

MODERATING EFFECT OF STRATEGIC FIT ON THE RELATIONSHIP BETWEEN CONTINGENCY FACTORS AND PERFORMANCE OF COMMERCIAL BANKS IN KENYA

*Geoffrey Gagai, Prof. Evangeline M. Gichunge & Dr. Eunice Kirimi

¹Ph.D. Postgraduate student, School of Business and Economics, Kenya Methodist University

²Senior Lecturer, School of Business and Economics, Kenya Methodist University

³Senior Lecturer, School of Business and Economics, Kenya Methodist University

Correspondents Email: gaggaik@gmail.com

Submitted: February 1, 2021

Accepted: March 15, 2021

Published: April 15, 2021

ABSTRACT

The purpose of the study was to investigate the moderation effect of strategic fit on the relationship between contingency factors and the performance of commercial banks in Kenya. The study adopted a descriptive research design where a census of 39 commercial banks regulated by CBK was carried out. The study targeted 7 respondents from each of the 39 commercial banks. Primary data were collected through a questionnaire from the selected managers and were analyzed using SPSS version 26. Correlation and multivariate regression analysis were used to test the research hypothesis. The regression analysis results showed that strategic fit moderated the relationship between strategic contingency factors and the performance of commercial banks in Kenya (p-value < 0.05). It was recommended that organizations should endeavor towards matching their resources and capabilities with the opportunities in the external environment. The matching takes place through strategy and it is therefore vital that the company have the actual resources and capabilities to execute and support the strategy.

KEYWORDS: *Competition, Technology, Regulation, organizational structure, strategic fit, and performance*

1.0 INTRODUCTION

1.1 Background of the Study

In the dynamic and volatile environments in which most banks operate today, the flexibility of organizational factors is a valuable capability for competitive advantage (Chavez, Yu, Jacobs & Feng, 2017). However, in the process of adopting the techniques of flexibilities, firms still find it challenging to realize benefits towards performance (Felin & Powell 2016). In the banking industry, organizational factors flexibility towards performance due to contingencies has emerged

as an important source of competitive advantage as firms seek to be responsive to changing customer demands while remaining competitive on the dimensions of cost (Kihara et al., 2016). Strategic contingency factors such as organizational structure, information technology, and competition and regulations environment are critical in the realization of firm goals (Maletič et al., 2018).

The relationship between an organization's factors such as its organizational structure, information technology, competition, and regulatory environment and its performance depends upon the level of their contingent nature (Lucianetti et al., 2018). The point to note is that organizational factors cannot be generalized therefore each organization needs to be designed ready to respond to contingencies to avoid loss of performance. According to Velamuri et al. (2017), significant challenges for complex organizations are posed by contingencies and therefore a firm should properly design their organizational factors to be contingent to specifically address them than operating under the earlier strategic arrangement. According to the contingency approach and the concept of adjustment or fit, a firm's performance will depend on the degree of adjustment existing between organizational context and organizational structure without forgetting that no single form of organization exists without factoring the influence of contingencies on its performance (Maletič et al., 2018).

Studies by Zhang et al. (2018) asserted that organizational structure is considered as a higher-order resource or capability whose relevance is derived from the organization of other resources and capabilities. These contingency factors of an organizational structure owned by the firm must be in a proper combination so that they can acquire competitive value and thus help the firm achieve high-performance levels (Singh & Khamba, 2016). Following the contingency approach, earlier studies have demonstrated that the external environment and strategic decisions influence the factors of organizational structure to implement strategies successfully (Dekoulou & Trivellas, 2017). Studies by Steinbach et al. (2017) on contingency theory indicate that the effectiveness of organizational factors arise from a correspondence (or fit) between the context (contingency factors) and the organizational structure and therefore in designing an organization's structure, contingency factors should be factored in since they directly influence performance.

Kaliappen et al. (2019) argue that the effect of strategy on firm performance is channeled through organizational structure. Organizational structure does not directly influence firm performance but how contingent it ultimately influences the performance of firms because contingencies directly influence costs and revenues. Kihara (2017) observed that Information Technology (IT) is an important contingency factor that is known to influence the performance of manufacturing firms. It is further argued that IT being contingent, adoption of new technologies should always be adjusted to meet the current needs of a firm thus a requirement to factor in the contingency elements.

Adoption of technologies that are responsive to the dynamic environment demand that they are contingent. This allows easy adoption of automated materials handling systems, robotics, computer-controlled machines, and computer integrated manufacturing systems that lead to programmed flexibility which eventually transforms to the manufacturing of a variety of products with minimal change-over and set-up disruption, maximizing both flexibility and production. This helps the firm accrue benefits in terms of flexibility, reduced lead-times, improved quality, and customer responsiveness thus impacting positively on performance (Kihara, 2017). A study by Migdadi and Abu Zaid (2016) on ERP adoption observed that in firms in the context of contingent

IT systems, the possession of basic IT and computer skills is insufficient and will not influence the success of the software in adopting firms.

Accordingly, management must ensure that continuous acquisition of relevant IT skills and expertise is adequately provided for to enhance success with such technologies. This is only achievable where managers can devise pragmatic ways to migrate the processes and functions that their legacy IT systems support into the new system to elicit higher levels of appreciation with the new system. The firms' aim in adopting a new system is defeated if key organizational members cannot provide a clear distinction between the advantages of their old IT systems and the new system (Alimohamadian et al., 2017). Adoption of proper technology helps to bridge pockets of information existing within an organization whose different departments own and maintain disparate IT systems. Consistent with the contingency theory, management can achieve higher levels of success in a firm's performance with their IT systems by matching organizational factors with relevant contingencies (Omieno, 2020).

Adaptation to fit the environmental demands makes information technology contingent and therefore organizational IT factors cannot be dealt with in isolation without factoring in the influence of contingencies while determining the performance of an organization (Chatzoglou et al., 2016). Current business activity is characterized by intense international, rapid product innovation, increased use of automation, and significant organizational changes in response to new manufacturing and information technologies. The research suggests that IT should be considered as a critical factor to competitive advantage which is an ingredient to profitability and the survival of a firm. Keramati et al. (2018) indicated that successful implementation of IT which is contingent can lead to increased firm productivity and therefore improved firm's performance.

According to Akintokunbo (2018) in their study regarding competition, they observed that there is a need for organizations to pay greater attention to positioning themselves against contingencies rather than relying on the strategies already in place. Further Akintokunbo (2018) informed that competition is contingent and is critical internal and external drivers of performance. Davis and Bendickson (2020) regarding contingency factors inform that competition has the ability in the contingency context to utilize resources that have critical effects on organizational performance. They assert that competition is a key aspect of contingency factors that directly influences a firm's performance.

According to Yu et al. (2020), the environment being a contingency factor that influences a firm's performance consists of relationships between the firm and the government's by-laws, professional bodies, regulating and other government legal and regulatory apparatus which are all contingent on nature and therefore firms have to align their strategies for successful performance. According to Yuliansyah et al. (2017), in developing a balanced set of measures, a contingency approach stimulates the right performance-driven behaviors that enable firms to realize their business objectives and help them to achieve a sustained competitive advantage. In essence, fitting a bank's practices and routines to its environmental context is crucial to developing operations as a competitive advantage. Jardiouei et al. (2019) found that higher levels of flexibility are found to be generally associated with high levels of performance along the other dimensions of operational performance when addressing all types of manufacturing environments. They indicated that to maintain continued growth firms need to make an efficient and effective adjustment on organizational factors to changing legal and regulatory environment.

According to Yuliansyah et al. (2017), in developing a balanced set of measures, a contingency approach stimulates the right performance-driven behaviors that enable firms to realize their business objectives and help them to achieve a sustained competitive advantage. In essence, fitting a bank's practices and routines to its environmental context is crucial to developing operations as a competitive advantage. Jardioui et al. (2019) found that higher levels of flexibility are found to be generally associated with high levels of performance along the other dimensions of operational performance when addressing all types of manufacturing environments. They indicated that to maintain continued growth firms need to make an efficient and effective adjustment on organizational factors to changing legal and regulatory environment.

According to Chen et al. (2018), organizational performance means the transformation of inputs into outputs for achieving certain outcomes. Concerning its content, performance informs about the relation between minimal and effective cost (economy), between effective cost and realized output (efficiency), and between output and achieved outcome (effectiveness). Performance measurement and reporting are now widespread across the private sector as well as the public sector of many industrialized and industrializing countries. The common tool that is used for this process, key performance indicators (KPIs), has been argued to provide intelligence in the form of useful information about a public and private agency's performance (Mergaerts et al., 2016). KPIs are viewed as a good management device and a socially constructed tool that makes sense (King et al., 2016). The fact that KPIs tend to be quantitative has helped to promote their image of objectiveness and rationality. The image of KPIs is further enhanced by their widespread application across the many sectors of many countries.

A commonly used measure of organization performance is the level of profits. Organization profitability can be measured by the return on an organization's assets (ROA), a ratio of an organization's profits to its total assets. The income statements of the organization report profits before and after taxes. Another good measure of organization performance is the ratio of pre-tax profits to equity (ROE) rather than total assets since an organization with a higher equity ratio should also have a higher return on assets (Gafoor et al., 2018). Profitability offers clues about the ability of the bank to undertake risks and to expand its activity. The main indicators used in the appreciation of the bank profitability are Return on equity, ROE (Net income / Average Equity), Return on Asset, ROA (Net income / Total assets), and the indicator of financial leverage or (Equity / Total Assets). The indicators are submitted to observation over a while to detect the tendencies of profitability. The analysis of the modification of the various indicators in time shows the changes of the policies and strategies of banks and/or of its business environment (Saghi-Zedek, 2016).

1.2 Statement of the Problem

The banking sector is among the sectors expected to facilitate the realization of vision 2030, by ensuring that there is the provision of efficient financial services and investment opportunities that will create vibrant and globally competitive financial services in Kenya (ROK, 2007). Global competitive financial services in the banking sector will be achieved only if financial distress will be well managed by banks (Okech & Mugambi, 2016). As noted by Kamau (2011) and Mwege (2011) banking sector is the engine that drives economic growth through efficient allocation of resources to productive units in any economy resulting in global competitiveness. Nasieku (2014) noted that banks provide an efficient system and main source of liquidity in the finance systems.

Despite this, more than ten financial institutions have either collapsed or liquidated or have been placed under receivership by Deposit Protection Fund Board in Kenya between 2005 and 2015 (CBK, 2015). This indicates that on average, one financial institution collapsed every year over the eleven years making it a worrying trend. Besides, there was a decrease in the number of financial institutions that were rated strong, from 22 banks in 2014 to 11 banks in 2015 (CBK, 2015). Kenya's investment rate was below 25% of GDP during 2005 –2014, indicating the lowest investment rate among the peer group, with the exceptions of Cambodia and Pakistan (WB, 2016). From this analysis, the banking industry in Kenya seems to be experiencing performance fluctuations attributed to contingencies (RoK, 2014).

Previous studies have shown that strategic contingency factors are critical drivers to the performance of organizations (Brewster & Mayrhofer, 2012). Organizations seek to fit their organizational factors into contingencies to achieve high performance and to avoid any losses resulting from the misfit when contingencies change (Donaldson, 2006). Also, previous empirical findings show that strategic contingency factors measures have lacked precision and consistency by providing no clear direction on the influence of contingency factors on a firm's performance (Walters & Bhuian, 2004; Lee & Runge, 2001). Studies have focused on financial performance measures ignoring non-financial indicators like environment (Kargar & Parnell 2009).

Studies on the performance of commercial banks largely focused on the financial performance perspective. Specifically effect of; micro/macro-economic factors, financial factors, banking sectorial factors, innovation, internal controls and Central Bank regulatory requirements on financial performance of commercial banks (Kadocsa & Francsovcics, 2011; Kamau & Oluoch, 2016; Karagu & Okibo, 2014; Kariuki, 2013; Makini, 2010; Meeme, 2015; Mihaela, 2015; Muiruri, 2015; Ngumi, 2013b; Olweny & Mamba, 2011; Popa & Ciobanu, 2014; Surow, 2014). Determinants of financial performance (Al-tamimi, 2010; Malik, 2011; Ongore & Kusa, 2013; Zamparo et al., 2012). However, some of these studies were based on data from other countries and their findings may not be applied to the local banking context. On the other hand, local studies failed to show the moderating effect of strategic fit on the relationship between strategic contingency factors and the performance of commercial banks in Kenya. This study, therefore, sought to fill the gap that existed.

1.2.1 Research Hypothesis

The study sought to test the following hypothesis:

H₀₁ Strategic fit has no significant effect on the relationship between strategic contingency factors and the performance of commercial banks in Kenya.

2.0 LITERATURE REVIEW

2.1 Strategic Fit, Strategic Contingency factors, and firm performance

Strategic fit expresses the degree to which an organization is matching its resources and capabilities with the opportunities in the external environment. The matching takes place through strategy and it is therefore vital that the company have the actual resources and capabilities to execute and support the strategy. Strategic fit can be used actively to evaluate the current strategic situation of a company as well as opportunities and divestitures of organizational divisions.

Strategic fit is related to the Resource-based view of the firm which suggests that the key to profitability is not only through positioning and industry selection but rather through an internal focus which seeks to utilize the unique characteristics of the company's portfolio of resources and capabilities (Shankar & Shepherd, 2019). According to Fainshmidt et al. (2019), a good measure of fit must be replicable, feasible, and consistent for different scales and levels of complexity, and must have inter-judge reliability. A good measure can be verified using the correlation of fit and business performance. This analysis is based on the assumption that fit results in improved business performance for all business strategy types, an assertion that is generally accepted based on prior researches.

Strategic fit is a valued theoretical standard in theories of organizational adaptation and is ever-present in strategic marketing and strategic management. The argument is that environment and strategy interact in a dynamic co-alignment process and the resulting fit between strategy and its environmental context has positive implications for performance. However, this assessment is derived almost exclusively from observations in western economies, where the firm in focus operates in a stable, market-based economy; the strategic fit paradigm is therefore promoted as a universal strategic framework. Also, organizations/businesses operate in a rapidly changing environment which they must adapt to for their growth and development. This degree of change in environmental factors is known as the level of environmental turbulence. The more turbulent the environment the more aggressive the firm response must be; however, some firms take full advantage of the opportunities offered by turbulence while others lag (White et al., 2018).

The environmental turbulence is determined by a combination of numerous factors which include: changeability of the market environment; the speed of change; the intensity of competition; fertility of technology; discrimination by customers; and pressures from governments and influence groups implying that strategy is affected by a combination of factors in the environment. The success of every organization is determined by the match between its strategic responsiveness and strategic aggressiveness and how these are matched to level environmental turbulence. This is because each level of environmental turbulence has different characteristics, requires different strategies, and requires different firm capabilities. Therefore, each level of environmental turbulence requires a matching strategy and the strategy has to be matched by the appropriate organizational capability for survival, growth, and development. To be successful over time, an organization must be in tune with its external environment. There must be a strategic fit between what the environment wants and what the firm has to offer, as well as between what the firm needs and what the environment can provide (Zimmermann et al., 2019).

Carmeli et al. (2010) examined the innovation-leadership importance in cultivating the strategic fit of an institution with its environment and promoting several relationships, economic, and performance of product results. It, therefore, determined how innovation-leadership allow a business to adjust and familiarize itself with its outside environment and by effect promote performance. The finding from the data gathered from 118 companies indicated that innovation-leadership, both through and directly increased strategic fit, significantly promoted performance.

Congden (2005) sought to test whether strategy-technology "fit" existed, examined if good fit led to improved performance, and determined the fit nature concerning computer-controlled or "improved manufacturing technologies". For a sample size of 400 metal-machining companies, a strategy-technology configuration was observed to relate and exist about higher performance

financially. Progressive technologies reinforced and altered traditional thinking about the flexibility efficiency quid pro quo. Particular technologies were exclusively bundled or joined to the provision of precise competitive needs.

In Kenya, Gachau (2018) examined the strategic fit elements of benefits related to retirement and their effect on the performance of the pension sector. The research aimed to determine the effects of economic, political, and technological factors, socio-cultural factors on performance. It was concluded that political-related factors ($r=0.857$), economic-related factors ($r=0.828$), socio-cultural related factors ($r=0.775$) and technological related factors ($r=0.645$) affected performance. Strategic fit aspects including economic, political, socio-cultural, and technological factors are interconnected and influence in varying degrees the performance of firms.

2.2 Conceptualization of Variables

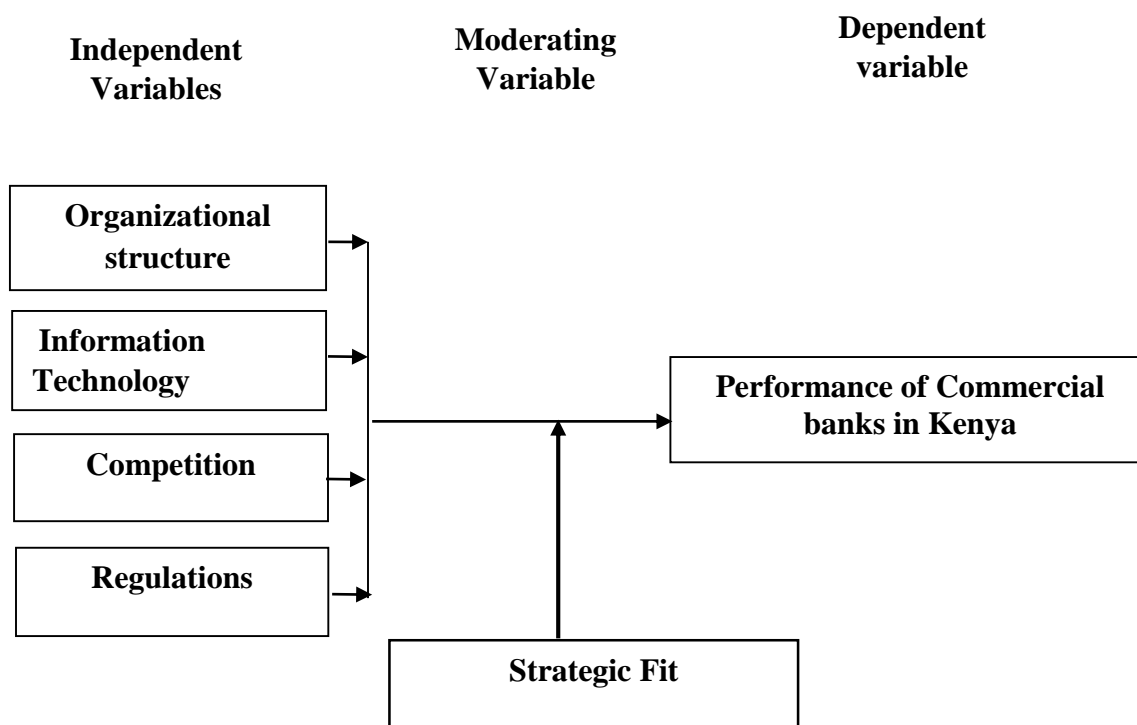


Figure 2. 1: Conceptual Framework

Source: Author (2021)

3.0 RESEARCH METHODOLOGY

3.1 Research Philosophy and Design

The study was based on the positivist research philosophy. The positivist approach was adopted because the study was objective, the researcher was independent of the study population and the results of the study were not shaped by the opinions of the researcher to find the exact situations of the relationship between contingency factors and performance of commercial banks in Kenya. The relationship was moderated using strategic fit. This approach is also justified since it

emphasizes quantifiable observations that can be used for statistical analysis and since the study seek to use quantifiable figures in a regression model to back up the findings, this philosophy was therefore appropriate.

This study employed a descriptive research design. Descriptive research is conducted to describe the present situation, what people currently believe, what people are doing at the moment, and so forth. The major purpose of descriptive survey research design is a description of the state of affairs as it exists at present (Garg & Kothari, 2014). This research design was suitable for answering the what, which and when questions which was the main question of this study as it sought to establish the relationship between contingency factors and the performance of commercial banks in Kenya. The choice of this research design was in line with the positivist research philosophy which emphasizes the need to formulate hypotheses that are tested and confirmed or disapproved by quantitative and statistical methods to answer the research objectives and accomplish the research purposes. This research design enabled quantitative data to be collected through questionnaires after which they were used to test the hypothesis as the positivist research philosophy demands.

3.2 Target Population and Sampling Procedure

A population is the total collection of all the elements about which the study wishes to make some inference (Blumberg et al., 2014). Other scholars such as Nachiamis and Nachamis (2012) define a population as the entire set of relevant units of analysis or data while Ott *et al* (2015) argue that a target population consists of a list of elements or individual members of the overall population from which a sample is drawn. The target population for this study was all the 39 licensed commercial banks operating in Kenya by the year 2017 as reported in the Bank Supervisory Report 2017. The unit of observation was the head of the operations department, finance department, research and development department, information technology department.

This study, however, applied a census method, and therefore all the commercial banks were included. Parahoo (2014) argues that a census approach can be adopted for a population less than 200. The study targeted 4 respondents from each of the 39 commercial banks. The respondents were head of operations department, finance department, research, and development department, information technology department, giving a sample size of 156. The choice of the top-level respondents from the four departments was due to their role in strategy formulation and implementation.

3.3 Methods of Data Collection and Instrumentation

Burns and Grove (2010) define data collection as the precise, systematic gathering of information relevant to the research problems. Questionnaires were dropped and picked later to enable the respondents to have enough time to respond to them. The respondents were given one week to respond to the questionnaire. When they didn't manage to fill the questionnaires within a week, they were given one more week. The use of drop and pick methodology enhanced the response rate of the study and that is why it was appropriate for this study (Allred & Ross-Davis, 2011). Data were collected at the headquarter branches of the commercial banks in Nairobi. For questionnaires that were not returned, the researcher enquired from the bank managers for an explanation.

Parahoo (2014) defines a research instrument as a tool used to collect data. An instrument is a tool designed to measure knowledge attitude and skills. The study used primary data. The primary data

collection instrument in this study was a questionnaire. This is because questionnaires allow the respondent to present their feelings on the subject matter enabling a greater depth of response. The study collected primary data using structured questionnaires and captured information through a 5-point Likert scale type. Likert scale is an interval scale that specifically uses five anchors of strongly disagree, disagree, neutral, agree, and strongly agree. The Likert measures the level of agreement or disagreement. This type of questionnaire is more appropriate because it enables consistency in questions asked and the data yielded is easy to analyze. Likert scales are good in measuring perception, attitude, values, and behavior (Upagade & Shende, 2012). A questionnaire was more appropriate for this study as it enabled the researcher to collect first-hand information over a short period.

3.4 Methods of Data Analysis

Smith (2015) defines data analysis as a systematic manipulation, processing, arrangement, and organization of data to produce meaningful information. Data gathered using the questionnaires were analyzed quantitatively using analyzed by both descriptive statistics and inferential statistics. SPSS version 26 which generates both descriptive and inferential statistics were employed. Descriptive statistics including the mean and standard deviation were used to capture the characteristics of the variables under study. Descriptive analysis is defined by Nachmias and Nachmias (2008) as statistical procedures that are used to describe the population one is studying. They also contended that descriptive statistics use graphical and numerical summaries to give a picture of a data set. Inferential statistics were used in the study.

3.4.1 Moderating Effect of Strategic Fit on the Contingency Factors – Performance Relationship

In testing for the moderating effect of strategic fit, the study adopted the Moderated Multiple Regression (MMR) analysis. Hierarchical regression models were established as below. The R square of the regression models was compared. To establish whether there was a significant moderating effect of strategic fit, the significance of the interaction was used to confirm the moderation effect.

$$Y = \beta_0 + \beta_1X + \varepsilon \dots\dots\dots (Model 1)$$

$$Y = \beta_0 + \beta_2X + \beta_3Z + \varepsilon \dots\dots\dots (Model 2)$$

$$Y = \beta_0 + \beta_4X + \beta_5Z + \beta_6 (X_1*X_2*X_3*X_4) Z + \varepsilon \dots\dots\dots (Model 3)$$

Where; Y = Performance, X₁, X₂, X₃ and X₄ = Contingency factors, Z = Moderating variable (Strategic fit), (X₁*X₂*X₃*X₄) Z = Interaction terms [Product of strategic fit and contingency factors], ε = Error term and α= constant, β₁ to β₆ = coefficient of independent variables

The importance of using MMR in evaluating the effect of moderator variables is evident from the fact that this technique has been extensively used by researchers (Evans, 2011). From the regression above, the strategic fit was said to have a significant moderating effect if the beta coefficient of the interacting terms (β₃) were significant (Has a p-value less than 0.05). T-test and F- Statistic at 5% level of significance was used to examine the significance of the model. Where

the p-value of the beta coefficient is less than 0.05, the null hypothesis was rejected, but where the p-value is greater than 0.05, the null hypothesis was not rejected.

4.0 RESULTS

4.1 Response Rate

The number of questionnaires, administered to all the respondents, was 156. A total of 127 questionnaires were properly filled and returned from the bank employees. The results were presented in Table 4.1. The results in Table 4.1 represented an overall successful response rate of 81.41%. According to Mugenda (2008), a response rate of 50% or more is adequate. Babbie (2004) also asserted that return rates of 50% are acceptable to analyze and publish, 60% is good and 70% is very good. Therefore the researcher accepted the response rate as being appropriate for further analysis.

Table 4. 1: Response Rate

Response rate	Frequency	Percent
Returned	127	81.41
Unreturned	29	18.59
Total	156	100.00

4.2 Diagnostic Tests of Variables

4.2.1 Test of Normality

Normality tests determined whether data sets are well modeled by a normal distribution (Farrell & Stewart, 2006). The null hypothesis stated that the population is normally distributed, against the alternative hypothesis that it was not normally distributed. Normality was tested and the results are given in Table 4.2.

Table 4.2: Test of Normality

Variables	Shapiro-Wilk		
	Statistics	df	Sig
Technology	.816	127	0.124
Regulations	.879	127	0.213
Competition	.739	127	0.321
Organizational structure	.759	127	0.214
Strategic fit	.906	127	0.242
Performance	.778	127	0.133

The test statistics results in Table 4.2 show the results of the normality test. For a dataset small than 2000 elements, the Shapiro-Wilk test is used, otherwise, the Kolmogorov-Smirnov test is used. In this study, since there were 127 elements, the Shapiro-Wilk test was used. From the results, the p-value of the variables are as follows: Technology showed normal distribution with a p-value of 0.124, Regulations had a normal distribution with a p-value of 0.213, strategic fit had a normal distribution with a p-value of 0.24, the performance had a normal distribution with a p-value of 0.133, normal distribution was observed on competition which had a p-value of 0.321, and lastly normal distribution was observed on an organizational structure which had a p-value of 0.214. The study rejected the alternative hypothesis and concluded that the data for the variables

were normally distributed thus satisfied the regression assumption of normality allowing further analysis of the variables.

4.3 Multiple Linear Regression Model - Moderation Analysis

The fifth objective of the study was to establish the moderating influence of strategic fit on the relationship between contingency factors and the performance of commercial banks in Kenya. As underscored by Baron and Kenny (1986), to assess the moderating effect, the study applied the hierarchical regression method. Baron and Kenny (1986) defined a moderator as a variable that affects the direction and or strength of the relationship between a predictor and a criterion variable. They posit that moderation can only be supported if path C (which is the interaction of paths A and B) is significant. The hypothesis is stated thus;

H₀: Strategic fit has no significant moderating influence on the relationship between contingency factors and the performance of commercial banks in Kenya.

To test for the moderation effect, a hierarchical regression analysis was conducted by first using the following two steps. Step one tested the influence of contingency factors on performance. Step two tested the influence of strategic fit on performance. Then in step three, the interaction term was introduced in the equation and its significance evaluated when controlling for contingency factors and performance. The interaction term was computed as the product of the standardized scores of contingency factors and strategic fit. To confirm moderation, the influence of the interaction terms should be significant. The significance of the predictor variable and the moderator variable is not mostly relevant in determining moderation (Yzerbyt et al., 2018).

The relationship was depicted in Figure 4.1.

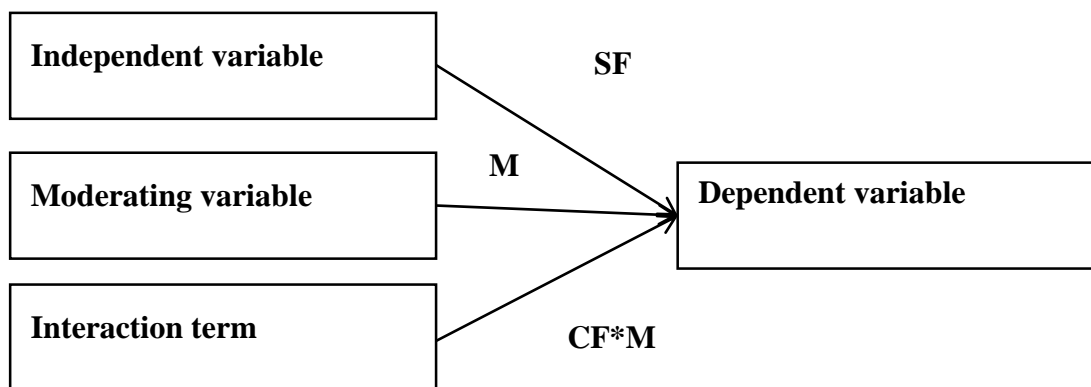


Figure 4.1: Test of moderation – path diagram for direct and indirect effects

Figure 4.1 illustrates that each arrow in the path represents a causal relationship between two variables to which are assigned the change statistics (R^2 and F ratio). This shows the direction and magnitude of the effect of one variable on the other. Using hierarchical regression analysis, both direct and indirect causalities were determined by first regressing Contingency Factors (CF) on Performance (P) for the direct causality. The same procedure was repeated with the inclusion of Strategic Fit (SF) where the indirect causality (M) was determined.

Regression Results of the Moderation effect

In the first step [Model 1], regression analysis was used to examine the effect of contingency factors [Competition, Technology, Regulation, organization structure] on the performance of commercial banks by assessing the contribution of contingency factors on performance. In the second step [Model 2], regression analysis was used to examine the effect of contingency factors [Competition, Technology, Regulation, organization structure] on the performance of commercial banks by assessing the contribution of contingency factors on performance after including the interaction terms.

Table 4.3: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.979 ^a	.958	.956	1.27466
2	.981 ^c	.962	.959	1.23509
a. Predictors: (Constant), Competition, Technology, Regulation, orgstru				
b. Predictors: (Constant), Competition, Technology, Regulation, orgstru, Strategic fit				
c. Predictors: (Constant), Competition, Technology, Regulation, orgstru, Strategicfit, stratfit_Reg, stratfit_techn, stratfit_orgstru, stratfit_Comp				

From the results in Table 4.3 [Model 1], the R-square for the association between contingency factors [Competition, Technology, Regulation, organization structure] and performance is 0.958. This implies that contingency factors can only explain 95.8 % of the variation in performance. The remaining 4.2% of variation can be explained by other causes concerning performance. The R square value is an important indicator of the predictive accuracy of the equation. These findings imply that contingency factors play a significant role in enhancing performance.

From the results in Table 4.3 [Model 2], the R-square for the association between contingency factors [Competition, Technology, Regulation, organization structure] and performance after including the interaction terms is 0.962. This implies that contingency factors and the interaction terms can only explain 96.2% of the variation in performance. The remaining 3.8% variation can be explained by other causes in relation to performance. The R square value is an important indicator of the predictive accuracy of the equation. These findings imply that contingency factors and the interaction terms play a significant role in enhancing performance, R square change is 0.04 i.e. [0.962 – 0.958].

ANOVA for Moderation Effect

Analysis of variance (ANOVA) was used in this study to establish the significance of the regression model. The statistical significance was regarded as considerable if the p-value was less or equal to 0.05. Both models 1 and 2 had p values less than 0.05.

Table 4.2: ANOVA

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	4465.938	4	1116.485	687.174	.000 ^b
	Residual	198.219	122	1.625		
	Total	4664.157	126			

2	Regression	4485.680	9	498.409	326.729	.000 ^d
	Residual	178.477	117	1.525		
	Total	4664.157	126			
a. Dependent Variable: performance						
b. Predictors: (Constant), Competition, Technology, Regulation, organization structure						
c. Predictors: (Constant), Competition, Technology, Regulation, organization structure, Strategic fit, Strategicfit*Regulation, Strategic fit*Technology, strategicfit*organizationstructure, Strategic fit*Competition						

The findings in Table 4.4 illustrate the consequence of the regression models with a p-value of 0.000 which is less than 0.05. The results also demonstrate that the regression model was statistically noteworthy in predicting the dependent variable.

The ANOVA results indicate that F-critical (4,122) was 3.94 while the F-calculated was 687.174 for model 1. Also, the ANOVA results indicate that F-critical (9,117) was 3.94 while the F-calculated was 326.729 for model 2. This shows that F-calculated is greater than the F-critical; therefore there is a positive significant linear association in predicting the dependent variable. This means that when there is variation in the independent variables, there is a considerable variation in performance. Also, the p-value was 0.000, which is less than the significance level (0.05). This goodness of fit of the model predicting the positive and significant influence on performance.

Table 4.5: Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	2.050	.954		2.148	.034
	Organization structure	.181	.059	.230	3.050	.003
	Technology	-.069	.015	-.110	-4.485	.000
	Regulation	.147	.033	.194	4.455	.000
	Competition	.671	.084	.631	8.003	.000
2	(Constant)	21.436	3.849		5.569	.000
	Organization structure	.809	.108	.597	7.519	.000
	Technology	.379	.049	.174	7.803	.000
	Regulation	.426	.105	.334	4.045	.000
	Competition	.064	.019	.080	3.315	.001
	Strategic fit	.282	.069	.359	4.062	.000
	strategic fit* organization structure	-.051	.021	-.082	-2.426	.017
	Strategic fit* Technology	.152	.033	.201	4.604	.000
	Strategic fit* Regulation	.557	.093	.524	5.998	.000
Strategic fit* Competition	-.124	.047	-.072	-2.633	.010	
a. Dependent Variable: Performance						

The results in Table 4.5 show that interaction terms had a significant effect (P values > 0.05). Contingency factors (Predictors) and strategic fit (moderator) are significant with the interaction terms added, implying that moderation has occurred, however, the main effects are also significant. The equation for regression of the moderating effect of strategic fit on the relationship between contingency factors and performance of commercial banks in Kenya is shown below:

$$Y = 21.436 + .809X_1 + .379X_2 + .426X_3 + .064X_4 + .282X_5 - .051X_6 + .152X_7 + .557X_8 - .124X_9$$

Where:

Y = performance of commercial banks, X₁ = Organization structure; X₂ = Technology; X₃ = Regulation; X₄ = Competition; X₅ = Strategic fit; X₆ = strategic fit* organization structure; X₇ = Strategic fit* Technology; X₈ = Strategic fit* Regulation; and X₉ = Strategic fit* Competition

5.0 CONCLUSION AND RECOMMENDATIONS

The study confirmed that strategic fit had a moderating effect on the relationship between contingency factors and the performance of commercial banks in Kenya. The study recommends that organizations should endeavor towards matching their resources and capabilities with the opportunities in the external environment. The matching takes place through strategy and it is therefore vital that the company have the actual resources and capabilities to execute and support the strategy. Strategic fit is related to the Resource-based view of the firm which suggests that the key to profitability is not only through positioning and industry selection but rather through an internal focus that seeks to utilize the unique characteristics of the company's portfolio of resources and capabilities.

REFERENCES

- [1] Alimohamadian, S., Mehrabi, N., & Kouchesfahani, M. M. (2017). The Effects of Organizational Factors on the Success of Enterprise Resource Planning. *Journal of Economic & Management Perspectives*, 11(3), 710-718.
- [2] Allred, S. B., & Ross-Davis, A. (2011). The drop-off and pick-up method: An approach to reduce nonresponse bias in natural resource surveys. *Small-Scale Forestry*, 10(3), 305-318.
- [3] Blumberg, B., Cooper, D. R., & Schindler, P. S. (2014). The Research process and proposal. *Business Research Methods*, 1(1), 55-105.
- [4] Dekoulou, P., & Trivellas, P. (2017). Organizational structure, innovation performance, and customer relationship value in the Greek advertising and media industry. *Journal of Business & Industrial Marketing*.
- [5] Felin, T., & Powell, T. C. (2016). Designing organizations for dynamic capabilities. *California Management Review*, 58(4), 78-96.
- [6] Jardoui, M., Garengo, P., & El Alami, S. (2019). How organizational culture influences performance measurement systems in SMEs. *International Journal of Productivity and Performance Management*.

- [7] Kaliappen, N., Chuah, F., Gorondutse, A. H., & Moktar, S. N. A. (2019). Hybrid competitive strategy, strategic capability, and performance. *Journal of Business and Retail Management Research*, 13(4).
- [8] Kamau, A. W. (2011). Intermediation efficiency and productivity of the banking sector in Kenya. *Interdisciplinary Journal of Research in Business*, 1(9), 12-26.
- [9] Keramati, A., Behmanesh, I., & Noori, H. (2018). Assessing the impact of readiness factors on e-government outcomes: An empirical investigation. *Information Development*, 34(3), 222-241.
- [10] Kihara, A. S. N. (2017). *Influence of strategic contingency factors on the performance of Large Manufacturing Firms in Kenya* (Doctoral dissertation, COHRED, JKUAT).
- [11] Kihara, A. S. N., Ngugi, P. K., & Ogollah, K. (2016). Influence of dynamic capabilities on performance of large manufacturing firms in Kenya. *International Journal of Business Strategies*, 1(1), 106-126.
- [12] Kothari, C., & Garg, G. (2014). Research Methodology: Methods and Strategy. *New age international*.
- [13] Lucianetti, L., Jabbour, C. J. C., Gunasekaran, A., & Latan, H. (2018). Contingency factors and complementary effects of adopting advanced manufacturing tools and managerial practices: Effects on organizational measurement systems and firms' performance. *International Journal of Production Economics*, 200, 318-328.
- [14] Migdadi, M. M., & Abu Zaid, M. K. S. (2016). An empirical investigation of knowledge management competence for enterprise resource planning systems success: insights from Jordan. *International Journal of Production Research*, 54(18), 5480-5498.
- [15] Omieno, K. K. (2020). Evaluating the Usability Maturity of Enterprise Resource Planning Systems. In *Metrics and Models for Evaluating the Quality and Effectiveness of ERP Software* (pp. 171-199). IGI Global.
- [16] Parahoo, K. (2014). *Nursing research: principles, process, and issues*. Macmillan International Higher Education.
- [17] Saghi-Zedek, N. (2016). Product diversification and bank performance: does ownership structure matter?. *Journal of Banking & Finance*, 71, 154-167.
- [18] Steinbach, A. L., Holcomb, T. R., Holmes Jr, R. M., Devers, C. E., & Cannella Jr, A. A. (2017). Top management team incentive heterogeneity, strategic investment behavior, and performance: A contingency theory of incentive alignment. *Strategic Management Journal*, 38(8), 1701-1720.
- [19] Velamuri, V. K., Schneckenberg, D., Haller, J. B., & Moeslein, K. M. (2017). Open evaluation of new product concepts at the front end of innovation: objectives and contingency factors. *R&d Management*, 47(4), 501-521.
- [20] Akhavein, J., Frame, W. S., & White, L. J. (2005). The diffusion of financial innovations: An examination of the adoption of small business credit scoring by large banking organizations. *The Journal of Business*, 78(2), 577-596.
- [21] Yu, W., Chavez, R., Feng, M., Wong, C. Y., & Fynes, B. (2020). Green human resource management and environmental cooperation: An ability-motivation-opportunity and contingency perspective. *International Journal of Production Economics*, 219, 224-235.
- [22] Yu, W., Chavez, R., Feng, M., Wong, C. Y., & Fynes, B. (2020). Green human resource management and environmental cooperation: An ability-motivation-opportunity and contingency perspective. *International Journal of Production Economics*, 219, 224-235.

- [23] Yuliansyah, Y., Gurd, B., & Mohamed, N. (2017). The significance of business strategy in improving organizational performance. *Humanomics*.
- [24] Zhang, Y., Li, J., Jiang, W., Zhang, H., Hu, Y., & Liu, M. (2018). Organizational structure, slack resources, and sustainable corporate socially responsible performance. *Corporate Social Responsibility and Environmental Management*, 25(6), 1099-1107.