STRATEGIC FLEXIBILITY AS A PREDICTOR OF ORGANISATION PERFORMANCE IN COMMERCIAL BANKS IN KENYA: THE MEDIATING ROLE OF ORGANISATIONAL COMPETENCES

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Abstract
Commercial banks provide essential financial services in the economic development of any nation. However, there has been a notable unsteady trend in profitability in this banks as depicted by the return on equity and return on assets. Additionally, the banks have witnessed challenges in operational performance in terms of brand loyalty, corporate reputation and customer satisfaction. Consequently, this study sought to determine whether organisational competences have a mediating effect on the relationship between strategic flexibility and organisation performance of commercial banks in Kenya. The study was grounded on positivism philosophy to ensure objectivity. Descriptive and explanatory research designs were employed. The target population were 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. Face, construct and content validity of the research instrument were confirmed accordingly. A pilot study was conducted to determine the reliability of the instrument. The Cronbach's alpha index was 0.8588, which exceeded the minimum requirement of 0.7. Normality, linearity, multicollinearity and homoscedasticity tests were conducted as diagnostic tests. Administration of the questionnaire was done using drop-and-pick method. The study had a response rate of 72.5 percent which was sufficient for making conclusions and inferences. Quantitative data was analysed using descriptive and inferential statistics. Descriptive analysis involved the use of frequency count, percentages, mean, standard deviation and coefficient of variation. Inferential statistics, correlation and regression analysis were used establish the nature and magnitude of the relationships between the variables and to test the hypothesized relationship at 95 percent level of confidence. Quantitative data was presented using text, tables and statistical measures, while qualitative data was presented using narratives. The findings indicate that strategic flexibility has a significant effect on organisation performance in commercial banks in Kenya. Secondly, the findings indicate that organisational competences partially mediate this association. Consequently, the study recommends that to enhance strategic flexibility, operations managers should establish dynamic organisational structures, systems and processes to reinforce their ability to reconfigure and redeploy their resources in response to environmental changes. Moreover, the heads of corporate strategy and

human resources should encourage collaboration between these departments to ensure that organisational competences are continuously developed to enable the banks to leverage on strategic flexibility for superior performance.

Key Words:

Commercial Banks; Organisational Competences; Organisation Performance; Strategic Flexibility

1.0 Introduction

Commercial banks play a pivotal role in the economic advancement of any country (Alam, Rabbani, Tousif & Abey, 2023). These institutions provide essential financial services associated with banking including lending, wealth management, deposit accounts and overdraft facilities for all sectors. Commercial banks encourage saving and investment which contributes to capital formation that can be used to develop various sectors of an economy. Additionally, a saving culture in developing countries allows citizens to break away from the endless cycle of impoverishment. Despite the important role played by these banks, concern has been raised regarding their performance in both financial and operational metrics.

According to Oketch, Kilika and Kinyua (2020) all organisations focus on achieving superior performance. Hence, the central goal of strategic management is the desire to understand causes of superior performance in some organisations compared to their competitors (Taouab & Issor, 2019). Performance refers to a measure depicting the actual outcomes compared against expected outcomes (Katou, 2021). It can also be described as a measure that shows to what extent an organisation has achieved its predetermined goals (Rehman, Mohamed & Ayuop, 2019).The increasingly dynamic environment has strengthened the need for closer monitoring in organisations to determine processes and activities that increase profitability (da Silva & Borsato, 2017).

Globally, most commercial banks are challenged by high inflation and fragmentation costs (International Monetary Fund, 2023). The recent market volatility in the USA resulted in an average decrease of 10 percent in bank assets and the collapse of Silicon Valley Bank and Signature Bank, making them the second and third greatest failures in the history of U.S. institutions (Jiang *et al*., 2023). Due to intense competition and low interest rates, banks in Germany have lower profitability as shown by ROA of 0.13% compared to 0.15% in the European Union (IMF, 2022). City banks in China have lower asset quality and profitability than the average levels in the country (Jiger & Koroleva, 2023).

Despite increased profits in the big banks in Africa, overall profitability in terms of ROE lags behind global levels (Ford, 2023). Commercial banks in South Africa, the most developed financial market in Africa, face increased risks due to high capital outflows, unprecedented energy crises and high inflation (South Africa Reserve Bank, 2023. Financial performance of banks in Uganda has been declining as seen in increasing NPLs and low levels of profitability (Kamukama *et al*., 2020). Commercial banks in Kenya are challenged by sophisticated customers, aggressive competition, increasing gross NPLs, weakening asset quality, low productivity and technological advancements (CBK, 2023; FSR, 2021).

Strategic flexibility is a crucial capability for organizations to adapt to market shifts, technological advancements, and competitive pressures (Christofi *et al.*, 2021; Lópex-duarte & Vidal-Suárez, 2020; Zahoor & Lew, 2023). Extant literature conceptualizes strategic flexibility as a multifaceted construct (Brozovic, 2018; Herhausen *et al.*, 2021). Dimensions of strategic flexibility include resource flexibility, coordination flexibility, and production flexibility, human resource flexibility, information flexibility, and competitive flexibility (AlHalaseh and Ayub, 2021; Jedi *et al*., 2022; Mohsin *et al*. 2022; Sunayana & Parveen (2019). Resource flexibility allows organizations to efficiently reallocate resources, exploit new opportunities, and minimize threats (Sharma & Starik, 2018; Sirmon & Hitt, 2019). According to Huang and Kao (2019), coordination flexibility is an organisation's capacity to manage diverse activities and processes for effective response to change through integration of all efforts across different units. Human resources flexibility ensures adaptable and suitable employee attributes for changing situations, thus providing an adaptive context within an organisation for it to implement suitable strategies (Beltrán –Matin, Bou-Llusar & Salvador-Gómez, 2021; Yang & Gan, 2021). Competitive flexibility allows organizations to quickly adapt to market changes, innovate new products, and reduce operational costs (Abu, Hanadi & Alshawabkeh, 2018; Alwajid, Mohammed & Hussain, 2023; Jedi *et al.*, 2022).

Organisational competences are essential for organisations to create and maintain value for stakeholders, thus achieve a competitive advantage (Edgar & Lockwood, 2021; Grant, 2016). To achieve superior performance, organisations leverage diverse competences in organisational functions, such as technical expertise, marketing, research and development, customer relationships, information technology, and managerial skills (Ajike, Nwankwere & Adeleke, 2023). Marketing competences are collective skills, knowledge, capabilities, and resources that enable organisations to effectively attract, retain, and satisfy customers (Kottler, & Keller, 2016; Ng, Kee & Ramayah, 2019; Palacios-Marquésa et al., 2019). Research and development competences focus on continuous development of innovative products, technologies, and markets, facilitating adaptability in a dynamic environment (Khattab, 2018). Information technology competence involves IT technical skills, management, and processes, enabling organisations to withstand turbulence through digitalized products, knowledge, and processes (Kucharska & Erickson, 2019; ul Abdin *et al*., 2021). Managerial competences enable effective planning, leadership, and control activities within organisations (Orobia *et al.*, 2020).

Strategic flexibility allows organisations to identify and adapt to change by leveraging their organisational competence, improving their competitiveness and overall performance (Kitenga, Kilika & Muchemi, 2020; Wang *et al*., 2021). Previous studies have not exhaustively studied the effect of organisational competence in mediating the strategic flexibility and performance nexus. Consequently, there is need for more empirical studies. As a result, this study interrogated the mediating effect of organisational competences on the nexus between strategic flexibility and performance.

1.2 Statement of the Problem

Commercial banks play a crucial role in the economic development of any country. However, commercial banks in Kenya exhibit discrepancies in profitability as shown by the erratic trend in the period between 2018 and 2022. The ROE has showed significant fluctuations, ranging between 22.2 % in 2018 and 13.3% in 2020. It exhibited a rebounding trend from 22.1 % in 2021 to 26.2 % in 2022, but declined sharply to 22.4% in 2023. The ROA displayed a similar trend, ranging between 3.7% in 2022 and 2.0 % in 2020. In 2023, the commercial banks posted a ROA of 2.9% (CBK Annual Reports, 2021; 2022; 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 challenges with brand loyalty seen in the erratic trend in the number of customers maintaining more than one bank declining from 62 % in 2021, to 46.2 % in 2022, then rising sharply to 62.6 % in 2023. The corporate reputation in banks has been negatively affected by the decline in the percentage of customer complaints resolved by banks within two days declining from 74 % in 2021, to 68.9 % in 2022 and 66.4 % in 2023. Additionally, low levels of customer satisfaction as depicted in the Net Promoter Score (NPS) has been declining steadily from 77.6 % in 2021, to 55.8 % in 2022 and 54.8 % in 2023.

Despite the existence of an extensive body of literature on strategic flexibility, a number of gaps remain unaddressed. Awais *et al*. (2023) examined the effect of strategic flexibility on performance of engineering firms in Pakistan. The study suggested that strategic flexibility enhanced innovation and performance in rapidly-changing environments. However, only 14.7 % of the participants were females, thus putting the data at risk of gender bias that limits the applicability of the study as asserted by Kothari (2006). Similarly, Bashir (2023) indicated that strategic flexibility significantly influenced performance of SMEs in pharmaceutical industry. Nevertheless, the use convenience sampling which is a non-probabilistic sampling technique to select the participants puts the sample at risk of not being representative of 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, descriptive analysis adopted in the study emphasizes description of phenomena under study and does not indicate causality as recommended by Kothari and Garg (2014). The current study adopted descriptive and explanatory research designs to investigate the causal relationships among the variables and focused on commercial banks in Kenya.

Further review of extant literature demonstrates inconsistent findings on the effects of strategic flexibility on organisation performance. In their studies, Purnama (2024) and Xiao, Yang and Hu (2021 indicated that strategic flexibility had a significant effect on innovative and organisational performance. However, Lim and Tan (2023) posit that strategic flexibility may lead to a decline in firm performance when excessive redeployment or reallocation of resources results in their inefficient use. Additionally, Ferraris, Santoro, Giudice and Papa (2022) suggested that despite its positive effect on performance, strategic flexibility is more appropriate in a highly dynamic environment than in a stable one. This is because these firms may incur higher costs to be strategically flexible as compared to the accrued benefits. These inconclusive and mixed findings highlight the need for further investigation.

Additionally, contextual disparity in the studies limits their applicability to commercial banks in Kenya. Yousuf *et al.* (2020) examined the effect of strategic flexibility on performance of pharmaceutical companies in Jordan. Lee and Rhee (2022) interrogated the effect of strategic flexibility in South Korean firms. Xiao, Yang and Hu (2022) investigated the effect of strategic flexibility on performance of Chinese firms. Thus, the objective of this study was to investigate whether organisational competences play a mediating role in the nexus between strategic flexibility and organisation performance of commercial banks in Kenya.

1.3 Research Objective

To investigate the mediating effect of organisational competences on the relationship between strategic flexibility and performance of commercial banks in Kenya.

1.4 Research Hypotheses

The study was guided by the following hypotheses;

H_0: Organisational competences have no statistically significant mediating effect on the relationship between strategic flexibility and performance of commercial banks in Kenya.

H_a: Organisational competences have a statistically significant mediating effect on the relationship between strategic flexibility and performance of commercial banks in Kenya.

2.0 Theoretical Literature Review

2.1 Dynamic Capabilities Theory

The dynamic capabilities theory, first proposed by Teece, Pisano, and Shuen in 1997, suggests that organizations in dynamic environments can achieve a sustained competitive advantage by controlling their adaptive resources and capabilities. These capabilities enable firms to recombine and rebuild their competences in dynamic environments. The theory emphasizes three key dynamic capabilities: sensing, seizing, and reconfiguration. These capabilities enable organizations to sense changes in their external environment, seize opportunities, and reconfigure their resources and capabilities.

Foss and Knudsen (2003) extended this theory by incorporating the role played by managerial cognition and their decision-making capabilities in shaping dynamic capabilities through their perceptions and interpretation of the environment. Helfat and Peteraf (2003) clarified the conceptual boundaries of dynamic capabilities and highlighted how organisations could strategically develop and deploy them. Additionally, Teece (2007) extended the theory to include the significance of managerial decision-making and strategic leadership in leveraging dynamic capabilities for superior performance.

However, the theory has been criticised for lacking a clear definition which affects measurement and for not being linked predominantly to competitive advantage (Kurtmollaiev, 2017; Peteraf & Maritan, 2007). Despite these criticisms, the dynamic capabilities theory remains a key tool in strategic management, underpinning the role of strategic flexibility and organisational competences in enabling organisations to manage environmental change, adapt to emerging conditions, changing customer preferences and competitive pressures (Chen *et al*., 2021; Haarhaus & Liening, 2020; Maneeb *et al*., 2022).

2.2 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. This theory underpinned the choice of financial and operational performance indicators because they give more current picture about the performance of an organisation.

3.0 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.

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.

Kafetzopoulos, Psomas and Katou (2023) sought to determine the influence of strategic flexibility on the business performance manufacturing and service firms in Greece. The study adopted a survey design and involved 370 firms. Structural equation modeling was used to analyse data. The findings established that strategic flexibility improved the performance of these sectors. This study was from multiple sectors which operate under different conditions, thus posing a challenge in generalizing the findings to commercial banks in Kenya.

Sabir, Gul, Hashmi and Naz (2023) examined the mediating role of organisation competence in the nexus between supply chain management practices and innovative performance in SMEs. The survey involved 201 executives in Punjab, Pakistan. The findings indicated that organisation competence mediated the association. The study focused on a broad scope of manufacturing, trading and service SMEs. Additionally, only 27%of the respondents were from the service SMEs. Secondly, the use of convenience sampling, a non-probability technique, puts the data at risk of bias (Cooper & Schindler, 2006).. The current study adopted stratified, random sampling technique to minimise such risk.

Oduor (2022) examined whether the association between repositioning strategy and performance is influenced by organisational competence. Descriptive and explanatory research designs were used. One hundred and seven (107) manufacturing firms were involved and data through a semi-structured questionnaire. A partial mediation effect was established in the association between variables. Nevertheless, the generalization of findings is limited to manufacturing industry. Hence, this study focused on commercial banks to address this gap.

Oyewole *et al*. (2022) interrogated the nexus between organisational competence, operations management strategy and performance. A structured questionnaire facilitated the collection of data from 252 respondents in this survey. The findings indicated that organisational competence did not mediate the association between supply chain strategy, procurement strategy and performance. This study was a case study on the Procter and Gamble Plc., which may pose a challenge generalising the findings to other industries. Additionally, a significant proportion of the participants were women and held positions in the lower levels of management. This presents issues of gender bias and the respondents were not adequately qualified to give information on management issues. Consequently, this study include both male and female respondents, and functional heads were the respondents in this study because they have access to strategic information and are the decision-making authority.

4.0 Conceptual Framework

A conceptual framework highlighting the relationship between strategic flexibility and organisation performance of commercial banks was developed after a review of extant literature. The framework included the mediating effect of organisational competences in the nexus between strategic flexibility and organisation performance. Figure 1 presents this conceptual framework.

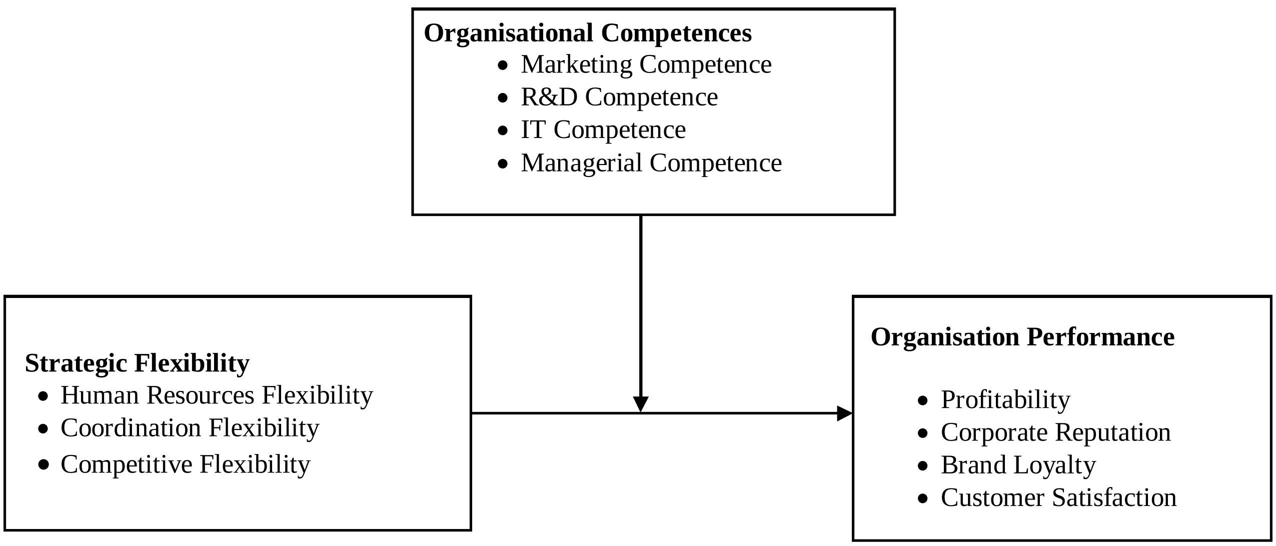

Figure 1: Conceptual Framework

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 mediating variable is operationalised as marketing competence, research and development competence, information technology competence and managerial competences. Organisations that develop strategic flexibility are able to reconfigure their organisational competences and to leverage them to address dynamic change. Such competences enable an organisation to adapt to market changes, customize products to client needs and exploit technology to deliver products and services in real time. Ultimately, this is expected to lead to improved performance in terms of profitability, corporate reputation, brand loyalty and customer satisfaction.

5.0 Research Methodology

This study was founded on positivism philosophy which emphasizes the value of empirically understanding social issues without personal biases (Saunders, Lewis & Thornhill, 2007; Zikmund & Griffin, 2010). The study utilized descriptive and explanatory research designs to provide a comprehensive understanding of the variables. According to Sekaran and Bougie (2016), in order to enhance the study and produce optimal conclusions, an ideal study should combine multiple designs. A number of studies in the field of management have made extensive use of the selected research design (Odhiambo & Kinyua, 2022; Ouma, Kinyua & Muchemi, 2022).

The target population comprised of 39 commercial banks with their headquarters in Nairobi City. The study was conducted within commercial banks because these banks have been experiencing challenges in their performance as seen in erratic trends in 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. These functional areas are headed by senior managers who are directly involved in ensuring that the banks are able to promptly adjust their strategies 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 an in-depth 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.

According to Kothari (2006) an assessment of a research instrument's validity and reliability improves the precision and consistency of the data. To determine the reliability of the instrument, a pilot study was conducted involving 21 middle-level managers who were randomly selected at the headquarters of the commercial banks. These managers work closely with senior managers and are likely to succeed them when openings become available so they have adequate and relevant information. 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
Organisational Competences	8	0.909	Reliable
Organisation Performance	8	0.884	Reliable
Aggregate Score	**36**	**0.882**	**Reliable**

Source: Survey Data (2024)

The results in Table 1 reveal the Cronbach's alpha values for all the variables were above 0.7. The average Cronbach's alpha value was 0.882, which surpasses the recommended threshold of 0.7 suggested by Cooper and Schindler (2006). According to Field (2013), the instrument demonstrated reliability and could be considered a valuable research tool and further statistical analysis.

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.

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.

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

Where;

Y	**is Organisation Performance**
β_0	is the constant (Y-intercept)
$\beta_1, \beta_2, \beta_3$	are beta coefficients
X_1	is Human Resources Flexibility
X_2	is Coordination Flexibility
X_3	is Competitive Flexibility
ε	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 test for mediation, 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.

Two linear regression equations were developed to examine mediation from the two models. First, a simple regression analysis involving the predictor variable acting on a mediating variable is conducted and the regression equation from this is shown in Model 2.

$$OC = \beta_0 + \beta_1 \text{strategic flexibility} + \varepsilon \text{..} \textbf{Model 2}$$

Where;

OC	is organisational competences (mediator)
β_0	is the constant (Y-intercept)
β_1	is the beta coefficient
ε	is the error term

Second, the direct effect is determined by regressing the independent variable on the dependent variable after controlling for thee mediator. The purpose for this is to determine whether the effect of the predictor remains significant after accounting for the effect of the mediating variable (Preacher & Hayes, 2018). A regression equation depicting this is shown in Model 3.

$Y = \beta_{0+}\ \beta_1 str.flex + \beta_2 OC + \varepsilon$ ……………………………………………………………Model 3

Y	**is Organisation Performance**
β_0	is the constant
β_1, β_2	are beta coefficients
str. flex	is Strategic Flexibility
OC	is Organisational Competences (mediator)

Where;

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 used to summarise the data in form of means, standard deviation and coefficient of variance. Inferential statistics was utilised to test hypotheses using a regression analysis model. Adjusted coefficient of determination (R^2), F statistics (ANOVA), unstandardized coefficients (beta values) and p values at 0.05 level of significance were used to report the findings.

6.0 Descriptive Results

6.1 Response Rate

Two hundred and seven (207) questionnaires were handed out to respondents, and 150 were filled out. This represents a response rate of 72.5 %. In research studies, achieving a response rate above 70% is considered excellent (Mugenda & Mugenda, 2003). In similar studies involving top management teams in commercial banks, Oketch (2020) and Wamai (2022) had a response rate of 71.6% and 68.3%, respectively. Consequently, the response rate of 72.5% was considered appropriate for further statistical analysis.

6.2 Descriptive Results for Strategic Flexibility

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

	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.

6.3 Descriptive Results for Organisational Competences

Organisational performance was the mediating 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 Organisational Competences

	n	Mean	Std. Deviation	CV
Marketing Competence	150	4.53	0.807	0.178
R & D Competence	150	3.92	0.778	0.198
IT Competence	150	4.30	0.780	0.181
Managerial Competence	150	4.325	0.854	0.197
Overall Score for Organisational Competences		**4.269**	**0.805**	**0.189**

Source: Survey Data (2024)

The findings in Table 3 indicates the mean score for organisational competences was 4.29, with a standard deviation of 0.805. The mean suggests that all the responses on measures of organisational competences were slightly above 4 on the Likert scale adopted. This is an indication that the participants on average agreed that all the aspects of organisational competences 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 18.9 % in responses from participants. Therefore, it can be deduced that the sample mean is a true estimator of the population parameter.

6.4 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 indicates 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.

7.0 Inferential Analysis

To test the mediating effect, the study adopted Hayes (2022) Process which uses two steps to determine mediation. Firstly, a simple regression analysis involving the predictor variable acting on a mediating variable was conducted and the results of the statistical output is presented in Table 5.

Table 5: Regression Results for Strategic Flexibility and Organisational Competences

R	R^2	Adjusted R^2	MSE	F	df1	df2	p
.861	.741	.736	5.51	424.183	1.0	148.0	.000

	Coefficients	se	t	p	LLCI	ULCI
Constant	1.6304	1.2754	1.2783	.2031	-.8900	4.1508
StrFlex	.9404	.0457	20.5957	.0000	.850	1.031

Source: Survey Data (2023)

The results in Table 5 shows the model summary for regressing the composite index of the three dimensions of strategic flexibility on organisational competences. The correlation coefficient (R) is 0.81 indicating a strong and positive relationship between strategic flexibility and organisational competences. The adjusted coefficient of determination (R^2_{adj}) is 0.736, indicating that 73.6% of variation in organisational competences is explained by strategic flexibility. The remaining 26.4% may be attributed to factors that were not included in the study. The F statistic (1, 148) =424.183, p<0.001 indicates that the overall model is statistically significant. Furthermore, the coefficients table indicates that strategic flexibility has a positive and significant effect on organisational competences (β0.9404, p<0.001). An increase in strategic flexibility leads to an increase in organisational competences by 0.904. This is path *a* and can be presented in the regression equation 4.

OC = 1.630 + 0.940 StraFlexi…………. …………………………………….….Model 4

Where;

OC	is organisational competences (mediator)
β0	is the constant (Y-intercept)
β1	is the beta coefficient
StraFlex	Strategic Flexibility

Secondly, the direct effect was determined by regressing the independent variable on the dependent variable after controlling for the mediator. The purpose for this is to determine whether the effect of the predictor remains significant after accounting for the effect of the mediating variable (Preacher & Hayes, 2018). The second output shows the model summary for regressing the composite index of the dimensions of strategic flexibility and organisational competences on performance. The results are presented in Table 6

Table 1: Regression Results for Mediation

R	R^2	Adjusted R^2	MSE	F	df1	df2	p
.871	.750	0.744	7.90	209.430	1.0	147.0	.000

	Coefficients	se	t	p	LLCI	ULCI
Constant	0.232	1.535	0.151	0.880	-2.802	3.266
StrFlex	1.185	.108	11.024	.000	.972	1.397
OrgComp	1.055	.098	10.722	.0000	.266	1.293

Source: Survey Data (2023)

The findings in Table 6 indicate that the multiple correlation coefficient (R) is 0.871 indicating a strong and positive relationship between strategic flexibility, organisational competences and organisation performance. The adjusted R^2 is 0.744, indicating that 74.4% of variation in bank performance is attributable to strategic flexibility and organisational competences. The remaining 25.6% may be attributed to factors not included in the study. The F statistic (1,147) =209.43, p<0.001indicates that the overall model is statistically significant because strategic flexibility and organisational competences significantly predict organisation performance.

In model two, Path *b* (β=1.055, SE=0.98, t (147) =10.765, p<0.001) indicates that organisational competences have a positive and significant effect on organisation performance. The results indicate that when strategic flexibility and organisational competences are held constant, organisation performance will be 0.232. When organisational competences are held constant, increasing strategic flexibility results in a 1.185 improvement in performance. When strategic flexibility is held constant, increasing organisational competences results in a 1.055 improvement in organisational performance. The regression equation that results from the multiple regression analysis can be presented as;

Y = 0.232 + 1.185 Strflex + 1.055OrgnComp………………………………………………Model 5
Y is Organisation Performance
β_0 is the constant
β_1, β_2 are beta coefficients
Strflex is Strategic Flexibility
OrgnComp is Organisational Competences (mediator).

The summary of the mediation analysis are presented in Table 7.

Table 2: Summary of Mediation Analysis Results

Path	β	SE	t	p	95% CI LLCI	ULCI
Model 1 (Outcome: OrgComp)						
Constant	1.630	1.275	1.278	.203	-.890	4.151
StrFlex → OrgComp (a)	.940	.046	20.435	.000	.850	1.031
Model 2 (Outcome: Y)						
Constant	0.232	1.535	0.151	.880	-2.802	3.266
StraFlex → Y (c')	1.185	.108	10.972	.000	.972	1.397
OrgComp → Y (b)	1.055	.098	10.765	.000	.265	1.293
Indirect Effect (X → M → Y) StrFlex → OrgComp → Y (ab)	.992	.065	-	-	.199	1.360
Total Effect (c)	2.177	0.546	3.987	.000	1.01	1.226

Source: Survey Data (2024)

The results in Table 7 shows the summary of regression results of the two models used in mediation analysis. In the first model, path *a* indicates that strategic flexibility has a positive and significant effect on organisational competences (β 0.940, SE=.046, t=20.435, p<0.001). When strategic flexibility is implemented, it corresponds to a 0.940 improvement in organisational competences.

The direct effect (path *c'*) shows a significant effect of strategic flexibility on performance after controlling for organisational competences as the mediator (β1.185, SE=0.108, t (147) =10.972, p<0.001). The indirect effect (β0.992, BootSE=0.065, BootLLCL=0.199, BootULCI=1.36), determined using bootstrapping technique involving 5000 bootstrap samples, indicates the effect of strategic flexibility on organisation performance through organisational competences (mediation) is positive and significant because there is no zero in the confidence interval as recommended by Hayes (2022).

The results indicate that both the indirect and direct effects are significant. Additionally, although the direct effect is significant, the effect is reduced as compared to the total effect. Therefore, this suggests that organisational competences partially mediate the nexus between strategic flexibility and organisation performance as recommended by Preacher and Hayes (2018). Consequently, the null hypothesis is not supported, leading to the conclusion that organisational competences play a significant role in partially mediating the strategic flexibility and organisation performance nexus.

This research findings concur with previous studies that established the mediating effect of organisational competences. Sabir *et al.* (2023) established that the supply chain management practices and innovative performance interaction in Pakistani SMEs was fully mediated by organisational competence. Kitenga, Kilika and Muchemi (2020) established that firm competences partially mediated dynamic capabilities and performance association in food manufacturing firms. Furthermore, Oduor (2022) demonstrated that organizational competences partially mediated the repositioning strategy and performance nexus in large manufacturing firms in Nairobi City County. Wandiga (2022) established that organisational competence partially mediate the operations strategy and performance of management consultancy firms in Nairobi City County.

The tenets of the dynamic capabilities theory and resource-based view support the study findings. The DCT highlights the importance of an organisation's ability to adapt and reconfigure its resources for environmental adaptation. It can be argued that strategic flexibility and organisational competences are dynamic capabilities that allow commercial banks to adjust their strategies in response to emerging technological advancements, regulatory modifications, and shifts in customer preferences. Consequently, commercial banks that continually develop and enhance their organisational competences gain a greater capacity to exploit strategic flexibility to maintain competitiveness. On the other hand, the resource-based view posits that commercial banks can enjoy a competitive advantage through possession of valuable, rare, inimitable, and non-substitutable resources and capabilities that can either be tangible or intangible. Organisational competences are core strategic resources that contribute to a bank’s competitiveness. As a mediator in the strategic flexibility and performance nexus, organisational competences ensure that flexible strategies align with and leverage the unique capabilities of the banks.

8.0 Analysis of Qualitative Data

The respondents felt that commercial banks’ ability to adjust their unique skills and capabilities had an effect on performance. This is because it developed an efficient workforce and also enabled the banks to attract talented employees from their competitors. The banks had also been able to increase interdepartmental collaboration that led to customer satisfaction and retention. Furthermore, the respondents expressed the opinion that organisational competences had enabled them to achieve their performance targets, thus leading to revenue growth.

9.0 Conclusions

This study sought to establish the mediating effect of organisational competences 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, organisational competences have a positive and significant mediating effect on this association. Consequently, the study concludes that organisational competences are crucial in enhancing the effect of strategic flexibility on organisation performance in commercial banks in Kenya.

10.0 Recommendations

This study recommends that the study recommends that to enhance strategic flexibility, operations managers should establish dynamic organisational structures, systems and processes reinforce their ability to reconfigure and redeploy their resources in response to environmental changes. Moreover, the heads of corporate strategy and human resources should encourage collaboration between these departments to ensure that organisational competences are continuously developed to enable the banks to leverage on strategic flexibility for superior performance

11.0 Limitations and Suggestions for Further Research

Although the polymorphous nature of strategic flexibility is widely accepted, there lacks a consensus on its measurement and dimensions. In this study, strategic flexibility was conceptualised as HR flexibility, coordination flexibility and competitive flexibility in measuring its effect on performance of commercial banks. 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 other studies could be undertaken in microfinance institutions using the same set of variables since this study examined the mediating effect of organisational competences in the relationship between strategic flexibility on the performance of commercial banks in Kenya. This is because these institutions offer similar financial services, hence the findings would enable a comparative analysis of the effect of strategic flexibility on performance. Similarly, the studies could be extend to other contexts, including different industries and geographic areas to identify patterns and its applicability in such contexts.

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