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INFLUENCE OF RESOURCE ALLOCATION ON THE PERFORMANCE OF COMMERCIAL BANKS IN KENYA

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Abstract

Optimal resource allocation is essential for all organizations to achieve high performance, as it ensures that financial, technological, and human resources are effectively utilized to support strategic goals. However, current challenges in resource distribution may be hindering the banks' ability to fully capitalize on market opportunities and meet performance targets. Addressing these inefficiencies is crucial for enhancing competitiveness and sustaining long-term financial growth. This paper sought to determine the influence of resource allocation on the performance of Commercial Banks in Kenya. The study applied a descriptive research design on 38 Commercial Banks in Kenya as the unit of analysis in the study. The target respondents were 190 middle-level managers of commercial banks in Kenya as the unit of observation. A stratified random sampling technique was applied in addition to Taro Yamane's formula to sample 129 participants in the study. The study gathered data through questionnaires which were administered both physically and online. Data collected was analyzed through both descriptive and inferential analyses. Results revealed a β of 0.637 and a p-value of 0.001, between resource allocation and performance of commercial banks in Kenya. The study concluded that resource allocation had a positive and significant influence on the performance of commercial banks in Kenya. The study recommends that Kenyan commercial banks invest in targeted training programs to enhance employee skills in change management. Additionally, the study recommends that Commercial banks in Kenya should refine budgeting processes through precise forecasting models to optimize financial resource allocation. Further, the study recommends upgrading technological infrastructure and strengthening knowledge management systems essential for sustaining effective change management and improving decision-making. Finally, the study recommends that commercial banks in Kenya should promote a culture of continuous improvement by encouraging employee contributions and rewarding innovative strategies to better align resource allocation and change management with the bank's overall goals.

Key Words: ***Resource Allocation, Performance, Commercial Banks***

INTRODUCTION

Resource allocation is critical for the performance of any firm as it ensures that the firms have the resources needed to create and sustain a competitive edge in the market. According to Masya, Wamitu, and Weru (2022), resource allocation is the process by which firms select and assign the available resources in a manner that supports the most important projects. Resource allocation can entail assigning human resources to projects that match their skills or assigning capital to various projects. Allocating resources requires firms to prioritize needs and priorities and decide on the best course of action that enables the firms to maximize their resources (Mayoli, 2013). Resource allocation requires firms to identify a goal and assess the various resources needed to achieve the desired output. Resource allocation plays a crucial role in organizational performance in various sectors.

Companies all over the globe use resource allocation strategies to enable their firms to survive and expand in the market. Resource allocation in the banking sector is important in enabling the banks to take advantage of new opportunities while at the same time maintaining their competitive edge in the market (Atuya, Rintari & Kambura, 2023). The banks use resource allocation strategies to assign different resources such as human resources, intangible assets, and capital to gain sustainable competitive advantage. Banks in different countries have leveraged resource allocation to achieve better performance by increasing productivity. For instance, the UK banks have leveraged resource allocation to invest in new technologies that align with the market needs (Dong et al., 2020). These banks have used resource allocation to support the customer needs thus delivering a sustainable competitive edge in the market. In the US, the use of resource allocation in the banks has enabled organizations to diversify their portfolios and reduce the risks that come with a lack of diversification. As such, the banks have invested in several income-generating activities that cushion them against economic shocks in one sector.

Resource allocation in the banking sector in Africa has enabled firms to improve their performance by taking advantage of new opportunities in the market. The banks can identify areas of need in the market and help the company achieve sustained growth in different sectors. However, the lack of optimal resource allocation strategies has led the banks to expose themselves to financial risks. For instance, sub-optimal resource allocation in Nigerian banks has prevented the funds from being allocated to the most productive activities in the economy (Etor, Ekanem, & Sule, 2020). In Uganda, insufficient resource allocation has hindered the implementation of banks' strategies which in turn affects their performance.

In Kenya, the banking sector has made commendable strides in investments and diversification of economic activities thanks to better resource allocation. However, the allocation of resources in the sector still faces some challenges that have prevented the banks from fully leveraging on the opportunities of optimal resource allocation. Poor allocation of resources has affected the performance of commercial banks in Kenya (Ali, Ogolla & Nzioki, 2022). The Kenyan banks use several strategies to grow such as geographic expansion and the adoption of information technology platforms. Banks such as Equity Bank and Kenya Commercial Bank use geographic diversification to expand into East and Central Africa (Naikumi, Daniel, & Patrick, 2023). Other banks have not been left behind as they use their resources to invest in new technologies that align with the needs of the market. For instance, the commercial banks of Africa have leveraged resource allocation to invest in mobile loans through the Mshwari. Most banks have allocated their resources to improve processes such as queuing systems that are more efficient for the customers.

Despite the commendable strides made by Kenyan banks in resource allocation to improve their performance, there are still some huge challenges in how they do it. Commercial banks have experienced challenges in delivering their strategies even after allocating the required resources. For instance, the use of queuing systems in banks such as KCB has not fully eliminated queuing in the banks. Most banks have very few tellers who are assigned the role of handling all the customer's transactions. While several studies have been done on the role of resource allocation in strategic implementation, few studies focused on resource allocation and performance. For instance, Masya, Wamitu, and Weru (2022) examined the role of resource allocation in the strategic implementation of commercial banks in Machakos County. Mwebia (2020) examined how resource allocation impacts the implementation of strategies in Agribusiness ventures in Kiambu County. Few studies have focused on the role of strategic implementation on the performance of commercial banks in Kenya which presents a research gap that this study seeks to address. This study seeks to address this research gap by evaluating the influence of resource allocation on the performance of Commercial Banks in Kenya.

THEORY AND LITERATURE REVIEW

Resource Based View

This study was anchored on the resource-based view which was introduced in the 1990s by Birger and Wernerfelt (Wernerfelt, 1984). The study evaluates how firms can leverage their resources to offer a competitive advantage to a company. This model explains that a company can gain a competitive advantage in its marketplace by doing things in a superior manner which is attained because they possess capabilities and resources that are superior (Freeman, Dmytriyev & Phillips, 2021). The theory also notes that an organization's managers have a role to play in enabling their companies to compete effectively in the market. These roles include identifying the available resources in the firm and ensuring that the resources are allocated effectively. An organization's ability to create a competitive edge in the market will depend on its ability to utilize its resources which are rare, valuable, imitable, and unique. An organization can use its valuable resources to implement strategies that improve its operational efficiency. Rare resources imply that these resources are not available for use by the other competitors in the market. Imitable resources are the ones that cannot be implemented by other firms in the industry that are not substitutable and are irreplaceable.

The resource-based view is very important in resource allocation as it ensures that managers evaluate how the resources can be used to create a competitive edge in the market. The key insight of the resource-based view is that not all organizational resources possess the same level of potential to create a competitive edge in the market (Sugiarno & Novita, 2022). The organization;'s ability to develop a competitive advantage depends on how its resources are imitated or substituted by the rivals. However, determining the relationship between resource availability and organizations' performance is hard to decipher. As such, there is a need for managers to ensure they allocate resources effectively to ensure they are used in achieving the organizational goals. As such, resource allocation is critical in ensuring that the organization's valuable resources are channelled toward activities that have the greatest impact on the firm's performance.

The resource-based theory is used in this paper because it explains how resource allocation affects the performance of commercial banks in Kenya. The theory states that firms ought to protect their valuable resources to ensure their competitive advantage is sustained. As such, commercial banks in Kenya can use the resource-based theory to improve their performances by ensuring that their valuable resources are protected, nurtured, and cared for. As such, the managers in the commercial banks in Kenya have a role to play in allocating resources such as human resources, financial resources, and physical resources as they will enable the organizations to maintain their strategic competitive position in the market.

Empirical Review

Owako and Nyangara (2021) examined the impact of strategic allocation and performance by focusing on the Kisumu Water and Sewerage Company (KIWASCO). The study used a correlation research design with a population sample of 68 respondents. The data was collected using a stratified random sampling technique whereby the data was collected using semi-structured questionnaires. The researcher employed both descriptive and inferential statistics. Correlation regression methods were used using SPSS software. The results showed that there is a positive and significant relationship between resource allocation and the organization's performance. The research concluded that KIWASCO can utilize effective resource allocation to invest in infrastructure expansion and rehabilitation which lead to the reduction of wastage. The study recommended that the organization should prioritize resource allocation to implement their strategies. However, this study was done in the public sector and cannot be used in the banking sector in Kenya due to the differences in sources of resources and the rules in the allocation.

Sadiq (2019) established how resource allocation strategies affect the performance of the water services board. The variables of the study included staff development, financial resources, infrastructural development, and technology resources allocation. The study used government regulation as the moderating variable on the performance of the water services board. Descriptive and correlational designs were used whereby the target population was the employees of the water services board. A stratified random sampling was used to get a sample size of 150 employees working on the water board. This population stratum entailed senior managers, middle managers, supervisors, and administration employees. Structured questionnaires were employed in the collection of primary data whereby SPSS software was used. The findings revealed that the high demand for water services had led the water board to identify strategies to deal with this huge demand. As such, the institution has had to identify sound strategic planning policies, with clear goals in resource allocation. Besides, the study findings indicated that staff development, financial resources, and infrastructural development have a positive impact on the performance of the water services board. The study recommended the need for optimal resource allocation in the water board to improve the organization's performance. However, this study was done in the public sector which has different sources of revenues compared to the banking sector. As such, the results of this study cannot be generalized to the banking sector in Kenya.

Lemarleni et al. (2017) focused on the effects of resource allocation on the strategy implementation in the Kenya police services in Nairobi County. This study used the resource-based theory and the McKinsey 7s framework. A descriptive research design was employed whereby 56 policemen in 13 police divisions in Nairobi. The target officers were either in the ranks of OCPD or OCS as they have a strategic role at the operational level in the forces. Officers in this rank are key in the strategy implementation and are thus able to know the effect of resource allocation on these strategies. A stratified sampling technique was used to get 49 officers whereby a questionnaire was used to collect the data. The findings revealed that there is a positive relationship between resource allocation and the effectiveness of the police service. Besides, the study noted that organizational culture does not have a significant impact on resource allocation on performance when used as a moderating variable. However, this study focused on the effect of resource allocation on strategy implementation rather than on performance. As such, the findings cannot be used to make conclusions on how resource allocation affects performance. Besides, the study was done in the police force which has a different regulatory structure compared to the banking sector.

Ali, Ogolla, and Nzioki (2022) evaluated the effect of resource allocation on the performance of Cement manufacturers in Kenya. The study's population entailed 209 staff in 5 manufacturers in Kenya. The researcher employed a stratified sampling technique to get 137 respondents. A questionnaire was employed to collect data which was then analyzed using descriptive and correlation analysis. The findings revealed that resource allocation has a positive and significant impact on the performance of cement companies in Kenya. Importantly, the study noted that cement manufacturing companies use the best recruitment and selection policies to avoid shortfalls in the workforce. The study recommended the need for adequate financial resource allocation to enable the cement manufacturing companies to achieve their objectives. However, this study was done in the cement industry which has a different competitive environment compared to the banking sector. As such, the findings from this study cannot be used to generalize the effects of resource allocation performance of the commercial banks in Kenya.

Naikumi, Daniel and Patrick (2023) explored how resource allocation impacts the performance of the Kenya Meat Commission (KMC). A descriptive survey design was used whereby structured questionnaires were used to get the data from the top management at KMC. The study targeted 301 employees which led to the selection of a sample of 169 respondents. A stratified random sampling technique was employed in the selection of the respondents. The data was analyzed using descriptive and inferential statistics using SPSS software. The results revealed that there is a positive relationship between resource allocation and the performance of KMC. The study recommended that KMC needs to emphasize effective management of its resources as this will ensure that it makes the right decisions and better organizational performance. However, this study was done in the public sector which has a different source of resources compared to the private sector. As such, the results are not generalizable in the context of the commercial banks in Kenya.

DATA AND METHODS

Research Design: This study applied descriptive research design to investigate the influence of resource allocation on the performance of Commercial Banks in Kenya. The study examined employees from 38 commercial banks in Kenya with a total of 190 middle-level managers as the unit of observation.

Sample Size and Sampling Methods: The study applied Taro Yamane Formula to arrive at an appropriate sample size, the formula is given as follows:

$n = N / (1 + N * e\hat{}2)$……………………………………………………………equation (i).

Where (n) is the sample size obtained, (N), is the population size, and e is the level of precision (margin error of sampling). With a sampling error of 5%, the following sample size was obtained as follows;

n = 190 / (1 + 190(0.05) ^2) = n ≈ 128.81, which is 129 to the nearest whole number.

Data Collection Instruments and Methods: The study used questionnaires that were administered both physically and electronically to capture the data needed because they are easy to apply and have the ability to collect data within a short time.

Data Analysis: The data was analyzed through, descriptive analysis, and inferential analysis. Descriptive analysis included mean, frequency, mode, and standard deviation. The study also conducted inferential analysis including, hypothesis testing, and regression analysis. The hypothesis was tested at a significance level set at 0.05 to determine the influence of resource allocation on the performance of Commercial Banks in Kenya.

$$Y = B0 + B1 + \epsilon$$

Where Y was the performance of the Commercial Banks in Kenya, *BO* was the constant, *B1* was the coefficient for resource allocation and $\epsilon$was the error term.

RESULTS AND DISCUSSIONS

Response Rate: The response rate of the study was 91.47% indicating that 118 participants gave back their feedback from a total of 129 questionnaires that were distributed.

Descriptive Statistics on Resource Allocation

Results in Table 1 revealed that respondents agreed with the statement, "Our bank assigns skilled employees to manage the change," as indicated by a mean of 4.01. Besides, the results revealed that respondents agreed with the statement that "Our bank actively engages in allocating financial resources through budgeting," as indicated by a mean of 4.03. Additionally, the results revealed that respondents agreed with the statement that "Our bank provides essential technological resources, including software, computers, and other ICT equipment, to support organizational change," as indicated by a mean of 3.90. Lastly, the results revealed that respondents agreed with the statement that "Our bank allocates information and knowledge resources, such as information systems and databases, to facilitate decision-making and change management" as indicated by a mean of 4.01.

The results of the study agreed with previous studies by Ali, Ogolla, and Nzioki (2022) who evaluated the effect of resource allocation on the performance of Cement manufacturers in Kenya. The findings revealed that resource allocation has a positive and significant impact on the performance of cement companies in Kenya. Importantly, the study noted that cement manufacturing companies use the best recruitment and selection policies to avoid shortfalls in the workforce. Besides, Naikumi, Daniel, and Patrick (2023) agreed with the findings of the study in an exploration of how resource allocation impacts the performance of the Kenya Meat Commission (KMC). The results revealed that there is a positive relationship between resource allocation and the performance of KMC.

Table 1: Descriptive Statistics on Resource Allocation

Statement	SD	D	N	A	SA	Mean	Std. Dev
Our bank assigns skilled employees to manage the change.	4 (3.4%)	2 (1.7%)	13 (11.0%)	69 (58.5%)	30 (25.4%)	4.01	.862
Our bank actively engages in allocating financial resources through budgeting.	3 (2.5%)	2 (1.7%)	13 (11.0%)	71 (60.2%)	29 (24.6%)	4.03	.811
Our bank provides essential technological resources, including software, computers, and other ICT equipment, to support organizational change	2 (1.7%)	10 (8.5%)	18 (15.3%)	56 (47.5%)	32 (27.1%)	3.90	.955
Our bank allocates information and knowledge resources, such as information systems and databases, to facilitate decision-making and change management.	3 (2.5%)	2 (1.7%)	17 (14.4%)	65 (55.1%)	31 (26.3%)	4.01	.842

Descriptive Statistics on Performance

Results in Table 2 revealed that respondents agreed with the statement, "Our bank's profits have grown over the past five years." as indicated by a mean of 4.20. Moreover, the results revealed that respondents agreed with the statement, "Our bank's sales revenues have risen in the last five years," as indicated by a mean of 4.16. Furthermore, the results revealed that respondents agreed with the statement, "Our bank's customer base has expanded in the past five years," as indicated by a mean of 3.94. Lastly, the results revealed that respondents agreed with the statement, "The number of employees at our bank has increased over the past five years," as indicated by a mean of 4.03.

Table 2: Descriptive Statistics on Performance

Statement	SD	D	N	A	SA	Mean	Std. Dev
Our bank's profits have grown over the past five years.	1 (0.8%)	3 (2.5%)	11 (9.3%)	59 (50.0%)	44 (37.3%)	4.20	.780
Our bank's sales revenues have risen in the last five years.	0 (0.0%)	3 (2.5%)	12 (10.2%)	66 (55.9%)	37 (31.4%)	4.16	.704

Our bank's customer base has expanded in the past five years.	2 (1.7%)	9 (7.6%)	21 (17.8%)	48 (40.7%)	38 (32.2%)	3.94	.981
The number of employees at our bank has increased over the past five years.	0 (0.0%)	8 (6.8%)	20 (16.9%)	50 (42.4%)	40 (33.9%)	4.03	.886

Inferential Analysis

Correlation Analysis

Table 3 revealed a Pearson (r) value of 0.645 and a p-value of 0.001 between resource allocation and performance, which implied that there was a positive and significant relationship between resource allocation and performance of Commercial Banks in Kenya.

Table 3: Correlations Matrix

		Resource Allocation	Performance
Resource Allocation	Pearson Correlation	1	.645**
	Sig. (2-tailed)		.000
	N	118	118
Performance	Pearson Correlation	.645**	1
	Sig. (2-tailed)	.000	
	N	118	118

**. Correlation is significant at the 0.01 level (2-tailed).

Regression Analysis

Table 4 revealed that 41.5% of the changes in the performance of Commercial Banks in Kenya were explained by resource allocation as indicated by an r-square of 0.415 with other factors not included in the study explaining the difference of 58.5% in the performance of Commercial Banks in Kenya. Further, the results revealed an F-statistic value of 82.431 with an associated p-value of 0.001, which implies that the linear regression model used in the study was a significant fit in predicting the performance of Commercial Banks of Kenya because the observed p-value of 0.001 was less than the critical chosen value of 0.05. Results also revealed a beta coefficient of 1.548 and a p-value of 0.001 implying that the constant in the model was statistically significant in the prediction of the performance of Commercial Banks of Kenya. Moreover, results revealed a beta value of 0.637 and a p-value of 0.001 between resource allocation and performance of Commercial Banks in Kenya which implied that resource allocation significantly influenced the performance of Commercial Banks in Kenya because the calculated p-value of 0.001 was less than the critical chosen value of 0.05. The findings of the study align with a previous study carried out by Sadiq (2019) who established how resource allocation strategies affect the performance of the water services board. The findings revealed that the high demand for water services had led the water board to identify strategies to deal with this huge demand. As such, the institution has had to identify sound strategic planning policies, with clear goals in resource allocation. Besides, the study findings indicated that staff development, financial resources, and infrastructural development have a positive impact on the performance of the water services board. The study recommended the need for optimal resource allocation in the water board to improve the organization's performance.

Table 4: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.645[a]	.415	.410	.44773

ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	16.524	1	16.524	82.431	.000[b]
	Residual	23.253	116	.200		
	Total	39.778	117			

Coefficients

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
1 (Constant)	1.548	.282		5.482	.000
Resource allocation	.637	.070	.645	9.079	.000

a. Dependent Variable: Performance

b. Predictors: (Constant), Resource allocation

CONCLUSIONS AND RECOMMENDATIONS

The study concluded that resource allocation had a positive and significant influence on the performance of Commercial Banks in Kenya. The conclusions of the study, therefore, align with the resource-based view which explains that a company can gain a competitive advantage in its marketplace by doing things in a superior manner which is attained because it possesses capabilities and resources that are superior.

The study recommended that commercial banks in Kenya continue refining the budgeting processes by adopting more precise forecasting models to ensure that financial resources are optimally allocated to support strategic change efforts. Besides, upgrading the technological infrastructure, including regular updates and maintenance of software, computers, and ICT equipment, is essential to enhance performance. Furthermore, strengthening knowledge management systems by integrating advanced information systems and databases will enhance decision-making and ultimately better performance.

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