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**EFFECTS OF FIRM CAPABILITY ON ORGANIZATIONS' COMPETITIVE ADVANTAGE:
THE CASE OF KENYAN BANKING INDUSTRY**

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**Submitted in Partial Fulfilment of the Requirement for the Degree of Master of Commerce at
Strathmore University**

School of Management and Commerce

Strathmore University

Nairobi, Kenya

JUNE, 2017

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Martin Njoroge Wamburu

7th June 2017

APPROVAL

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ABSTRACT

Successful organizations recognize the importance of firm capability and realize that their survival is dependent on how well they respond to the changes in the business environment. This study sought to establish the impact of firm capability for competitive advantage in the banking industry in Kenya. To accomplish this objective, data was drawn from 129 respondents from the senior management of the 43 commercial banks in Kenya (as at 31st December 2016) who were targeted as the principal respondents. A self-administered questionnaire was used as the major tool of data collection to capture data on managers' opinions on capability development at commercial banks ensuring competitive advantage is attained. Descriptive research design and regression analysis was preferred for analysis and presentation of findings. In this case, data was evaluated and presented in form of textual/content analysis. The study sought to establish the effect of firm capability (financial capability, marketing capability and technological capability) on the competitive advantage of commercial banks. Primary data was collected from top, middle and lower level managers of the commercial banks using semi-structured questionnaires. The collected data was analyzed using descriptive statistics such as means and standard deviations. The results of the study were presented in tables and figures and then compared to existing literature. The relationship between firm capability and competitive advantage was tested using regression analysis. Goodness of fit of the regression model to the data collected was tested using analysis of variance (ANOVA).

The study established that the top, middle and lower level managers of the commercial banks strongly agree that financial capability, marketing capability and technological capability allow commercial banks to achieve competitive advantage. Regression analysis revealed that there is a strong relationship between competitive advantage and firm capability evidenced by an R-value of 0.717. The study also found out that firm capability accounts for 51.4% of the total variance in banks competitive advantage. The study recommends that commercial banks in Kenya should focus on improving their financial capability through tight budgets, overhead cost control and cost minimization in several areas such as service, sales, marketing and research and development. Banks should also enhance their technological capability if they are to enjoy competitive advantage. The main limitation of this study was the use of a questionnaire as the only data collection tool. Future studies with additional resources could attempt the cross-verification by use of multiple sources and further extend the study.

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LIST OF ABBREVIATIONS

IT - Information Technology

RBV - Resource Based View

CBK - Central Bank of Kenya

SPSS - Statistical Package for Social Sciences

ANOVA - Analysis of variance

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CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

The business environment has become very competitive and the managerial competencies need to change constantly to keep up with these changes. The Kenyan economy has seen many changes over the years and the banking industry has been significantly affected by these changes. Firm capabilities refer to the potential of the organizations, the capacity of a firm to commit resources to attain a desired outcome (Helfat & Lieberman, 2002). Because the definition of the term firm capabilities is made in reference to performance outcomes, the establishment of how these capabilities are formed requires an identification of those actions that give rise to capability.

With this concept, the value that organizations hold is their ability to change their resource base. Hence, the competitive advantage of an organization can be increased by the action it takes to create, integrate, re-combine and to realize its resources. So as to gain competitive advantage, companies can engage in establishing foundational capabilities such specific capabilities of the industry or project management and lean operations. Since functions and roles are ever changing with the entry of new employees, business capabilities remain constant. Concepts such as supply chain management and sales can be achieved through a number of business processes, which incorporate various business roles (Rouse, 2011).

Firm capability is the declaration of the materials, expertise and capacity needed by an organization for it to undertake its core duties (Rouse, 2011). Firm capabilities are concerned with the ability of an organization to combine different resources of the firm in an effort to

create newer resources that will enable it compete effectively and sustain its competitive advantage. Firm capabilities are perceived as a form of strategic resource (Foss, 1995, Foss, 1997) because they exhibit rarity, they have value, they cannot be imitated, traded or substituted (Barney, 1991).

Having introduced the routines of the firm, its capabilities and resources being the centre of the theory of the firm and as main unit of analysis has affected the way the evolution of the firm has been understood, and a more contemporary phenomena and macro-level such as industry evolution and social change (Winter & Nelson, 1982). Resources, routines and firm capabilities are the key concepts to consider when gaining understanding of effects of internal and external organizational changes since they show the ways in which external change influences organizations and identification of internal firm change drivers (Nelson & Winter, 1982; Becker, 2005; Feldman, 2004; 2000).

Makadok, (2001) defines firm capabilities as unique resources embedded within an organization and which cannot be transferred whose sole aim is improvement of productivity of other resources owned by the firm. Firms are expected to optimally allocate and utilize resources and capabilities in order to be able to exploit available opportunities in the international market place while minimizing costs and managing associated risks. Previous empirical studies support the view that intangible assets positively influence the internationalization and firms' performance (Dunning, 1980; Buckley & Casson, 1976; O'Cass & Weerawandena, 2009) and innovation activities' integration (Arias-Aranda, Rodr o guez-Duarte, & Minguela-Rata 2001).

Previous literature studies highlight several capabilities which are vital to internationalization (Lu, 2010; Dhanaraj & Beamish, 2003). The firm capabilities studied in this research comprised of adaptive capability, organization innovation intensity and knowledge capability. Organization innovation intensity is defined as the application of new ideas in firm in-products, services, processes, marketing or management systems, which add value either directly or indirectly for the firm (O’Cass & Weerawandena, 2009). Porter (1990) viewed innovation as both improved methods in product changes, processes, marketing and distribution and technological improvements and in any of the value creating activities of the firm. Research examining the antecedents of firm expansion and the subsequent effect on performance and capability building has focused mainly on developed and emerging economy firms (Zahra, 2005; Petersen, Pederson & Lyles, 2008; Soriano & Dobson, 2009).

The competitiveness of an organization remains the central concept in strategic management literature as it explains how successful organizations are. A significant contribution in this field has been made by Porter who introduced the competitive forces, competitive advantage and competitive strategy concepts. (Heywood & Kenley, 2008) Among the many literatures on strategy, one perspective that stands out is that the core competences of an organization are the internal environment resources, value-addition services in a value chain and capabilities.

1.1.1 Firm Capability in the Banking Industry

The literature on firm capabilities can be split into three. One is the evolutionary perspective, the second is the resource based view and thirdly the view of the dynamic capabilities view, whose predecessor is the behavioral theories of the firm, Schumpeterian theory (1934) , in the theory of firm’s growth (Penrose, 1959) and the evolutionary theorizing in economics (Nelson

& Winter, 1982). While the evolutionary perspective to firm capabilities has been concerned with the explanation of how developments and changes have been taking place in the context of industrial competition, the dynamic capabilities and resource based views are concerned with business strategy studies with its main role being the identification of the factors that lead to the attainment of competitive advantage by firms (Dosi, Winter & Nelson, 2002).

According to Stuart (2007), the financial capability of a firm is a mix of variables such as attitude, knowledge, skills, and self-efficacy which are necessary to make decisions centred around money management that are most suitable for the circumstances surrounding the firm, as it operates within its environment including its access to financial services. Institutions of finance differentiate their customers based on the size of transactions, like being charged higher interests as a result of larger cross subsidization. In their study of marketing financial institutions in Ghana, Brafu-Insaidoo & Ahiakpor (2011), found that they had introduced a range of products for their consumers which included sale of import financing, sale of insurance products and variations in group finance schemes and loans as practiced by the rural banks. Technological capability signifies the combination of knowledge that includes knowhow, procedures, methods, physical device and equipment and experience, which give firm superior technical assets and relates design technologies, product technologies, information technologies and process technologies (Wang, Po Lo, Zhang & Xue, 2006). Technological capability is classified as a major component of the capabilities of an organization (Zehir, Tanriverdi & Ascar, 2006) and fundamental long-term competitive advantage of a firm.

Firm capabilities are what the banking industry is capable of doing and more precisely its capacity to position resources aimed at achieving a desired outcome (Helfat & Lieberman,

2002). Since firm capabilities are measured with regard to performance, establishment of their mode of creation involves the identification of the actions that lead to capability. Previous studies both in the evolutionary economics tradition (Nelson & Winter, 1982) and the institutional sociology tradition (Selznick, 1957) touched on the emerging nature of firm capability. However, modern literature appreciates how central human intention on a firm capability is and in particular the managers' role. Studies capabilities of the firm in individual companies (Kim, 1998), Noble, Barnes, Raff & Borders, 2000), Olivetti (Verona, 2010) and NCR (Rosenbloom, 2000) point out the role played by management leadership in the development of capabilities through the establishment of direction, resource allocation conferring legitimacy, and design of the firm processes

Porter (2012) mentioned that competitive advantage lies within the value chain and an appropriate strategy is obtained by the activities in the value chain that are intertwined and configured together. Treacy & Wiersema (1992) and Revolo and Veiweire, (2009) state that in recent times, companies have attained leadership in their various industries through specializing in delivery of superior customer value in any of these fields: customer intimacy, product leadership or operational excellence.

Previous studies suggest that development of new products depend on the firm's technical capabilities. Karsson and Ahlstrom, (1999) argue that firms that have superior technology can accelerate the development of new products. Marketing capabilities of a firm develop when the employees employed in a marketing capacity frequently put into use their expertise and knowledge (intangible assets) to solve the marketing problems of the firm. This is often achieved by combining both intangible assets and tangible assets. One unique quality of development of capabilities is acquiring knowledge through replication (Grant, 1991; Sinkula,

1994; Prahalad & Hamel, 1990; Tuominen 1997). By bringing resources and people together continually, firms' develop capabilities based processes. Micro level studies of the routines of a firm point out how central human intention is and judgment of the process (Pentland & Reuter, 1994; Pentland, 1992; Winter (2000), Narduzzo et al., 2001 Crowston, 1997) noted that capabilities are developed when knowledge from experience is automatically accumulated (covert learning) through deliberate experimentation and problem solving with both being dependent on the characteristics of the said (Zollo & Winter, 2002). The emphasis made on intention draws from cognizance and its role in guiding how capabilities are developed (Gavetti, 2005) and second, the likelihood for routines to become change and flexibility sources (Feldman & Pentland, 2003).

The evolutionary perspective states that firm capabilities are cumulative and gradual processes which are prone to selection variation, retention and selection (Dosi, 2002). Variation means the departure from, forces, routines and existing practices which eliminate certain variations whereas retention keeps the variations selected (Ruef & Aldrich, 2006). New capabilities and sources are manifested in the new variety of products that are brought into the market and subjected to constant evaluation and selection by the external and internal environment through mechanisms of external evolution. The results of these external revolutionary mechanisms are that some capabilities and routines are absorbed into other firms (Winter & Nelson, 1982) both the firm and social changes are shaped (Aldrich, 1979; Ruef & Aldrich, 2006). Although further studies on evolutionary theory have extended the studies beyond routines to capabilities which entail planning organized activities as opposed to the automatic routines of the firm (Dosi, 2002).

1.1.2 Competitive advantage in the Banking Industry

Competitive advantage is a business concept which describes the aspects that allow a firm to perform better than competitors (Teece, 2007). These characteristics include accessibility to natural resources, such as highly skilled personnel, inexpensive power, high entry barriers and inexpensive power among others. According to Teece (2007), the firm's competitive advantage is based on complex competences, capabilities, skills and strategic assets which are possessed by that firm.

In an effort to create a competitive strategy, a firm must have the skills to utilize its resources and handle upcoming matters and issues efficiently. Firms need to possess the ability to use their present resources to create new resources as capability grows which include skills such as adoption of new technology or allowing for development of new products. For the firm to be regarded to possess competitive advantage it must engage in the implementation of strategic value that is not practiced by other players. For the attainment of competitive advantage, the business strategy employed by a firm should be able to manipulate the different resources in the firm's control which have this ability. According to (Mbwayo, 2005), good performance is a necessity in the achievement of competitive advantage through advancements in resource production.

Zhu (2004) stated that e-commerce is a high order capability which requires alignment among firm factors, business environments and changing technology. Competition in the business world is challenging and dynamic. Customers are now becoming increasingly aware of competition in their environment and this stems from the increase of sources of information which has added knowledge to individuals on the ways to look for information concerning

products and services which has led to a shift in market forces in various industries. The association between companies and customers has shifted in such a way that customers are dominating and have an upper hand in bargaining power (Peppard 2000; Porter 2008). With the rise in their power, the customers have increased their demands towards service providers (Porter 2008; Peppard 2000).

In many industries and most especially the service industry, firms are increasingly being determined by the customers. Gaining a competitive edge has proven to be an uphill task for managers since they have to find ways of to deliver the best value to their clients (Dean 2001; Oliver 1997 and Yep et al. 2012; Yu). The biggest challenge faced includes how to create competitive advantage and in what ways this advantage should be sought. Some researchers, such as Reichheld (2003) and Kish (2000) do not find this scenario invincible by focusing the remedy on the lifeline of the organisation in terms of the revenue and survival gained from customers who are loyal. Organizations can only survive by generation of economic value which literally means they seek to earn more revenues as compared to their spending on operational activities and most of their revenue is from customers. The significance of working close with the customers has drawn a lot of attention in the last decade and various marketing studies show how customer satisfaction and customer loyalty is to organizations dealing with service delivery (Dean & Yu 2001), such as banks and insurance firms (Peppard 2000). The idea behind this is to manage the customer in a superior manner in comparison to competitors and to gain his loyalty (Wirtz et al. 2008).

Most management theories have focussed on the creation of unique value and competitive position for organizations (Porter 2008; Barney 1991; Eisenhardt & Martin 2000). Many differing approaches have been discovered in the management to give organizations

competitive edge such as resource-based approach, dynamic approach, total quality service, experience based theories and customer relationship management. The above theories have improved various aspects of organizations qualities efficiently and effectively.

Strategic management seeks to find ways of creating competitive advantages within its competitive environment (Martin & Eisenhardt 2000). This matter is of significant importance since it enables growth of organizational values, but still remains quite complex to some managers. In the analysis of different firms, it becomes clear that it is the element that has made firms to rise and deliver superior value from the average. A challenge still remains on how to create and interpret this competitive advantage or how to basically surpass competition differences between industries and the type of competition (Martin 2000 & Eisenhardt).

1.1.3 Banking industry in Kenya

The Kenyan banking sector is composed of 1 mortgage finance company and 43 licensed commercial banks. There are foreign owned, 12 and 31 locally owned banks out of the 43 banks. Out of the total locally owned financial institutions, 3 have significant shareholding by State Corporations and Government, 1 mortgage finance institution (CBK, 2015) and 27 commercial banks all which are governed by the Banking Act, the Companies Act, the Central Bank of Kenya Act and the stipulations laid down by CBK.

The Kenyan banking sector has seen continued growth in deposits, assets, product offerings and profitability. Key players have faced increased competition over the last few years stemming from improved innovations, and new entries into the industry. Local banks' competition has however increased just like the international banks. This has benefited the Kenyan economy and the shareholders and customers have highly benefited. (CBK, 2015)

Key issues affecting the banking industry include: changes in regulatory frameworks, where liberalization exists; reduction in interest margins due to customers' demands resulting to re-organization and shift of focus towards the customer instead of the product; introduction of non-tradition players who provide financial services. The banking industry is responsible for significant expansion and market development that must bring further consolidation of the banking sector (Riba Capital, 2011)

1.2 Statement of the Problem

Study by Bikker and Bos (2006) in Kenya came to a conclusion that technological advancements are responsible for changes in the banking industry. Also, changes in customer needs and intensified competition are responsible for these changes. The changing business environment can be attributed to various factors; first, customer productivity and profitability in the retail sector segment has gradually collapsed in many markets in Africa and around the world. Secondly, the self-aware attitude of the new customer towards the bank has led to a shift of power in the customer-bank relation. Thirdly, stricter regulation as demanded by government and institutions has led to an overall increase in costs of compliance by banks. This power shift has changed how customers and bankers conduct business and making firm capabilities essential to achieve competitive advantage.

Firms in the Kenyan banking industry have an aim of adapting effectively to changing circumstances in the world over fierce competition, continuous change in technology and global markets. Consequently, in order to keep up with these ever-changing events, they are required to enhance their capabilities in order to fight off competition (Drejer, 2010).

Studies have been conducted locally on the subject area of firm capabilities. Wanyanga (2007) undertook research on the utilization of organization's capabilities as an operation strategy in the hotel industry in Kenya. Ngugi (2011) researched on strategic capabilities at the British broadcasting corporation Africa. Muhura (2012) undertook a research on firm capabilities as a source of competitive advantage at Airtel Kenya. Wanyanga, (2007) focused on firm capabilities as an operation strategy while (Muhura, 2007) focused on firm capabilities as a source of competitive advantage and yet another (Ngugi, 2011) focused on strategic capabilities. Competitive advantage is a multidisciplinary concept that has been defined differently by different authors in different constructs. The most common among these schools of thought is the utilization of firm capabilities to develop an operational or competitive advantage, but the organizational difference in all these schools of thought allows for an examination of the effects of firm capability in the banking industry.

Zahra (2006) argues that mere existence of dynamic capabilities within a firm does not guarantee high performance and competitive advantage. The association results from the idea that dynamic capabilities define the individual resource configuration of the firm, which shape the competitiveness of the firm leading to the desired performance (Zott, 2003). This research therefore aims to determine whether firm capability results in competitive advantage and in this case in the commercial banking sector in the Kenyan industry.

1.3 Objectives of the Study

Main objective

The main objective of this study is to analyze the effects of firm capability on competitive advantage in the banking industry in Kenya.

Specific objectives

The specific objectives are:

- i. To establish the extent of competitiveness of commercial banks in Kenya.
- ii. To examine the effects of financial capability on competitive advantage of commercial banks in Kenya.
- iii. To analyze the effects of marketing capability on competitive advantage of commercial banks in Kenya.
- iv. To examine the influence of a firm's technological capability on competitive advantage of commercial banks in Kenya.

1.4 Research Questions

The following are the research questions:

- v. What is the level of competitiveness of commercial banks in Kenya?
- vi. What are the effects of financial capability on competitive advantage of commercial banks in Kenya?
- vii. What are the effects of marketing capability on competitive advantage of commercial banks?
- viii. What is the firm's technological capability on competitive advantage of commercial banks in Kenya?

1.5 Significance of the Study

It is predicted that this study will be useful to the following groups and in the ways stated below:

Researchers and Academicians. This study's findings will add to the existing body of knowledge in the field of firm capability. Information drawn from the study will provide guidance to instructional developers and educators in selection and design of appropriate methods for exploring objectives. It will also be referred to in the future by researchers on the subject of human resources and firms. It will further provide recommendations on performance evaluation in the banking sector.

Managers and Management Consultants. This study will be useful by enlightening them further on firm capability for competitive advantage in the banking industry in Kenya. Importantly, this research will educate clients in understanding effects of firm capability on competitive advantage

Store of knowledge. This study will add to the store of knowledge on effects of firm capability on organizations' competitive advantage in the banking industry in general.

Formulation of policies. This study will aid the formulation of policies related to effects of firm capability on organizations' competitive advantage in the banking industry.

Highlighting areas for further research. This study will elucidate areas in which further research needs to be carried out on the effects of firm capability on organizations' competitive advantage in the banking industry.

1.6 Scope of the Study

The study sought to capture data from senior managers in the Kenyan banking industry in Nairobi County. The study assessed how financial capability, technological capability and marketing capability influence competitive advantage of commercial banks in Kenya.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter presents the theoretical and empirical literature review of the proposed study. The theoretical review deals with matters associated with the impact of firm capability for competitive advantage in the banking industry. The empirical review deals with the impact of firm capability for competitive advantage in the banking industry.

2.2 Theoretical Review

In literature coverage of competitive advantage, various theories have been constructed to bring a deeper understanding of the subject. These theories include: Capability based school and the Dynamic capabilities theory.

2.2.1 Capability based school

Advocates of this theory argue that the only way for a firm to win the competitive battle is through possessing capabilities which are superior and more relevant to those of its competitors. Competitive advantage hence draws from capabilities (Collis, 1991; Day, 1994). Different expressions have been used by various authors to describe capability-based competitive advantage sources. Most commonly used expressions in scientific literature such as distinctive capabilities (Snow, Hrebiniak, 1980), core skills (Tampoe, 1994), organizational capabilities (Ulrich, Wiersema, 1989; Collis, 1994), core competencies and dynamic capabilities (Eisenhardt, Martin, 2000; Luo, 2000), and (Leonard-Barton, 1992 Prahalad, Hamel, 1990) have been used to describe capabilities.

2.2.2 Dynamic capabilities theory

Ambrosini and Bowman (2009) termed Teece's (1990) paper as the first contribution to distinctively bring out the idea of dynamic capabilities. He illustrated that RBV did not clearly demonstrate the criteria used by some successful firms to undertake rapid and flexible product innovation and timely responsiveness along with the capability of the management to properly coordinate and redeploy external and internal competences. He further argued that consideration needs to be made of the changing external environment situations and thus the contribution of strategic management which is basically concerned with 'adapting, reconfiguring and integrating both the internal and external organizational resources, skills and practical competencies towards the dynamic environment. Teece et al., (1997, 2007) observed that in turbulent environments, competitive advantage is a dynamic capabilities function rather than industry conflict or competitive positioning. The term "dynamic" was used to demonstrate "the ability to renew competences so as to a match with the changing environment" Teece et al., (1997) highlighted how important path dependencies are, and the importance of restructuring the resources of a firm in an effort to allow for change and to evolution.

Dynamic capabilities are developed from a framework composed of three factors: organizational positions, path dependencies and processes (Teece et al., 1997). The processes look at how tasks are performed hence: patterns of practice and routines. They determine ways in which capabilities can be developed within the organizations to capitalize on the current opportunities through analysis of internal and external capabilities. Resource endowments such as intellectual property, technology and associations with suppliers and customers define the position of an organization (Teece et al., 1997). Evolutionary theory highlights the

evolutionary path of capabilities where distinctive capabilities emerge from the evolution of past capabilities (Ambrosini & Bowman, 2009). Therefore, path dependencies focus on improvement of firms strategic options through the modification of its current capabilities.

2.3 Empirical Review

This section introduces the empirical review based on the international studies and the local studies done on firm competitiveness, financial capability, marketing and technological capability. Studies on the effect of firm capability on competitive advantage in the banking industry are also discussed in this section.

2.3.1 Firm Competitiveness

There are many reasons why market competition in the banking sector is vital. The primary reason is how they are competitively selected through cut throat competition. The most competitive are those that efficiently utilize their capital, are quick to adapt innovations in the market and have more flexibility, better qualified management, efficient information systems and strategically balanced policy. Another reason is that competing for the consumer of banking services results in the exclusion of low quality products from the market and expansion of services which implies that higher level of competition forces institutions to provide the best quality services to their clients.

Porter (1985) noted that competitive advantage brings out the value that a firm can generate for its clients which is superior to the costs of creating the value. Porter recognized competitive advantage as dependent on other factors and the justification for this is that the desired performance is correlated to the ability of a firm to achieve competitive advantage (Defillipi and Reed & 1990). Cole, (2008) stated that competitive advantage is that attribute possessed

by a firm that offers the customers more value than competitors either by providing additional benefits or lowering prices. Papulova and Papulova (2006) mentioned that real competitive advantage can be interpreted as the ability of companies to satisfy the needs of the customer more effectively as compared to their competitors

Tracey (1999) argues that competitive advantages of firms arise from those competencies that enable the firm to be distinct from competitors and to give them a competitive edge in the market. She further argues that this advantage is the critical decisions that the management is forced to make. Porter (1985) argues that competitive advantages is brought about by cost leadership which emerges from the pursuit of superior technology, economies of scale, and preferential access to raw materials and among other factors. Cole (2008) further mentions that quality is the main factor that brings about competitive advantage since buyers compare the quality of products offered by a firm and compares it with the competitor's product and chooses the one with best service. Competitive advantage is brought about by creation of better services which are meant to create customer value and attain differentiation benefits which lead to increased market share and profitability (Prahalad & Hamel, 1990, Barney, 1991)

Zahra (2006) argued that competitive advantage and superior performance exhibited by firms are not merely determined by their dynamic capabilities. The relationship stems from the notion that changing abilities are drawn from and describe the specific resources configuration of a firm, which shape its competitiveness and thus performance improvement (Zott, 2003). E-commerce is a higher-order capability which needs conformance to changes in technology, business environments in addition to the firm factors. E-business acts as a resource enabler supporting the banking industry in utilization of resources and maximizing on opportunities adjust to the dynamic environment.

The ability of a firm to incorporate knowledge obtained externally has a correlation to its productivity in research as measured by patent matters. Singh and Zollo (1998) while studying about the process of post-acquisition integration in the banking sector, prove that acquirers who put some effort codify their integration before an actual acquisition experienced higher profitability as compared to their competitors. The quality of personnel involved in the research process has resulted in more new developments in the biotechnology sector's products. Collis (1994) made a suggestion that the changing capabilities attributable to a firm are of importance since they enable firms to avoid inconveniences caused by the current competences which are of lower-order.

A firm has to therefore come up with ways of reconstituting its resource base so as to lay down the barriers created by existing competences. Kogut and Zander (1995), mention distinct competencies aimed at generating competitive advantage when matched to environmental exigencies or opportunities such as specialized equipment, geographic location and superior sales force. The effective usage of these competencies rather than merely their possession is what guarantees competitive advantage and improved performance. More evidence shows that the performance of a firm is the result of the ability of the firm to build, reconfigure and integrate their competencies and resources. Cockburn and Henderson (1994) concur that 'architectural competence' in the pharmaceutical industry, which is the ability of the firm to incorporate knowledge drawn externally has a positive correlation to the productivity of the research as shown by patent counts.

Dynamic capabilities cannot solely determine the competitive advantage but have a significant contribution in the attainment of higher firm performance through renewal and combination of functional competences which influence performance. Dynamic capabilities build zero-order

capabilities, resource positions, operational capabilities and routines which affects performance (Winter, 2003). This causality chain shows how indirectly dynamic capabilities and performance are linked. They also seek to shape the resource capabilities, positions, activities and operational routines of a firm. Moreover, the mentioned variables go into determining the position of the firm in the product market hence its outcome.

Barney (1991) came up with another criteria which proposes that the valuable, inimitable and rare resources act as a benchmark for sustainable competitive advantage .Unfortunately, the conditions set have a limited validity related with changing capabilities. Consider with similar dynamic capabilities which leaves the diversity condition unfulfilled. Even in such conditions, the two firms may use their capabilities to build different resource positions, which would result to differences in firm performance. An example could be taken of two firms, if one firm has stronger transfer capabilities and the competitor has the same it may have to take the option of changing markets and move into a more profitable one faster than its rival (Zander & Kogut, 1995). A firm with a strong acquisition competence facing a similar competitive firm may have to seek a new target firm.

Dynamic capability can also be classified in reference to its quality. Each firm has different processes and dynamic capabilities which lead to the modification of resources (Martin and Eisenhardt, 2000). Firms with higher quality dynamic capabilities tend to perform better than their competitors who have low quality dynamic capabilities (Chang & Hou, 2007). Organization of the dynamic capability which positively affects performance is classified as high quality and that which has lower positive to negative effect on performance is classified as being of lower quality.

2.3.2 Financial Capability and Competitive Advantage of Commercial Banks

Financial capability is the ability to produce goods and services at a lesser cost compared to that of competitors. Cost leadership strategy is demonstrated by low differentiation levels, application of information gained from previous experience together with the addition of new products only after there is market demand for them Porter (1980). In financial inclusion, the cost leadership strategy can be expressed through non-bank or low-cost financial institutions as is the case in microfinance institutions (Onaolapo & Odetayo, 2012). Studies (Hilman, 2009; Nandakumar, 2011) noted a tangible relationship between cost leadership and the level of firm competitiveness. The competitor orientation concept affects the performance of the business and further insight into the matter needs to be done and the relationship needs to be well stated. Literature review illustrates that the cost leadership strategy seeks to attain good returns on investment compared to its competitors and to maximize on economies of scale. The banking industry should shift attention to cutting costs by all means so as to achieve cost leadership.

Porter (1985) states that cost leadership strategy is concerned with the organization and management of business activities with the aim of using the lowest possible cost in production of goods and in the delivery of services in the industry. Attainment of cost leadership position and organization needs cost reduction and efficient scale facilities through overhead cost control ,cost minimization and tight cost in the various production areas namely sales, service research and development and marketing (Porter, 1980). A firm can be said to achieve cost leadership by providing unique services at a lower cost. This strategy is adopted when a firm refines the existing products rather than developing and designing a new product which will cost more. This involves adding specific incentives for the customer in service banking industry. Ngigi and Njeru (2014) argue that cost leadership can also be achieved by an

organization by introduction of new products as soon as the market demands them. Cost leadership strategy dwells upon the organization and management of value addition activities so as to minimize the production cost of a product (good or service) (Borza, Mitra & Nistor, 2010). According to Allen et al., (2008) low-costs act as barriers to entry because new entrants have huge capital requirements to enable them to produce goods or services at similar or lower prices than the cost leader.

Attainment of a successful cost leadership strategy is influenced by several features and activities within a firm (Evans, Stonehouse & Campbell, 2006). The main target of a cost leader is to serve a bigger portion of the total market. Companies undergoing a low-cost strategy basically utilize the mention factors to cut down on costs of production (Porter, 1985). High capacity utilization; accurate demand forecasting; economies of scale; outsourcing, experience effects and technological advantages. According to Allen (2008), when a firm engages in the design, production and marketing of a product more effectively compared to its competitors, the firm has adopted cost leadership strategy. Attempts made to ensure reduction of costs will be transmitted throughout the whole organization right from product manufacture through to the sale of the product. Processes that do not contribute to cost minimization process should be handed over to others in the banking industry so as to maintain low costs.

Martin & Eisenhardt (2000), mentioned that dynamic capabilities means the process to initiate market change and not just the capabilities. Zahra & George (2002) perceive dynamic capabilities as neither the abilities of a firm nor as processes but as capabilities which concur with the demands of the customers and strategies of the competitor (Zott, 2003). Raubitschek & Helfat (2000) concur that the dynamic capabilities of a firm are included in the firms' processes. Eisenhardt & Martin (2000) mentioned that the processes of dynamic capability

consists of “identifiable and specific routines” that have been deeply researched. They particularly give examples of dynamic capabilities such as strategic decision making (functional and personal expertise, pooling of diverse business), product development (combining various skills in cross-functional teams), acquisitions and alliance routines (pre- and post-acquisition routines and new resources) among others

The effectiveness in carrying out processes with regard to the level of competition is referred to as dynamic capabilities. Literature has observed close association between capabilities and the processes that must be followed (Sambamurthy, 2003). Sensing capability is termed as the ability to study the environment so as to gain a proper understanding of market dynamics and customer needs more than the competitors. Firms with more absorptive capability display more ability in integrating external information and transforming it into the embedded knowledge of the firm knowledge and learning from partners (Daellenbach & Woiceshyn, 2005). The most vital elements of dynamic capabilities are; absorptive capability, sensing capability, innovative capability and integrative capability. These components influence the firm’s ability to integrate, recreate and renew its capabilities and resources according to the external changes. The above elements are related but remain different ideologically. Absorptive capability signifies how important it is to absorb external knowledge and use it internally. Integrative capability influences dynamic capabilities through effective resource allocation, synchronizing activities and assigning tasks. Innovative capability appropriately connects the inherent innovativeness of a firm to the benefits in the market with regard to new products. Innovative capability thus explain the relationship between the resources of a firm and capabilities that exist in its product market (Prencipe & Lazonick, 2005).

While the importance of dynamic capabilities concept is still opposed by other scholars, agreement is evident in various literature that they are different from operational or functional competences by emphasizing change (Winter, 2003).

In stable environments there is existence of external changes which are greatly incremental and predictable, and has low rate of change compared to that experienced by similar firms in different environments. When firms are experiencing unpredictable events, unanticipated discontinuities and fast paced change in changing environments, benefits accruing due to ownership of resources will be eroded. Dynamic capabilities are found in dynamic and stable environments. The RBV illustrates the sources of sustained advantage in stable environments and an explanation is given by the dynamic capability on ways in which firms can sustain resource-based benefits in changing environments (Priem & Butler, 2001).

2.3.3 Marketing capability and competitive advantage of commercial banks

According to Ngigi and Njeru (2014) marketing capability is the ability to produce commodities which distinguish a firm from its rivals through value addition or improvement of product mix. Differentiation could enable a firm to attain a position of low costs based on the following factors; the degree to which significant reductions in unit costs arise from increasing volume and the degree to which expenditure on differentiation significantly increases demand which shifts the demand curve to the right . These two factors are dependent on situations and they form the contingency framework basis. Hill (1988) elaborated that the main effect of differentiation is to increase unit costs. The long-run effect however reduces unit costs if costs fall with increasing volumes. Three causes of falling costs can be mentioned: economies of scale, economies of scope and learning effects, (Ngigi & Njeru, 2014).

Presently, marketing is noted as one of the main elements to ensure an organization's success. It is much more than the sale and advertising of products and services contrary to what people think. It must be understood as the channel through which customer needs are satisfied (Kotler & Armstrong, 2014). Kotler & Armstrong (2014) argue that marketing is the most fundamental concepts of modern marketing. They also described marketing mix as: the entire set of tactical marketing tools utilized by a firm to achieve the desired response within target market (Armstrong & Kotler, 2014). Furthermore, Singh (2012) also mentioned that an appropriate marketing mix consists of those controllable variables used by a firm to impact responses from buyers. Essentially, marketing mix enables firms to make proper decisions in influencing demands of the customer for the products of the firm and to overcome various obstacles in the market.

According to Stuart (2007), financial institutions employ different criteria to distinguish their customers such as size of transaction, payment of high interest rates on large savings, but differentiation involves large customer categories, with adequate variation to bring about cross subsidization. In their study of marketing financial institutions in Ghana, Brafu-Insaidoo & Ahiakpor (2011), found that the financial institutions had introduced a range of products for their consumers which included import financing, varying terms of loan and group financial schemes and sale of insurance products, as practiced by banks in the rural setup. Their findings showed that the demand for deposit facilities is influenced by a number of determinants and can therefore be achieved with various savings products offering varying return and liquidity levels.

Service differentiation strategy focuses on the services offered to consumers by an enterprise. Differentiator firms particularly generate customer value through offering products of high-

quality and good services at fair prices (Baroto et al., 2012). A firm that seeks to achieve this differentiation strategy seeks to make customers believe that their products or services exhibit unique characteristics from those of its rivals in terms of reputation and image, design, reliability, quality and features (Baroto et al., 2012). The literature shows that firms in most developing nations seeking to implement the differentiation strategy do not only concentrate on one dimension but dwell on many dimensions such as gaining customer loyalty, image, innovation, level of service and quality (Kim, Nam & Stimpert, 2005). For example, in the microfinance sector, the services offered in comparison to the commercial banks have provided the firms with competitive advantage. Microfinance institutions in the Kenyan market and also in developing countries offer financial literacy services to their consumers. This financial literacy service is assumed to empower their consumers in order to plan, organize and increase their investments (Muteru, 2013).

Stuart (2007) argues that services differentiating between the poorest and the less poor are essential for two reasons. The first purpose is to enable creation of services most suited to the poor thereby increasing the outreach of an MFI to them. If the service differentiation strategy works, the MFI will serve both the less poor and the poorest with different assets of services. The result will be a decision to lower standard service prices by the firm thus raising its attractiveness to the less poor and expanding its outreach in that market segment, and also being able to fight off future rivalry it might experience in that particular market (McIntosh & Wydick, 2005). Service can also be used to create a differentiation strategy aimed at gaining a competitive advantage. If a firm can get it done quicker, get there sooner or respond quicker, the customers prefer that firm over slow competitors despite its high costs (Wanjiku, 2012).

2.3.4 Technological capability and competitive advantage of commercial banks

Technological capability is the set or part of knowledge which includes methods, knowhow, procedures, physical device, equipment and experience which display the heterogeneous and superior firm's technical assets and concern to design technologies, product technologies, information technologies and process technologies (Wang, Zhang, Po Lo & Xue, 2006). Technological capability is among the components of the capability of an organisation (Zehir, Tanriverdi & Ascar, 2006) and a firm's long-term competitive advantage. Prior studies propose that the development of new products depend on the technological capability. Ahlstrom & Karsson (1999) Argue that firms with more technological capability can easily accelerate the development of new products.

New product development refers to the process whereby new products are thought of and created and the outcome of that process so as to attain the objectives of the firm in development of new products (Nakata & Sivakumar, 1996; Day, 1994). Moreover, development of new products has been referred to as the extent to which a new product is unique and how it has changed marketing practices and thinking in the launching of new products (Wilton & Myers, 1986; Liu & Yang, 2006). Also an emphasis on strategies of innovation positively affects new products' performance (Zhou, 2006). Firms dealing with exports have also implemented innovativeness to attain performance of exports (Ussahawanitchakit, 2007). Then, firms with a large extent of development of new products seem to attain potentially higher export performance.

More recently, increased global competition has forced firms to confront many challenges in their environment. Exportation of products is a crucial activity to firms and nations due to its

role in economic development of most countries and firms. From a national perspective exports play a role in developing countries by improving productivity and creating new jobs (Lages & Montgomery, 2004). Product development is among the main sources of competitive advantage (Kaleka, Katsikeas and Piercy, 1998). Product development focuses on developing new products for exports and incorporating fresh ideas and methods in the process of production. Furthermore, Fujimoto & Clarks (1991) made a proposition that new product development is essential since new products bring about competition. Firms that exhibit higher levels of new product development show higher competitive advantages and show good response to changing environmental factors as well as achieving superior performance.

Technological capability signifies the likely factor determinants which bring about firm performance and competitive advantage (Tyler, 2001; Muina, Tsai, 2004; Lopez, 2007). Firms exhibiting high technological capability improve the performance of the business both in overall performance of the business and new product development (Wang, Po Lo, Xue & Zhange, 2006). Technological related capabilities have also been demonstrated to support firms in the attainment of desirable performances of Joint ventures (Song, Hanvanich, Droge, & Calantone, 2005). Technological capability has brought about positive performance for the exporting firms (Wignaraja, 2008) and foreign sales (Reuer & Leiblein, 2004). Firms with advanced technological capability are therefore likely to attain greater market growth in the global market. Therefore, technological capability has positive impact on export performance.

2.4 Research Gaps

This proposal presents a review of literature on the underpinnings of firm capability for competitive advantage in the banking industry. It has found that the resource-based view (RBV) theories and dynamic capabilities seek to explain the factors that enable organizations

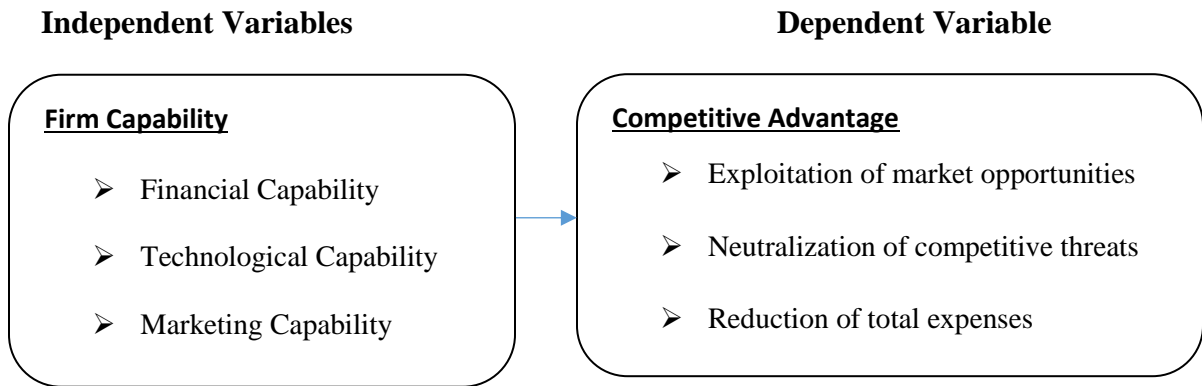
to adapt to environmental changes to acquire and sustain competitive advantage. Companies are able to have a competitive edge through establishment of foundational capabilities such as project management and lean operations as well as specific capabilities of the industry.

It is clear that the role of firm capability in creating sustained competitive advantage has been greatly talked about in literature. However, there are limited empirical and theoretical investigations in this area. There are no studies that have examined financial capability, technological capability, marketing capability and firm competitive advantage simultaneously. In addition, many of the studies on this topic are directed towards and empirically tested within the context of the developed markets. The need to evaluate firm capability in order to fit to the specialties in the emerging markets such as Kenya has received less attention to date. The present study tried to fill these gaps by use of resource based theory and dynamic capability theory with firm capability in order to determine its influence on competitiveness of the banking industry in Kenya.

2.4.1 Conceptual Framework

The conceptual framework will be a basic structure consisting of abstract blocks that represent the experiential, analytical and the observational aspects of a system being studied. It is a set of principles and ideas chosen from relevant fields of enquiry and used in structuring a subsequent presentation. It describes the key concepts and variables and the presumed relationship among them. The study aims at investigating effects of firm capability on competitive advantage in the banking industry.

Figure 2.1: The Relationship between Firm Capability and Competitive Advantage



Source: Author (2017)

2.4.2 Operationalization of the variables

Operationalization is a proposition consisting of the operations involved in proving or applying concepts of the research study. Measurement systems are tailored to provide a set of mutually reinforcing signals which shifts the focus to strategically fundamental areas which bring about organizational competitive advantage performance outcome (Dixon, 1990).

Theorising on measurement systems increases the strategic focus in the sense that they are designed to provide a way of operationalizing firm capability and competitive advantage into a logical set of performance measures (Chenhall, 2005), guiding toward key organization outcomes.

This literature shows that there is increasing recognition for the need of development of balanced systems (Kaplan & Norton, 1996) that include both financial and non-financial measures of performance.

Table 2.1: Operationalization of the variables

| | Variable | Operation definition | Measurement indicator | Source |
|-----------------------|--------------------------|--|--|----------------------------------|
| Dependent Variable | Competitive Advantage | The ability of an organization to report superior performance as compared to its competitors. | Exploitation of market opportunities Neutralization of competitive threats Reduction of total expenses | Porter (1985) |
| Independent variables | Financial Capability | Financial capability is the ability to produce goods or service at lower cost than competitors. | Lower cost, increased revenue, acquisition of financing | Porter, 1985 |
| | Marketing Capability | This is the ability of a firm to differentiate services and products from its rivals by “product-portfolio mix.” And value addition | Product, Price, Promotion, Place, Packaging, Positioning and People | Kotler & Armstrong (2014) |
| | Technological Capability | A set of knowledge which comprises methods, knowhow, equipment and procedures that present the heterogeneous and superior technical assets of a firm | Skills, knowledge to operate existing systems, process of learning-absorptive capacity | (Zehir, Acar & Tanriverdi, 2006) |

Source: Author (2017)

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter looks at how the data for the study was generated and how it was analyzed. It particularly details the research design, population of study, data collection methods and data analysis approach applied.

3.2 Research Design

A research design is the general plan for achieving the solutions to the problem under study Polit & Beck (2004). According to Kothari (2004) it is a plan and a roadmap for investigation formulated to get the answers to the objectives of the researcher. Therefore, research design is what dictates the manner in which collection, measurement and analysis of the study will be conducted. This study adopted a descriptive research design. Polit & Hungler (1999) contend that the main objective of a descriptive research is to investigate a situation in its natural occurrence. This design was considered suitable as it demonstrates the relationship between variables without interfering with their environment and describes a situation more comprehensively.

3.3 Population of Study

Population is a representation of a whole. Population for this study included all the commercial banks in Kenya. As at 31st of December 2016, there were forty three financial institutions in the banking industry in Kenya. The study included all the commercial banks in the country which made the study a census. Census study includes every unit in a population that is included in a study.

3.4 Sampling Design

Sample of respondents was acquired from 129 top, middle and low level managers. Stratified random sampling technique was used at the management level since population under study was heterogeneous and could be split into strata or groups to get a representative sample. From the above population, sampling from each stratum was taken using stratified random sampling which gave all components in the population equal chances of being chosen. This generated a sample of 129 respondents who provided information for the study.

3.5 Data Collection Methods

The study made use of primary data which was collected through semi structured questionnaire. According to Biener & Lyberg, (2003), primary data is the data that is collected by a researcher while secondary data is the already existing data. Primary data is viewed as being more reliable and up to date. The major instrument for the data collection was semi structured that allowed for uniformity in the response questions. Questionnaires are faster methods to obtain data in comparison to other methods. The questions were constructed in order to address particular objectives and offer a variety of possible responses. Unstructured questions offer the respondents freedom of response that helps the researcher to gauge the feelings of the respondent. The questionnaires were directed to management staff that are well conversant with companies' operations. The questionnaires were administered through a pick and drop later method.

3.6 Data Analysis Techniques

To analyze the collected data from the administered questionnaires, the study used descriptive statistics. The data collected was tabulated, summarized and interpreted using descriptive

measures. Tables were used for presentation of the findings and the mean, standard deviation; percentages and frequency were used for interpretation. To communicate the research findings, data obtained was analyzed with the help of SPSS version 21.

3.6.1 Analytical model

To test the level of association between the variables Karl Pearson's coefficient of correlation was utilized by the researcher. This helped in predicting the strength of the association between firm capability and competitive advantage of the commercial banks. This generated quantitative reports through percentages, measures of central tendency and tabulations.

The model used in the study was in the form below:

$$CA = f(FC)$$

$$Y = \alpha + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \epsilon$$

Where;

Y = the dependent variable Competitive Advantage

α - Is a constant; it is the Y value when all the predictor values (X_1 , X_2 , and X_3) are zero

β_1 , β_2 , β_3 , β_4 and β_5 - Are constants regression coefficients representing the condition of the independent variables to the dependent variables.

X_1 - Financial Capability, X_2 - Technological Capability, X_3 - Marketing Capability, ϵ (Extraneous) Error term explaining the variability of other factors not accounted for.

3.7 Research Quality

3.7.1 Reliability

This refers to the internal consistency of the research instruments. It ensures that the research findings are consistent if similar data was to be put under several trials. A research instrument is said to be reliable if its output has consistent outcome even after several trials (Mugenda & Mugenda, 2003). The reliability of the research instrument will be tested by Cronbach's Alpha coefficient of $\alpha \geq 0.7$ as the indicator of internal consistency.

3.7.2 Validity

This is the measure of the accuracy of the research tool (Ogula, 1998). It is an indicator of whether the questionnaire tests what it was meant to test. The researcher piloted the research tools so as to detect ambiguity in the questions and identify any wording and grammar issues in advance before administration. This prevented misinterpretations and also helped to prevent research bias. The researcher piloted 6 questionnaires to research experts.

3.8 Ethical Considerations

Confidentiality and privacy was observed by keeping all the information gathered confidential and strictly using it for the purpose of research. Keeping in mind the sensitivity of the industry under study, if respondents were not protected it could have led to harm and possible monetary loss.

This research abstained from asking embarrassing questions or expressing shock or disgust, not using threatening statements or compelling response along certain lines and not causing fear or anxiety during data collection.

The research strictly adhered to the principle of voluntary consent by respondents willingly participating in the study out of their own free will. Respondents' requests for anonymity were adhered to and the findings disseminated based on true findings, free of any bias.

CHAPTER FOUR

DATA ANALYSIS, FINDINGS AND DISCUSSIONS

4.1 Introduction

The chapter presents the analysis of the primary data collected from the commercial banks operating in Kenya. The primary data was collected by means of semi-structured questionnaires which were administered to top, middle and lower level managers of the commercial banks. The analysis was done using descriptive statistics such as standard deviations and means. In order to establish the relationship between the dependent variable (competitive advantage) and the independent variables (financial capability, marketing capability and technological capability), the variables were regressed using SPSS Version 21. The regression model's goodness of fit was tested using ANOVA. The results of the study were in of figures and tables for ease of understanding.

4.2 Response Rate

A total of 129 semi-structured questionnaires were administered to the top, middle and lower level managers of the commercial banks operating in Kenya. The researcher managed to collect a total of 111 duly filled questionnaires.

This amounted to 86% response rate. This response rate was an acceptable representative sample of the target population as per Edwards, Clarke & Kwan (2002) who said that 80% response rate and above is considered absolutely satisfactory when carrying out a research. The results are shown in Table 4.2

Table 4.2: Response Rate

| Respondents | Administered | Returned | Response Rate |
|--------------------|---------------------|-----------------|----------------------|
| Managers | 129 | 111 | 86% |

Source: Author (2017)

4.3 Reliability Test

Reliability test of the research instrument was carried out using Cronbach's Alpha as the indicator of internal consistency. A Cronbach's Alpha coefficient of $\alpha \geq 0.7$ was considered by the researcher as the minimum requirement for a questionnaire that is internally consistent.

The reliability test analysis results are as shown in Table 4.3

Table 4.3: Reliability Test

| Cronbach's Alpha | Cronbach's Alpha Based on Standardized |
|-------------------------|---|
| 0.712 | 0.711 |

Source: Author (2017)

The results above indicate that the research questionnaire was internally consistent as evidenced by the Cronbach's Alpha coefficient of 0.712 that was recorded. This is an indication that the questionnaire is reliable in establishing the effects of firm capability on competitive advantage in the banking industry in Kenya.

4.4 Firm Profile

This section discusses the general information of the commercial banks operating in Kenya. The information discussed is about the number of years the banks have been in existence in the market, the tier of the banks, the ownership of the banks, the banks' scope of operation, the number of staff employed by the banks and their gender. The results are as shown in Table 4.4.

Table 4.4: Years of Bank’s Existence in the Market

| | | Frequency | Percent |
|-----------------------|---------------|------------------|----------------|
| Years of Existence | Above 10years | 111 | 100.0 |
| Bank Tier | Tier 3 | 51 | 45.9 |
| | Tier 2 | 42 | 37.8 |
| | Tier 1 | 18 | 16.2 |
| Scope of Operation | Local | 33 | 29.7% |
| | Foreign | 78 | 70.3% |
| Ownership of the Bank | Private | 6 | 5.4% |
| | Public | 105 | 94.6% |

Source: Author (2017)

The study found out that all the 37 commercial banks that respondents had been in operating in Kenya’s banking industry for above 10 years. This implies that the commercial banks in Kenya have been in operation long enough to understand the effects of banks capability on the competitive advantage in the banking industry in Kenya.

The respondents were requested to indicate the tiers to which their respective commercial banks were classified in. Tier 1 banks referred to the banks with daily trading volume exceeding 50,000 transactions. Tier 2 banks referred to the banks whose trading volume averaged about 30,000 transactions daily. Tier 3 banks refer to banks that do not have the requisite IT resources in-house and rely on vendors. The study established that majority (51%) of the respondents were from Tier 3 commercial banks followed by 37.8% of the respondents who were from Tier 2 commercial banks. Only 16.2% of the respondents were from the Tier 1 commercial banks. This indicates that the researcher sought information from all bank tiers and therefore the conclusions drawn are representative of the entire banking industry.

The respondents were also requested to indicate the scope of operation of their commercial banks. The scope of operation referred to whether the banks were operating locally only or they were also operating in other foreign countries. This would serve as a good indicator of the banks capabilities. The findings reveal that majority, 70.25%, of the respondents were from commercial banks operating locally only while 29.75% were from commercial banks that were operating in foreign countries as well. This implies that some of the commercial banks were highly capable to an extent of being in operation even in foreign countries.

Further, the study was conducted to establish the ownership of the commercial banks who responded to the queries of this study. The commercial banks ownership was either public or private. The study established that majority, 94.6%, of the respondents were from private banks while 5.4% of the respondents were from public commercial banks. This implies that the results of this study are representative of the diverse opinions of respondents from both public and private commercial banks.

4.5 Competitive Advantage

The study seeks to establish the extent to which firm capability has allowed the banks to achieve competitive advantage. The statements were put on a Likert scale of 1-5 where: 1= Strongly Disagree; 2= Disagree; 3= Unsure; 4= Agree; 5=Strongly Agree. Mean scores were then recorded and interpreted using this interpretation scale: 1-1.49 = Strongly Disagree; 1.5-2.49 = Disagree; 2.5-3.49 = Unsure; 3.5-4.49 = Agree; 4.5-5.0 = Strongly Agree. Table 4.5 shows the findings.

Table 4.5: Competitive Advantage

| Competitive Advantage | Mean | Std. Deviation |
|--|-------------|-----------------------|
| Offering customers excellent customer service than competitors has allowed the firm to gain competitive advantage | 4.78 | 0.414 |
| Offering customers products and services of higher value than competitors has allowed the firm to gain competitive advantage | 4.75 | 0.411 |
| Satisfying customer needs more efficiently than competitors has allowed the firm to gain competitive advantage | 4.70 | 0.459 |
| Offering customers greater value through additional benefits and lower prices has allowed the firm to gain competitive advantage | 4.59 | 0.493 |
| Cost leadership emanating from use of proprietary technology and economies of scale has allowed the firm to gain competitive advantage | 4.54 | 0.501 |
| Overall Mean | 4.68 | 0.466 |

Source: Author (2017)

The study found out that the respondents strongly agreed that commercial banks have attained competitive advantage as a result of firm capability as shown by the overall mean of ($M = 4.68$, $SD = 0.466$). The respondents strongly agreed that “Offering customers excellent customer service than competitors has allowed the firm to gain competitive advantage” as indicated by a mean of ($M = 4.78$, $SD = 0.414$). The respondents also strongly agreed that “Offering customers products and services of higher value than competitors has allowed the firm to gain competitive advantage” with a mean of ($M = 4.75$, $SD = 0.411$) and that “Satisfying customer needs more efficiently than competitors has allowed the firm to gain competitive advantage” with a mean ($M = 4.70$, $SD = 0.459$). The least rated statement was that “Cost leadership emanating from use of economies of scale & proprietary technology has allowed

the firm to gain competitive advantage” with ($M = 2.49$, $SD = 1.261$) which show that the respondents also strongly agreed. The insignificant standard deviations recorded indicated that the respondent’s opinions were clustered around the mean.

These findings are in agreement with existing literature. For instance, Porter (1985) argued that competitive advantage is attained due as a result of the firm’s ability to create value for its buyers that exceed the cost of the in its creation. Cole (2008) noted that competitive advantage is a benefit gained above the competitors by giving customers more value through lower prices or provision of additional services and benefits that justify possibly high prices. Further, Papulova & Papulova & (2006) real competitive advantage mean that companies are able to satisfy the needs of the customer more effectively than their competitors.

4.6 Firm Capabilities

The study further wanted to know the degree to which various firm capabilities (financial capability, technological and marketing capability) affect the competitive advantage of Kenyan commercial banks. The respondents were requested to note the extent to which they agreed or disagreed with various statements. The responses given were analysed using means and standard deviations as explained below.

4.6.1 Financial Capability

The study also determined the effect of firm capability that enables a firm to attain competitive advantage in Kenyan commercial banks. The statements were rated on a Likert scale of 1-5 where: 1= Strongly Disagree; 2= Disagree; 3= Unsure; 4= Agree; 5=Strongly Agree. The recorded means were put under this interpretation scale: 1- 1.49 = Strongly Disagree; 1.5- 2.49

= Disagree; 2.5- 3.49 = Unsure; 3.5- 4.49 = Agree; 4.5- 5.0 = Strongly Agree. The results are shown in Table 4.6.1.

Table 4.6.1: Financial Capability

| Financial Capability | Mean | Std. Deviation |
|---|-------------|-----------------------|
| Providing unique services at a lower cost has allowed the firm to gain competitive advantage | 4.86 | .343 |
| Cost minimization and overhead controls in service, marketing, R&D and sales has allowed the firm to gain competitive advantage | 4.74 | .457 |
| Offering new products only after the market demands them thus reducing costs has allowed the firm to gain competitive advantage | 4.62 | .487 |
| Using economies of scale, technological advantages, and outsourcing has allowed the firm to gain competitive advantage | 4.59 | .493 |
| Focusing on cost reduction through efficient scale facilities has allowed the firm to gain competitive advantage e.g. branch capacity utilization | 4.57 | .498 |
| Overall Mean | 4.68 | 0.456 |

Source: Author (2017)

An overall mean of ($M=4.68$, $SD= 0.456$) was recorded implying that the respondents strongly agreed that financial capability allows the banks to achieve competitive advantage in Kenyan banking industry. The respondents' strongly agreed on all the statements. The most rated statement was that "Providing unique services at a lower cost has allowed the firm to gain competitive advantage" with a mean of ($M=4.86$, $SD= 0.343$) followed by the statement that "Overhead cost control and cost minimization in service, sales, marketing and R&D has allowed the firm to gain competitive advantage" with a mean of ($M=4.74$, $SD= 0.457$) and then the statement that "Offering new products only after the market demands them thus reducing

costs has allowed the firm to gain competitive advantage” with a mean of ($M=4.62$, $SD=0.487$).

The least rated statement was that “Focusing on cost reduction through efficient scale facilities has allowed the firm to gain competitive advantage e.g. branch capacity utilization” with a mean of ($M=4.57$, $SD=0.498$). The standard deviations recorded indicate that the respondents had a difference of opinions although it was minimal.

The literature review shows that there is a significant relationship between cost leadership strategy and firm competitiveness (Hilman, 2009; Nandakumar, 2011). According to Porter (1985), cost leadership strategy is concerned with organization and management of business activities so as to produce products or service using the lowest possible cost in the entire industry. To attain the position of cost leadership an organization needs an effective scale facilities and effective cost reduction through overhead cost control, cost minimization and tight cost in various fields namely sales, service, research and development and marketing. Further, Ngigi & Njeru (2014) argues that cost leadership can also be achieved by an organization by addition of new products only after market demands. This implies that a cost leadership strategy can help the organisation to attain above average return on investment and outshine their competitors and thus attain economies of scale. Therefore, so as to achieve cost leadership, the banking industry needs to focus on all rounded cost reductions in their businesses.

4.6.2 Marketing Capability

The study sought to determine the effect of market capability that allows a firm to achieve competitive advantage in Kenyan commercial banks. The statements were rated on the Likert

scale of 1- 5 where: 1= Strongly Disagree; 2= Disagree; 3= Unsure; 4= Agree; 5=Strongly Agree. The recorded means were interpreted as follows: 1-1.49 = Strongly Disagree; 1.5- 2.49 = Disagree; 2.5- 3.49 = Unsure; 3.5- 4.49 = Agree; 4.5- 5.0 = Strongly Agree. The results are as illustrated in Table 4.5.2.

The respondents strongly agreed that marketing capability allows the banks to achieve competitive advantage as evidenced by the Overall ($M=4.62$, $SD= 0.458$). The respondents' strongly agreed that all the statements given helps commercial banks gain competitive advantage.

The most influential statement was that "Pricing strategy has been used to achieve competitive advantage through discounts, special offers etc." with a mean of ($M=4.78$, $SD= 0.414$) followed by the statement that "The firm's positioning is centred on creating superior value allowing it to achieve competitive advantage" with ($M=4.73$, $SD= 0.446$). The third most influential statement was that "The promotional mix offered by the firm in advertising, public relations and special offers has allowed it to achieve competitive advantage." with a mean of ($M=4.59$, $SD= 0.423$).

The least influential statement was that "Focusing on cost reduction through efficient scale facilities has allowed the firm to gain competitive advantage e.g. branch capacity utilization" with a mean of ($M=4.51$, $SD= 0.502$).

However, there is a strong agreement that all the factors influence attainment of competitive advantage. The variations in respondents an opinion is accounted for by the standard deviations recorded. However, since the standard deviations were generally low, the variation in opinions was minimal.

Table 4.6.2: Marketing Capability

| Marketing Capability | Mean | Std. Deviation |
|---|-------------|-----------------------|
| Pricing strategy has been used to achieve competitive advantage through discounts, special offers etc. | 4.78 | 0.414 |
| The firm's positioning is centered on creating superior value allowing it to achieve competitive advantage | 4.73 | 0.446 |
| The firm designs and produces highly distinctive and unique products packaged to help it achieve competitive advantage | 4.59 | 0.423 |
| Personnel are well trained and able to market products and services in a manner that allows a firm to achieve competitive advantage. | 4.59 | 0.437 |
| Products and services offered by the firm are of a higher quality compared to competitors and this has allowed the firm to achieve competitive advantage. | 4.56 | 0.487 |
| Distribution network is superior and has been used to offer customer satisfaction allowing the firm to achieve competitive advantage | 4.56 | 0.498 |
| The promotional mix offered by the firm in advertising, public relations and special offers has allowed it to achieve competitive advantage. | 4.51 | 0.502 |
| Overall Mean | 4.62 | 0.458 |

Source: Author (2017)

The findings of this study echo the observations of existing literature review. For instance, in their study of marketing financial institutions in Ghana, Brafu-Insaidoo & Ahiakpor (2011) found out that the institutions introduced a range of products for their consumers which included sale of insurance products, import financing and variations in the loan and group finance schemes as practiced by the rural banks as a way of increasing their market share. Their findings showed that the demand for deposit facilities is influenced by a number of determinants and motives and can therefore be achieved through products offering savings that have different levels of return and liquidity. According to Stuart (2007), financial institutions

distinguish themselves according to the size of the transaction such as payment of high interest rates on large deposit savings, but differentiation entails larger customer categories with enough variations to bring about cross subsidization. Services are also serious competitive advantage earners. If firms can respond quickly, perform quickly, or arrive soonest, the customers will choose that firm less flexible competitors (Wanjiku, 2012).

4.6.3 Technological Capability

The study sought to find out the effect of technological capability which enables a firm to attain competitive advantage in Kenyan commercial banks. The statements were put on a Likert scale of 1- 5 where: 1= Strongly Disagree; 2= Disagree; 3= Unsure; 4= Agree; 5= Strongly Agree. The recorded means were interpreted as follows scale: 1- 1.49 = Strongly Disagree; 1.5- 2.49 = Disagree; 2.5- 3.49 = Unsure; 3.5- 4.49 = Agree; 4.5- 5.0 = Strongly Agree. The results are in the table below.

Table 4.6.3: Technological Capability

| Technological Capability | Mean | Std. Deviation |
|---|-------------|-----------------------|
| The firm generates new technological knowledge to maintain competitive advantage | 4.81 | .393 |
| Improving productivity through the use of technology has enabled the firm to gain competitive advantage | 4.78 | .414 |
| Engaging in active technological innovation has enabled the firm to gain competitive advantage | 4.73 | .446 |
| Improving efficiency through technological process engineering has enabled the firm to gain competitive advantage | 4.71 | .435 |
| Overall Mean | 4.76 | 0.422 |

Source: Author (2017)

The study established that technological capability allows commercial banks to achieve competitive advantage as shown by ($M=4.76$, $SD= 0.422$) which implies that the respondents strongly agreed. The respondents' strongly agreed that the most influential statement was that "The firm generates new technological knowledge to maintain competitive advantage with a mean of ($M=4.81$, $SD= 0.393$) followed by the statement that "Improving productivity through the use of technology has enabled the firm to attain competitive advantage" with a mean of ($M=4.78$, $SD= 0.414$). On whether "Engaging in active technological innovation has enabled the firm to attain competitive advantage", the respondents strongly agreed as shown by ($M=4.73$, $SD= 0.446$). Lastly, the respondents also strongly agreed that "Improving efficiency through technological process engineering has enabled the firm to gain competitive advantage" with ($M=4.71$, $SD= 0.435$). The respondents had minimal differences in opinions as shown by low standard deviations.

Existing empirical evidence shows that technological capability is one of the main components of organizational capability (Zehir, Tanriverdi & Ascar, 2006) and that it is a firm's fundamental long term competitive advantage. According to previous studies, development of new products depends on the technological capability of a firm and in turn, product development is a competitive advantage source (Piercy, Katsikeas & Kaleka, 1998). Karsson & Ahlstrom, (1999) state that firms with higher technological capability easily accelerate development of new products.

4.7 Regression Analysis

Multi regression analysis was performed to establish the association between dependent (competitive advantage) and independent variables (Financial Capability, Marketing Capability and Technological Capability).

4.7.1 Model Summary

So as to determine this association, dependent variable (competitive advantage) was regressed against independent variables (Financial Capability, Marketing Capability and Technological Capability).

Table 4.7.1: Model Summary

| Model Summary ^b | | | | | |
|---|-------------------|----------|-------------------|----------------------------|---------------|
| Model | R | R Square | Adjusted R Square | Std. Error of the Estimate | Durbin-Watson |
| 1 | .717 ^a | .514 | .500 | .16927 | 2.409 |
| a. Predictors: (Constant), Marketing Capability, Technological Capability, Financial Capability | | | | | |

Source: Author (2017)

The results of regression analysis indicated that there is a strong relationship between competitive advantage and firm capability as measured using financial capability, marketing capability and technological capability evidenced by an R-value of 0.717. The results also established that firm capability accounts 51.4% of the total variance in banks competitive advantage as indicated by an R-square value of 0.514. A durbin-watson statistic of 2.409 implied that the residuals of the regression model were not serially correlated. The residuals are serially correlated if the durbin-watson statistic is less than 1.5 (Ngechu, 2004).

4.7.2 Analysis of Variance

Analysis of Variance (ANOVA) was performed to test the regression model's goodness of fit. The study established that the regression model has good goodness of fit as indicated by a 0.0% level of significance.

This implies that the regression model is reliable in establishing the relationship between competitive advantage and firm capabilities (Financial Capability, Marketing Capability and Technological Capability).

The regression model exhibits goodness of fit when the (p-value) is 5% or less. Results are as shown in Table 4.7.2.

Table 4.7.2 Analysis of Variance (ANOVA^a)

| ANOVA ^a | | | | | |
|---|----------------|-----|-------------|-------|-------------------|
| Model | Sum of Squares | Df | Mean Square | F | Sig. |
| Regression | .645 | 3 | .215 | 7.500 | .000 ^b |
| Residual | 3.066 | 107 | .029 | | |
| Total | 3.710 | 110 | | | |
| a. Dependent Variable: Competitive Advantage | | | | | |
| b. Predictors: (Constant), Marketing Capability, Technological Capability, Financial Capability | | | | | |

Source: Author (2017)

4.7.3 Regression Coefficients

The regression coefficients indicated that at 95% confidence level, Marketing Capability, Technological Capability and Financial Capability have a joint positive effect on the competitive advantage of commercial banks in Kenya.

Table 4.8.3 Regression Coefficients

| Coefficients^a | | | | | |
|---------------------------------|-----------------------------|------------|---------------------------|-------|------|
| Model | Unstandardized Coefficients | | Standardized Coefficients | t | Sig. |
| | B | Std. Error | Beta | | |
| (Constant) | 1.854 | .630 | | 2.943 | .004 |
| Financial Capability | .251 | .086 | .260 | 2.923 | .004 |
| Technological Capability | .259 | .081 | .282 | 3.187 | .002 |
| Marketing Capability | .098 | .070 | .125 | 3.409 | .001 |

a. Dependent Variable: Competitive Advantage

Source: Author (2017)

The study found out that financial capability, marketing capability and technological capability had a positive and statistically significant effect on the competitive advantage of commercial banks in Kenya as shown by high p-values and t-values of less than 0.05. The p-values recorded were: Financial Capability (t= 2.923, p= 0.004), Technological Capability (t= 3.187, p= 0.002) and Marketing Capability (t= 3.409, p= 0.001).

The following regression equation was derived from the regression co-efficients:

$$Y = 1.854 + 0.251X_1 + 0.259X_2 + 0.098X_3$$

Where:

Y – Competitive Advantage (the dependent variable)

X₁ - Financial Capability

X₂ - Technological Capability

X₃ - Marketing Capability

The constant value of 1.854 indicates that if financial capability, marketing capability and technological capability were absent, the competitive advantage of commercial banks in Kenya would be 1.854 which is so small. The researcher estimated stochastic error term of the model to be zero in order to come up with the regression equation. If Financial Capability, Technological Capability and Marketing Capability were each increased by one unit, the competitive advantage of commercial banks in Kenya would increase by 25.1%, 25.9% and 9.8% respectively.

4.8 Chapter Summary

This study's objective was to determine the effect of firm capabilities on competitive advantage of firms in the banking industry. In particular, this study focused on financial capability, marketing capability and technological capability as the aspects of firm capability. The study found out that the respondents strongly agreed that commercial banks have attained competitive advantage as a result of firm capability. The results of regression analysis indicated that there is a strong association between competitive advantage and firm capability as measured using financial capability, marketing capability and technological capability. ANOVA was done to test regression model's goodness of fit. The study established that the regression model has goodness of fit as shown by a significance level of 0.0%. The regression coefficients indicated that at 95% confidence level, Marketing Capability, Technological Capability and Financial Capability have a combined positive effect on the competitive advantage of commercial banks in Kenya.

CHAPTER FIVE

DISCUSSIONS, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

A summary of the study findings is presented in this chapter with the main objective being to analyze the effects of firm capability on competitive advantage in the banking industry in Kenya. It also presents the conclusions and recommendations of the study concerning policy and practice and areas for further research with regard to other dimensions of firm capability that might influence firms' competitive advantage.

5.2 Discussion of Findings

This study had four specific objectives namely: To establish the extent of competitiveness of commercial banks in Kenya, to examine the effects of financial capability on competitive advantage of commercial banks in Kenya, to analyse the effects of marketing capability on competitive advantage of commercial banks in Kenya, to examine the influence of a firm's technological capability on competitive advantage of commercial banks in Kenya. The findings for each objective are explained in this section.

5.2.1 The level of competitiveness of commercial banks in Kenya

The reported findings of the study from the respondents showed that they strongly agreed that commercial banks have attained competitive advantage as a result of firm capability. The respondents also strongly agreed that offering customers excellent customer service than competitors, offering customers products and services of higher value than competitors and satisfying customer needs more efficiently than competitors has allowed the firms to compete

effectively over and above their rivals. These findings are in agreement with existing literature. Papulova and Papulova (2006) real competitive advantage mean that firms are able to meet the needs of their customers more efficiently than their rivals. Porter (1985) observed that competitive advantage brings out of the firm's ability to generate value for its buyers that exceed the cost of the firm of creating it.

5.2.2 The effect of financial capability on competitive advantage of commercial banks

The study found out that financial capability has a positive and statistically significant effect on the competitive advantage of commercial banks in Kenya. The most rated statement was that "Providing unique services at a lower cost has allowed the firm to gain competitive advantage" and that "Cost minimization and Overhead control costs in sales, service R&D and marketing have allowed the firm to remain competitive". These findings are similar to those of Hilman (2009) and Nandakumar (2011) who found out that there is a significant association between cost leadership strategy and firm competitiveness. An organization requires effective scale facilities and cost reductions through overhead, cost minimization and cost minimization in various areas namely service, marketing, research and development and sales. Further, Ngigi & Njeru (2014) argues that cost leadership can also be achieved by an organization by addition of new products only after the market demands them.

5.2.3 The effect of marketing capability on competitive advantage of commercial banks

The study found out that marketing capability has a statistically significant positive effect on the competitive advantage of commercial banks in Kenya. The most influential statement was that "Pricing strategy has been used to achieve competitive advantage through discounts, special offers etc." followed by the statement that "The firm's positioning is centred on creating

superior value allowing it to achieve competitive advantage”. The third most influential statement was that “The promotional mix offered by the firm in advertising, public relations and special offers has allowed it to achieve competitive advantage.” The findings of this study echo the observations of existing literature review. For instance, in their study of marketing financial institutions in Ghana, Brafu-Insaidoo & Ahiakpor (2011) found out that the institutions introduced a range of products for their consumers which included import financing, variations in the loan and group finance schemes and sale of insurance products as practiced by the rural banks as a way of increasing their market share. Their findings showed that the demand for deposit facilities is influenced by several factors and determinants and thus it can be met with a variety of products savings offering various levels of return and liquidity.

5.2.4 The influence of a firm’s technological capability on competitive advantage of banks

The study found out that technological capability has a positive and statistically significant effect on the competitive advantage of commercial banks in Kenya. The respondents’ strongly agreed that the most influential statement was that “The firm generates new technological knowledge to maintain competitive advantage and that “Improving productivity through the use of technology has enabled the firm to attain competitive advantage”. These findings support existing empirical literature. For instance, Zehir, Acar, and Tanriverdi, (2006) observes that technological capability is one of the main components of organizational capability and that it is a fundamental long-term competitive advantage for a firm.

Regression analysis established a strong association exists ($R\text{-value} = 0.717$) between competitive advantage and firm capability as measured using financial capability, marketing capability and technological capability and that Technological Capability, Marketing

Capability and Financial Capability have a combined positive effect on the competitive advantage of commercial banks in Kenya. The study also found out that firm capability accounts 51.4% of the total variance in banks competitive advantage as indicated by an R-square value of 0.514.

5.3 Conclusion

On the effect of financial capability on the competitive advantage of commercial banks in Kenya, the study concludes that financial capability has a positive and statistically notable effect on the competitive advantage of commercial banks in Kenya.

In regard to the effect of marketing capability on competitive advantage of commercial banks in Kenya, the study found out that marketing capability has a positive and statistically significant effect on the competitive advantage of commercial banks in Kenya.

On how technological capability influences the commercial banks' competitive in Kenya, the study found out that technological capability has a positive and statistically significant effect on the competitive advantage of commercial banks in Kenya.

The study also concludes that there is a strong relationship between competitive advantage and firm capability as measured using by financial capability, marketing capability and technological capability. Firm capability (Marketing Capability, Technological Capability and Financial Capability) accounts for 51.4% of the total variance in banks competitive advantage.

Zahra (2006) argues that existence of dynamic capabilities in a firm do not generate high performance or competitive advantages. The association is as a result of the idea that dynamic capabilities originate and describe the individual resources of a firm which shape the

competitiveness of the firm and lead to desired performance (Zott, 2003). This research has determined that firm capability results in competitive advantage and in this case in the commercial banking industry in Kenya.

5.4 Recommendations

In regard to financial capability, this study recommends that the commercial banks in Kenya should focus on achieving cost leadership through tight budgets, overhead cost control and cost minimization in several areas such as service, sales, marketing and research and development. This will earn them competitive advantage over their peers in the banking industry.

The study established that technological capability has a positive and statistically significant effect on the competitive advantage of commercial banks in Kenya. The commercial banks should invest in new and innovative technologies as this will increase their productivity as well as increase their fundamental long-term competitive advantage for a firm.

The study found out that marketing capability has a positive and statistically significant effect on the competitive advantage of commercial banks in Kenya. The commercial banks should focus on developing pricing strategies that will help them achieve competitive advantage through discounts, special offers.

5.5 Limitations of the Study

The study used a questionnaire as the data collection instrument. This was the only approach and no attempt has been made to triangulate the data collected for example by use of other collection approaches like observation data. Unfortunately, this was found to be beyond the

scope of this particular study as it possessed neither the time nor resources to conduct multiple data collection approaches. Future studies with additional resources could attempt the cross-verification by use of multiple sources and further extend the study.

The researcher experienced various challenges in conducting the research. For instance some respondents were reluctant to provide information that they viewed as confidential to the company. Further, most of the targeted respondents had very busy schedules making it difficult to fill in the questionnaires in the stipulated time. The stringent policies of the firms also lengthened the process in some cases due to many bureaucratic processes involved in getting approvals to engage in the study. All these resulted in fewer respondents participating and fewer questionnaires collected.

5.6 Areas for Further Research

The study only focussed on the commercial banks. Thus the findings of this study are limited to the banking industry in Kenya and cannot be extrapolated to non-financial institutions. In future, the study should be replicated among non-financial institutions so as to understand how firm capability affects competitive advantage.

Firm capability is multi-dimensional. This study focused on Marketing Capability, Technological Capability and Financial Capability which could only account for 51.4% of the banks competitive advantage. Other scholars should research on the other dimensions of firm capability that influence firms competitive advantage.

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APPENDICES

Appendix 1: Questionnaire

Thank you for taking your time to help me carry out this research by filling the following questionnaire.

Assurance is given that the information that you provide will be treated with utmost confidentiality and your identity will not be revealed.

Kindly read the following instructions before filling the questionnaire.

Instructions

Do not indicate your name on the questionnaire.

Tick only one answer (box) for each question.

PART A: COMPANY PROFILE / FIRM CHARACTERISTICS

1. Years of firm's existence in the market

Below 5 years [] 5 - 10years [] above 10years []

2. Tier of the firm

Tier 1- daily trading volume exceeding 50,000 transactions []

Tier 2- trading volume averaging about 30,000 transactions daily []

Tier 3- do not have the requisite IT resources in-house and must rely on vendors []

Tier 4- source their capital markets requirements through third parties []

3. Ownership of the firm

Local [] foreign [] public [] private []

4. Indicate the number of staff employed at your bank and their gender

No. of staff [] Male [] Female []

PART B: FIRM CAPABILITIES ON COMPETITIVE ADVANTAGE OF KENYAN COMMERCIAL BANKS

5. The effect of firm capability that allow a firm to achieve competitive advantage in Kenyan commercial banks

Rate your level of agreement with the following statements.

Use a scale of 1 to 5 where: **1** - Strongly Disagree (SD), **2** - Disagree (D), **3** - Unsure (S), **4** - Agree (A), **5** - Strongly Agree (SA)

| Statement on Competitive Advantage | 1 S D | 2 D | 3 S | 4 A | 5 SA |
|--|-------------|--------|--------|--------|---------|
| Offering customers greater value through lower prices and additional benefits has allowed the firm to gain competitive advantage | | | | | |
| Satisfying customer needs more efficiently than competitors has allowed the firm to gain competitive advantage | | | | | |
| Cost leadership emanating from use of economies of scale & proprietary technology has allowed the firm to gain competitive advantage | | | | | |
| Offering customers products and services of higher value than competitors has allowed the firm to gain competitive advantage | | | | | |
| Offering customers excellent customer service than competitors has allowed the firm to gain competitive advantage | | | | | |
| Other (Specify.....) | | | | | |

6. The effects of a firm’s financial capability on competitive advantage in Kenyan commercial banks

Rate your level of agreement with the following statements.

Use a scale of 1 to 5 where: **1** - Strongly Disagree (SD), **2** - Disagree (D), **3** - Unsure (S), **4** - Agree (A), **5** - Strongly Agree (SA)

| Statement on Financial Capability | 1 | 2 | 3 | 4 | 5 |
|---|-----------|----------|----------|----------|-----------|
| | SD | D | S | A | SA |
| Focusing on cost reduction through efficient scale facilities has allowed the firm to gain competitive advantage e.g. branch capacity utilization | | | | | |
| Offering new products only after the market demands them thus reducing costs has allowed the firm to gain competitive advantage | | | | | |
| Providing unique services at a lower cost has allowed the firm to gain competitive advantage | | | | | |
| Overhead cost control and cost minimization in service, sales, marketing and R&D has allowed the firm to gain competitive advantage | | | | | |
| Using economies of scale, technological advantages, and outsourcing has allowed the firm to gain competitive advantage | | | | | |
| Other (Specify.....) | | | | | |

7. The effects of a firm's marketing capability on competitive advantage in Kenyan commercial banks

Rate your level of agreement with the following statements.

Use a scale of 1 to 5 where: **1** - Strongly Disagree (SD), **2** - Disagree (D), **3** - Unsure (S), **4** - Agree (A), **5** - Strongly Agree (SA)

| Statements on Marketing Capability | 1 | 2 | 3 | 4 | 5 |
|---|----------|----------|----------|----------|----------|
| Products and services offered by the firm are of a higher quality compared to competitors and this has allowed the firm to achieve competitive advantage. | | | | | |
| Pricing strategy has been used to achieve competitive advantage through discounts, special offers etc. | | | | | |
| The firm designs and produces highly distinctive and unique products packaged to help it achieve competitive advantage | | | | | |

| | | | | | |
|---|--|--|--|--|--|
| Distribution network is superior and has been used to offer customer satisfaction allowing the firm to achieve competitive advantage | | | | | |
| The promotional mix offered by the firm in advertising, sales promotion, public relations and special offers has allowed it to achieve competitive advantage. | | | | | |
| Personnel are well trained and able to market products and services in a manner that allows a firm to achieve competitive advantage. | | | | | |
| The firm's positioning is centered on creating superior value allowing it to achieve competitive advantage | | | | | |
| Others (Specify.....) | | | | | |

8. The effects of a firm's technological capability on competitive advantage in Kenyan commercial banks

Rate your level of agreement with the following statements.

Use a scale of 1 to 5 where: **1** - Strongly Disagree (SD), **2** - Disagree (D), **3** - Unsure (S), **4** - Agree (A), **5** - Strongly Agree (SA)

| Statements on Technological Capability | 1 | 2 | 3 | 4 | 5 |
|---|----------|----------|----------|----------|----------|
| Engaging in active technological innovation has enabled the firm to gain competitive advantage | | | | | |
| The firm generates new technological knowledge to maintain competitive advantage | | | | | |
| Improving efficiency through technological process engineering has enabled the firm to gain competitive advantage | | | | | |
| Improving productivity through the use of technology has enabled the firm to gain competitive advantage | | | | | |
| Others (Specify.....) | | | | | |

THANK YOU FOR TAKING YOUR TIME TO FILL IN THIS QUESTIONNAIRE