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STRATEGIC CAPABILITIES AND PERFORMANCE OF SELECTED COMMERCIAL BANKS IN NAIROBI CITY COUNTY KENYA

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ABSTRACT

The general objective of the study was to establish the relationship between strategic capabilities and performance of selected commercial banks in Nairobi City, Kenya. Specific objectives; to establish the influence of innovations capability on performance of selected commercial banks in Nairobi City, Kenya, and to determine the influence of technical knowledge capability on performance of selected commercial banks in Nairobi City, Kenya. The study adopted a descriptive cross-sectional survey. The target population of this study comprised 3 commercial banks in Nairobi County. The study population composed of 236 members of staff in at management level currently working at head office of the commercial banks. The study sample was 149 respondents. Stratified and simple random sampling technique was used to select the sample. The questionnaire was the selected instrument or tool for data collection for the study. The researcher administered the questionnaire individually to all respondents of the study. The study carried out a pilot study to pre-test and validates the questionnaire. Quantitative data collected was analyzed by the use of descriptive statistics using SPSS and presented through percentages, means, standard deviations and frequencies. The information was displayed by use of bar charts, graphs and pie charts and in prose-form. Multiple regressions were done to establish the influence of strategic capabilities on performance of selected commercial banks in Nairobi County. The study found that relationship between innovations Capability and performance of selected commercial banks in Nairobi City, Kenya is significantly positive. Also, Technical Knowledge Capability and performance of selected commercial banks in Nairobi City, Kenya is significantly positive. The study therefore recommends management of the bank to embrace various forms of innovations including, product, service, market, and process innovations. It is also recommended for banks to become more proactive in developing products and services that create value for customers. Banks must also empower their frontline executives to become more customer oriented as that presents an opportunity to get customer inputs toward innovative decision making. Bank should improve its technical knowledge capacity through Knowledge management, talents and skills acquisition, Knowledge creation, Knowledge gathering, Knowledge diffusion and Knowledge use.

Key Words: strategic capabilities, innovations capability, technical knowledge capability

Introduction

The strategic capabilities construct has distinguished itself as a profound and reliable concept in explaining performance variations amongst different sectors, regions and business organizations in the increasingly competitive market. Most organizations possess a number of basic capabilities. These basic capabilities are those that enable the organizations to run as businesses. Strategic firm capabilities, above and beyond basic capabilities, have three distinctive characteristics, and these are; they are of value to the customer; they are better than that of the majority of other competitors; and they are difficult to imitate or replicate (Kamau & Were, 2013).

The strategic capabilities framework, Teece (2016) lined up to explain how and why certain firms build competitive advantage under regimes of rapid change. Thereby, it aimed at filling the research gap of other frameworks that explain how a given competitive advantage may be safeguarded or maintained under stable conditions but failed to explain how such a competitive advantage was gained in the first place and how it can be sustained under changing conditions.

Strategic firm capabilities are vital for a business enterprise to earn sustained competitive advantage and ensure superior firm performance. These are the unique capabilities that are of value to customers, rare and which competitors find difficult to imitate. It is the ability of an organization to build these unique and distinctive Competences so as to provide products or services to customers that are superior to competitor's offerings that become the basis of a lasting competitive advantage (Pearce II & Robinson, 2015). Barney and Hesterlt (2015) view core competence as the collective learning in the organization, especially how to coordinate diverse production skills and integrate multiple streams of technologies.

In India's banking industry strategic capability factor is an essential driver to the performance of banks. Learning, integration, and alliance of strategic management capabilities directly influence banks' financial and nonfinancial performance. The banking industry is not an exception to change (Singh and Rao, 2017). Wilden, Gudergan, Nielsen, and Lings (2013) examined the role of the external environment on the effect of strategic capabilities in Australia. It was found that dynamic capabilities have a positive effect on sales growth and financial solvency when firms are faced with increasing levels of competitive intensity. Fainshmidt *et al.* (2016) highlighted the role of technological developments on the organizational capabilities in Malaysia. The study emphasized on the ability of employees to adapt to the rapidly changing environment which is known as strategic Capabilities. The results showed that the strategic capabilities of an organization along with the technological developments are greatly affected by the economic activities and is not solely dependent on the internal factors prevailing within an organization.

Strategic capabilities strategy explains how the Nigerian banking sector embark on mergers and acquisitions as a means of adapting to changes in their business environments and at the same time achieving sustainable competitive advantage. Also Banks are becoming increasingly aware of the threats and the opportunities that ICT presents (Safeena, Abdullah & Date 2010) and these are continually transforming the traditional way of banking business and providing competitive edge for banks that provide those electronic services. Schoemaker and Day (2009) therefore suggest that organizations should seek early signals to exploit these changes, by being sensitive to emerging changes (early signals) so that they are better able to manage the emergent opportunities or threats. Since changes will always abound, early signal perception should be anchored in a solid foresight perceptive (Mendonca, Gustero, & Joao, 2015).

According to Barreto (2010), in a turbulent environment, strategic capabilities (SC) are often considered as the justifying factors for the differentiated success degree of organizations.

Therefore, Kenyan commercial banking sector's differentiated performance might be influenced by strategic capabilities. It's worth noting that among the different concepts developed so far and employed to justify the different degree of success, Strategic Capabilities is one of the most recent ones, particularly in a turbulent environment (Zollo & Winter, 2012). The environment in which Kenyan commercial banks operate is turbulent. Another fundamental question in strategic management that has gained attention lately regards the contribution made by strategic capabilities to performance in dynamic environments (Teece *et al.*, 1997). According to Central Bank of Kenya (CBK), Kenya's commercial bank sector exhibits differences in performance, with some banks reporting very high profits while others report losses before tax on their annual report. This implies difference in performance of firms within a sector that is performing highly in comparison with other sectors and industries within Kenya's economic environment (CBK, 2012).

The modern-day realities of banking business demand for application of creative approaches that guarantee competitive advantage for sustained profitability as opposed to through increase in prices (Diop & Topping, 2016). Writings on boundless sustainable competitive advantage aver that firms can obtain competitive advantage by value creating strategies not simultaneously being implemented by any current competitor. With new market and government policy needs in the Kenyan Banking sector, it necessitated for employment of non-ordinary measures to assume and sustain superior performance, hence the requirement for the building of core competences in the sector. It is against this background that the study seeks to establish the relationship between strategic capabilities and performance of commercial banks in Kenya.

Statement of the Problem

Strategic capabilities are vital for a business enterprise to earn sustained competitive advantage and ensure superior firm performance. These are the unique capabilities that are of value to customers, rare and which competitors find difficult to imitate. It is the ability of an organization to build these unique and distinctive competences so as to provide products or services to customers that are superior to competitor`s offerings that become the basis of a lasting competitive advantage (Pearce II & Robinson, 2011). Prahalad and Hamel view core competence as the collective learning in the organization, especially how to coordinate diverse production skills and integrate multiple streams of technologies (Barney & Hesterlt, 2015).

Study by Bikker and Bos (2016) in Kenya came to a conclusion that technological advancements are responsible for changes in the banking industry. Also, changes in customer needs and intensified competition are responsible for these changes. The changing business environment can be attributed to various factors; first, customer productivity and profitability in the retail sector segment has gradually collapsed in many markets in Africa and around the world. Secondly, the self-aware attitude of the new customer towards the bank has led to a shift of power in the customer-bank relation. Thirdly, stricter regulation as demanded by government and institutions has led to an overall increase in costs of compliance by banks. This power shift has changed how customers and bankers conduct business and making firm capabilities essential to achieve competitive advantage. Firms in the Kenyan banking industry have an aim of adapting effectively to changing circumstances in the world over fierce competition, continuous change in technology and global markets.

Wanyanga (2017) undertook research on the utilization of strategic capabilities as an operation strategy in the hotel industry in Kenya. Muhura (2015) undertook a research on firm capabilities as a source of competitive advantage at Airtel Kenya. Wanyanga, (2017) focused on strategic capabilities as an operation strategy while (Muhura, 2017) focused on strategic capabilities as a source of competitive advantage. There exists a gap in literature on utilization of strategic capabilities and their influence on performance of selected commercial banks in Nairobi City, Kenya.

Objectives of the Study

The general objective of the study was to establish the relationship between strategic capabilities and performance of selected commercial banks in Nairobi City, Kenya

Specifically, the study sought to;

i. To establish the influence of innovations capability on performance of selected commercial banks in Nairobi City, Kenya
ii. To determine the influence of technical knowledge capability on performance of selected commercial banks in Nairobi City, Kenya

LITERATURE REVIEW

Theoretical Review

Dynamic Capabilities Theory

Ambrosini and Bowman (2009) termed Teece's (1990) paper as the first contribution to distinctively bring out the idea of dynamic capabilities. He illustrated that RBV did not clearly demonstrate the criteria used by some successful firms to undertake rapid and flexible product innovation and timely responsiveness along with the capability of the management to properly coordinate and redeploy external and internal competences. He further argued that consideration needs to be made of the changing external environment situations and thus the contribution of strategic management which is basically concerned with 'adapting, reconfiguring and integrating both the internal and external organizational resources, skills and practical competencies towards the dynamic environment.

Teece et al., (2007) observed that in turbulent environments, competitive advantage is a dynamic capabilities function rather than industry conflict or competitive positioning. The term "dynamic" was used to demonstrate "the ability to renew competences so as to a match with the changing environment" Teece et al., (2007) highlighted how important path dependencies are, and the importance of restructuring the resources of a firm in an effort to allow for change and to evolution. Strategic capabilities are developed from a framework composed of three factors: organizational positions, path dependencies and processes (Teece et al., 1997).

The processes look at how tasks are performed hence: patterns of practice and routines. They determine ways in which capabilities can be developed within the organizations to capitalize on the current opportunities through analysis of internal and external capabilities. Resource endowments such as intellectual property, technology and associations with suppliers and customers define the position of an organization (Teece et al., 1997). Evolutionary theory highlights the evolutionary path of capabilities where distinctive capabilities emerge from the evolution of past capabilities (Ambrosini & Bowman, 2009). Therefore, path dependencies focus on improvement of firms strategic options through the modification of its current capabilities

Knowledge-Based Theory

According to the knowledge-based view, innovative knowledge is what companies require to dominate an industry (Malik & Malik, 2008). The knowledge-based view considers a firm to be a "distributed knowledge system" composed of knowledge holding employees, and this view holds that the firm's role is to coordinate the work of those employees so that they can create knowledge and value for the firm. (Carlucci, 2004), claim that "knowledge assets are as important for competitive advantage and survival, if not more important, than physical and financial assets".

Barney observed that knowledge and capabilities-based views in strategy have largely extended resource-based reasoning by suggesting that knowledge is the primary resource underlying new value creation, heterogeneity, and competitive advantage (as cited by Felin and Hesterly (2017). Additionally, both contend that research and practice are replete with empirical and anecdotal evidence of the primacy of individuals as the locus of knowledge and source of new value. An organizational capability (Tsai, Li, Tsai & Lin, 2012) is often established by a bundle of related knowledge which include knowledge items and the range of such items.

Knowledge-based view considers knowledge as the most important source for firms' competitive advantage (Feng, Chen & Liou, 2015). Grant argues that knowledge is a crucial resource of firm's strategies and stresses the origin of competitive advantage as the integration of a bundle of knowledge rather than individual knowledge (as cited by Felin & Hesterly, 2017). Additionally, Knowledge aids firms in strategic development of products and markets and provides an alternative way of achieving differentiation and competitive advantage.

KBV has facilitated a shift from a competitive advantage that is based on market position to one that focuses on firm's capabilities (Felin & Hesterly, 2017). Moreover, the orientation of firm's strategies has also been changed from position-based to capabilities-based. Firms often absorb new knowledge to improve their capabilities from collaborative partners by alliance (Kale & Singh, 2017) or developing effective models (Capron & Mitchell, 2009). Knowledge based view stresses knowledge-based competition.

In summary, the knowledge-based view illustrates that firms can differentiate themselves on the basis of their knowledge management strategies. While each of the individual knowledge assets is complex to acquire and difficult to imitate, firms that achieve competitive advantage through knowledge management system have also learned to combine their knowledge assets to effectively create an overall knowledge management capability. This study will seek to establish how the knowledge-based view of the firm can explain the heterogeneity in performance of commercial banks. The knowledge-based view considers an organization to be a "distributed knowledge system" composed of knowledge holding employees; the study will therefore look at how strategic knowledge assets lead to competitive advantage, firm's survival and performance.

Empirical Review

Innovations Capability and Organizational Performance

Dalvand, Moshabaki, and Karampour (2015) researched on the impact of innovation capabilities on export performance of firms. In this paper food export companies surveyed were chosen because this industry is biased towards innovation and was diagnosed fairly competitive. The model of this article is based on a review of past research studies and from the combination of them. Statistical population of this article includes experts, high experts and managers of companies which by using the formula for sample size in limited population about 340 questionnaires for obtaining the opinions of them were distributed. In this study we have used the SPSS and Lisrel software. As a result, the main relationship between effective and operational capabilities and export performance was approved and it was demonstrated that the impact of operational innovation capabilities on export performance is more than effective innovation capabilities. Also, resources allocating, organizational, culture and learning capabilities from the effective innovation capabilities, and manufacturing, marketing capabilities from the operational innovation capabilities have positive effects on export performance.

Mensah, (2016) researched on the effects of innovative capabilities on performance in the banking industry a case of UT Bank Ghana. This research sought to examine the effects of innovative capabilities on performance in the banking industry. The research design adopted was descriptive.

The population comprised of staff, management and clients of UT bank. The target population was estimated at 201,039. The sample used was 395. Convenience sampling was used to select 150 staff and 245 clients from the bank. The study concluded that the bank has performed well on some innovative capability dimensions. Dimensions on which UT Bank performed creditably included product innovation, marketing innovation, organizational innovation and process innovation. The study found that Product innovation, marketing innovation and process innovation had a moderate relationship with organizational performance. However, organizational innovation and collaborations had a weak relationship with organizational performance. It is therefore recommended that banks become more proactive in developing products and services that create value for customers. Banks must also empower their frontline executives to become more customer oriented as that presents an opportunity to get customer inputs toward innovative decision making.

Oluwajoba, Oluwagbemiga, Kehinde and Akinade (2017) researched on Assessment of the capabilities for innovation by small and medium industry in Nigeria. The study assessed the ability and competencies of the manufacturing SMEs to innovate. A sample population of 100 companies located in Ibadan and Lagos cities were purposively selected. The results showed that none of them achieved major innovations that could be considered unique and science-based. However, some (43%) obtained average innovative index score (∏2) between 0 and 2, which showed that the innovation type in all these companies was mostly incremental. Among the few (14%) that showed some level of originality their innovative abilities was significantly related to some internal factors which included higher academic degree, education in science or engineering, and relevant working experience in large corporation/multinationals and university/research institute of the founder/manager. Other variables that significantly related to the innovative index ∏2 are the extent of investment in the research and development, and on employees training. In addition, the results also indicated that the external inputs which the companies needed for internal learning and innovation came through interactions with other external agents.

Muchemi and Moronge (2017) studied the effects of implementation of strategic innovation on the performance of commercial banks in Kenya; a case study of equity bank. The study particularly sought to establish the effect of market innovation strategies on the performance of commercial banks in Kenya and to determine the effect of product innovation strategies on the performance of commercial banks in Kenya. The target population for the study was the staff at the Equity bank group headquarters, with a population of 160 employees. Findings revealed that Market innovation strategies and Product innovation strategies collectively explain variations in the Performance. The study concluded that overall, strategic innovation, as indicated by Market innovation strategies and Product innovation strategies positively and significantly impacted performance among Commercial banks in Kenya.

Technical Knowledge Capability and Organizational Performance

Ahmad et al. (2014) did a Review of Technological Capability and Performance Relationship in Manufacturing Companies. Developing countries are striving to compete in the global intense market, including Malaysia, and for that reason, this key industry needs to maintain and boost local capabilities for the economic strengthen and stability. As the technological capability (TC) has a strong involvement in the production and operation sectors which are the cornerstones of each manufacturing company, it should be improved and monitored periodically. The nature of a long-term commitment of the technological capability creation and accumulation requires a huge considerable effort from a company to realize the effects of TC have on performance measures in every aspect while gaining competitive advantages and sustaining commercial success in the local and international market within their operational periods. Based from a resource-based view, it is in congruence that capabilities will promote firms' competitive advantage by improving the performance. The major intention of this paper is to have an overview on how TC actually relates towards performance measures in manufacturing companies.

Solomon (2015) researched on the effects of organizational capabilities on firm success: Evidence from Eritrean wood-and-metal-manufacturing firms. The purpose of this paper was to examine the effects of organizational capabilities on the success of Eritrean wood- and metal-manufacturing firms. Specifically, the paper analyzed the effects of owner-managers' innovativeness, personal relations and employees' technical skills on the firms' success. The study entailed a survey of 287 wood- and metal-manufacturing small and medium enterprises, which were selected using stratified random sampling. Structural equation modeling was used to analyze the data and generate the findings presented in this paper. The findings indicated that owner-managers' innovativeness and personal relations have a significant influence on the firms' success. However, although employees' technical skills relate positively to the firms' success, the relationship was statistically insignificant largely because of the limited participation of workers in designing and developing the products.

Rabillo and Rotich (2018) did a study on effect of strategic knowledge capability on performance of commercial banks in Kenya. The main objective was to analyze the relationship between strategic knowledge capability and firm performance. The study employed the social survey methodology of study, using questionnaire as the main tool for data collection. The data collected was analyzed quantitatively using both descriptive and inferential statistics to help establish how possession of strategic knowledge capability affects the performance of commercial banks in Kenya. To actualize this, data was collected using a single questionnaire distributed to each of the Chief Executive Officers of all forty-two banks. A drop and pick later procedure for questionnaire administration was used to distribute them. Data gathered was then analyzed quantitatively using both descriptive and inferential statistical tools; specifically, Analysis of Variance (ANOVA). The findings of the study established that there is a significant and positive relationship between information technology and performance in commercial banks in Kenya. Therefore, creating a knowledge based organizational structure is very important for knowledge management process and development of strategic knowledge capability for sustainable competitive advantage.

RESEARCH METHODOLOGY

The study adopted a descriptive cross-sectional survey. The target population of this study comprised of 3 commercial banks in Nairobi City, Kenya. These include; the Kenya Commercial Bank, Equity Bank and Barclays bank. The study population for this study was senior employee (management level) of the selected commercial banks at their head office in Nairobi. The study population composed of 236 members of staff in management level currently working at Commercial Bank, Equity Bank and Barclays bank head office in Nairobi City, Kenya. The study used the Krejcie and Morgan formula to arrive at the sample size of 149 respondents. Stratified random sampling technique was used to select the sample.

The questionnaire was the selected instrument or tool for data collection for the study. The researcher selected a pilot group of 20 individuals from the target population to test the reliability of the research instrument, which will represent 10% of the study population. The pilot data was not included in the actual study. Quantitative data collected was analyzed by the use of descriptive statistics using SPSS and presented through percentages, means, standard deviations and frequencies. The information was displayed by use of bar charts, graphs and pie charts and in prose-form. Content analysis was used to test data that is qualitative in nature or aspect of the data collected from the open ended questions. Multiple regressions were done to establish the influence of strategic capabilities on performance of commercial banks in Kenya. The study conducted a correlation analysis to establish the strength of the relationship between the independent and the dependent variable.

DATA ANALYSIS, INTERPRETATION AND DISCUSSIONS

Descriptive Statistics

Innovations Capability

Respondents indicated their level of agreement about the influence of innovations capability on performance of commercial banks in Kenya. The results were as presented in Table 1.

Table 1: Influence of Innovations Capability on Performance

Statements	**Mean (M)**	**Std. Dev. (SD)**
The bank has introduced new products	3.922	1.472
The bank has the capacity of developing new products to satisfy market needs	3.719	1.397
The bank has the capacity of applying appropriate process technologies to produce these new products	3.819	1.496
The bank has the capacity of adopting new products and processing technologies to satisfy future needs	3.856	1.426
The bank has the capacity to respond to unexpected opportunities created by competitors.	3.741	1.255
The bank has adopted new systems to improve customer service	3.848	1.548
The bank has developed a set of abilities, knowledge and routines that aim at reducing its marketing cost	3.798	1.445

From the findings, the respondents agreed that the bank has introduced new products as shown by mean of 3.922, the bank has the capacity of adopting new products and processing technologies to satisfy future needs as shown by man of 3.856, the bank has adopted new systems to improve customer service as shown by mean of 3.848, the bank has the capacity of applying appropriate process technologies to produce these new products as shown by mean of 3.819, the bank has developed a set of abilities, knowledge and routines that aim at reducing its marketing cost as shown by mean of 3.798, the bank has the capacity to respond to unexpected opportunities created by competitors as shown by mean of 3.741, and that the bank has the capacity of applying appropriate process technologies to produce these new products as shown by a mean of 3.719.

The findings agree with Zhang (2014) who studied the impact of innovation capabilities on firm performance and found that innovation capabilities carry significant implications for enhancing firm performance. Mensah, (2016) who researched on the effects of innovative capabilities on performance in the banking industry a case of UT Bank Ghana also found that product innovation, marketing innovation and process innovation had a moderate relationship with organizational performance. The study found that adoption of innovation strategies influenced the profitability of commercial banks and therefore, innovation strategies are indispensable to bank's future growth and sustainability; commercial banks with serious innovation strategies, improved their profitability.

Technical Knowledge Capability

Respondents provided their level of agreement with statements about the influence of technical knowledge capability on performance of commercial banks in Kenya. The results were as presented in Table 2.

Table 2: Influence of Technical Knowledge Capability on Performance

Statements	Mean (M)	Std. Dev. (SD)
Technical knowledge is important in; Research and development	3.800	1.337
Customer relationship management	3.859	1.457
Logistics and supply chain management	3.905	1.597
Fraud detection and prevention	3.902	1.456
Business process improvement and re-engineering	3.955	1.592
Predicting customer financial habits	3.915	1.669
Market analysis	3.827	1.550

From the findings, the respondents were in agreement that technical knowledge is important in: business process improvement and re-engineering as shown by a mean of 3.955; predicting customer financial habits as shown by a mean of 3.915; logistics and supply chain management as shown by a mean of 3.905; fraud detection and prevention as shown by a mean of 3.902; customer relationship management as shown by a mean of 3.859; market analysis as shown by a mean of 3.827 and in Research and development as shown by a mean of 3.800.

The findings of the study agree with Reichert and Zawislak (2014) who researched on Technological Capability and Firm Performance. Given the economic circumstances of an emerging economy, which the majority of businesses are primarily based on low and medium-low-technology industries, it is not possible to affirm the existence of a positive relation between technological capability and firm performance. There are other elements that allow firms to achieve such results. Firms of lower technological intensity industries performed above average in the economic performance indicators, adversely, they invested below average in technological capability.

It also agrees with Rabillo and Rotich (2018) who did a study on effect of strategic knowledge capability on performance of commercial banks in Kenya. The findings of the study established that there is a significant and positive relationship between information technology and performance in commercial banks in Kenya. Therefore, creating a knowledge based organizational structure is very important for knowledge management process and development of strategic knowledge capability for sustainable competitive advantage.

Performance of Commercial Banks in Kenya

Respondents indicated their level of agreement on the statements about performance of commercial banks in Kenya. The results were as shown in Table 3.

Table 3: Performance of Commercial Banks

Statements	Mean (M)	Std. Dev. (SD)
The bank has increased its customer base	3.776	1.337
The bank has witnessed an increase in its market share	3.757	1.356
The bank profitability has increased	3.765	1.429
Employee productivity has improved	3.798	1.445
There is an increase in shareholders' value	3.869	1.528
The bank has improved the customer services	3.788	1.426
There are more products from which customers can choose from	3.818	1.514

From the findings, the respondents were in agreement that there is an increase in shareholders' value as shown by a mean of 3.869, there are more products from which customers can choose from as shown by a mean of 3.818, employee productivity has improved as shown by a mean of 3.798, the bank has improved the customer services as shown by a mean of 3.788, the bank has increased its customer base as shown by a mean of 3.776, the bank profitability has increased as shown by a mean of 3.765, and that the bank has witnessed an increase in its market share as shown by a mean of 3.757. These findings concur with Lodato (2014) contentions that organizational performance is a measure of the actual output or results of an organization as measured against its goals and objectives. The goals include financial performance (profits, return on assets, return on investment); product market performance (sales, market share), and return on shareholders' wealth.

Inferential Statistics

Correlation Analysis

Table 4: Correlation

		Performance	Innovations Capability	Technical Knowledge Capability
Performance	Pearson Correlation	1		
	Sig. (2-Tailed)			
	N	121		
Innovations Capability	Pearson Correlation	.725**	1	
	Sig. (2-Tailed)	.000		
	N	121	121	
Technical Knowledge Capability	Pearson Correlation	.707**	.412	1
	Sig. (2-Tailed)	.001	.043	
	N	121	121	121

From the findings, innovations capability was seen to have a strong, positive significant relationship with performance of selected commercial banks in Nairobi City, Kenya ($r = 0.725$, $p = 0.000<0.01$). This concurs with the findings of Ngumi (2013) who studied the effect of bank innovations on financial performance of commercial banks in Kenya and found that bank innovations influence financial performance of commercial banks in Kenya positively. Technical knowledge capability had strong positive significant relationship with performance of selected commercial banks in Nairobi City, Kenya ($r = 0.707$, $p = 0.001<0.01$). The findings agree with Pebrianto, Suhadak, Kertahadi and Djamhur (2013) who did a study on the Influence of Information Technology Capability, Organizational Learning, and Knowledge Management Capability on Organizational Performance and found that Knowledge Management Capability has a significant influence on Organizational Performance the Organizational Learning.

Multiple Regression Analysis

Multiple regressions were done to establish the influence of strategic capabilities on performance of commercial banks in Kenya. The results were in form of three tables presented hereunder

Model Summary

Model summary was performed to determine the variation of response variable as a result of change in predictor variables. It showed the percentage of variation in performance of selected commercial banks as a result of changes in innovations capability, technical knowledge capability, service quality capability, and learning culture capability.

Table 5: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.724[a]	0.524	0.511	0.142782

From the findings, the value of adjusted R^2 was 0.511 suggesting that changes in innovations capability, technical knowledge capability, service quality capability, and learning culture capability can be attributed to 51.1% variation in performance of selected commercial banks in

Nairobi City, Kenya. The remaining 48.9% suggest that there are other factors that influence performance of the selected commercial banks which were not included in this model. The findings further suggest that the variables being investigated are strongly and positively related as shown by R value of 0.724.

Analysis of Variance

ANOVA was computed in order to determine whether the data that was used in the study was significant. The study selected a significance level of 0.05 and therefore the data was considered significant if p-value obtained is less than the selected level of significance.

Table 4.1: Analysis of Variance

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	24.316	4	6.079	17.142	.001[b]
	Residual	9.628	116	0.083		
	Total	**33.944**	**120**			

The findings the significance level of the population parameters is 0.001. Because p-value (0.001) was less than the selected significance level (0.05), the data was considered suitable for analysis and making inference of the population under study. The value of F-critical, obtained from f critical tables, was less than F calculated (17.142>2.450). This shows that innovations capability, technical knowledge capability, service quality capability, and learning culture capability significantly influence performance of selected commercial banks in Nairobi City, Kenya.

Beta Coefficients of the study Variables

The beta coefficients were fitted on the regression model to form the regression equation for estimating performance of commercial banks.

Table 4.2: Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	0.519	0.084		6.179	0.001
	Innovations Capability	0.327	0.058	0.425	5.638	0.002
	Technical Knowledge Capability	0.287	0.052	0.383	5.519	0.005

From the findings of beta coefficients, the following regression equation was developed;

$Y = 0.519 + 0.327 X_1 + 0.287 X_2$

Where Y is Performance; X_1 is Innovation Capability, X_2 is Technical Knowledge Capability

Innovations Capability is statistically significant to performance of selected commercial banks in Nairobi City, Kenya ($\beta = 0.327$, $P = 0.002$). It implies that the relationship between innovations Capability and performance of selected commercial banks in Nairobi City, Kenya is significantly positive. Therefore increasing Innovations Capability by a single unit will lead to an increase in performance of selected commercial banks in Nairobi City, Kenya by 0.327 units.

Technical Knowledge Capability is statistically significant to performance of selected commercial banks in Nairobi City, Kenya ($\beta = 0.287$, $P = 0.005$). This implies that the relationship between Technical Knowledge Capability and performance of selected commercial banks in Nairobi City, Kenya is significantly positive. Therefore increasing Technical Knowledge Capability by a single unit will lead to an increase in performance of selected commercial banks in Nairobi City, Kenya by 0.287 units.

Conclusions

The study found that innovations Capability is statistically significant to performance of selected commercial banks in Nairobi City, Kenya. The study further revealed that the relationship between innovations Capability and performance of selected commercial banks in Nairobi City, Kenya is significantly positive. The study therefore concluded that increasing Innovations Capability by a single unit will lead to an increase in performance of selected commercial banks in Nairobi City, Kenya by 0.327 units.

The study revealed that Technical Knowledge Capability is statistically significant to performance of selected commercial banks in Nairobi City, Kenya. It further established that the relationship between Technical Knowledge Capability and performance of selected commercial banks in Nairobi City, Kenya is significantly positive. Based on these findings, the study concludes that Technical Knowledge Capability by a single unit will lead to an increase in performance of selected commercial banks in Nairobi City, Kenya by 0.287 units.

Recommendations

The study found that Innovations Capability have positive influence on performance of the bank. The study therefore recommends management of the bank to embrace various forms of innovations including, product, service, market, and process innovations. It is also recommended for banks to become more proactive in developing products and services that create value for customers. Banks must also empower their frontline executives to become more customer oriented as that presents an opportunity to get customer inputs toward innovative decision making.

The study found that Technical Knowledge Capability influence performance f the bank positively. The study recommends the bank to improve its technical knowledge capacity through Knowledge management, talents and skills acquisition, Knowledge creation, Knowledge gathering, Knowledge diffusion and Knowledge use. The study also recommends the need for policy intervention to enhance the knowledge and skills of the operators. The study also encourages management of the bank to have knowledge based organizational structure that will facilitate knowledge management process and development of strategic knowledge capability for sustainable competitive advantage.

Suggestions for Further Studies

The general objective of the study was to establish the relationship between strategic capabilities and performance of selected commercial banks in Nairobi City, Kenya. The variables used in the study were able to explain only 51.5% variation in performance of commercial banks; the study therefore recommends further studies to be conducted on other factors influencing performance of commercial banks. The study was conducted in Nairobi city further studies can be conducted in other cities in the country. The study further recommends that future studies should look into levels of strategic adoption capabilities by commercial banks and the challenges they encounter.

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