



# **Influence of Organizational Capabilities on Competitive Advantage Among Tier One Banks In Kenya**

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## **ABSTRACT**

This study focused on determining the influence of organizational capabilities on competitive advantage among tier one banks in Kenya. The objectives of the study included; general objective which was to determine the influence of organizational capabilities on competitive advantage among tier one banks in Kenya. This study adopted cross-sectional survey. Qualitative data was collected. This study focused on tier one banks in Kenya. This is because tier one banks are considered to be the biggest banks in Kenya with the highest value in investment. The Central Bank of Kenya which governs banks has classified the tier one banks based on their assets. Tier one banks are large banks and have hundreds of billions in assets and are not likely to collapse financially. Kenya has nine (9) tier one banks namely; Kenya Commercial Bank (KCB), Equity Bank, Cooperative Bank, Absa (Barclays Bank), NCBA Bank, Standard Chartered Bank, Stanbic Bank, I&M Bank, and Diamond Trust Bank (DTB). Hypothesis testing was done through the use of t-test. F test (ANOVA) was also conducted to ascertain the difference between groups on study variables. The study found that leadership capability, human resource capability and marketing capability with the exemption of technological capability have a positive relationship with competitive advantage. Additionally, the study found that organizational capabilities has a positive significant influence on competitive advantage. The study concluded that tier one banks in Kenya experienced significantly increased level of competitiveness through differential, cost leadership and focus upon embracing leadership capability. The study also concluded that tier one banks in Kenya experience increased level of competitiveness when they observe occupational knowledge, quality focus and adaptability. Additionally, it was concluded that tier one banks in Kenya experience increased level of competitiveness when they marketing capability factors which include customer relationship score, sales and feedback and product differentiation. Based on the study findings, the study recommends consideration of organization capabilities and wholesome acquisition and implementation of technological capability.

**Keywords:** competitive advantage, organizational capabilities, tier one banks

## **INTRODUCTION**

There has been a significant volume of investigations recently focusing on dynamic capabilities. Dynamic capabilities are viewed as drivers behind creation, evolution, and recombination of other resources into a new source of competitive advantage (Henderson & Cockburn, 2014). Barney (2011) described resources as all assets, capabilities, organizational processes, organization attributes, information and knowledge controlled by the organization, which enable the organization to conceive of and implement strategies that improve its efficiency and effectiveness. However, resources alone are not enough to explain organization's competitive advantage; they need to be employed in some way in order to be useful (Hodgkinson & Healey, 2011). In reply to this critique, the dynamic capabilities approach has evolved, and defined as the ability to coordinate and deploy resources in order to achieve the organization's goals (Amit & Schoemaker, 2013). This capability approach thus overcomes the critique of whether possession or usage of resources is the primary concern (Woldesenbet, Ram & Jones, 2012).

This study focused on leadership capability, technological capability, human resources capability and marketing capability. This is because; leadership Capability have been widely accepted as popular styles visible that plays an effective and significant role in gaining competitive advantage (Wang et. al., 2012), technological capability is known as crucial factor for organization to create value and maintain competitive advantage in today's highly multifaceted and dynamic environment, human resource capability is valuable, rare, irreplaceable and difficult to imitate hence crucial for creating competitive advantage and lastly marketing capability helps an organization to sense and respond to market changes such as competitors moves, technological evolution and revolution, enable the organization to leverage its resources and skills to attain its competitive advantage (Wang et. al., 2012). These four

capabilities, therefore, link directly and play a crucial role in an organization's ability to achieve a competitive advantage (Wassmer & Dussauge, 2011).

Competitive advantage is the ability to stay ahead of present or potential competitors. It is a multidimensional phenomenon and monetary measures should therefore be supplemented for example by other market related measures like market share or customer satisfaction (Bharadwaj, Tuli, & Bonfrer, 2011). As the competition becomes extremely fierce, how to maintain competitive advantage starts to obtain more attention and therefore for an organization to sustain competitive advantage, its competitors should be unable to imitate the source of advantage or if no one conceives of a better offering (Kimet. al., 2011).

An organization must be sure what the consumer wants, understands, and appreciate the differences offered. It may be lucky enough to identify several potential competitive advantages, and it must be able to determine which are worth pursuing. Some differences are too subtle, too easily mimicked by the competitors and many are too expensive.

A competitive advantage can make or break an organization, so it is crucial to have the leadership capability, technological capability, human resource capability and marketing capability for an organization to benefit from competitive advantage.

#### **Global Perspective on Organizational Capabilities**

According to Chatterjee (2017) business organizations around the world strive to succeed in a competitive business environment. This makes it more important for them to develop core competencies. A core competence is a deep competence that enables a company to offer a unique value for customers (Dreyer & Grønhaug, 2012). It contains a comprehensive learning of an organization, Rouleau and Balogun (2011) assert that especially on how to coordinate the different production capabilities and integrate several technologies. These core competencies build a workable competitive advantage for a company and help expand into a variety of related markets (Dreyer & Grønhaug, 2012). Organizational capabilities also contribute significantly to the benefits that a company's products offer customers (Carmeli & Markman, 2011).

Most firms in the world must manage and survive economic crisis due to economic weak spots integrated into the In Turkey, Baloglu and Pekcan (2016) observed that marketing capabilities, market-linking capabilities, technological capabilities and human resource capabilities as dimensions of strategic capabilities have a positive effect on competitive advantage of machine-made carpet manufacturers.

In China, Yue (2015) concluded that different global institutions have different influences (to promote or hinder) in building organizational capabilities in the solar PV industry. The global institutions in Jiangsu can help solar PV companies to build organizational capabilities. Seemingly; in India, Brahmane (2014) indicated that implementation of organization capabilities has aid in solving bottlenecks between business-to-business (B2B). The model of organizational capabilities and market share as business competitive advantage proposed is one of the useful platforms to understand organization capabilities with strategic implication. In a multivariate analysis of survey responses of 102 firms, belonging to supporting industries in Vietnam indicated that the organizational capabilities are related to competitive advantage (Nham & Takahashi, 2017).

#### **Regional Perspective on Organizational Capabilities**

According to DeNisi and Smith (2014) businesses have continuously strived to find ways to achieve a sustainable competitive advantage. Professionals and academics for instance Ashurst, Freer, Ekdahl and Gibbons (2012) have concentrated their studies on specific features of the organization that are exclusive, add value to the end consumer and can be transferred to many different industrial environments. Many organizations recognize that it is the most challenging issue for companies to gain a competitive edge and this concern led to the development of theories based on resources and knowledge that examine the relationship between capability and sustainable competitive advantage (Wohlgemuth & Wenzel, 2016).

In Ghana, Bonsu (2016) found out that there is a direct relationship between organizational capabilities and organizational competitive advantage (financial and operational). He concluded that irrespective of the competitive intensity in the business environment, micro and small family businesses that adapt marketing and managerial capabilities will always outperform industry players. In Egypt, Salama (2017) on developing and examining a conceptual framework relating to resource based organizational capabilities and inter-organizational practices on organizational competitive advantage, he concluded that organizational competitive advantage, in the factories in Egypt, is affected by variables other than knowledge management capability and organizational learning. On the contrary, Ogunkoya (2014) indicated that there is no significant relationship between organization capabilities and organizational competitive advantage of banking sector in Nigeria. This implies that the ability of a firm to be able to produce unique and creative goods/services does not guarantee the organization to edging its competitors in the industry.

### **Local Perspective on Organizational Capabilities**

Kenya's economy has undergone many changes over the years and the banking sector has been significantly affected by these changes. The business environment has become very competitive and leadership ability must constantly change to follow these changes (Joseph & Francis, 2015). Therefore, increasing the competitive advantage of an organization through impact can be done to create, integrate, combine, and make its resources. Muganda and Fadhili, (2013) argue that to gain a competitive advantage, Kenyan organizations are committed to establishing core competencies such as industry-specific functions or project management and lean operations. As the functions and roles are constantly changing with the introduction of new employees with high competence, dynamic changes in IT and entrepreneurship, advanced leadership remains constant (Senaji & Nyaboga, 2011).

The evaluation effect of organizational capabilities in the corporation established that the variable supported strategy implementation in the corporation. Organizational capabilities had a partial mediating effect on the relationship between quality management practices and competitive advantage while Muganda and Fadhili, (2013) revealed there is need to build organizational capabilities and a framework that recognizes the key drivers that underlie the development of off-shoring success in IT industry in Kenya.

### **Banking Industry in Kenya**

The Central Bank of Kenya (CBK) is tasked with formulating and applying monetary and fiscal policy. The central bank is the last resort lender in Kenya and is the banker in all other banks. CBK guarantees that Kenya's financial system works well, liquidity in the country and solvency in Kenya's shilling. CBK falls under the National Treasury. To solve the problems with the banking sector in Kenya, banks have come together and formed a forum under the Kenya Bankers Association (KBA) (Muganda & Fadhili, 2013). Kenya has a total of 40 commercial banks, with Charterhouse Bank under statutory management and Imperial Bank under receivership, 1 mortgage finance company, 13 microfinance banks, 9 representative offices of foreign banks, 73 foreign exchange bureaus, 19 money remittance providers and 3 credit reference bureaus. Financial inclusion in Kenya has continued to rise, with 82.9% of the adult population able to access formal financial services.

The banking sector in Kenya has experienced continued growth in deposits, assets, product offering and competitive advantage. In the recent years improvements have been witnessed on the banking industry due to organizational capabilities, such improvements include innovation and leadership, implementation of ICT facilities, development of employees and new players in the industry. However, competition from local banks has increased just like international banks. This has benefited the Kenyan economy and shareholders and customers have benefited greatly (CBK, 2015). Important issues that concern the banking industry are changes in regulations, where liberalization exist reduction of interest margins due to customer requirements resulting in reorganization and change of focus towards the customer instead of the product. The banking industry is responsible for a significant expansion and development of the market, which should lead to increased consolidation of the banking sector (Riba Capital, 2011).

### **Statement of the Problem**

Organizational capabilities have been considered as a major source of generation and development of sustainable competitive advantage (Joseph & Francis, 2015). This view suggests that organization capable of developing and deploying unique, inimitable and valuable capabilities will gain a sustained competitive advantage (Chatterjee, 2017). Teece (2017) indicated that global financial recession of 2008 has taught us that there is a need to regulate banks; the case of USA brings forward the relationship between organizational capabilities and competitive advantage. Before 2007, USA had been deregulating their banking sector, which saw tremendous growth of the banking sector only that the growth could not be sustained, and the whole industry crushed. Since the financial crisis, they have introduced regulations to bring about economic stability and as a result, the growth of banking institutions has slowed down Klynveld Peat Marvick Goerdeler (KPMG, 2014).

If banks hope to survive and prosper, their leaders can neither conduct business as usual nor adopt temporary fixes and half-measures. They must respond at a more fundamental level, bolstering and, to the extent that they are not already in place, creating the essential organizational capabilities for the post-crisis era. When economic and technological complexity increases, leaders must devote more attention to definition and improvement of the few critical business processes that determine success and failure. Moreover, organizations need to be able to manage both change and current business to achieve sustainable growth; and that the capabilities required for the management of change and current business differ (Butt, 2010). There have been many reasons why the banks all over the world are not achieving the competitive advantage as the instance of Pakistan and clearly Kenyan banks are no difference, and hence the reason for my study of influence of organizational capabilities among tier banks in Kenya. Therefore, this study focused on answering the question: how does organizational capabilities influence competitive advantage among tier one banks in Kenya?

### **Objectives of the Study**

The study was guided by both the general and specific objectives. The general objective of the study was to determine the influence of the organizational capabilities on competitive advantage among tier one banks in Kenya.

The specific objectives of the study were:

1. Determine the influence of leadership capability on competitive advantage among tier one banks in Kenya.
2. Assess the influence of technological capability on competitive advantage among tier one banks in Kenya.
3. Ascertain the influence of human resource capability on competitive advantage among tier one banks in Kenya.
4. Establish the influence of marketing capability on competitive advantage among tier one banks in Kenya.
5. Determine the influence of organizational capabilities on competitive advantage among tier one banks in Kenya.

### **Research Hypotheses**

H<sub>01</sub>: Leadership capability does not significantly influence competitive advantage among tier one banks in Kenya.

H<sub>02</sub>: Technological capability does not significantly influence competitive advantage among tier one banks in Kenya.

H<sub>03</sub>: Human resource capability does not significantly influence competitive advantage among tier one banks in Kenya.

H<sub>04</sub>: Marketing capability does not significantly influence competitive advantage among tier one banks in Kenya.

H<sub>05</sub>: The joint effect of organizational capabilities does not significantly influence competitive advantage among tier one banks in Kenya.

## **LITERATURE REVIEW**

### **Theoretical Review**

#### **Contingency Theory**

The contingency theory of leadership was proposed by the Austrian psychologist Fred Edward Fiedler in his landmark 1964 article, "A Contingency Model of Leadership Effectiveness." The contingency theory emphasizes the importance of both the leader's personality and the situation in which that leader operates. Fiedler and his associates studied leaders in a variety of contexts but mostly in military context and their model is based on their research findings. The trait perspective was one of the earliest theories of leadership in the 1940's which assumes that great leaders are born with distinguished personality traits that make them better suited for leadership and make them different from other people or their followers. The basic assertion of contingency theory is that the environment in which an organization operates determines the best way for it to organize. The contingency theory draws the idea that there is no one or single best way or approach to manage organizations. Organizations should then develop appropriate managerial strategy based on the situation and condition they are experiencing.

Managers must understand the importance of the contingency theory and its positive implications for an organization to improve on the leadership skills, employee morale and gain competitive advantage. This theory was hence significant in this study in establishing how leadership capability affects tier one banks in achieving competitive advantage.

#### **Technology Acceptance Theory**

The origin of Technology Acceptance Theory (TAT) dates back to the works of Fred Davis in 1985 when he proposed the theory in his doctoral thesis at the Massachusetts Institute of Technology, Sloan School of Management (Davis, 1985). Davis purposed the Technology Acceptance Theory (TAT) to predict user intention to adopt new technology in information system and mobile banking. Davis in his conceptual model proposed that system features and capabilities stimulate user motivation that in response becomes the driving force to use the actual system.

Empirical studies have proven that this theory is of quality and is able to yield statistically reliable results hence important in this study and relevant to demonstrate how technological capability influenced tier one banks achieve competitive advantage.

#### **Resource Based View Theory (RBV)**

In the 1990s, Barney Jay proposed this theory (Furrer *et. al.*, 2008). Barney (1991) expounds on the internal sources of the organization's long-term competitive advantages. According to the theory, a company should possess capabilities and resources that exceed its competitors' resources and priorities in order for them to achieve competitive environmental advantage (Kraaijenbrink, Spender & Groen, 2010). Resources are among the inputs forming a organization's production process. According to Barney (1991), a resource can be classified into human capital, physical capital and organizational capital, while on the other hand capability involves is the ability of a resource to meet the requirements of a task of stretching an activity (Crook, 2008). Therefore, RBV is an appropriate

theory in this study to explain whether human resource capability indeed formally and empirically yields competitive advantage among tier one banks in Kenya.

#### **Profit Maximizing and Competition Based Theory**

The Profit Maximizing and Competition Based Theory under the Neo-Classical economic theory of the firm could be traced back as early as Adam Smith is writing in *The Wealth of Nations* (Smith, 1996). As Adam Smith argued that every business person with his/ her own company (based on contractual duties to owners) would act in self-interest to maximize profit and by so doing increased the aggregate benefit of the society. This theory then received considerable attention from Alfred Marshall in his book *Principles of Economics* which published in 1890 (Hornby, 1995). Further contributions to the theory were also added by writings from Robinson (1933), Chamberlain (1933) and also Coase (1937). However at this stage, this theory still adopting the economic perspective in which the main premise stated that firms essentially try to maximize its profit by equating its marginal revenues with marginal cost.

In such environments, there was hardly any pressure on each firm to maximize profit independently. Instead, firms arrived at joint profit maximization through such devices as collusions and cartels. Alternatively put, the pressure from rival producers was not strong enough to dictate profit maximization as an inevitable objective for each organization. This theory is based on the notion that organization main objective is to maximize long-term goals and develop sustainable competitive advantage. The industrial-organization (I/O) perspective is the basis of this theory as it views the organization external market capability as the critical factor for attaining and sustaining competitive advantage hence critical in our study.

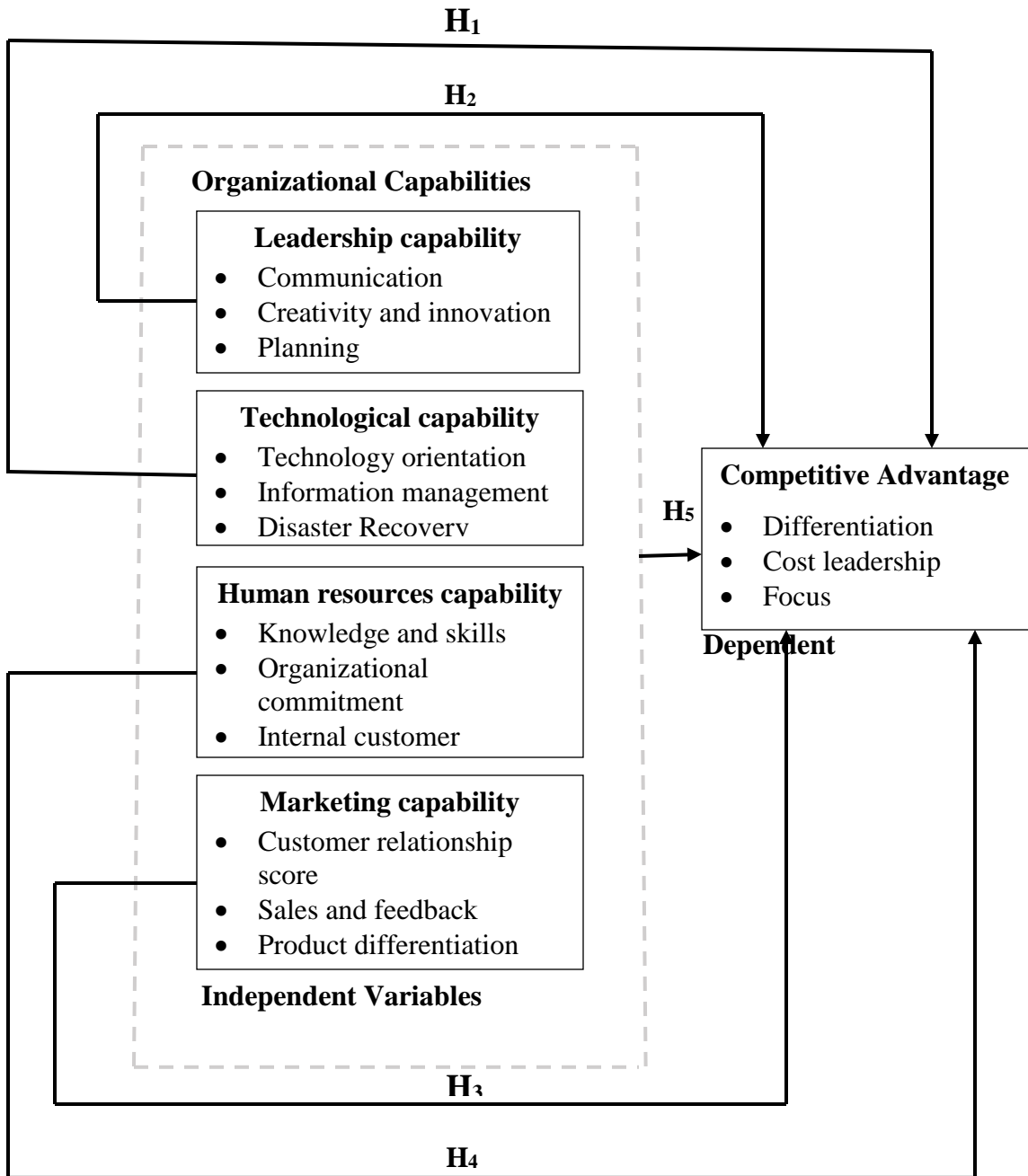
#### **Dynamic Capability Theory**

Dynamic capability theory emerged from Gary Hamel's working paper 1989 "multinational strategy research leading to Core Competencies of the Corporation". This theory emphasizes the ability of a firm to blend, construct, and figure again internal and external capabilities and speak on the swift evolving environment. Ever-changing competences therefore mirror the firm's capacity to attain new and inventive types of competitive advantages, given dependencies of path, and positioning of markets (Helfat et. al., 2007 & Teece, 1997).

This theory must be honed in tier one banks so that there are unique customer innovations and unique products and services. An organization that cannot develop dynamic capability theory will push itself out of business.

#### **Conceptual Framework**

Conceptual framework refers to an analytical tool with several variations and contexts, which are used to make organized ideas and distinctions (Barney et. al., 2011). It consists of the dependent variable and independent variables. The independent variables of this study focused on leadership capability, technological capability, human resources capability and marketing capability while the dependent variable has touched on competitive advantage among Tier One Banks in Kenya. The conceptual framework of this study has shown the anticipated relationship between organizational capabilities (leadership capability, technological capability, human resources capability and marketing capabilities) and competitive advantage of tier one banks in Kenya. As discussed by inter-functional coordination (Wang, Zhu & Bao, 2017; Mandal & Korasiga (2016), human resource capability (Mohammadian & Mohammadreza, 2012; Chengecha, 2016), technological capability (Obembe, Ojo & Ilori, 2014; Zawislak Cherubini Alves, Tello Gamarra, Barbieux & Reichert, 2012), leadership capability (Lee & Klassen, 2008; Ahmed, 2017; Aduloju, 2014) and marketing capability (Karanja, Muathe & Thuo, 2014; Breznik & Hisrich, 2014), This study aimed to conceptualize on these variables while trying to add more knowledge on the gaps that were unidentified by the earlier scholars. The conceptual framework is presented in Figure 2.1



**Figure Error! No text of specified style in document.-1: Conceptual Framework**

**RESEARCH METHODOLOGY**

**Research Design**

This study adopted cross-sectional survey. A cross-sectional survey collects data to make inferences about a population of interest (universe) at one point in time. According to (Orodho, 2014), cross-sectional surveys have been described as snapshots of the populations about which they gather data. It can compare different population groups at a single point in time. The benefit of a cross-sectional study design is that it allows researchers to compare many different variables at the same time. Cross-sectional survey was therefore appropriate for this study as it was helpful in developing an understanding on organizational capabilities and competitive advantage among tier one banks in Kenya.

**Target Population**

This study focused on tier one banks in Kenya. This is because tier one banks are considered to be the biggest banks in Kenya with the highest value in investment (CBK, 2019).

The Central Bank of Kenya which governs banks has classified the tier one banks based on their assets. Tier one banks are large banks and have hundreds of billions in assets and are not likely to collapse financially. According to CBK (2019) Kenya has nine (9) tier one banks namely;

Kenya Commercial Bank (KCB), Equity Bank, Cooperative Bank, Absa (Barclays Bank), NCBA Bank, Standard Chartered Bank, Stanbic Bank, I&M Bank and Diamond Trust Bank (DTB).

In order to get findings that will represent the face of the banking sector in Kenya, the study focused on only the headquarter offices of all the nine (9) tier one banks in Kenya located in Nairobi. The target population of the study was 960 professional employees sampled across all the levels management for example, top management, middle management and the lower management working for the selected banks at the headquarter offices located in Nairobi.

This is as shown in table 3.1

**Table 3.1. Target Population**

BANK	TARGET POPULATION			TOTAL
	TOP LEVEL	MIDDLE LEVEL	LOWER LEVEL	
Kenya Commercial Bank	3	76	111	190
Equity bank	2	47	76	125
Cooperative Bank	4	55	84	143
Barclays Bank	3	39	57	99
NCBA Bank	5	34	62	101
Standard Chartered Bank	4	32	55	91
Stanbic Bank	2	30	44	76
I & M Bank	3	20	24	46
Diamond Trust bank (DTB)	1	17	24	42
<b>Total</b>	<b>27</b>	<b>350</b>	<b>537</b>	<b>960</b>

Source: (CBK Records, 2019)

**Sampling Frame**

According to (Kothari, 2009) a sampling frame as a list of elements from which the sample is actually drawn and closely related to the population merge. A researcher rarely has direct access to the entire population of interest in social science research and therefore, a researcher relies upon a sampling frame to represent all of the elements of the population of interest. The sampling frame of the study consisted of 960 respondents as per (CBKHR records, 2018).

**Sample and Sampling Technique**

The Sample and Sampling Technique included; Sample Size and Sampling Technique as explained below;

Kombo and Tromp (2009) define a sample as a collection of units chosen from the universe to represent it. It is the sub set of population that is selected for a study which is representative of that population (Nalzarro, 2012). A sample is needed because a study that is insufficiently precise, lacks the power to reject a false null hypothesis and is a waste of time and money (Gerstman, 2003).

According to (Oso, & Onen, 2009) a sample is part of the target population that has been procedurally selected to represent it. The sample size of the study was determined using Yamane’s Formula (Yamane, 1997):

$$n = \frac{N}{1 + N(e^2)}$$

The study out of the targeted 960 population size was provided for 91 copies of questionnaires which have been determined by Yamane 1997 formulae with a confidence interval of 90% and a 0.05 margin of error as shown below;

Sample size formulae;

$$n = \frac{N}{1 + N(e^2)} = \frac{960}{1 + 960(0.1^2)} = \frac{960}{10.6} = 90.6 = 91 \text{ Respondents}$$

Where;

n= Optimum Sample size

N= Target population

e= margin of error

Therefore, a sample size of 91 respondents was used for the study.

Proportionate stratified sampling was used to determine the specific sample size of each strata. This was calculated as shown below;

$$N_h = \frac{N_h \times n_f}{N}$$

Where; n<sub>h</sub>= sample size for strata h (where h = 1, 2, 3)

N<sub>h</sub> = population size for strata h

N = Total Population

n<sub>f</sub> = Final sample size under Yamane's formula

Therefore, a sample size of 91 respondents was used in the study.

### **Sampling Technique**

Stratified random sampling aims to achieve the desired representation from various sub-groups in the population with the subjects being selected in such a way that the existing sub-groups in the population are more or less represented in the sample. The study ensured that relevant staff were directly involved in giving their opinions on organizational capabilities issues and eliminated misrepresentation of the respondents leading to increased data reliability.

### **Data Collection Instruments**

In this study, a semi structured self-designed questionnaire was used as the survey tool for this study based on the anticipated sample population. Items in the questionnaire was developed to investigate the research objectives and answer the hypothesis of the study. Primary data was collected by using questionnaires. The questionnaires comprised both open and closed ended questions. Open-ended questions allowed the respondents to express themselves and gave more information to the researcher while closed ended questions offered choices from which the respondents chose.

### **Pilot Testing**

Saunders et. al., (2011) stressed the importance of undertaking a pilot test study to pre-test the questionnaire. Pilot testing establishes the validity and reliability of the research instruments. It allows the researcher to establish the accuracy and appropriateness of the research design and instruments. Bryman (2012) as well as detect weaknesses in design and implementation (Cooper & Schindler, 2011). According to Mugenda and Mugenda (2010), as a rule of thumb, 10% of the sample should constitute the pilot test. Therefore, ten (10) respondents selected randomly from the sample size of the study participated in pilot testing. These respondents did not participate in the final data collection of the study. This way, it was easy to find out whether the respondents find the items on the questionnaire to be clear, precise, and comprehensive enough thus enhancing reliability.

### **Reliability Test**

According to Hair (2006) Cronbach's alpha refers to an internal consistency measure, which shows how closely related a set of items are as a group. Cronbach's alpha coefficient value of 0.70 indicates reliability. Hair (2006), asserted that Cronbach's alpha is a measure of internal consistency, that is, how closely related a set of items are as a group. It is considered to be a measure of scale reliability. A high value for alpha does not imply that the measure is unidimensional. If, in addition to measuring internal consistency, you wish to provide evidence that the scale in question is unidimensional, additional analyses can be performed. Exploratory factor analysis is one method of



checking dimensionality (Hair, 2006). Cronbach's alpha is not a statistical test - it is a coefficient of reliability (or consistency). Cronbach's alpha can be written as a function of the number of test items and the average inter-correlation among the items. The formula for the standardized Cronbach's alpha is given as:

$$\alpha = \frac{N \cdot \bar{c}}{\bar{V} + (N-1) \cdot \bar{c}}$$

- α:** Is a measure of internal consistency, that is, how closely related a set of items are as a group.
- N** is equal to the number of items,
- cbar** is the average inter-item covariance among the items and
- Vbar** equals the average variance.

From this formula, when one increases the number of items, Cronbach's alpha increases. Additionally, if the average inter-item correlation is low, alpha will be low. As the average inter-item correlation increases, Cronbach's alpha increases as well (holding the number of items constant). Cronbach's alpha coefficient value of 1.0 indicates a perfect reliability while that of below 0.70 will indicate low reliability.

**Data Processing and Analysis**

In this study, measures of central tendency and spread were also analyzed descriptively using the mean, mode, median and the standard deviation. Relationships between the variables were analyzed inferentially using Regression Analysis. The data collected was first edited to correct the errors if any, coded and then analyzed using the Statistical Package of Social Sciences (SPSS) version 24 computer software which enabled the manipulation and transformation of variables into desired forms for the purpose of analysis.

Finally, quantitative data was presented using statistical techniques such as tables, pie charts and graphs. Qualitative data on the other hand was presented descriptively.

**RegressionModel/ Statistical Model**

Multiple linear regression analysis was conducted to determine influence of organizational capabilities on competitive advantage among tier one banks in Kenya. Regression analysis was also conducted to determine the influence of the Independent variable on the change of the Dependent Variable. The competitive advantage of the tier one banks was regressed against the independent variables which were leadership capability, technological capability, human resources capability and marketing capability. The equation was expressed as follows;

$$Y_p = \beta_0 + \beta(X_1 + X_2 + X_3 + X_4) + \epsilon \dots \dots \dots (i)$$

$$Y_p = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \epsilon \dots \dots \dots (ii)$$

Where:

- Y<sub>p</sub> = Competitive advantage among tier one banks in Kenya.
- β<sub>0</sub> = constant (co efficient of intercept)
- X<sub>1</sub> = Leadership capability
- X<sub>2</sub> = Technological capability
- X<sub>3</sub> = Human resources capability
- X<sub>4</sub> = Marketing capability
- β<sub>1</sub> to β<sub>4</sub> = Regression coefficient of four (4) variables
- β(X<sub>1</sub> + X<sub>2</sub> + X<sub>3</sub> + X<sub>4</sub>) = Composite of Organizational Capabilities
- ε = error term

**Hypotheses Testing**

The study relied on t-test to test the hypotheses. Kothari (2009) defines a t-test as an analysis of two population means through the use of statistical examination; a t-test with two samples is commonly used to test the differences between the samples when the variances of two normal distributions are not known. A t-test looks at the t-statistic, the t-distribution and degrees of freedom to determine the probability of difference between populations; the test statistic in the test is known as the t-statistic. An important property of the t-test is its robustness against assumptions of population normality. In other words, t-tests are often valid even when the assumption of normality is violated, but only if the distribution is not highly skewed. This property makes them one of the most useful procedures for making inferences about population means.

Calculation of t:

$$t = \frac{\text{mean-comparison value}}{\text{Standard Error}}$$

This estimate may be more or less accurate.

If we have a large number of observations and all of these observations are close to the sample mean (large N, small SD), we can be confident that our estimate of the population mean (that it equals the sample mean) is fairly accurate => small SE

If we have a small number of observations and they vary a lot (small N, large SD), our estimate of the population is likely to be quite inaccurate => large SE

Where:

**N**=Sample size

**SD**= Standard deviation

**SE**= Standard Error

If;

$t \leq 0.05$  reject the null hypothesis and if,

$t \geq 0.05$  fail to reject the null hypothesis.

However, it is worth noting that one-sample t test has three primary requirements (assumptions) for in order to produce accurate results. These are; unbiased sampling, independent observations, and normality. There must be unbiased sampling from the population of interest, this requirement must be met for the results of the study to be meaningful descriptively as well as inferentially. Secondly, the observations in a study should be independent to the extent that each observation is not predictive of another observation in the study. One-sample t test requires that the sample was drawn from a population that follows a normal distribution. According to Mugenda and Mugenda, (2010) partly because of the Central Limit Theorem, however, this assumption can typically be violated as long as the sample size is reasonably large. "Reasonably large" is often defined as  $n > 30$ ; however, as long as the departure from normality is not too severe, considerably smaller sample sizes are acceptable.

#### **Pretesting for Multiple Regression Assumptions**

The study also conducted pretesting for multiple regression assumptions in order to ascertain the relevance of the study.

#### **Normality Test**

There are two well-known tests for normality, this is, Kolmogorov- Smirnov Test and the second is the Shapiro Wilk Test. For Sample sizes which are smaller that is less than 50, the Shapiro Wilk test can handle that, although it can handle sample size of up to 2000. If the Significant Value of the Kolmogorov- Smirnov Test or Shapiro Wilk Test is greater than 0.05, the data is normal while the significant value is below 0.05, then the data significantly deviates from the normal distribution, (Pallant, 2013). This study utilized the Kolmogorov- Smirnov Test to indicate whether the data is normally distributed.

#### **Multicollinearity Test**

According to William et. al.,(2013), multicollinearity refers to the presence of correlations between the predictor variables. In severe cases of perfect correlations between predictor variables, multicollinearity can imply that a unique least squares solution to a regression analysis cannot be computed (Field, 2009). Multicollinearity inflates the standard errors and confidence intervals leading to unstable estimates of the coefficients for individual predictors. Multicollinearity was assessed in this study using the variance inflation factors (VIF). According to Field (2009) VIF values in excess of 10 is an indication of the presence of Multicollinearity.

#### **Homogeneity Variance Test**

It is defined as the assumption that any distribution or comparison of distributions shares the same level of variance within the particular group of data points. It is also referred to homoscedasticity. The importance of the assumption lies in the nature of the tests that compare between-group variability (usually the mean of each group) to the level of within-group variability (often expressed as the error term, the average mean square error/within, or weighted average standard deviation). The assumption of homogeneity test is an assumption of the independent samples t-test and analysis of Variance (ANOVA) stating that all comparison groups have the same variance. If the variances are not homogeneous, they are said to be heterogeneous. If this is the case, we say that the underlying populations, or random variables, are heteroscedastic (sometimes spelled as heteroskedastic).

**RESEARCH FINDINGS AND DISCUSSION**

**Response Rate**

**Table Error! No text of specified style in document..2: Response Rate**

<b>Rate Category</b>	<b>Frequency</b>	<b>Percent</b>
Response	73	80.22%
Non response	18	19.78%
<b>Total</b>	<b>91</b>	<b>100%</b>

Response rate is defined as the extent to which the final data set includes all sample members and is calculated as the number of respondents with whom questionnaire are completed and received divided by the total number of respondents in the entire sample including non-respondents (Orodho, 2003). The researcher targeted 91 respondents from the 9 identified tier one banks in Kenya. However, 73 questionnaire were filled correctly and returned as shown in table 4.1. This translates to 80.22%. This response rate was considered adequate as recommended by (Babbie, 2005).

**Pilot Testing Results**

Pilot testing establishes the reliability and validity of the questionnaire. Pilot study was used to detect weaknesses in research design and instrumentation and to provide proxy large scale studies data for selection of sample (Cooper & Schindler, 2006). Pretesting helped to assess the clarity of the instrument, the ease of use and the time taken to administer the instruments. For this study, pilot study was undertaken on the 9 identified tier one banks in Kenya. The pilot study targeted ten (10) respondents who were sampled randomly. Those who participated in the pilot study will not be part of the study sample.

This was to ensure that, as Saunders et al., (2011) advised, that the pilot testing established the reliability and validity of the questionnaire. A pilot study was conducted to test for validity and reliability of the data collection instrument.

**Reliability Results**

Reliability analysis was done to evaluate survey construct using Cronbach’s alpha. Table 4.2 shows the reliability results for the pilot study. Sekaran and Bougie (2013) stated that coefficient greater than or equal to 0.7 is acceptable for basic research. Bagozzi (1994) explains that reliability can be seen from two sides: reliability (the extent of accuracy) and unreliability (the extent of inaccuracy). The most common reliability coefficient is Cronbach’s alpha which estimates internal consistency by determining how all items on a test relate to all other items and to the total test- internal coherence of data. The reliability is expressed as a coefficient between 0 and 1.00. The higher the coefficient, the more reliable is the test.

**Table Error! No text of specified style in document..3: Reliability Results**

<b>Variable</b>	<b>Cronbach’s Alpha</b>	<b>No of Items</b>	<b>Conclusion</b>
Leadership Capability	.916	9	Reliable
Technological Capability	.931	9	Reliable
Human Resource Capability	.954	9	Reliable
Marketing Capability	.939	9	Reliable
Competitive Advantage	.870	9	Reliable

**N=5**

The pilot results proved that the variable statements were highly reliable with a representative Cronbach’s Alpha of .916, .931, .954, .939 and .870 for leadership capability, technological capability, human resource capability, marketing capability and competitive advantage respectively.

**Test for Construct Validity**

The test for construct validity for the study is the Kaiser-Meyer-Olkin (KMO) test for construct validity which according to Field (2005), KMO Value/Degree of Common Variance of between 0.90 to 1.00 is “Marvelous”, 0.80 to 0.89 is “Meritorious”, 0.70 to 0.79 is “Middling” 0.60 to 0.69 is “Mediocre”, 0.50 to 0.59 is “Miserable”, 0.00 to 0.49 is “Don’t Factor”.

Thus, a KMO coefficient of above 0.800 is “Marvelous” for the study and were evaluated as per Table 2 which indicate the KMO and Bartlett’s test of construct validity for each of the dependent and independent variables.

**Table Error! No text of specified style in document..4: Factorial Test Results for Construct Validity**

Variables	KMO	Bartlett's Test of Sphericity			Conclusion	Validity
		Approx. Chi-Square	df	Sig.		
Leadership Capability	.839	395.437	36	0.000	Meritorious	Valid
Technological Capability	.853	434.430	36	0.000	Meritorious	Valid
Human Resource Capability	.799	345.882	36	0.000	Middling	Valid
Marketing Capability	.881	414.424	36	0.000	Meritorious	Valid
Competitive Advantage	.865	477.467	36	0.000	Meritorious	Valid

N=5

The values of the KMO Measure of Sampling Adequacy for all the variables were above 0.500. The significance of the KMO coefficient was evaluated using a Chi-Square test and a critical probability value (p-value) of 0.05. A Chi-Square coefficient ranging from 395.437 to 477.467 and a p-value of 0 imply that the coefficients were significant. The results further implies that there was a significant correlation between leadership capability, technological capability, human resource capability, marketing capability and competitive advantage.

### General Characteristics of the Study Sample

#### Level of Education

The study sought to establish respondents' highest level of education. The results of table 4.3 below show that majority of the respondents had Diploma 28 (38.4%) closely followed by Undergraduate 20 (27.4%). 14 (19.2%) certificate while 11 (15.1%) of the respondents were postgraduates. This is an indication that these banks value merit, and for this reason, the researcher is likely to gather the right set of data on the influence of organizational capabilities on competitive advantage among tier one banks in Kenya.

**Table Error! No text of specified style in document..5: Level of Education**

Education level	Frequency	Percent
Certificate	14	19.2
Diploma	28	38.4
Undergraduate	20	27.4
Postgraduate	11	15.1
<b>Total</b>	<b>73</b>	<b>100</b>

N=73

#### Respondents Job Category

Table 4.4 shows the level of management that the participating respondents occupied at the identified tier one banks. A majority of the respondent's profile constituted of the operational level management team 31 (42.4%) followed closely by the middle level managers 28 (38.4%). The least participating were the top level management who constituted 14 (19.2%). This is because both low level and middle level employees are directly involved in implementation of organizational capabilities and competitive advantage. Top management are involved in strategic decision making related to both organizational capabilities and competitive advantage of the organizations.

**Table Error! No text of specified style in document..6: Job Category**

Level of Management	Frequency	Percent
Top level	14	19.2
Middle level	28	38.4
Operational level	31	42.4
<b>Total</b>	<b>73</b>	<b>100</b>

N= 73

#### Respondents Length of Service in the Organization

The study sought to find out the number of years each respondent had worked for the tier one banks in Kenya. From the findings in table 4.6, majority 22 (34.9%) of the respondents indicated that they have served in the association for between of six to nine years, while 9 (14.3%) of the respondents had served between four to six years, a few 20 (31.7%) of the respondents had served between one to three years and the remaining 11 (17.5%) of the respondents

were in service for more than 10 years. Therefore, it is evident that respondents have served in the organization for varied number of years. This means the respondents have the satisfactory information about the organization and contract management hence they provided the information desired for this study.

**Table Error! No text of specified style in document..7: Years of Service (Experience)**

<b>Years</b>	<b>Frequency</b>	<b>Percent</b>
Below 2 Years	25	34.2
3-5 years	25	34.2
Over 6 years	23	31.6
<b>Total</b>	<b>73</b>	<b>100</b>

N= 73

**Descriptive Statistics**

**Influence of leadership capability on competitive advantage among tier one banks in Kenya**

Respondents indicated their level of agreement with statements relating to influence of leadership capability on competitive advantage among tier one banks in Kenya. Results obtained were presented in Table 4.7

**Table Error! No text of specified style in document..8: Leadership Capability**

<b>Statement</b>	<b>Mean</b>	<b>Std. Deviation</b>
There is a significant relationship between an organization's leader communication skills and the organization's competitive advantage.	3.29	1.495
Communication skills and leadership go hand in hand	3.49	1.203
Communication is a vital tool to leadership capability	3.82	1.122
Creativity and Innovation are a basic requirement for competitive advantage of an organization	3.84	1.093
Organizations increasingly depend on the creativity and innovativeness of their leaders to survive	3.90	0.988
Creativity and innovativeness are the power to create something new to reach deep into the subconscious of subjects for solution that leaders should possess.	3.93	1.032
Planning helps an organization to sustain competitive advantage	3.96	.904
Leadership strategic plans and mentors programs should be implemented to ensure continuity	3.90	.960
The success of an organization can be determined by planning strategically hand with organizations vision and mission	4.11	.951

**N=73**

From the findings, the respondents were in agreement that there is a significant relationship between an organization's leader communication skills and the organization's competitive advantage (M=3.29, SD= 1.495); Communication skills and leadership go hand in hand (M=3.49, SD= 1.203); Communication is a vital tool to leadership capability (M=3.82, SD= 1.122); Creativity and Innovation are a basic requirement for competitive advantage of an organization (M=3.84, SD=1.093);Organizations increasingly depend on the creativity and innovativeness of their leaders to survive (M=3.90, SD= 0.988);Creativity and innovativeness are the power to create something new to reach deep into the subconscious of subjects for solution that leaders should possess(M=3.93, SD=1.032); Planning helps an organization to sustain competitive advantage (M=3.96, SD=0.904); Leadership strategic plans and mentors programs should be implemented to ensure continuity(M=3.90, 0.960);and the success of an organization can be determined by planning strategically hand with organizations vision and mission (M=4.11, SD=0.951).

**Influence of technological capability on competitive advantage among tier one banks in Kenya**

Respondents gave their level of agreement/disagreement on various statements relating to the influence of technological capability on competitive advantage among tier one banks in Kenya. The results obtained are as presented in Table 4.8

**Table Error! No text of specified style in document..9: Technological Capability**

Statement	Mean	Std. Deviation
The level of technology an organization has adopted can determine the competitiveness of an organization in an industry	3.48	1.556
Organizations are technology change are likely to be very competitive in an industry.	3.37	1.196
Organizations should embrace every change phase technology advance to.	3.60	1.199
Banks should consider implementation of information management to integrate its various management components	3.71	1.060
Information Management protects the organization's confidential data from the competitors in the industry	3.75	1.090
An organization the upgrades and updates its information management will always be ahead of the competitors.	3.81	1.076
Employment of technology on the operation of services can influence disaster recovery time.	3.88	0.971
Tier One Banks have applied disaster recovery systems through embracing technological capability in the management of its services and stakeholders.	3.92	0.909
The Initial cost of implementing a disaster recovery system is likely to be higher than the total operational costs and benefits this strategy can bring to a bank in its lifetime.	3.65	1.184

N=73

From the findings, respondents agreed that: The level of technology an organization has adopted can determine the competitiveness of an organization in an industry (M=3.48; SD= 1.556); Organizations are technology dynamic are likely to be very competitive in an industry. (M=3.37; SD=1.196); Organizations should embrace every change phase technology advance to. (M=3.60, SD=1.199); Banks should consider implementation of information management to integrate its various management components (M=3.71, SD= 1.060); Information Management protects the organization's confidential data from the competitors in the industry (M=3.75, SD=1.090). An organization the upgrades and updates its information management will always be ahead of the competitors (M=3.81, SD=1.076).Employment of technology on the operation of services can influence disaster recovery time (M=3.88, SD=0.971).Tier One Banks have applied disaster recovery systems through embracing technological capability in the management of its services and stakeholders(M=3.92, SD= 0.909)and the Initial cost of implementating a disaster recovery system is likely to be higher than the total operational costs and benefits this strategy can bring to a bank in its lifetime (M=3.65, 1.184).

**Influence of human resource capability on competitive advantage among tier one banks in Kenya**

Respondents gave their level of agreement and disagreement with various statements that relate with the influence of human resource capability on competitive advantage among tier one banks in Kenya. The results obtained were as presented in Table 4.9

**Table Error! No text of specified style in document..10 : Human Resource Capability**

Statement	Mean	Std. Deviation
Organizational Knowledge and Skills management is critical for an organizational competitive advantage.	3.41	1.580
Employers should engage candidates with the right skills and knowledge.	3.59	1.200
To gain competitive advantage, employees should be continuously trained in order to improve their knowhow.	3.88	0.999
Employers should maintain employee commitment and loyalty by continuously reviewing the terms of employment.	3.74	1.000
For quality focus and competitive advantage an employer should provide its employees with better employment terms.	3.89	0.906
With the right resources and favorable environment an organization will have a competitive advantage	3.75	1.064
Competitive advantage favors organizations with employees who are internally satisfied and can adapt to the changing business environment demands.	3.75	0.997
An employee mix combined with satisfaction can ensure competitive ability of an organization.	3.81	1.009
Organizations require satisfied internal customers to maintain competitive advantage.	3.88	0.948

N=73

The findings presented in table 4.9 show that respondents agree that: Organizational Knowledge and Skills management is critical for an organizational competitive advantage (M=3.41, SD=1.580); Employers should engage candidates with the right skills and knowledge (M=3.59, SD=1.200); To gain competitive advantage, employees

should be continuously trained in order to improve their knowhow(M=3.88, SD=0.999); Employers should maintain employee commitment and loyalty by continuously reviewing the terms of employment (M=3.74, SD= 1.000). For quality focus and competitive advantage an employer should provide its employees with better employment terms(M=3.89, SD=0.906). With the right resources and favorable environment an organization will have a competitive advantage (M=3.75, SD= 1.064); Competitive advantage favors organizations with employees who are internally satisfied and can adapt to the changing business environment demands (M=3.75, SD= 0.997); An employee mix combined with satisfaction can ensure competitive ability of an organization (M=3.81, SD=1.009); and organizations require satisfied internal customers to maintain competitive advantage (M=3.88, SD=0.948).

**Influence of marketing capability on competitive advantage among tier one banks in Kenya**

Respondents indicated their level of agreement and disagreement with various statements that relate with the influence of marketing capability on competitive advantage among tier one banks in Kenya. The results were as presented in Table 4.10

**Table Error! No text of specified style in document..11: Marketing Capability**

<b>Statement</b>	<b>Mean</b>	<b>Std. Deviation</b>
Customer relationship score is a base upon which an organization can evaluate its marketing capability	3.42	1.499
The Number of feedbacks you receive from your customers can determine the size of your market size.	3.55	1.225
Customer relationship score will ensure customer loyalty	3.64	1.159
Customer feedback should be handled with a lot of importance	3.73	1.134
Implementation of customer feedback ensures sales targets are met	3.53	1.015
Sales, feedback, and competitive advantage are directly proportional	3.74	1.118
Joint product development can bring about product differentiation.	3.77	1.021
Product differentiation will ensure competitive advantage.	3.84	1.028
Organizations that differentiate their products are likely to have a sustainable competitive advantage.	3.96	0.873

**N=73**

From the findings, respondents agreed that Customer relationship score is a base upon which an organization can evaluate its marketing capability (M=3.42, SD= 1.499); The Number of feedbacks you receive from your customers can determine the size of your market size(M=3.55, SD= 1.225); Customer relationship score will ensure customer loyalty (M=3.64, SD= 1.159); Customer feedback should be handled with a lot of importance (M=3.73; SD=1.134); Implementation of customer feedback ensures sales targets are met (M=3.53, SD= 1.015); Sales, feedback and competitive advantage are directly proportional (M=3.74, SD=1.118 ); Joint product development can bring about product differentiation(M=3.77, SD=1.021); Product differentiation will ensure competitive advantage(M=3.84, SD= 1.028).and Organizations that differentiate their products are likely to have a sustainable competitive advantage(M=3.96,0.873).

**Organization Competitive Advantage**

Respondents gave their level of agreement on various statements relating with the competitive advantage of their organization. The results were as presented in Table 4.11

**Table Error! No text of specified style in document..12: Competitive Advantage**

<b>Statement</b>	<b>Mean</b>	<b>Std. Deviation</b>
To what extent has differentiation improved the Competitive advantage of tier one banks?	3.38	1.487
To what extent has differentiation helped tier one banks become market leaders?	3.42	1.129
To what extent are differentiation strategies of tier one banks directly Proportional to organizational capabilities?	3.68	1.177
To what extent has organizational capabilities ensured tier one banks attain cost leadership?	3.67	1.055
To what extent has cost leadership ensured continuous growth of tier one banks.	3.64	0.977
To what extent have tier one banks in Kenya attained cost leadership?	3.88	0.957
To what extent does cost focus affect competitive advantage?	3.90	1.002
To what extent does focus strategy affect the competitive advantage of tier one banks?	3.81	1.009
To what extent have tier one banks in Kenya attained focus?	3.88	1.066

N=73

From the findings, respondents were asked the extent to which differential, cost leadership and cost focus improved the level of competitive advantage. Their responses were as follows; To what extent has differentiation improved the Competitive advantage of tier one banks? (M=3.38, SD= 1.487); To what extent has differentiation helped tier one banks become market leaders? (M=3.42, SD= 1.129); To what extent are differentiation strategies of tier one banks directly Proportional to organizational capabilities? (M=3.68, SD=1.177); To what extent has organizational capabilities ensured tier one banks attain cost leadership?(M= 3.67; SD= 1.055); To what extent has cost leadership ensured continuous growth of tier one banks(M= 3.64, SD=0.977); To what extent have tier one banks in Kenya attained cost leadership? (M=3.88, SD=0.957); To what extent does cost focus affect competitive advantage?(M=3.90, SD=1.002); To what extent does focus strategy affect the competitive advantage of tier one banks?(M=3.81, 1.009); and To what extent have tier one banks in Kenya attained focus? (M= 3.88, SD= 1.066).

**Diagnostic Tests**

**Kolmogorov-Smirnov**

For the purpose of this study, Kolmogorov-Smirnov and the Shapiro-Wilk tests were used since they are more reliable test for determining normality and has been found to be the most powerful test in most situations (Richardson & Smith, 1993).The rule of thumb is that if the significance level is >0.05, we assume that the data is normally distributed and if less than 0.05, we assume that the data is not normally distributed. The test is not calculated when a frequency variable is specified. It is mostly used for evaluating the assumption of univariate normality by taking the observed cumulative distribution of scores and comparing them to the theoretical cumulative distribution for a normally distributed variable. The null and alternative hypotheses were stated as follows:

*H<sub>0</sub>: The data is normally distributed*

*H<sub>1</sub>: The data is not normally distributed*

The rule is that if the p-value is greater than 0.05, H<sub>0</sub> is not rejected and H<sub>1</sub> is rejected, if the p -value is less than 0.05, H<sub>0</sub> is rejected and H<sub>1</sub> is accepted. The tests results are as shown in Table 4.12

**Table Error! No text of specified style in document..13: Kolmogorov-Smirnova and Shapiro-Wilk Test**

Variables	Kolmogorov-Smirnova			Shapiro-Wilk		
	Statistic	df	Sig.	Statistic	df	Sig.
Competitive advantage	.121	73	.010	.949	73	.003
Leadership capability	.093	73	.195	.946	73	.016
Technological capability	.094	73	.199	.957	73	.002
Human resource capability	.118	73	.015	.940	73	.003
Marketing capability	.113	73	.021	.944	73	.005

Table 4.12 shows that the p value for all the variables was greater than 0.05. Therefore, the null hypothesis was not rejected implying the data is normally distributed.

**Multicollinearity Test**

According to William, Burke, Beckman, Morgan, Daly and Litz (2013) multicollinearity refers to the presence of correlations between the predictor variables. In severe cases of perfect correlations between predictor variables, multicollinearity can imply that a unique least squares solution to a regression analysis cannot be computed (Field, 2009). Multicollinearity inflates the standard errors and confidence intervals leading to unstable estimates of the coefficients for individual predictors (Belsley, Kuh&Welsch, 1980).

**Table Error! No text of specified style in document..14: Test for Multicollinearity**

	Tolerance	VIF
Competitive advantage	0.516	1.936
Leadership capability	.317	3.153
Technological capability	.197	5.086
Human resource capability	.322	3.104
Marketing capability	.200	4.989
Mean		3.6536

Multicollinearity was assessed in this study using the Variance inflation factors (VIF). According to Field (2009) VIF values in excess of 10 is an indication of the presence of Multicollinearity. The variance inflation factor results



and were established to be 3.6536 which is less than 10 and thus according to Field (2009) indicates that there is no Multicollinearity.

**Test for Heteroscedasticity**

Heteroscedasticity is usually present when the size of the error term differs across values of an independent variable (Fletcher, et al., 2000). Heteroscedasticity is indicated when the residuals are not evenly scattered around the line. When the plot of residuals appears to deviate substantially from normal, more formal tests for heteroscedasticity should be performed (Jason 2013). The error process may be Homoscedastic within cross-sectional units, but its variance may differ across units: a condition known as group wise Heteroscedasticity (Stevenson, 2004). For the purpose of testing heteroscedasticity in this study, Breusch Pagan Test was performed in order to calculate group wise Heteroscedasticity in the residuals. Heteroscedasticity test was run in order to test whether the error terms are correlated across observation in the panel data (Long & Ervin, 2000). As a rule of thumb, if the p value is less than 0.05, the data has the problem of heteroscedasticity.

**Table Error! No text of specified style in document..15: Heteroscedasticity Test**

Variables	$\beta$	Std. Error	T	Sig.
(Constant)	0.874	0.299	2.921	0.004
Competitive advantage	-0.048	0.057	-0.831	0.408
Leadership capability	-0.014	0.052	-0.262	0.794
Technological capability	0.095	0.053	1.8	0.075
Human resource capability	-0.123	0.067	-1.849	0.068
Marketing capability	-0.127	0.065	-1.95	0.054

The results revealed that all the variables had a p value > 0.05. Thus the data did not suffer from heteroscedasticity.

**Inferential Statistics**

Inferential statistics infer from the sample to the population. They determine probability of characteristics of population based on the characteristics of the sample. Inferential statistics help assess strength of the relationship between the independent variables and the dependent variable.

**Pearson Product Moment Correlation**

**Table Error! No text of specified style in document..16: Correlation Analysis**

		LC	TC	HRC	MC	CA
<b>Leadership_Capability</b>	Pearson Correlation	1	.824**	.670**	.741**	.708**
	Sig. (2-tailed)		.000	.000	.000	.000
	N	73	73	73	73	73
<b>Technological_Capability</b>	Pearson Correlation	.824**	1	.741**	.852**	.709**
	Sig. (2-tailed)	.000		.000	.000	.000
	N	73	73	73	73	73
<b>HR_Capability</b>	Pearson Correlation	.670**	.741**	1	.818**	.660**
	Sig. (2-tailed)	.000	.000		.000	.000
	N	73	73	73	73	73
<b>Marketing_Capability</b>	Pearson Correlation	.741**	.852**	.818**	1	.781**
	Sig. (2-tailed)	.000	.000	.000		.000
	N	73	73	72	73	73
<b>Competitive_Advantage</b>	Pearson Correlation	.708**	.709**	.660**	.781**	1
	Sig. (2-tailed)	.000	.000	.000	.000	
	N	73	73	73	73	73

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

From the findings, leadership capability was found to be positively and significantly related to competitive advantage ( $r = .708$ ,  $p$ -value = .000). Technological capability was found to be positively and significantly related with competitive advantage ( $r = .709$ ,  $p$ -value = .00) at 0.05 levels of significance. Human resource capability was found to be having a positive and significant relationship with competitive advantage ( $r = .660$ ,  $p$ -value = .000) and marketing capability was found to be positively and significantly related to organization competitive advantage. ( $r = .781$ ,  $p$ -value = .000). These findings therefore suggest that leadership capability, technological capability, human resource capability and marketing capability influence competitive advantage of tier one banks in Kenya.

**Regression Analysis**

A multiple linear regression analysis was done to examine the relationship of the independent variables with the dependent variable. The regression results are presented in Table 4.17

**Model Summary**

**Table Error! No text of specified style in document..17: Model Summary**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.799 <sup>a</sup>	.638	.616	.55039

a. Predictors: (Constant), Marketing\_Capability, Leadership\_Capability, Human\_Resource\_Capability, Technological\_Capability

From the findings, the value of adjusted R<sup>2</sup> was .616 which suggests that 61.6% variation in competitive advantage can be attributed to change in leadership capability, technological capability, human resource capability and marketing capability. Moreover, the remaining 38.2% suggest that there are other factors that can explain variation in competitive advantage which were not included in this model. The findings further show that the variables under research are strongly and positively correlated as indicated by correlation coefficient (R) value of 0.799.

**Table Error! No text of specified style in document..18: ANOVA for Organizational Capabilities**

ANOVA <sup>a</sup>						
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	34.764	4	8.691	29.969	.000 <sup>b</sup>
	Residual	19.691	68	.290		
	Total	54.455	72			

a. Dependent Variable: Competitive\_Advantage

b. Predictors: (Constant), Marketing\_Capability, Leadership\_Capability, Human\_Resource\_Capability, Technological\_Capability

Table 4.17 provided the results on the analysis of the variance (ANOVA). The results indicated that the model was statistically significant. This was supported by an F statistic of 29.969 and the reported p value (0.000) which was less than the conventional probability of 0.05 significance level. The results implied that Organizational Capabilities are a good predictor of competitive advantage. The findings agree with that of Crombez et. al., (2006) who found a significant relationship between organizational capability and competitive advantage.

**Table Error! No text of specified style in document..19: Coefficients of Determination**

Coefficients <sup>a</sup>						
Model		Unstandardized		Standardized	t	Sig.
		Coefficients		Coefficients		
		B	Std. Error	Beta		
1	(Constant)	.432	.337		1.284	.204
	Leadership_Capability	.313	.140	.297	2.242	.028
	Technological_Capability	-.056	.172	-.055	-2.325	.046
	Human_Resource_Capability	.016	.144	.015	3.114	.010
	Marketing_Capability	.601	.169	.591	3.548	.001

a. Dependent Variable: Competitive\_Advantage

The regression model was;

$$Y = .432 + .313 X_1 + (-.56) X_2 + .016 X_3 + .601 X_4 + .55039$$

Where:

Y= Competitive advantage,

X<sub>1</sub>= Leadership capability,  
X<sub>2</sub>=Technological capability,  
X<sub>3</sub>= Human Resource capability and  
X<sub>4</sub>= Marketing Capability transport optimization

The equation above revealed that if leadership capability, technological capability, human resource capability and marketing capability variables were held at a constant zero, competitive advantage will be at a constant of 0.114 units.

From the table above, the findings show leadership capability has a positive influence on competitive advantage as shown by a regression coefficient of .313. The p-value (.028) was less than the significance level (0.05), hence the relationship was significant. Therefore, a unit increase in leadership capability will result to an increase in competitive advantage by .313 units.

The results also show that technological capability has a negative insignificant influence on competitive advantage as shown by a regression coefficient of -.056. The relationship was also found to be statistically significant as the p-value (.046) was less than the significance level (0.05). Therefore, increasing technological capability by a single unit will result to a decrease in competitive advantage by .056 units.

From the findings, the study found that human resource capability has a positive significant influence on competitive advantage as shown by a regression coefficient of .016. The relationship was also found to be statistically significant as the p-value (.010) was less than the significance level (0.05). Therefore, a unit increase in human resource capability leads to an increase in competitive advantage by .016 units.

The study also found that marketing capability has positive significant influence on competitive advantage as shown by a regression coefficient of .601. The relationship was found to be significant as the p-value (.001) was less than the significance level (0.05). Therefore, increasing marketing capability by a single unit would lead to an increase in competitive advantage by .601 units.

From these findings we can infer that technological capability influences competitive advantage most followed by marketing capability, then leadership capability and lastly human resource capability.

#### **Hypothesis testing**

The hypothesis was tested by using multiple linear regression (table 4.18, above). The acceptance/rejection criteria was that, if the p value is greater than 0.05, the H<sub>01</sub> is not rejected but if it's less than 0.05, the H<sub>01</sub> fails to be accepted.

#### **Leadership Capability and Competitive Advantage**

The null hypothesis was that Leadership capability does not significantly influence competitive advantage among tier one banks in Kenya. Results in Table 4.18 above show that the p-value was .028<0.05. The results in table 4.18 further revealed that  $t_{cal} (2.242) > c_{critical} (1.96)$  and thus the null hypothesis was rejected. This indicated that the null hypothesis was rejected hence there is a significant relationship between Leadership Capability and Competitive Advantage among Tier One Banks in Kenya. Therefore the study concluded that Leadership Capability influence Competitive Advantage.

*H<sub>01</sub>: Leadership capability significantly influence competitive advantage among tier one banks in Kenya.*

#### **Technological capability and Competitive Advantage**

The null hypothesis was that Technological capability does not significantly influence competitive advantage among tier one banks in Kenya. Results in Table 4.18 above show that the p-value was .046<0.05. The results in table 4.18 further revealed that  $t_{cal} (2.325) > c_{critical} (1.96)$  and thus the null hypothesis was rejected. This indicated that the null hypothesis was rejected hence there is a significant relationship between Technological Capability and Competitive Advantage among Tier One Banks in Kenya. Therefore the study concluded that Technological Capability influence Competitive Advantage.

*H<sub>02</sub>: Technological capability significantly influence competitive advantage among tier one banks in Kenya.*

#### **Human Resource Capability and Competitive Advantage**

The null hypothesis was that Human resource capability does not significantly influence competitive advantage among tier one banks in Kenya. Results in Table 4.18 above show that the p-value was .010<0.05. The results in table 4.18 further revealed that  $t_{cal} (3.114) > c_{critical} (1.96)$  and thus the null hypothesis was rejected. This indicated that the null hypothesis was rejected hence there is a significant relationship between Human Resource Capability and competitive advantage among tier one banks in Kenya. Therefore the study concluded that Human Resource Capability influence Competitive Advantage.

*H<sub>03</sub>: Human resource capability does not significantly influence competitive advantage among tier one banks in Kenya.*

### Marketing Capability and Competitive Advantage

The null hypothesis was that Human resource capability does not significantly influence competitive advantage among tier one banks in Kenya. Results in Table 4.18 above show that the p-value was  $.001 < 0.05$ . The results in table 4.18 further revealed that  $t_{cal} (3.548) > c_{critical} (1.96)$  and thus the null hypothesis was rejected. This indicated that the null hypothesis was rejected hence there is a significant relationship between Marketing Capability and Competitive Advantage among Tier One Banks in Kenya. Therefore the study concluded that Marketing Capability influence Competitive Advantage.

*H<sub>04</sub>: Marketing capability significantly influence competitive advantage among tier one banks in Kenya.*

### Organizational Capabilities and Competitive Advantage

**Table 4.19: Coefficients for Organizational Capabilities**

	B	Std. Error	t	Sig.
(Constant)	0.704	0.384	1.834	0.07
Organizational Capabilities	0.764	0.099	2.325	0.032

The null hypothesis was that the joint effect of Organizational Capabilities does not significantly influence Competitive Advantage among tier one banks in Kenya. Results in Table 4.19 above show that the p-value was  $.032 < 0.05$ . The results in table 4.19 further revealed that  $t_{cal} (2.325) > c_{critical} (1.96)$  and thus the null hypothesis was rejected. This indicated that the null hypothesis was rejected hence there is a significant relationship between Organizational Capability and Competitive Advantage among Tier One Banks in Kenya. Therefore the study concluded that Organizational Capability influence Competitive Advantage.

*H<sub>05</sub>: The joint effect of organizational capabilities significantly influence competitive advantage among tier one banks in Kenya.*

### CONCLUSION

Following the results of the study, it is worthwhile to conclude that there is a positive relationship between organizational capabilities and competitive advantage. Through leadership capability, human resource capability and marketing capability, tier one banks in Kenya have been able to remain competitive by differentiation, cost leadership and focus within the banking industry.

### RECOMMENDATIONS

Companies need to adapt to environmental change in order to continue to be successful. If the environment is dynamic or unpredictable, companies are particularly challenged to review their routines. Organizational capabilities enable companies to develop new products and processes and respond to changing market conditions. Organizational capability is a company's ability to perform a coordinated task using organizational resources to achieve a certain end result. The development of organizational capability is well documented in the literature for large enterprises

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