

**APPLICATION OF DYNAMIC CAPABILITY APPROACHES IN  
COMMERCIAL BANKS IN KENYA**

**BY**

**NGEERA MUTHURI ERIC**

**A RESEARCH PROJECT SUBMITTED IN PARTIAL FULFILMENT OF  
THE REQUIREMENT FOR THE AWARD OF THE DEGREE OF MASTER  
OF BUSINESS ADMINISTRATION DEGREE, SCHOOL OF BUSINESS,  
UNIVERSITY OF NAIROBI**

**OCTOBER, 2013**

## DECLARATION

This management research project is my original work and has not been submitted for a degree qualification in any other university.

Signed: .....

Date: .....

Ngeera M. Eric

D61/9021/2006

This management research project has been submitted for examination with my approval as the university supervisor.

Signed: .....

Date: .....

Dr. Jackson K. Maalu

Senior Lecturer,

School of Business

University of Nairobi.

## **ACKNOWLEDGEMENTS**

I take this opportunity to express my appreciation to my supervisor Dr. Jackson Maalu for his patience, guidance and thought provoking insights without which I would not have delivered this project.

Special acknowledgement to the entire teaching fraternity at the University of Nairobi for nurturing my ambitions from undergraduate to post-graduate qualification, you have indeed produced yet another world class scholar.

## **DEDICATION**

I dedicate this project to my beautiful and loving wife Lilian Nyakerario and our amazing daughter Amy Kanana for their support, sacrifice and patience in my absence while studying. The project is also a special dedication to my parents Daniel Ngeera and Rebecca Kanana, for laying a firm education foundation and instilling a culture of self-sufficiency in pursuit of excellence. You all gave me the strength and will to pursue this course; I can only wish you God's blessings and favors.

## **ABSTRACT**

The business environment has become very competitive; the managerial competences need to change constantly. The banking industry in Kenya is not an exception to this regard. Dynamic capabilities explain how firms adapt to environmental dynamism by modifying their underlying resources and capabilities. With the dynamic capabilities concept, the value an organization may hold is the ability to alter its resource base. Thus, its competitive advantage can be increased by the creation, integration, recombination and realization of resources. The objective of the study was to establish the application of dynamic capabilities in commercial banks in Kenya. A census cross-sectional survey was adopted in this particular research so as to include all the banks views of such innate factors as a firm's dynamic capabilities, with a target population of 41. In light of this therefore, a survey was deemed as the best design to fulfill the objective of the study. The study made use of primary data which was collected through a questionnaire by the researcher. The data obtained from the questionnaire was analyzed using descriptive quantitative analysis. This method of analysis was adopted because of the quantitative nature of the response acquired. This study was guided by various theoretical and literature reviews. The study found out customer demands, market trends, company mission and vision as the main factors affecting the application of dynamic capability approaches at the commercial banks. Knowledge management and the emphasis on research and development activities had major impact on firms' performance as dynamic capabilities approaches. In light of the findings the study recommends that since most of the commercial banks in Kenya have been successful in the application of dynamic capability approaches so far, there is need to focus on how their expansion strategy is affecting their performance, and how globalization is affecting their competitive advantage. This will enable these banks to attain the full benefit of the application of dynamic capability approaches. Given the dynamic nature of the financial sector in the country in which the commercial banks are operating, the study recommends strict adherence to sound financial strategies.

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## CHAPTER ONE: INTRODUCTION

### 1.1 Background of the Study

Today many firms struggle to envision how they would best manage the resources available in order to offer the best to the market and remain competitive. This struggle is understandable, given that increased proper resource utilization is key to the firm's survival and often involves a major shift to a new strategic direction, a new organizational structure, and new skills. The dynamic capabilities view of competitive advantage has focused on the capabilities that give firms the competence of adapting to change in their environment and competitive position (Teece *et al.* 1997). How organizations deal and manage strategic change is a fundamental problem in management studies. An important way increasingly chosen to implement strategies is the application of dynamic capabilities.

Since the business environment has become very competitive, the managerial competences need to change constantly. With the dynamic capabilities concept, the value an organization may hold is the ability to alter its resource base. Thus, its competitive advantage can be increased by the creation, integration, recombination and realization of resources. A reflection of the dynamic view on resources and capabilities, brings to the fore the importance of a company being able to learn with each relationship (internal and external, with different stakeholders).

The concept of dynamic capability can be discussed in three phases. First, Teece *et al.* (1997) defines this concept as: "the firm's ability to integrate, build, and reconfigure internal and external competences to address rapidly changing environments".

Subsequent research, conducted by Eisenhardt and Martin (2000) expands this concept, and defines dynamic capability as “specific organizational and strategic processes (e.g., product innovation, strategic decision making) by which managers alter their resource base”. The authors believe that “the firm’s processes use resource to match and even create market change”. The dynamic capability is closed to organization processes. Finally, there is a concept built on the literature, proposed by Helfat et al. (2007), which will be broadly adopted in this research: “A dynamic capability is the capacity of an organization to purposefully create, extend, or modify its resource base”.

According to Teece et al. (1997), there are three main processes that are key in developing a sustainable strategic capability in an organization which include processes, positions and paths. They further argue that competitive advantage is built at any point in time and could be shaped by the assets the firm possesses (internal and market) and the evolutionary path it has adopted/inherited.

Makadok (2001) highlights two strategic approaches with regard to generate economic revenue: resource picking and capability-building. The former is related to RBV: in this case companies obtain a good return because they have differentiated resource in relation to their competitors. The latter, capability-building, is linked to Dynamic Capability. In this way companies obtain an advantage in relation to their rivals through resource and capability development. In the Dynamic Capability approach the main question is the relation between the development of new capabilities and the development of the whole company (Sapienza et al., 2006).

### **1.1.1 The Concept of Dynamic Capabilities**

Dynamic capabilities explain how firms adapt to environmental dynamism by modifying their underlying resources and capabilities. Dynamic capabilities have been defined as a firm's "ability to integrate, build, and reconfigure internal and external competencies" to address changing environments (Teece, Pisano, and Shuen, 1997). Dynamic capabilities have a direct effect on firm performance and competitive advantage, as well as an indirect effect through resource reconfiguration. Capabilities refer to a firm's capacity to deploy resources, usually in combination, and encapsulate both explicit processes and those tacit elements (such as know-how and leadership) embedded in the processes.

As Teece et al. (1997) explain, the concept of dynamic capabilities emphasizes on the development of management capabilities, and it is based on the difficulty of imitating combinations of organizational, functional and technological skills. Hence, it is important to highlight company characteristics such as the management of R&D (Research and Development), product and process development, technology transfer, intellectual property, manufacturing, human resources, and organizational learning. In light of this, dynamic capabilities can be seen as an emerging and potentially integrative approach to understanding the newer sources of competitive advantage (Teece et al., 1997).

Dynamic capabilities draw from both the resource-based view of the firm and evolutionary economics (Di Stefano, Peteraf, and Verona, 2010; Barney, 1991; Nelson and Winter, 1982). From a resource-based perspective, dynamic capabilities

were originally conceptualized to redress a gap in the ability of the resource-based view to explain sustainable competitive advantage in dynamic, Schumpeterian environments (Teece, Pisano, and Shuen, 1997). These are environments in which existing competences are destroyed, requiring the development and elaboration of new competences. Scholars adopting the resource-based view emphasize that dynamic capabilities are a critical component of a firm's ability to renew its competitive advantage over rivals, often through wholesale change and dramatic transformations (Rosenbloom, 2000; Tripsas and Gavetti, 2000).

There is much debate as to whether dynamic capabilities directly provide competitive advantage for organizations. Whether dynamic capabilities simply permit firms to reconfigure their resources, or whether they are also tied intimately to firm performance and sustainable competitive advantage, remains a matter of debate (Easterby-Smith, Lyles and Peteraf, 2009). Research by Teece et.al claims that dynamic capabilities contribute to competitive advantage while Shamsie, Martin, and Miller (2009) found no relationship between dynamic capabilities and firm performance in a sample of project-based firms.

Research that makes performance claims has been accused of committing a tautology—defining dynamic capabilities in terms of the desired performance outcomes (Priem and Butler, 2001; Arend and Bromiley, 2009). The emerging consensus is that dynamic capabilities do not directly contribute to a firm's performance or its competitive advantage; instead dynamic capabilities permit a firm to manipulate its resources (Helfat et al 2007). Dynamic capabilities are a source of competitive advantage when applied sooner, more astutely, and more fortuitously than competitors (Eisenhardt and Martin, 2000; Wang and Ahmed, 2007).

### **1.1.2 The Banking Industry in Kenya**

Kenyan Banks have realized tremendous growth in the last five years and have expanded to the East African region. The banking industry in Kenya has also involved itself in automation, moving from the traditional banking to better meet the growing complex needs of their customer and globalization challenges. There has been increased competition from local banks as well as international banks, some of which are new players in the country.

Modern banking has been influenced by globalization. Regulatory, structural and technological factors are significantly changing the banking environment throughout the world leading to intense competitive pressures (Grigoroudis, Politis and Siskos, 2002). The current adverse global environment underlines the need for continuing sound micromanagement and for deepening institutional reform. Kenyan banks might possibly lead to efficiency and stability gains, an effect, however, that depends on the implications of concentration and ownership for competition through dynamic capabilities.

The banking system in Kenya is regulated by the Central Bank of Kenya (CBK) Act Cap 491 and the Banking Act Cap 488. These Acts are intended primarily to facilitate the development and maintenance of a sound monetary policy (GoK, 1989). The industry comprises of financial institutions, among them commercial banks. Others are either non-bank financial institutions (NBFIs) or Mortgage finance companies. According to the Commercial Banks Directory (2007), Kenya has a well-developed

financial sector, particularly for the region, but it is vulnerable to government influence and inadequate supervision.

The central issue of interest by the central bank to the commercial banks is how best to promote access to the financial system by a wider segment of the Kenyan populace. Commercial banks' expansionary strategy targets Small and Medium enterprises (SME's). The future of the industry looks promising with financial and legal sector restructuring (CBK, 2005). According to the Commercial Banks Directory of 2007 provided by the Central Bank of Kenya, the peer grouping of this sector has been categorized into small, medium and large banks. The various banks compete for customers and to satisfy the ever demanding market, banks have to change with the market trends and reconfigure their business strategies so as to have superior financial performance, market share growth and customer retention.

## **1.2 Research Problem**

One of the central themes the literature of strategic management is concerned with refers to the problem of how a firm may create and sustain its competitive advantage over a longer period of time. Different schools of thought, with contrary points of view, have undertaken efforts to provide answers to that challenging question. Sustainable competitive advantage is key to the survivable of any business in a competitive industry where resources have to be maximally utilized in the highly dynamic business environment.

Stiff competition has characterized the Kenyan banking industry environment in the last decade. The industry consist of 43 financial institutions offering various types of financial services which are largely homogeneous, only differentiated either by the product name or just a few features leading to very stiff competition for market share.

This scenario has resulted into organizational redesign and the subsequent resulting of dynamic capabilities approaches that these institutions apply to attain competitive advantage. The firm's competitive advantage is created and sustained with the help of firm-specific resources and capabilities that the organization has continuously accumulated and/or built. The firm's most distinctive capabilities, the so-called "core" capabilities are developed with enormous efforts and are deeply intertwined with the firm's overall performance. In dynamic industries like banking, an institution cannot rest on their current core-capabilities for a longer time as they are constantly forced to respond to changing circumstances like imitation of their capabilities by new entrants. This necessitates them to develop adapt, and renew their core-capabilities to stay competitive which must be informed to a great extent on its former development path and future needs.

Studies conducted locally have mainly focused on organizational capabilities and the realization of the organizational goals. Concepta (2012) did a study on the role of organizational capabilities in the realization of organization objectives at the Higher Education Loans Board in Kenya the researcher found out that, organizational capabilities are not maximized in the pursuit of achieving organizational goals. Omangi (2010) did a research on dynamic capabilities as a strategic tool at Cooperative Bank of Kenya Limited and concluded that the banks vision and mission statements are the guiding factors in the development of the dynamic capability strategies. Internationally, Coh (2005) did a study on dynamic capabilities in SMEs; the integration of external competencies in niche players in the IT industry in Slovenia. From his findings, he suggested that the internal and external environment is a key determinant of niche capabilities in the IT industry. From this review of past studies, it is clear that there is little research that has focused on the awareness and

application of dynamic capabilities in the commercial banks in Kenya. Therefore there was need to formulate studies to provide an understanding on the dynamic capabilities of in the commercial banking industry in Kenya to bridge the study gap that exists, as capabilities can prove specifically useful in dynamic business environments because of their strategic flexibility nature.

The study sought to address the research question: What are the dynamic capabilities approaches applied to these banks and what factors influence the application of these dynamic capability approaches in these banks in Kenya?

### **1.3 Research Objectives**

The study was guided by the following research objectives;

- i. To determine the dynamic capability approaches adopted by commercial banks in Kenya.
- ii. To determine the factors that influences the application of dynamic capability approaches by commercial banks in Kenya.

### **1.4. Value of the study**

The study sought to generate information that will be used by various stakeholders interested in the application and awareness of dynamic capabilities in the commercial banks in Kenya. It will enable the board of directors and management of the various commercial banks to identify areas of weakness that need attention and foster sound strategic choices to deliver maximum investment value. The findings will go a long way in identifying the challenges that are experienced in the maximizing of the potential brought forward by the dynamic capabilities approaches in the banking industry in Kenya.

This study will avail pertinent information on the trends and dynamism of the capabilities that can be maximized on by the management of the commercial banks in order to attain a sustainable competitive advantage. The study will benefit management of the banks as they consult in an endeavor to focus on key strategies for business development and growth.

The study will also assist the government through the central bank and the relevant ministry in formulating appropriate strategies that can be used and applied by the commercial banks in formulating sound policies that will improve decision-making processes in enhancing competitive advantage. These policies will also be appropriate in enhancing the performance of the organizations and all other financial institutions.

This study will contribute to the literature in dynamic capability approaches especially about how the banking institutions can utilize the dynamic capabilities approach to benefit in the focus of sound strategies, resource benefit view, cost reduction, and the overall return on investment.

## **CHAPTER TWO: LITERATURE REVIEW**

### **2.1 Introduction**

This chapter discussed the literature on dynamic capability approaches and how it contributes to organizational performance. It was informed by a review of relevant literature and guided by the theoretical review.

### **2.2 Theoretical Review**

The dynamic capabilities approach constitutes an extension to the resource-based perspective (Collis & Montgomery, 1995). While some see dynamic capabilities as the key to competitive advantage others seem to doubt that there is actually such a thing. The term 'dynamic' refers to capacity to renew competences so as to adapt to the changing business environment (Teece et al., 1997). The term 'capabilities' emphasizes the key role of strategic management in appropriately adapting, integrating and reconfiguring internal and external organizational skills, resources and functional competences to match the requirements of a changing environment. The dynamic capability approach focuses attention on the firm's ability to renew its resources in line with changes in its environment. Dynamic capabilities refer to the firm's ability to alter the resource base by creating, integrating, recombining and releasing resources (Eisenhardt & Martin, 2000). Collis (1994) is particularly explicit when making the point that dynamic capabilities govern the rate of change of ordinary capabilities.

Teece et al. (1997) give another definition: 'Dynamic capabilities are the firm's ability to integrate, build and reconfigure internal and external competences to address rapidly changing environments'. The dynamic capabilities approach is not merely an inward-looking view of the organization and its strategy but its central focus is on the

degree of 'fit' over time between an organizations. This study will therefore be guided by a review of the resource based theory and the knowledge based theory of the firm.

### **2.2.1 Resource-Based Theory**

According to Helfat and Peteraf (2003), resource is an asset or input to production (tangible or intangible) that an organization owns, controls, or has access to on a semi-permanent basis. Certain resources are superior to others due to market imperfections, resulting in different levels of efficiency (Barney, 1991; Dierickx and Cool, 1989). The idiosyncratic combination of these resources in firms is the source of competitive heterogeneity (Helfat and Peteraf, 2003; Lockett et al., 2009). Resources can include not only tangible physical capital, but also intangible resources embedded in human and organizational capitals such as knowledge (Amit and Schoemaker, 1993; Barney, 1991).

Considering resource-based value retention, if an asset or idea is easily replicated and does not require special resources to exploit, then there are not supernormal profits available from it. However, if the asset is tightly protected by copyright or mechanistic means, then the firm should retain economic gains (Teece et al., 1997). Isolating mechanisms are implemented by organizations to prevent the diffusion of firm-specific resources and capabilities throughout the industry (Barney, 1991). This concept of resource position barriers stems from the ownership of resources that affect the cost and/or revenues of those who attempt to acquire the resources later (Wernerfelt, 1984).

Piccoli and Ives (2005) specifically note two fundamental dynamic processes that contribute to resource barriers: organizational learning; and asset stock accumulation.

The two concepts also contribute to the knowledge base view, particularly if the asset being accumulated is knowledge. As observed by McWilliams and Siegel (2011), the resource-based perspective clearly indicates that firms should implement organizational change towards sustainability, but it does not provide a compelling explanation of why many firms are still hesitated or unable to do so. Indeed, firms hold different views on dynamic capabilities

### **2.2.2 Knowledge-Based Theory**

Knowledge is embedded and carried through multiple entities including organizational culture and identity, policies, routines, documents, systems, and employees. Originating from the strategic management literature, this perspective builds upon and extends the resource-based view of the firm (RBV) initially promoted by Penrose (1959) and later expanded by others (Wernerfelt 1984, Barney 1991, Conner 1991).

Knowledge is a key intangible resource that is the primary source of a sustainable competitive advantage (Acedo et al., 2006; Conner and Prahalad, 1996). The role of the firm is not simply to acquire an assortment of resources and capabilities, but rather to develop its organizational knowledge to produce a sustainable competitive advantage (Grant, 1996a). The primary task of management is then to devise and establish routines necessary to integrate this knowledge (Grant, 1996b). The knowledge-based theory rests on the assumption that resource and capability-based advantages are derived from superior access to and integration of specialized knowledge (Grant, 1996a). Knowledge is created and held by individuals, but can become embedded within the organization as organizational processes and routines are performed repeatedly (Conner and Prahalad, 1996). These organizations can be

considered social communities in which individual and social expertise and knowledge is transformed into valuable products and services (Kogut and Zander, 1992).

Firms can, therefore, be viewed as bundles of knowledge, where knowledge is an asset that serves as a source of differentiation and competitive advantage (Dierickx and Cool, 1989). Two critical knowledge processes in firms associated with the bundling of knowledge are creation and transfer (von Krogh et al., 2001). Organizational knowledge creation can be considered the process of making available and amplifying knowledge resources created by individuals as well as crystallizing and connecting it to an organization's knowledge system (Nonaka et al., 2006). Once created, knowledge must be either brought into the firm or moved within it. The transfer of knowledge within organizations is not a trivial problem as the same complex technologies that are proof against imitation are also difficult to codify and teach to others (Kogut and Zander, 2003). External knowledge transfer challenges include different levels of knowledge transfer abilities between alliance partners, where those more effective at transferring knowledge outperform those less adept (Dyer and Singh, 1998).

### **2.3 Dynamic Capabilities Approaches**

The dynamic capabilities take different approaches, however the researcher will consider the adaptive, innovative and absorptive approaches as they are directly related to the topic under study.

### **2.3.1 Adaptive Capability Approach**

Adaptive capability is defined as a firm's ability to identify and capitalise on emerging market opportunities (Miles and Snow 1978; Chakravarthy 1982; Hooley *et al.* 1992). Chakravarthy (1982) distinguishes adaptive capability from adaptation. The latter describes an optimal end state of survival for a firm, while adaptive capability focuses more on effective search and balancing exploration and exploitation strategies (Staber and Sydow 2002). This type of 'balancing' act is brought to a strategic level and linked to the resource perspective: adaptive capability is manifested through strategic flexibility - the inherent flexibility of the resources available to the firm and the flexibility in applying these resources (Sanchez 1995). The development of adaptive capability is often accompanied by the evolution of organizational forms.

Empirical studies (e.g. Camuffo and Volpato 1996; Farrant and Flynn 1999; Alvarez and Merino 2003) also reveal that the ability to adapt to environmental changes and align internal resources with external demand is critical to firm evolution and survival in several industries. Firms that have high levels of adaptive capability exhibit dynamic capabilities (Teece *et al.* 1997). In the existing literature, measures for adaptive capability are multi-dimensional, including a firm's ability to adapt their product-market scope to respond to external opportunities; to scan the market, monitor customers and competitors and allocate resources to marketing activities; and to respond to changing market conditions in a speedy manner.

### **2.3.2 Absorptive Capability**

Cohen and Levinthal (1990 p.128) refer to absorptive capacity - the ability of a firm to recognize the value of new, external information, assimilate it, and apply it to

commercial ends the ability to evaluate and utilize outside knowledge is largely a function of the level of prior knowledge. Firms with higher absorptive capability demonstrate stronger ability of learning from partners, integrating external information and transforming it into firm-embedded knowledge. Woiceshyn and Daellenbach (2005), in their study of Canadian oil and gas firms, find that firms' absorptive capability is critical for success in the face of external technological change. Their findings reveal that when adopting the new horizontal drilling technology, firms with higher absorptive capability experience a relatively efficient adoption process leading to positive performance outcomes, while firms with lower absorptive capability encounter significant difficulties.

The differential absorptive capability across firms is exhibited in several aspects: more efficacious adopters (vs. less efficacious ones) (i) demonstrate long-term commitment of resources in the face of uncertainty (vs. short-term limited commitment and reversed at the first sign of failure); (ii) learn from various partners and own research and experience and develop first-hand knowledge of the new technology (vs. competitive imitation and second-hand knowledge); (iii) thoroughly analyze the new drilling technology and share information within multidisciplinary teams (vs. superficial analysis and functional structure); (iv) develop and utilize complementary technologies (vs. no complementary technologies used); and (v) possess a high level of knowledge and skills in areas relevant to applying the new technology (Woiceshyn and Daellenbach 2005).

### **2.3.3 Innovative capability**

Innovative capability refers to a firm's ability to develop new products and/or markets, through aligning strategic innovative orientation with innovative behaviours and processes (Wang and Ahmed 2004). As indicated in the definition, innovative capability encompasses several dimensions. Prior research has emphasized different combinations of these dimensions. For example, Schumpeter (1934) suggests a range of possible innovative alternatives, namely developing new products or services, developing new methods of production, identifying new markets, discovering new sources of supply and developing new organizational forms. Miller and Friesen (1983) focus on four dimensions: new product or service innovation, methods of production or rendering of services, risk taking by key executives and seeking unusual and novel solutions. Capon *et al.* (1992) study three dimensions of organizational innovativeness: market innovativeness, strategic tendency to pioneer and technological sophistication.

The more innovative a firm is, the more it possesses dynamic capabilities. Empirical research on innovation is long standing. Capon *et al.* (1992), Avlonitis *et al.* (1994), Subramanian and Nilakanta (1996), Hurley and Hult (1998) and Wang and Ahmed (2004) have addressed the concern of effectively measuring organizational innovative capability, and multiple indicators have been developed to measure the dimensions of innovative capability (i.e. strategic innovative orientation, behavioural, process, product and market innovativeness) (Wang and Ahmed 2004). We reckon that these multi-dimensions are important in measuring the overall innovative capability as a component factor of the dynamic capabilities construct.

Conceptually, we reckon that adaptive capability, absorptive capability and innovative capability are the most important component factors of dynamic capabilities and

underpin a firm's ability to integrate, reconfigure, renew and recreate its resources and capabilities in line with external changes. The three factors are correlated, but conceptually distinct. Each has a particular emphasis: adaptive capability stresses a firm's ability to adapt itself in a timely fashion through flexibility of resources and aligning resources and capabilities with environmental changes.

Hence, the focus of adaptive capability is to align internal organizational factors with external environmental factors. Absorptive capability highlights the importance of in taking external knowledge, combining it with internal knowledge and absorbing it for internal use. Innovative capability effectively links a firm's inherent innovativeness to marketplace-based advantage in terms of new products and/or markets. Thus, innovative capability explains the linkages between a firm's resources and capabilities with its product-market.

#### **2.4 Factors Influencing the Application of Dynamic Capabilities**

The notion of best practices as influence factors of dynamic capabilities embraces also the increasing recognition of knowledge and knowledge creating routines as one of the fundamental issues of a firm's strategic success (Nonaka/Takeuchi 1995; Davenport/Prusak, 1998; Von Krogh et al, 2000) and as a pillar of dynamic capabilities. The successful implementation of best practices is largely based on the knowledge of existing best practices for a certain process and the understanding of putting these processes into practice within the organization. The structure of the companies could be identified as an influence factor of dynamic capabilities. Whereas Teece/Pisano/Shuen (1997) see the structure more as an outcome of dynamic capabilities, the findings show that the organizational structure can impede or enhance

the emergence and development of dynamic capabilities as proposed by Lawson/Samson (2001).

Luo (2000) suggests that capabilities that are embedded in the organization may require greater control over transactions, which would result in the internalization of certain activities. This suggestion is consistent with the argument of Kogut and Zander (1992), who see organizations as superior to markets in sharing and transferring knowledge among the members of the organization. Their argument is supported by the findings of this thesis, i.e. that vertical integration has positive influence on the development of innovation speed of the companies as a dynamic capability.

Dynamic capabilities are typically valuable because their quality differs amongst competitors (Eisenhardt & Martin, 2000). Dynamic capabilities are also challenging to replicate, especially since their underpinning routines are typically complex and tacit (Nelson & Winter, 1982). In addition, soft organisational attributes such as values and culture must be built over time, requiring firm committal to long term trajectories of competence development, resulting in path dependencies and rarity (Winter, 2003). So dynamic capabilities are valuable, rare and difficult to imitate but their appropriateness to the organization has to be considered. According to Eisenhardt and Martin (2000), the potential for long-term sustainable competitive advantage lies not in dynamic capabilities themselves, but in their timely, astute or fortuitous application to create favourable and appropriate resource configurations relative to competitors. This advantage is greatly enhanced when such configurations consist of tightly woven, synergistic activities (Milgrom & Roberts, 1990; Porter, 1996).

Accordingly, long term sustainable competitive advantage lies in the resource configurations that managers build through dynamic capabilities. Therefore, dynamic capabilities are a prerequisite to, but not sufficient for, competitive advantage (Eisenhardt & Martin, 2000). Some of the confusion surrounding dynamic capabilities arises from their misinterpretation as a generic formula for sustainable competitive advantage.

In addressing this concern, Winter (2003) suggests it is impossible to hedge against every possible contingency but investing in dynamic capabilities can partially hedge against unfavourable environmental changes and can sometimes yield sustainable competitive advantage. Therefore, it is important to note that dynamic capabilities are not a detailed recipe for sustainable competitive advantage in all contexts.

Another challenge is that some of the confusion surrounding dynamic capabilities results directly from the many definitions used by different writers. Some of the more prominent definitions include; Teece et al. (1997): the ability to achieve new forms of competitive advantage; Zollo and Winter (2002): a learned pattern of collective activity through which the organization systematically generates and modifies its operational routines; Eisenhardt and Martin (2000): processes to integrate, reconfigure, gain and release resources and Galunic and Eisenhardt (2001): the firm's ability to integrate, build and reconfigure internal and external competences to address rapidly changing environments. These definitions vary markedly, serving to enhance confusion and breed skepticism. To complicate matters, additional terminology such as continuous morphing (Rindova & Kotha, 2001), dynamic managerial capabilities

(Adner & Helfat, 2003) and strategic flexibility (Sanchez, 1995) have been used to describe dynamic capabilities.

Furthermore, the literature exhibits a degree of muddiness and ambiguity between the more general concepts of resources, competences and dynamic capabilities with incorrect terminology being used to describe particular phenomenon. Firm resources include all assets, capabilities, organizational processes, firm attributes, information, knowledge etc. controlled by a firm that enable the firm to conceive of and implement strategies that improve its efficiency and effectiveness (Barney 1991). Core competencies, on the other hand, are the collective learning in the organization, especially how to co-ordinate diverse production skills and integrate multiple streams of technologies (Prahalad & Hamel, 1990). To increase their legitimacy and eradicate this confusion, a uniform and consistent definition must be established and dynamic capabilities must be clearly distinguished from resources and competences

## **2.5 Empirical Review**

A study by Druid (2007) expounds on the concept of dynamic capabilities and its impact on firm performance. The study examines the logical links among dynamic capabilities, functional competences and firm performance. It proposes and tests a model which assumes that dynamic capabilities' influence on firm performance is mediated by functional capabilities. In this model dynamic capabilities can be conceptualized as higher order strategic processes that integrate, recombine and generate new technological and marketing capabilities which in turn shape firm performance. In an effort to investigate this model empirically, the research attempts to operationalize dynamic capabilities as a composite, unified construct defined by

three interrelated, although distinct, dimensions: coordination capability, learning capability and strategic competitive response capability.

Newbert (2007) analysed existing empirical research on the resource-based view and found that among all resource-based approaches, the dynamic capabilities view is the least empirically investigated stream, he noted that empirical research on dynamic capabilities is still in its infancy. Furthermore, he found that the research published prior revealed inconsistent findings less than 40% of studies found a relationship between dynamic capabilities and any form of performance/competitive advantage. He suggested that this may be due to the nature of how the dynamic capability-performance relationship was tested.

Arend & Bromiley (2009) criticize the ability of the dynamic capability view to cohesively explain organizational change with logical consistency, conceptual clarity and empirical rigor. They identify four key problem areas that limit the potential contribution of the dynamic capability research stream to strategy and management scholarship.

Baretto (2010) provides a more comprehensive review of a wider range of researching the field. In line with Arend & Bromley (2009), he concludes that a 'theory' of dynamic capabilities does not yet exist. This is largely due to the fact that no commonly agreed upon definition of dynamic capabilities has emerged

Giudici & Reinmoeller (2012) provide the most recent critical review of dynamic capabilities research. They investigate whether the dynamic capability construct is a case of reification by reviewing 104 articles across a wide range of journals and disciplines in which the dynamic capability construct featured prominently. Looking at how articles in the sample are related to each other via cross-citations, they

conclude that “the construct deserves more focused research, rather than to be prematurely abandoned.

## **2.6 SUMMARY**

Germinated in the field of strategic management, the concept of dynamic capabilities has progressively flourished also in other areas of investigation of the firm and organisation behaviour, as it has turned out to be very fruitful in addressing the way organizations deal, or fail to deal, with technological challenges (Dosi *et al.*, 2000). Thus, dynamic capabilities seem to have become a sort of micro-foundation of the literature, mainly with an evolutionary background, which indigenizes technological change by linking the advent of new technological paradigms to the evolution of the firm knowledge-base (Freeman, 1982). That the firms’ success in managing their changing environment is not exclusively a matter of strategies appears a quite established result. Their capabilities are at least as important in accommodating and, eventually, reconfiguring their structures in front of some kind of environmental turbulence, so that dynamic capabilities occupy a central place in the investigation of the firm dynamics. Less established is instead the nature of these capabilities, as several strands of literature have differently solved the delicate issue of the balance.

By evaluating major conceptual and empirical works, the application and awareness of the dynamic capabilities concept can be mapped out and several research questions can be answered. Whilst resources and capabilities are the zero- and first order, foundation respectively, the key to developing the second-order core capabilities is the integration of resources and capabilities in line with a firm’s strategic goals. Miller and Shamsie (1996) assert that the essence of dynamic capabilities is a firm’s

behavioral orientation in the adaptation, renewal, reconfiguration and re-creation of resources, capabilities and core capabilities responding to external changes.

As this overview shows, a common denominator for the evolution factors of dynamic capabilities does exist. Even though there is a multitude of answers to the question regarding the origin of dynamic capabilities, researchers often focus on single influences and rarely take the context of companies into account, this study therefore wishes to address this gap. The researcher is not aware of any local studies conducted so far about dynamic capability within commercial banks in Kenya.

## **CHAPTER THREE: RESEARCH METHODOLOGY**

### **3.1. Introduction**

In this chapter, the researcher described the procedure that was followed in conducting the research. It described the whole research process which includes research design, population of the study, as well as the instruments that were used in data collection and analysis.

### **3.2. Research Design**

A research design constitutes the collection, measurement and analysis of data (Schindler, 2008). The researcher used a descriptive survey to carry out the research. This is because the topical issue under study covers a wide geographical area. Basically, a survey is an in-depth study of a particular situation and is used to narrow down a very broad field of research into one easily researchable topic. The descriptive survey was so selected because it gave the researcher the opportunity to investigate the situation the way it is and generate either qualitative or quantitative data.

### **3.3. Population of the Study**

The population for this study comprised all licensed commercial banks in Kenya. According to the Central Bank of Kenya directory as at September 2013, there were 41 commercial banks in Kenya. It is from the 41 commercial banks that the respondents were drawn. The researcher utilized a census survey where all the banks had one respondent.

### **3.4 Data Collection**

Primary data was used for this study because of the nature of responses required by the topic under study. Data was collected using a structured questionnaire drafted in line with the research objectives and was divided into three parts. The first section comprised the basic organizational background information; the second part consisted of questions assessing dynamic capability approaches while the third part consisted of questions determining the factors that influence commercial banks to adopt dynamic capability approaches. The questionnaire had closed and open-ended questions in which the respondents gave their ratings on a 5-point Likert Scale.

E-mail and internet solutions were employed in administering the questionnaires to the heads of personal and business banking of the respective banks was considered key in dynamic capability approaches implementation. This was because of their level of involvement in the dynamic capabilities and the business development process and therefore they are adequately informed on the topic under study.

### **3.5 Data Analysis**

Descriptive statistics such as frequency distribution was used to examine the pattern of responses to each of the variables under description. Percentages, frequencies, standard deviation and arithmetic mean were used in order to facilitate comparison. Tables were used in presentation of data findings.

## **CHAPTER FOUR: DATA ANALYSIS, RESULTS AND DISCUSSION**

### **4.1 Introduction**

This chapter presents the research findings. It discusses the commercial banks profiles, the dynamic capability approaches and factors influencing the application of dynamic capability approaches in these banks. The data obtained was analyzed using descriptive statistics and the results presented in tables.

### **4.2 Commercial Banks Profile**

The study sought some background information related to the topic under investigation on the Commercial Banks in Kenya. The number of employees, the duration of bank operation and the research and development activities in the commercial banks was relevant to the study.

#### **4.2.1 Number of Employees per Bank**

The respondents in the respective commercial banks were asked to state the number of employees in their banks. This was done so as to find out whether these commercial banks have a good number of employees for the application of dynamic capabilities to occur. This was an open ended question that gave the respondents the opportunity to fill in the figures. The results were categorized in groups as per table

4.2.1

**Table 4.2.1 Number of employees per bank**

| <b>Number of Employees</b> | <b>Frequency</b> | <b>Percent</b> | <b>Cumulative Percent</b> |
|----------------------------|------------------|----------------|---------------------------|
| Below 100                  | 0                | 0              | 0                         |
| 101-250                    | 5                | 13.9           | 13.9                      |
| 251-500                    | 4                | 11.1           | 25                        |
| 501-750                    | 13               | 36.1           | 61.1                      |
| 751-1000                   | 11               | 30.6           | 91.7                      |
| Above 1000                 | 3                | 8.3            | 100                       |
| Total                      | 36               | 100            |                           |

**Source: Research data**

From the findings in Table 4.2.1, 100% of the surveyed banks had over 100 employees with 25 commercial banks having over 500 employees. This staffing level is adequate to test the application of dynamic capability as it affords an organization to enhance learning for continuity purposes among other key tenets of dynamic capability.

#### **4.2.2 Duration in Year's Bank has been in Operation**

The respondents were asked to indicate the length of time their respective banks have been in operation. They were asked to tick the check boxes of less than one year, 1 to 2 years, 3 to 5 years, 6 to 8 years and more than 9 years.

The study sought to know the duration in years the banks have been in operation so as to ensure that the study involved banks which have been in operation for a considerable length of time. The more the time the banks have been in operation the

higher the chances they have encountered and experienced the dynamism of the business environment. The findings are displayed in Table 4.2.2

**Table 4.2.2 Duration in years bank has been in operation**

| <b>Duration of operation</b> | <b>Frequency</b> | <b>Percent</b> | <b>Cumulative Percent</b> |
|------------------------------|------------------|----------------|---------------------------|
| 1-3 years                    | 0                | 0              | 0                         |
| 4-6 Years                    | 1                | 2.8            | 2.8                       |
| 7-9 Years                    | 3                | 8.3            | 11.1                      |
| More than 9 years            | 32               | 88.9           | 100                       |
| <b>Total</b>                 | 36               | 100            |                           |

**Source: Research data**

The findings as displayed in Table 4.2.2 show that 97.2% of the banks had been in operation for over 7 years. This indicates that the targeted population was resourceful in the topic under study as it has encountered dynamic capability approaches.

#### **4.2.3 Research and Development Activities**

The respondents in the respective commercial banks were asked to state whether they conduct research and development activities in their banks. This was an open ended question that gave the respondents the opportunity to fill in their views. This was done so as to find out whether these commercial banks conduct any research and development activity as it is a core activity for dynamic capabilities approach in any business environment.

From the findings, 83.3% that is 30 of the banks were conducting research and development activities. It was further revealed that R&D activities were mainly focusing on new product development and market oriented research. Further it was found out that 20 of these banks have business operations out of Kenya.

### **4.3 Factors that Influenced the Choice of Dynamic Capability Approaches**

The respondents were asked to rate their responses on a scale of 1 to 5 on how they agree with the choice of dynamic capability approaches where 1 represents strongly disagree, 2 for disagree, 3 for neutral, 4 for agree and 5 for strongly disagree. Eight factors that influence the choice of dynamic capability approaches were subjected to analysis using descriptive analysis.

#### **4.3.1 Customer Demands**

The study sought to find out whether customer demands affect the choice of dynamic capabilities. The strongest point had a score of five while the weakest point scored 1 point. The findings are displayed in table 4.3.1

**Table 4.3.1 Customer Demands**

| <b>Customer demands</b> | <b>Frequency</b> | <b>Percent</b> | <b>Cumulative Percent</b> |
|-------------------------|------------------|----------------|---------------------------|
| Strongly Disagree       | 0                | 0              | 0                         |
| Disagree                | 0                | 0              | 0                         |
| Neutral                 | 0                | 0              | 0                         |
| Agree                   | 11               | 30.6           | 30.6                      |
| Strongly Agree          | 25               | 69.4           | 100                       |
| Total                   | 36               | 100            |                           |

**Source: Research Data**

From the findings in table 4.3.1, 11 of the respondents agreed that customer demands affect the choice of dynamic capabilities while 25 of the respondents strongly agreed that customer demands affect the choice of dynamic capabilities approaches.

This shows that customer demands strongly influence the choice of dynamic capabilities.

#### **4.3.2 Staff Expertise**

The study sought to find out whether staff expertise's affect the choice of dynamic capabilities. The strongest point had a score of five while the weakest point scored 1 point. The findings are displayed in table 4.3.2

**Table 4.3.2 Staff expertise**

| <b>Staff Expertise</b> | <b>Frequency</b> | <b>Percent</b> | <b>Cumulative Percent</b> |
|------------------------|------------------|----------------|---------------------------|
| Strongly Disagree      | 0                | 0              | 0                         |
| Disagree               | 0                | 0              | 0                         |
| Neutral                | 0                | 0              | 0                         |
| Agree                  | 18               | 50.0           | 50.0                      |
| Strongly Agree         | 18               | 50.0           | 100                       |
| Total                  | 36               | 100            |                           |

**Source: Research Data**

From the findings in table 4.3.2, 18 of the respondents agreed that staff expertise affect the choice of dynamic capabilities while 18 of the respondents strongly agreed that staff expertise affect the choice of dynamic capabilities approaches.

This shows that staff expertise highly influence the choice of dynamic capabilities in the commercial banks in Kenya.

### **4.3.3 Market Trends**

The study sought to find out whether market trends affect the choice of dynamic capabilities in the commercial banks in Kenya. The strongest point had a score of five while the weakest point scored 1 point. The findings are displayed in table 4.3.3

**Table 4.3.3 Market Trends**

| <b>Market Trends</b> | <b>Frequency</b> | <b>Percent</b> | <b>Cumulative<br/>Percent</b> |
|----------------------|------------------|----------------|-------------------------------|
| Strongly Disagree    | 0                | 0              | 0                             |
| Disagree             | 0                | 0              | 0                             |
| Neutral              | 6                | 16.7           | 16.7                          |
| Agree                | 10               | 27.8           | 44.4                          |
| Strongly Agree       | 20               | 55.6           | 100                           |
| Total                | 36               | 100            |                               |

**Source: Research Data**

From the findings in Table 4.3.3, 6 respondents were neutral, 10 agreed and 20 strongly agreed. This shows that the market trends also influence the choice of dynamic capability adoption to a great extent in the commercial banks.

#### **4.3.4 Banks Mission and Vision**

It was also important for the study to find out whether the commercial banks' mission and vision affect the choice of dynamic capability approaches. The strongest factor had a score of five while the weakest factor scored 1 point. The findings are displayed in table 4.3.4

**Table 4.3.4 Banks Mission and Vision**

| <b>Mission and Vision</b> | <b>Frequency</b> | <b>Percent</b> | <b>Cumulative Percent</b> |
|---------------------------|------------------|----------------|---------------------------|
| Strongly Disagree         | 0                | 0              | 0                         |
| Disagree                  | 4                | 11.1           | 11.1                      |
| Neutral                   | 5                | 13.9           | 25.0                      |
| Agree                     | 7                | 19.4           | 44.4                      |
| Strongly Agree            | 20               | 55.6           | 100                       |
| Total                     | 36               | 100            |                           |

**Source: Research Data**

From the findings in Table 4.3.4, 4 respondents disagreed, 5 were neutral, 7 agreed and 20 strongly agreed. This shows that the banks mission and vision influence to a larger the choice of dynamic capability adoption to a great extent in the commercial banks.

#### **4.3.5 Summary of the choice of dynamic capability approaches**

A descriptive analysis of the eight factors influencing the dynamic capability approaches at the commercial banks was done where the mean and standard deviation was calculated. This was to show on average how these factors influence the choice of dynamic capability approaches. The mean and standard deviation scores were and displayed as shown in Table 4.3.5.

**Table 4.3.5 Factors influencing the choice of dynamic capability approach**

| <b>Factors for the choice of dynamic capability approach</b> | <b>Mean</b> | <b>Std. Deviation</b> |
|--|-------------|-----------------------|
| Customer demands   | 4.69        | 0.467                 |
| Staff expertise  | 4.50        | 0.507                 |
| Market trends  | 4.39        | 0.766                 |
| Bank mission and vision                                      | 4.19        | 1.064                 |
| Existing knowledge   | 4.17        | 0.609                 |
| Financial performance  | 4.14        | 0.543                 |
| Banks organizational Structure                               | 3.94        | 0.791                 |
| Banks expansion strategy                                     | 2.89        | 1.369                 |

**Source: Research data**

Among the factors which influenced the choice of dynamic capability approach, customer demands was found to have the highest mean score of 4.69. The staff expertise follows with a mean score of 4.50.

The next ranked component was the market trends which dictate the choice of dynamic capabilities with a mean of 4.39. The others were the banks mission and vision, existing knowledge, financial performance, banks organization structure and the banks expansion strategy with mean scores of 4.19, 4.17, 4.14, 3.94 and 2.89 respectively.

#### **4.4 Dynamic Capability Approaches and Firms' Performance**

The respondents were asked to rate their responses on a scale of 1 to 5 on how they agree with on the approaches that contribute to the banks' performance, where 1 represents strongly disagree, 2 for disagree, 3 for neutral, 4 for agree and 5 for

strongly disagree. Seven approaches that affect performance were subjected to analysis using descriptive analysis.

#### 4.4.1 Enhancement of Learning Process

The study sought to find out whether learning process enhancement as a dynamic capability approach affects the banks' performance. The strongest point had a score of five while the weakest point scored 1 point. The findings are displayed in table 4.4.1

**Table 4.4.1 Enhancement of learning process**

| <b>Enhancement of learning process</b> | <b>Frequency</b> | <b>Percent</b> | <b>Cumulative Percent</b> |
|--|------------------|----------------|---------------------------|
| Strongly Disagree                      | 0                | 0              | 0                         |
| Disagree                               | 0                | 0              | 0                         |
| Neutral                                | 3                | 8.3            | 8.3                       |
| Agree                                  | 3                | 8.3            | 16.7                      |
| Strongly Agree                         | 30               | 83.3           | 100                       |
| Total                                  | 36               | 100            |                           |

**Source: Research data**

From the findings in Table 4.4.1, 3 respondents were neutral, 3 agreed and 30 strongly agreed. This shows that the enhancement of staff and organizational learning processes greatly influence the performance of commercial banks in Kenya.

#### 4.4.2 Enhancing Knowledge and Management Process

The study sought to find out whether enhancing knowledge and management process learning process affects the banks' performance. The strongest point had a score of five while the weakest point scored 1 point. The findings are displayed in table 4.4.2

**Table 4.4.2 Enhancing knowledge and management process**

| <b>Enhancing knowledge and management process</b> | <b>Frequency</b> | <b>Percent</b> | <b>Cumulative Percent</b> |
|---|------------------|----------------|---------------------------|
| Strongly Disagree                                 | 0                | 0              | 0                         |
| Disagree  | 0                | 0              | 0                         |
| Neutral   | 7                | 19.4           | 19.4                      |
| Agree   | 1                | 2.8            | 22.2                      |
| Strongly Agree                                    | 28               | 77.8           | 100                       |
| Total   | 36               | 100            |                           |

**Source: Research data**

From the findings in Table 4.4.2, 7 respondents were neutral, 1 agreed and 28 strongly agreed. This shows that the enhancement of knowledge and management strongly influence the performance of commercial banks in Kenya.

#### 4.4.3 Firms Concentrate on R & D

It was also important for the study to find out whether the idea of concentrating on research and development activities in the commercial banks in Kenya affects the

banks' performance. The strongest point had a score of five while the weakest point scored 1 point. The findings are displayed in table 4.4.3

**Table 4.4.3 Firms concentrate on R & D**

| <b>Firms concentrate on R &amp; D</b> | <b>Frequency</b> | <b>Percent</b> | <b>Cumulative Percent</b> |
|---------------------------------------|------------------|----------------|---------------------------|
| Strongly Disagree                     | 0                | 0              | 0                         |
| Disagree                              | 0                | 0              | 0                         |
| Neutral                               | 4                | 11.1           | 11.1                      |
| Agree                                 | 12               | 33.3           | 44.4                      |
| Strongly Agree                        | 20               | 55.6           | 100                       |
| Total                                 | 36               | 100            |                           |

**Source: Research data**

From the findings in Table 4.4.3, 4 respondents were neutral, 12 agreed and 20 strongly agreed. This shows that research and development activities in the commercial banks greatly influence their performance.

#### **4.4.4 Management Strategic Decision Making**

It was also important for the study to find out whether management strategic decision making in the commercial banks in Kenya affects the banks' performance. The strongest point had a score of five while the weakest point scored 1 point. The findings are displayed in table 4.4.4

**Table 4.4.4 Management strategic decision making**

| <b>Management Strategic Decision Making</b> | <b>Frequency</b> | <b>Percent</b> | <b>Cumulative Percent</b> |
|---|------------------|----------------|---------------------------|
| Strongly Disagree                           | 0                | 0              | 0                         |
| Disagree                                    | 4                | 11.1           | 11.1                      |
| Neutral                                     | 6                | 16.7           | 27.8                      |
| Agree                                       | 1                | 2.8            | 30.6                      |
| Strongly Agree                              | 25               | 69.4           | 100                       |
| Total                                       | 36               | 100            |                           |

**Source: Research data**

From the findings in Table 4.4.4, 4 respondents disagreed, 6 respondents were neutral, 1 agreed and 25 strongly agreed. This shows that management strategic decision approaches in the commercial banks influence their performance.

#### **4.4.5 Summary of Dynamic Capability Approaches and Performance of Commercial Banks in Kenya**

Seven dynamic capability approaches with major impact on firms' performance were subjected to analysis using descriptive analysis. The respondents ranking was analyzed by computing mean scores and standard deviation. From the findings in Table 4.4.5, the respondents felt that the enhancement learning impacted most on performance with a mean score of 4.75, the aspect of enhancing knowledge and management processes was second with a mean of 4.58, the concentration on research

and development and management strategic decision making were ranked third and fourth with mean scores of 4.44 and 4.31 respectively.

**Table 4.4.5 Dynamic capability approaches and firm performance**

| <b>Dynamic capabilities approaches that impact on performance</b> | <b>Mean</b> | <b>Std. Deviation</b> |
|---|-------------|-----------------------|
| Enhancement of learning processes                                 | 4.75        | 0.604                 |
| Enhancing knowledge and management process                        | 4.58        | 0.806                 |
| Firms concentrate on Research and Development (R & D)             | 4.44        | 0.695                 |
| Management strategic decision making                              | 4.31        | 1.117                 |
| Up to date marketing strategies                                   | 3.83        | 0.775                 |
| Bank alliances and acquisition routines                           | 3.81        | 1.305                 |
| New bank branch formation processes                               | 3.39        | 0.494                 |

**Source: Research Data**

However respondents' least identified themselves with up to date marketing strategies, bank alliances and acquisition routines and new bank branch formation processes with mean scores of 3.83, 3.81 and 3.39 respectively. From the findings, these are the dynamic capability approaches that least impact on the banks performance.

#### 4.5 Applicability of dynamic capability approaches in Commercial Banks

Seven components of dynamic capability approaches that are applicable to commercial banks were subjected to analysis using descriptive analysis. The respondents ranking was analyzed by computing mean scores and standard deviation. From the findings in Table 4.5.1, the respondents agreed that constant learning was the most applicable dynamic capability component with the highest mean score of 4.56.

**Table 4.5.1 Applicability of dynamic capability components**

| <b>Dynamic capabilities components</b>                                | <b>Mean</b> | <b>Std. Deviation</b> |
|---|-------------|-----------------------|
| Constant learning   | 4.56        | 0.735                 |
| Retrieving of organizational activities to unveil the need for change | 4.33        | 0.632                 |
| Retention of resources through implementation                         | 4.33        | 0.862                 |
| Transformation of existing assets                                     | 4.28        | 1.059                 |
| Selection of appropriate resource configuration                       | 4.22        | 0.832                 |
| New asset acquisition   | 4.17        | 0.609                 |
| Variation of existing firms resource configuration                    | 3.72        |                       |

**Source: Research data**

This was followed by retrieving of organizational activities to unveil the need for change and the retention of resources through implementation both with mean score of 4.33. Transformation of existing assets, selection of appropriate resource

configuration and new asset acquisition followed with mean scores of 4.28, 4.22 and 4.17 respectively.

However there was a low dispensation in respondents' answers to the component of variation of existing firms' resource configuration as a dynamic capability component applicable to their respective banks with a mean score of 3.72.

#### **4.6 Discussion of Findings**

Out of a target population of 41 respondents, 36 usable questionnaires were received and analyzed, indicating a response rate of 87.8%. This study analyzed 22 factors pertaining to the application of dynamic capability approaches in commercial banks in Kenya.

The findings show that the application of dynamic capabilities in commercial banks in Kenya is influenced by customer demands, staff expertise and the prevailing market trends. These findings are supported by studies on adaptive capability approaches (Camuffo and Volpato 1996; Farrant and Flynn 1999; Alvarez and Merino 2003).

The dynamic capability approaches adopted by these banks that have a direct influence on the banks performance are the enhancement of learning processes (Piccoli and Ives, 2005), knowledge management, the process of research and development for product enhancement and strategic decision making (Grant 1996, Conner and Prahalad, 1996) in Knowledge based theory where firms are viewed as bundles of knowledge that serve as a source of differentiation and competitive advantage.

The findings further show that constant learning, retrieval of organizational activities to unveil the need for change and retention of resources through implementation as the key dynamic capability components. These findings are supported by an empirical study done by *Druid (2007)*.

## **CHAPTER FIVE: SUMMARY, CONCLUSION AND RECOMMENDATIONS**

### **5.1 Summary**

A case study research was conducted to establish the application of dynamic capability approaches in commercial banks in Kenya, specifically to find out the dynamic capability approaches and factors that influence the application of dynamic capability approaches in commercial banks in Kenya. Data was collected using questionnaire; Appendix II.

This study had a response rate of 87.8% and this was considered sufficient for analysis. From the findings, 97.2% of the commercial banks surveyed had been in operation for over 7 years and 87.8% of the banks had over 100 employees at the time of the survey. This shows that the data obtained from the respondents was rich in content and reliable for analysis. It was further established that 83.3% of the banks carry out research and development activities mainly focusing on new product development and new market research. This shows that the target population is affected or is experiencing in one way or the other the effects of dynamic capabilities.

From the analysis of the 22 factors that affect the application of dynamic capability approaches in the commercial banks, the choice of dynamic capabilities is strongly influenced by customer demands, staff expertise, market trends and the banks mission and vision. The banks expansion strategy seems not to influence the choice of dynamic capabilities by commercial banks in Kenya.

Respondents identified themselves with constant learning, retrieval of organizational activities to unveil the need for change, retention of resources through implementation, transformation of existing assets, selection of appropriate resource

configuration and new asset acquisition as key components of dynamic capabilities applicable to their banks. However the variation of existing firms' resource configuration as a dynamic capability component was least applied in these banks.

From the findings, it was further established that the dynamic capability approaches that have a great impact in the bank's performance include, the enhancement of the learning process, the enhancing of knowledge and management processes, the emphasis on research and development, and the sound strategic management decision making. The up to date marketing strategies, bank alliances and new bank branch formation least affect the performance of these commercial banks.

## **5.2 Conclusion**

The banks being key players in the growth of the country's economy need to adapt to environmental dynamism by modifying their underlying resources and capabilities. These banks have embraced dynamic capability approaches so as to attain sustainable competitive advantage and improve on performance. These dynamic capabilities in commercial banks are mainly influenced by customer demands and market trends. This can generally be attributed to the increasingly knowledgeable customer and globalization.

The urge by employees to be improving their skills through constant learning and the reconfiguration of organizational activities in response to the changes in the market are the key dynamic capability components that are applied by banks. Learning and knowledge base management, emphasis on research and development and strategic management decision making are the factors that influence on the banks performance greatly in line with dynamic capability approaches.

### **5.3 Recommendations**

Though commercial banks have been successful in the application of dynamic capability approaches has so far, there is need to focus on how their expansion strategy is affecting their performance, and how globalization is affecting their competitive advantage. This will enable these banks to attain the full benefit of the application of dynamic capability approaches. These banks are in the key financial sector of the country therefore sound strategies should be taken and adhered to.

Application of dynamic capabilities is a step by step process; therefore these commercial banks should ensure that all parties affected by this process are well informed especially on how the business processes will be affected.

### **5.4 Suggestions for further research**

Since this study uses institutions that have been successful with dynamic capability application, it would be interesting to study a firm that has not had good results with the application of these approaches and much more a firm that has had disastrous results. Probably by so doing, the conclusions of the study would help in indicating to the approaches/tactics that don't work for new strategy adoption. More insight could be derived from that and help in understanding some of the reasons that have led to some firms failing in new strategy adoption.

The researcher proposes that a study be conducted to determine the extent the application of dynamic capabilities affect the expansion strategies of commercial banks in Kenya. A research can also be done to establish the relationship the application of dynamic capabilities and organizational effectiveness.

Finally, this study is limited to the extent that its focus is on a specific country and industry/sector, Kenya and the banking respectively. It is recommended that for a start, a similar study be undertaken within a region wide context and findings compared to the Kenyan context.

### **5.5 Limitations of the study**

The findings of this study should be viewed in light of a few limitations. The use of questionnaires to gather relevant information on the applicability of dynamic capabilities in commercial banks in Kenya should be noted. The use of additional data collection methods such as observation and interview guides in order to enhance the richness and depth of future studies.

In addition, access to internal organization documents like board minutes, policies and procedures which could provide more insight into the strategic thinking of the management would greatly have contributed towards a more pragmatic review and analysis. Also most of the senior managers were not available for interview.

Finally, another major limitation was the unwillingness of the respondents to objectively articulate the situation of the bank due to stiff competition in the industry and the fear that information could be used for competitive advantage by their rivals.

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**APPENDICES**

**Appendix I Letter of Introduction**

August 2013

Dear Respondent,

I am a postgraduate student at the School of Business, University of Nairobi, currently carrying out a research titled ‘**Application of Dynamic Capability Approaches in Commercial Banks in Kenya**’. This is in partial fulfillment to the award of Master degree in Business Administration (Strategic Management).

You have been selected as one of the respondents in this study. I therefore request you to kindly facilitate the collection of the required data by answering the questions herein. This interview is purely for academic purposes and the data collected will be treated with utmost confidentiality. A copy of the completed project report shall be availed to you upon request.

Your assistance and cooperation will be highly appreciated. Thank you in advance.

Yours faithfully,

.....

Eric Ngeera

Student

0721 558846

.....

Dr Maalu Jackson

Research Supervisor

## **Appendix II: Questionnaire**

The information provided here will be used solely for academic purposes and will be treated with maximum confidentiality.

### **Instructions**

Please answer these questions to the best of your knowledge. Write your response in the space provided. Please put a tick (✓) where appropriate

### **PART A: Demographic Information**

1. How many employees does your bank have?

2. How long has your bank been in operation?

a) Less than one year [ ]

b) 1 to 2 years [ ]

c) 3 to 5 years [ ]

d) 6 to 8 years [ ]

e) More than 9 years [ ]

3. How long have you worked for the bank?

a) Less than one year [ ]

b) 1 to 2 years [ ]

c) 3 to 5 years [ ]

d) 6 to 8 years [ ]

e) More than 9 year [ ]

4.a) Do you carry out R & D activities? If yes what kind?

b) What proportion of revenue do you invest in R & D?

**PART B: Dynamic Capability Approaches**

5. Do the following factors affect the choice of dynamic capability approach in your bank? Rate these factors on a scale of 1-5 (1-Strongly Disagree, 2-Disagree, 3-Neutral, 4-Agree, 5-Strongly Agree)

| <b>Factors Affecting Dynamic Capability Approaches</b> | Strongly Disagree | Disagree | Neutral | Agree | Strongly Agree |
|--|-------------------|----------|---------|-------|----------------|
| Organization Mission and Vision                        |                   |          |         |       |                |
| Staff expertise  |                   |          |         |       |                |
| Customer demands                                       |                   |          |         |       |                |
| Market trends  |                   |          |         |       |                |
| Banks financial performance                            |                   |          |         |       |                |
| Banks expansion strategy                               |                   |          |         |       |                |
| Existing knowledge                                     |                   |          |         |       |                |
| Organizational structure                               |                   |          |         |       |                |
|  |                   |          |         |       |                |

**PART C: Factors Influencing Dynamic capability Approaches**

6. Dynamic capabilities consist of the following factors. How do these factors apply to your bank? Rate these factors on a scale of 1-5 (1-Strongly Disagree, 2-Disagree, 3-Neutral, 4-Agree, 5-Strongly Agree)

| <b>Components of Dynamic Capabilities</b>                             | Strongly Disagree | Disagree | Neutral | Agree | Strongly Agree |
|---|-------------------|----------|---------|-------|----------------|
| Retrieving of organizational activities to unveil the need for change |                   |          |         |       |                |
| Variation of existing firms resource configuration                    |                   |          |         |       |                |
| Selection of appropriate resource configuration                       |                   |          |         |       |                |
| Retention of resources through implementation                         |                   |          |         |       |                |
| Constant learning   |                   |          |         |       |                |
| New asset acquisition   |                   |          |         |       |                |
| Transformation of existing assets                                     |                   |          |         |       |                |
|   |                   |          |         |       |                |

7. The following are dynamic capability approaches with major impact on firm performance. In a scale of 1-5 (1-Strongly Disagree, 2-Disagree, 3-Neutral, 4-Agree, 5-Strongly Agree) rate these factors on how they contribute to your banks application and performance

| <b>Dynamic Capability Approaches with major impact on firms performance</b> | Strongly Disagree | Disagree | Neutral | Agree | Strongly Agree |
|---|-------------------|----------|---------|-------|----------------|
| Firms concentrate on Research and Development (R&D)                         |                   |          |         |       |                |
| Enhancing knowledge and management processes                                |                   |          |         |       |                |
| Enhancement of learning processes   |                   |          |         |       |                |
| Management strategic decision making  |                   |          |         |       |                |
| New bank branch formation processes   |                   |          |         |       |                |
| Up to date marketing strategies   |                   |          |         |       |                |
| Bank alliances and acquisition routines                                     |                   |          |         |       |                |
|   |                   |          |         |       |                |

**Thank you for your cooperation**

### **Appendix III: List of Commercial Banks in Kenya**

#### **Licensed Commercial Banks**

1. ABC Bank (Kenya)
2. Bank of Africa
3. Bank of Baroda
4. Bank of India
5. Barclays Bank
6. CFC Stanbic Bank
7. Chase Bank (Kenya)
8. Citibank
9. Commercial Bank of Africa
10. Consolidated Bank of Kenya
11. Cooperative Bank of Kenya
12. Credit Bank
13. Development Bank of Kenya
14. Diamond Trust Bank
15. Dubai Bank Kenya
16. Ecobank
17. Equatorial Commercial Bank
18. Equity Bank
19. Family Bank
20. Fidelity Commercial Bank Limited
21. Fina Bank

22. First Community Bank
23. Giro Commercial Bank
24. Guardian Bank
25. Gulf African Bank
26. Habib Bank
27. I&M Bank
28. Imperial Bank Kenya
29. Jamii Bora Bank
30. Kenya Commercial Bank
31. K-Rep Bank
32. Middle East Bank Kenya
33. National Bank of Kenya
34. NIC Bank
35. Oriental Commercial Bank
36. Paramount Universal Bank
37. Prime Bank (Kenya)
38. Standard Chartered Kenya
39. Trans National Bank Kenya
40. United Bank for Africa
41. Victoria Commercial Bank

## Appendix IV: Descriptive Analysis Results

### Descriptive Statistics

|   | Mean | Std.<br>Deviation | Analysis N |
|---|------|-------------------|------------|
| Enhancement of learning process   | 4.75 | .604              | 36         |
| Customer demands bear   | 4.69 | .467              | 36         |
| Enhancing knowledge and management process  | 4.58 | .806              | 36         |
| Constant learning   | 4.56 | .735              | 36         |
| If staff expertise bears upon   | 4.50 | .507              | 36         |
| Firms concentration on R & D  | 4.44 | .695              | 36         |
| Market trends bear  | 4.39 | .766              | 36         |
| Retrieval of organizational activities to unveil change                           | 4.33 | .632              | 36         |
| Retention of resource through implementation                                      | 4.33 | .862              | 36         |
| Management strategic decision making  | 4.31 | 1.117             | 36         |
| Transformation of existing assets selection of appropriate resource configuration | 4.28 | 1.059             | 36         |
| mission and vision  | 4.22 | .832              | 36         |
| knowledge bears   | 4.19 | 1.064             | 36         |
| New Asset Acquisition   | 4.17 | .609              | 36         |
| Financial performance   | 4.17 | .609              | 36         |
| Organizational structure  | 4.14 | .543              | 36         |
| upto date market strategy   | 3.94 | .791              | 36         |
| Bank alliances and acquisition routines   | 3.83 | .775              | 36         |
|   | 3.81 | 1.305             | 36         |

|  |        |         |    |
|--|--------|---------|----|
| Variation of existing resource configuration | 3.72   | 1.301   | 36 |
| New branch formation process                 | 3.39   | .494    | 36 |
| Expansion strategy                           | 2.89   | 1.369   | 36 |
| No. of employees in participating bank       | 650.81 | 291.333 | 36 |