performance of Commercial Banks Listed In the Nairobi Securities Exchange

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ABSTRACT*: Commercial banks significantly contributed to Kenya's total Gross Domestic Product through employment; overall, economic development, and poverty reduction, drive economic growth, rural industrialization, ensured equitable distribution of income, and developed infrastructure, and overall development of the country. However, some commercial banks have been performing poorly in the last decade to the extent of being under receivership or statutory management. In spite of the sector firmness and resilience over the years, the continued recording of poor performance among some commercial banks calls for urgent attention. Failure to address it might result into a struggling banking industry characterized by amongst others, rampant bank failures and more banks being put under receivership as well as a reduction in economic growth of the country. The study aimed to answer the question, what is the effect of environmental assessment practices on performance of commercial banks listed in the Nairobi Securities Exchange? An ex post facto research design was used. The target population was 11 commercial banks listed in the Nairobi Securities Exchange as of 31st December 2020. The sample size was 8 listed commercial banks. Stratified and simple random sampling techniques were adopted. The researcher employed both document analysis guide and questionnaires as the main tools for collecting data. Findings revealed existence of a significant relationship between environmental assessment practices and performance of commercial banks with a beta coefficient of 0.939 and significance of (p= 0.000). These findings are of great significance to bank management and policy makers as well as the government by providing insights on the importance of aligning strategies to the dynamics of their operating environment for competitive advantage. We therefore recommend banks to prioritize comprehensive environmental assessments to continuously monitor and identify emerging opportunities, anticipate challenges, and make informed strategic choices.*

Keywords*: Assessment Practices, Commercial Banks, Environment, Performance)*

I. Introduction

Assessment of organizational performance has gained great interest among scholars and across business enterprises globally. It refers to the act of comparing the achieved level or outcome with the set organizational goals and evaluates the results. According to Dessler (2012), performance is the collection of work activities, the operational effectiveness and measurement of subsequent outcome. Bank performance thus refers to how an organization successfully performs its tasks or functions in line with its goals and objectives (Jenatabadi, 2015). It is one of the most important concepts of business strategy. However, there is no consensus about the precise definition and dimensionality of bank performance irrespective of its significance and its universal application.

According to George and Hill (2000), the capacity of an organization to achieve as well as maintain high productivity and performance is a major challenge that the management encounters in almost all corporations around the world. Abdi and Kinyua (2018), opine that performance demonstrates the ability of an organization to accomplish its mission by engaging in sound management practices, strong governance and persistent rededication to achieving the desired results. It is therefore advisable for all organizations to measure their performance to plan well, determine which strategies they should adopt to meet their goals amongst other reasons. In regards to measures of performance, Kaplan and Norton (2007), opine that organizational performance can be measured using both financial and no-financial outcomes.

The key indicators of performance identified in the balanced scorecard encompass financial, customer service, satisfaction index, organizational learning, and growth and internal business processes (Santos & Brito, 2009). Internal business process is considered as the path to realizing strong financial results and superior customer satisfaction. In respect to financial perspective, performance is a measure of the degree of change of the financial state of an enterprise, or the financial outcomes that results from management decisions by members of the organization (Kaplan & Norton, 2007).

Commercial banks in India, have adopted environmental assessment practices in a bid to improve their performance. Brahmaiah and Ranajee (2018) opine that there has been adoption of environmental assessment practices that have seen the public sector banks enjoy a higher market capitalization. The authors further opine that major banking reforms have been introduced in the last three decades, by the reserve bank of India to improve the strength, health, performance and profitability of the banking industry. Part of the reforms is adoption of environmental assessment practices, which have improved quality of regulation, created health competition, and led to efficient functioning of the banking industry. As part of the strategies adopted, technology has been improved; there has been global integration, and development of new banking products. The results is that the all these changes have had some influence on banks' profitability and performance (Brahmaiah & Ranajee, 2018). According to the Reserve Bank of India (2016), the past financial sector reforms, the performance and strength of the banking industry improved perceptibly. As such, the financial soundness of the Indian banking system is considered as one of the best banking systems in the world.

In Nigeria, from 2001 to 2010 the banking industry has put in place several measures to improve performance (Uchenna, Ugwunta & Ibe, 2012). There have been recent banking reforms in Nigeria, such as mergers and acquisitions. Uchenna et al. (2012) opine that change in approach to environmental assessment practices is among the reasons for improved performance in the Nigerian-banking sector. The environmental assessment practices have been rampant in the recent past to revitalize the performance of the banking industry. Profit is the essential prerequisite of a competitive banking institution. Osuagwu (2014) opines that strategic management approaches adopted by banks in Nigeria have contributed to a stable, profitable and efficient banking system that has helped to finance both private and public investment and expenditures.

In Kenya, environmental assessment practices have also been adopted in the banking sector (Vintila & Nenu, 2016). The environmental assessment practices have given banks a competitive edge and has led to better performance among most the commercial banks (CBK, 2020). In Kenya, all commercial banks must have amongst others a vision and mission. All these are meant to improve the operations and inform the culture of the commercial banks. Ongore and Kusa (2013) opine that commercial banks in Kenya have streamlined operations as per their respective visions and missions. The strategic plans are mostly developed after 5 years. The commercial banks are required to prepare the strategic plans to provide direction and guide their activities.

According to Vintila and Nenu (2016), the banking industry in Kenya has experienced huge losses due to poor environmental assessment practices planning in the banking industry, which have posed a major challenge, which has adversely affected the overall performance. The study recommended that a prospective bank needed to adopt effective environmental assessment practices to ensure competitiveness and survival in a turbulent environment. Environmental assessment practices standardize the processes of goals/objective setting, situation analysis that enable a bank to improve on its performance. If not properly managed, poor environmental assessment practices may lead to severe consequences in an institution (Marozva, 2015). The current study therefore seeks to determine the effect of environmental assessment practices adopted by commercial banks listed in Nairobi Securities Exchange on their organizational performance.

II. Theoretical Framework

2.0 Resource Based theory

The study was guided by the Resource Based theory as propounded by Barney (1991). The theory assumes that all the resources of the organization should be heterogeneous and immobile (Bhasin, 2020). Heterogeneous assumption states that if all of the companies have the same amount and the same type of resources, different companies (Amit & Schoemaker, 1993) will not employ different strategies. This implies that any company cannot achieve competitive advantage. Immobility assumption states that the resources cannot move from one organization to another for the short term. Because of this, companies are unable to copy similar strategies like their competitors and implement them in the market (Bhasin, 2020).

The theory further states that firms compete in an ever-changing business environment. Organizations can attain and achieve a sustained competitive advantage through the resources at their disposal. This can be realized when a firm has a human resource pool that cannot be imitated or substituted by its rivals or competitors. According to Resource Based theory, competitive advantage lies primarily in the application of the bundle of valuable resources at the disposal of the firm. The firm has to identify the key potential resources, which should fulfill the criteria of being valuable, rare, inimitable and non-substitutable by the firms' competitors (Gal breath, 2005).

In strategy literature, and particulary, the resource-based view of the firm (Barney, 1991) provides a key element that if HRM systems are to create sustained competitive advantage; they must be difficult to imitate. Lado, Wilson and Mugera (2012), explains that the resource-based theory has materialized into a valuable background used to analyze the importance of the human resource scheme in the achievement of strategic competitive advantage. This theory of the firm has remained in existence for more than twenty years and it has developed into a leading management theory in describing the differentials of organizational performance (Gal breath, 2005). The theory (RBV) opines that the internal resources that an organization controls have the prospective to be a source of continuous competitive advantage if the resources are valuable, rare, inimitable, and non-substitutable.

It acts as a chief hypothetical basis in the management of academic works and conspicuously appears in most textbooks specific to strategic management theory. According to Barney (1991), the key points of the resource based theory are that firms have to identify their key potential resources and evaluate whether these resources fulfill the VRIN criteria referred to as Valuable, Rare, In-imitable and Non-substitutable. A resource must be valuable to enable a firm to employ a value-creating strategy, by either outperforming its competitors or reduce its own weaknesses (Amit & Schoemaker, 1993). Relevant in this perspective is that the transaction costs associated with the investment in the resource cannot be higher than the discounted future rents that flow out of the value-creating strategy (Mahoney & Pandian, 1992).

III. Methodology

This study adopted an ex post facto research design. An ex post facto research design was a method in which groups with qualities that already existed were compared on some dependent variable. Also known as after the fact research. An ex post facto design was considered appropriate because the subjects were not randomly assigned; but were rather grouped based on a particular characteristic or trait. The design was selected due to its capacity to provide proof essential to answer the cause-effect relationship between study variables as precisely, evidently, and unambiguously as possible, even when the facts had already taken place. The design was also economical and less time-consuming with a rapid turnaround in data collection. The design was also appropriate because the opinion of the researcher was of relevance to the study, unlike in pure experiments.

The population of this study consisted of 11 commercial banks listed at the Nairobi securities exchange as at 31st December 2020 as shown in Table 1.

Table 1: Target population

S/No	Banks Tier	Number of Banks per Tier
1.	Tier 1	8
2.	Tier 2	3
Total		11

The study sample size was determined using the sample size formula proposed by Nassiuma (2000).

$n=NC^2/C^2+ (N-1)e^2$

Where;

n = desired sample size

N = is the population size and

C = coefficient of variation which is 0. 25

e = is the level of precision.

Assuming 95% confidence level and e=0.05, we get the sample size as

$n = 11*0.25^2/0.25^2 + (11-1)0.05^2 = 8$ banks

The formula that was used to allocate the stratum samples was as follows;

nh = n (Nh/N)

Where;

h represents the stratum number.

nh represents the sample size in stratum h.

Nh represents the population size in stratum h, where h= 1, 2.

N represents to the total population size.

n represents the total sample size.

The sample size is shown in Table 2.

Table 2: Sample size

S/No	Stratum	Sample size	Percentage
1.	Tier 1	6	75.0%
2.	Tier 2	2	25.0%
Total		**8**	**100.0%**

The study respondents were drawn from 8 sampled listed commercial banks and comprised of 10 respondents per commercial bank who constituted departmental and sectional heads and their staff. This added up to 80 respondents across the 8 sampled listed commercial banks. Stratified random sampling technique was used to classify the banks into tiers, namely, tier 1 and 2. Tier 3 was excluded as none was listed at the Nairobi Securities Exchange. Subsequently, simple random sampling was used to obtain samples of the respondents from the different strata.

The researcher adopted a questionnaire and document analysis guide as the major tools of data collection. The document analysis guide was used to systematically review and evaluate documents that contained data related to the market share and profitability ranking of commercial banks. Data were examined for a period of 5 years between 2016 and 2020. Structured questionnaire was used to collect primary data. Mainly the drop and pick method was adopted to collect the primary data. The reason why the researcher collected data from documents of at least five years was that strategic plans were never prepared for a single year.

Data analysis was the application of reasoning to understand the data that had been gathered with the aim of determining consistent patterns and summarizing the relevant details revealed in the investigation (Zikmund et al., 2012). This study used both descriptive and inferential statistics. Descriptive statistics provided the means and standard deviations of the scores relating to each of the variables. Pearson product moment correlation was used to assess the existence of association between performance as the dependent variable and environmental assessment practices as the independent variable. Simple linear regression model was used to ascertain whether environmental assessment predicts performance of commercial banks listed at the NSE. ANOVA was used to affirm the hypotheses set or disaffirm the same. The regression model was as follows:

$Y = \alpha + \beta_1 X_1 + \varepsilon$

Where:

Y represents dependent variable (performance).

α represents the regression constant. This means Value of Y when x_1, is equal to zero

β_1 represents change in y for each unit incremental change in x_1,

X_1 represents environmental assessment practices

ε represents error term

IV. Findings

4.1 Response Rate

The response rate of the study participants was determined by calculating the percentage of completed questionnaires received from the targeted sample. Table 3 presents the study results.

Table 3 Instrument Response Rate

Categories	Frequency	Percentage
Responded	57	71.25
Not responded	23	28.75
Total	80	**100**

4.2 Descriptive Statistics of the findings

In this section, descriptive statistics were conducted to summarize and present key findings from the data analysis, providing an overview of the research findings on the effect of environmental assessment practices on the performance of commercial banks listed in the Nairobi Securities Exchange.

4.3 Environmental Assessment Practices

Environmental assessment practices of the commercial banks listed on the Nairobi Securities Exchange were examined and evaluated to determine their impact on the banks' performance. Table 5 presents the study results.

Table 4 Environmental Assessment Practices

Statements		SA	A	UD	D	SD	Mean	Sd
We usually consider the external environment before we adopt a strategy.	**F**	44	7	3	1	2	4.57	0.94
	%	77.2	12.3	5.3	1.8	3.5		
The scanning of the external environment has led to an increase in the firms’ market share.	**F**	46	8	1	1	1	4.70	0.75
	%	80.7	14.0	1.8	1.8	1.8		

We audit the internal environment at the firm.	**F**	43	8	4	1	1	4.59	0.84
	%	75.4	14.0	7.0	1.8	1.8		
The firm has put in place a strong internal control system.	**F**	36	14	4	2	1	4.43	0.90
	%	63.6	24.6	7.0	3.5	1.8		
We assess the competitive environment all the time.	**F**	36	15	3	2	1	4.45	0.88
	%	63.2	26.3	5.3	3.5	1.8		
We have gained competitive advantage over other players in the banking industry due to the assessment of the competitive environment.	**F**	31	20	4	1	1	4.38	0.83
	%	54.4	35.1	7.0	1.8	1.8		
Total number of respondents (n=57)								

The study results showed that majority 51(56.8%) of the respondents agreed that they usually consider the external environment before they adopt a strategy. On contrary, 3 (5.3%) of the respondents disagreed that they usually consider the external environment before they adopt a strategy. Further, the study results also showed, in terms of mean and standard deviation that the respondents agreed they usually consider the external environment before they adopt a strategy (Mean=4.57, standard deviation=0.94).

In addition, the study findings noted that 54 (94.7%) of the respondents agreed and 2 (3.6%) disagreed that the scanning of the external environment has led to an increase in the firms' market share. Further, the study results also showed, in terms of mean and standard deviation that the respondents agreed with the statement that the scanning of the external environment has led to an increase in the firms' market share. (Mean=4.70, standard deviation=0.75).

The study further revealed that, 51(89.4%) of the participants agreed that they audit the internal environment at the firm. On contrary to that 2 (3.6%) of the respondents disagreed that audit the internal environment at the firm. Further, the study results also showed, in terms of mean and standard deviation that the respondents agreed audit the internal environment at the firm. (Mean=4.59, standard deviation=0.84).

The study nonetheless showed that 50(29.1%) of the participants agreed that the firm has put in place a strong internal control system. On contrary to those findings, 3(5.3%) of the respondents disagreed that the firm has put in place a strong internal control system. Further, the study results also showed, in terms of mean and standard deviation that the respondents agreed with the statement that the firm has put in place a strong internal control system. (Mean=4.43, standard deviation=0.90).

On top of the above findings another, 51(89.5%) agreed that they assess the competitive environment all the time. However, 3 (5.3%) of the respondents disagreed that they assess the competitive environment all the time. Further, the study results also showed, in terms of mean and standard deviation that the respondents agreed with the statement that they assess the competitive environment all the time. (Mean=4.45, standard deviation=0.88).

Finally, it was noted from the study that 51(89.5%) of the participants agreed, however, 2(3.6%) disagreed they have gained competitive advantage over other players in the banking industry due to the assessment of the competitive environment. Further, the study results also showed, in terms of mean and standard deviation that the respondents agreed with the statement that have gained competitive advantage over other players in the banking industry due to the assessment of the competitive environment. (Mean=4.38, standard deviation=0.83).

4.4 Simple Linear Regression Model of Environmental assessment practices

The simple linear regression analysis models the relationship between the dependent variable performance of commercial banks and independent variable environmental assessment practices. The results are shown in the section that follows;

Table 5 Model Summary

R	R Square	Adjusted R Square	Std. Error of the Estimate
.927[a]	.860	.845	.36808

The results of the simple linear regression in Table 5 indicated that R = 0.927 and R^2 =0.860. R-value gives an indication that there is a strong linear relationship between environmental assessment practices and performance of commercial banks. The R^2 indicates that explanatory power of the independent variables is 0.860. This means that the regression model explains about 86.0% of the variation in performance of commercial banks. Model fitness was run to find out if model best fit for the data. The study results were presented in Table 6

Table 6 Regression Model Fitness Results

	Sum of Squares	df	Mean Square	F	Sig.
Regression	7.500	1	7.500	55.355	.000[b]
Residual	1.219	9	.135		
Total	8.719	10			

From Table 6 the F-statistics produced (F =55.355) and a significant p=0.000 thus confirming the fitness of the model and therefore, there is statistically significant relationship between environmental assessment practices and performance of commercial banks. The F value indicates that the variables in the equation are important hence the overall regression is significant.

The third output of the analysis is the summary of the coefficients that provide the information upon which the dependent variable (performance of commercial banks) can be predicted from the independent variable (environmental assessment practices). The summary is as displayed in Table 7

Table 7 Regression Model Coefficients

	Unstandardized Coefficients		Standardized Coefficients		
	B	Std. Error	Beta	t	Sig.
(Constant)	.333	.459		.725	.487
Environmental assessment practices	.939	.126	.927	7.440	.000

The study results in Table 7 revealed that there was positive linear effect of environmental assessment practices on performance of commercial banks (β_1=.939, p=0.000). This reveals that a unit increase in environmental assessment practices leads to increase in performance of commercial banks by 0.939 units.

$Y = 0.333 + 0.939X_1$ ……………………………………………………..….Equation 4.1

H_{01}: Environmental assessment practices has no significant effect on performance of commercial banks. The regression results in Table 7 indicate that there is significant relationship between environmental assessment practices and performance of commercial banks with a beta coefficient of 0.939 and significance of (p= 0.000). The study thus rejected the hypothesis that environmental assessment practices has no significant effect on performance of commercial banks listed in the NSE.

V. Conclusion of the Study

It is evident that considering the external environment before adopting a strategy is a common practice among the listed banks in Kenya. There existed a general consensus on its importance among the study respondents. Environmental scanning was found to contribute positively to banks performance thereby indicating the potential impact of external factors on business performance. These conclusions emphasize the significance of conducting thorough environmental assessments to gain insights into market dynamics and identify opportunities for strategic decision-making.

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