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BOARD DIVERSITY, SOCIAL CAPITAL AND COMPETITIVE ADVANTAGE OF COMMERCIAL BANKS IN KENYA

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ABSTRACT

Competitive advantage is the unique combination of elements within the business model which enables a firm to better satisfy the needs in its environment, earning economic rents in the process. The objective of this study was to evaluate the mediating effect of social capital on the relationship between board diversity and competitive advantage of commercial banks in Kenya. Few commercial banks in Kenya especially tire one banks have gained competitive advantage compared to their peers in tire 2 and tire 3. Some tire 2 and 3 banks have experienced sudden unexpected systemic collapse with a number of mergers and buyoff ensuing. Some studies have attributed the lack of competitive advantage in Kenyan commercial banks to violation of banking laws such as lacking board diversity. Other studies done on the effect of board diversity on competitive advantage have shown varying contradictory findings. This study postulates that social capital could be playing a mediating role on the nexus between board diversity and competitive advantage. The study was guided by stakeholder theory. The research adopted descriptive as well as correlational research designs. Target population for this research comprised the forty-two commercial banks operating in Kenya while the respondents were heads of corporate departments of these banks. The research approach was census survey which covered all the elements in the target population. Questionnaire was the tool of data collection. Reliability of the questionnaire was confirmed using Cronbach alpha. A reliability coefficient of 0.7 and above is the rule of thumb and was used as benchmark for approving the reliability of the instruments. SPSS was used to aid in data analysis. Data analysis of collected data involved a combination of descriptive and inferential statistics. Multiple regression analysis as well as Pearson product moment correlation analysis was utilized to test the nexus between the independent variables and the dependent variable. The variables were regressed using 5% significance level to find out the strength of the variables and direction of their relationship. Study results indicated statistically significant direct effect between board diversity and competitive advantage(β =**.440**, t=8.571 p =.000). Furthermore, the study showed that social capital had a significant mediating effect on the relationship between board diversity and competitive advantage (M_1=**.280**, SE =.034, 95% CI= [.216,.351]). The study is of value to commercial banks in Kenya because the research has confirmed the mediating effect of social capital on the association between board diversity and bank competitive advantage. The banks might use the results of the study to design a framework that will catapult the bank to competitive advantage and in turn promote economic growth by adopting board diversity and social capital simultaneously to achieve competitive advantage.

Keywords: Competitive advantage, Board Diversity, Social Capital

Introduction

Competitive advantage is what enables a business organization to thrive. Porter (2021) defines it as the unique combination of elements in the business model that enables a firm to better meet the needs in its environment, hence earning economic rents in the process. It is the superior value creation by a firm (Cegliński, 2016). In the contemporary hypercompetitive and quickly evolving complex business environment, without good corporate governance it is more and more difficult to achieve competitive advantage.

Corporate governance refers to the mechanism by which a company is controlled and run by its board of directors, CEO and senior management. Board of directors perform two important functions for organizations: monitoring executive management on the behest of shareholders, and providing resources, including business advice and counseling (Tait & Megan, 2017). Organizations' board committees, board independence, CEO attributes and board diversity are the cornerstones of corporate governance practices. Board diversity-an element of corporate governance is the focus of this study. A diverse board is likely to have greater social capital than a less diverse board.

Social capital has been defined as the total sum of the potential and actual resources achieved from being in part of a durable network of relationships that are based on mutual association (Pratono et al., 2016). Social capital are the horizontal and vertical social resources (different networks, membership in groups, relationships based on trust and access to the wider institutions of society) upon which people draw in search of their livelihoods (Akintimehin *et al.*, 2019). It is not merely social networks and resources that is required, but the capability to access, deploy, utilize, exchange or uniquely combine them which lies at the epicenter of competitive advantage of organizations (Ozigi, 2018).

Statement of the problem

Competitive advantage of Kenyan commercial banks has been marred by a series of financial challenges. For instance, in recent years, Chase Bank, once considered a prominent player, faced severe liquidity issues resulting in its placement under receivership in 2016 by the Central Bank of Kenya (CBK, 2021). Similarly, Imperial Bank encountered financial turmoil leading to its receivership in 2015. Further, the number of commercial banks in poor financial health in Kenya grew to 13 in 2022 after more lenders failed to maintain the required capital levels that act as guardrails against a bank run, an increase from the 9 in 2021. All these point to corporate governance challenges (CBK, 2022). It goes without saying that for these banks facing corporate governance challenges, competitive advantage is a mirage.

Several studies have examined the interplay between corporate governance practices such as board diversity and competitive advantage with diverse results. Kılıç and Kuzey (2016); Green and Homroy (2018) studies revealed that board diversity had positive relationship with competitive advantage. Chen, Leung and Evans (2015) and Ciavarella (2017) found a neutral relationship between board diversity and competitive advantage. Li & Chen's (2018) found a negative significant relationship between board diversity and competitive advantage. This means that the impact of board diversity on banks' competitive advantages remains unclear. In light of these disparities, the effect of social capital as a mediator, as highlighted by Wang et al. (2016), becomes significant. Considering this, the current study aims to investigate the intricate dynamics linking board diversity, social capital and competitive advantage among commercial banks in Kenya.

Research objective:

The objective of the study was to determine the mediating effect of social capital on the relationship between board diversity and competitive advantage of commercial banks in Kenya.

Hypothesis of the study:

H_0: Social capital has no mediating effect on the relationship between board diversity and competitive advantage of commercial banks in Kenya.

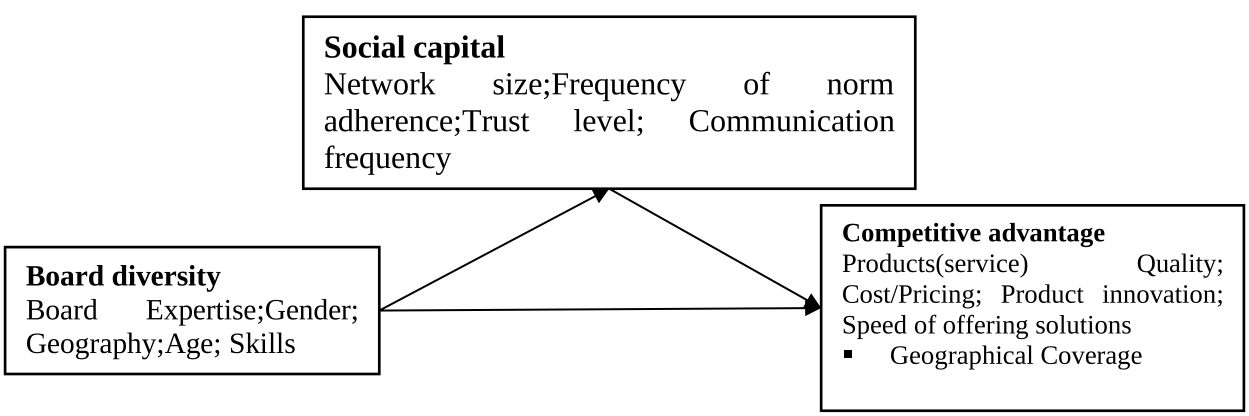
Stakeholder Theory

The study adopted the stakeholder theory. Stakeholder theory was developed by Freeman in 1984. The theory defines stakeholders as any individual or group who is affected or can affect achievement of the organization's goals. The contention of stakeholder theory is that the long term commercial and strategic performance of institutions is dependent on its relationship with stakeholders (Mutua & Kilika, 2016). Stakeholders, however, must be parties that have direct and indirect interests in the activities and performance of an organization (e.g. employees, communities in which the organization operates and shareholders) (Bourne, 2016).

Stakeholder theory claims that whatever the ultimate aim of the corporation or other form of business activity, managers and entrepreneurs must take into account the legitimate interests of those individuals as well as groups who can impact (or be impacted on) by their activities (Herremans, Nazari & Mahmoudian, 2016). The application of this theory to this research is that a diverse board is going to understand the varied stakeholders better. Therefore, a diverse board will have better relationships with a multitude of stakeholders. Consequently, this is expected to create new opportunities for the bank hence improving its returns on investment and consequently competitive advantage

Conceptual Framework

In keeping with Kasomo (2006), the conceptual framework for this research comprised board diversity, social capital and competitive advantage of commercial banks in Kenya as shown in Figure 1.



Independent Variable Mediating Variable Dependent Variable

Figure 1: Conceptual Framework

Empirical Review of Board Diversity and Competitive Advantage

Kılıç and Kuzey (2016) evaluated the influence of board gender diversity on competitive advantage of Turkish firms. The study obtained secondary panel data of 149 listed firms in Turkish Stock Exchange for the period covering 2008 to 2012. The study adopted generalized method of moments, instrumental variable regression and two-stage least squares to analyze how board gender diversity as independent variable influenced Return on Assets (ROA), Return on Sales (ROS) and Return on Equity, (ROE) as dependent variables whereas firm size was a moderating variable. The research revealed that board gender diversity had positive effect on ROA, ROE and ROI of Turkish listed firms. Firm size as a moderating variable had a significant impact on the effect of board gender diversity on competitive advantage of Turkish listed firms within Borsa, Istanbul. The research adopted resource dependency and agency theories.

Green and Homroy (2018) studied the effect of board diversity and competitive advantage in the context of the big European firms. The study findings show a positive and significant impact of board gender diversity on competitive advantage. The developed markets are characterized by strong governance system, and lower agency cost as compared to emerging economies. The relationship between board diversity and, competitive advantage has also been explored in these emerging economies, different results were found in general as compared to the developed countries.

Chen, Leung and Evans (2015) examined how board gender diversity affects innovation and firm competitive advantage in United Kingdom (UK). The research was carried out using retail firms in Cardiff. The study used secondary data and established that organizations with more gender diverse boards performed better innovatively than those organizations with less diverse boards. Innovation was determined using the number of new products introduced into the market. The scholars postulated that female members of the board might have increased monitoring on management thus increasing motivation for managers to innovate. However, the research did establish no effect of board gender diversity on competitive advantage as measured using profitability as a proxy measure.

Ciavarella (2017) studied the effect of board diversity on competitive advantage across Europe. This study focused not only on entire board diversity but still on executive members individually. The study findings show an insignificant impact of board diversity on firm competitive advantage. However, when considering the executive directors alone, the female representation and foreign nationality have a significant impact on firm competitive advantage.

Li & Chen's (2018) did a research on relationship between board gender diversity and firm competitive advantage with firm size as the moderator in developing economies. The study employed a panel data of A-share-listed non-financial Chinese organizations for the years 2007-2012 with Tobin's Q been used as a proxy measure of organizations' competitive advantage. The study findings show out that board gender diversity had a positive effect on firm competitive advantage, but the impact became negative as the size of the organization increased. Surprisingly, the effect of board gender diversity on firm size was found to be negative and significant depicting that firm size attenuates the positive relationship between women on boards and competitive advantage of firms.

In summary,Kılıç and Kuzey (2016); Green and Homroy (2018) studies revealed that board diversity had positive relationship with competitive advantage of firms. Chen, Leung and Evans (2015) and Ciavarella (2017) found a neutral relationship between board diversity and competitive advantage. Li & Chen's (2018) found a negative significant relationship between board diversity and competitive advantage. This means that the impact of board diversity on banks' competitive advantages remains unclear. It is against this background that the study was carried out by introducing the mediating effect of social capital with the hope of bringing out more conclusive results.

Social capital is often developed from the relations that individuals engage in with friends, peers, colleagues, family members, neighbors, and in the social institutions of a society (Hasoni, 2016). The social ties maintained by a firm are at the heart of the process that creates sustainable competitive advantage. Many of the competitive advantages in industries depend on the flow of information, the discovery of value-adding exchanges or transactions, the willingness to align agendas and work across organizations, and strong motivation for improvement, underpinned by networks (Pratono et al., 2016).

Research Methodology

This study adopted a descriptive research design and correlational research design. Correlational research design seeks to establish causal relationships between the study variables (Saunders et al., 2012). Descriptive research design is a scientific method that involves observing and describing the behavior of a subject.

This study used census method to collect data which involved collecting data from all the banks. The census method is appropriate not only due to the relatively small target population, but of importance due to the fact that it gets rid of sampling bias which would otherwise arise if a scientific sampling procedure is administered. All licenced commercial banks were surveyed by the study. The study questionnaires were filled by the senior manager in charge of corporate affairs at each bank's headquarters, a risk compliance officer, a member of the internal audit team in each bank, the company secretary and three board members as well-defined group of individuals that were considered as the respondents . These respondents were choosen based on the presumed indepth knowledge of the subject matter at hand. From the 42 banks, 294 respondents were expected to participate in the study.

Research Instruments

Structured questionnaire was used as a primary data collection instrument in collecting information on the variables. The questionnaires was self- administered. According to Cooper and Schindler (2003), self-administered questionnaires are advantageous as they enable the researcher to contact participants who might otherwise be inaccessible.

Data Processing and Analysis

Before commencement of analysis, the completed questionnaires were edited to ensure completeness and consistency. The questionnaires were then coded and checked for any errors and omissions. Descriptive statistics were done to summarize the data in terms of percentages per item, minimum and maximum scores per item, mean and standard deviation. Inferential statistics involving correlation and regression analysis was done using Statistical Package for Social Sciences (SPSS) version 23(with path macro). The multiple linear regression model that was used to explain the relationship between the dependent and independent variables (direct effect)

Descriptive Statistics

This section illustrates descriptive findings and discussions based on the objectives of the study. The responses were in line with a 5 Point Likert-Scale ranging from: - Strongly Disagree = 1, Disagree = 2 Neutral = 3, Agree = 4, and Strongly Agree = 5.

Descriptive Statistics for Board Diversity

The study analyzed the views of the respondents in respect to board diversity and competitive advantage of commercial banks in Kenya. Table 1 shows the results of the analysis.

Table 1:Distribution of the Responses for Board Diversity on Competitive Advantage

Statements.	N	SA (%	A (%)	N (%)	D (%)	SD (%)	Min	Max	Mean	Std. Dev
The bank board's composition adequately reflects a diverse range of expertise, encompassing both financial and non-financial experts.	234	62.4 (146)	34.2 (80)	3.4 (8)	0	0	3	5	4.59	0.558
The bank's board demonstrates a balanced representation of gender, promoting a variety of perspectives and insights.	234	26.5 (62)	31.2 (73)	24.8 (58)	15.0 (35)	2.6 (6)	1	5	3.64	1.104
The geographical backgrounds of board members contribute to a comprehensive understanding of regional banking dynamics and customer needs.	234	34.6 (81)	49.1 (115)	11.5 (27)	3.4 (8)	1.3 (3)	1	5	4.12	0.837
The board's generational diversity enhances the bank's ability to adapt to changing market trends and technological advancements.	234	30.3 (71)	56.8 (133)	10.7 (25)	2.1 (5)	0	2	5	4.15	0.689
The skills and competencies possessed by the board members align effectively with the bank's strategic goals and challenges.	234	46.2 (108)	49.6 (116)	4.3 (10)	0	0	3	5	4.42	0.575

The findings from Table 1 indicate that majority of the respondents strongly agreed (Mean = 4.59; Std Dev =0.558) with the statement that the Board members possess diverse expertise that can enhance board decision making. Respondents also agreed with the statement (Mean = 3.64; Std Dev =1.104) that the number of female members on the board is high enough to influence decision making. The findings further indicate (Mean = 4.12; Std Dev =0.837) that the board is comprised of people from different geographical background. In addition, respondents concurred with the statement (Mean = 4.15; Std Dev =0.689) that the board is composed of directors of different age groups. Finally, the study indicates that the respondents agreed with the statement (Mean = 4.42; Std Dev = 0.575) that our board members are skilled on different organizational dynamics. The findings are supported by Kılıç and Kuzey (2016) study that revealed that board gender diversity had positive effect on ROA, ROE and ROI of Turkish listed firms.

Descriptive Statistics for Social Capital

The study further sought to determine the respondents' level of agreement with the various statements on Social Capital. Table 2 shows the findings.

Table 2:Distribution of responses for Social Capital

Statements.	N	SA (%	A (%)	N (%)	D (%)	SD (%)	Min	Max	Mean	Std. Dev
The bank has one of the largest network sizes which enhances the bank's access to diverse resources and opportunities.	234	65.0 (152)	20.1 (47)	6.8 (16)	6.0 (14)	2.1 (5)	1	5	4.40	0.998
The bank has a 100% compliance to social norms within the banking industry on a regular basis to strengthen the bank's social reputation.	234	54.7 (128)	38.5 (90)	6.0 (14)	0.9 (2)	0	2	5	4.47	0.649
The bank has high levels of trust within its social network as noted from operational data and this positively influence collaboration and cooperation.	234	62.4 (146)	27.8 (65)	7.7 (18)	2.1 (5)	0	2	5	4.54	0.700
There are mechanisms within the bank for maintaining regular communication within the bank's social network that fosters knowledge sharing and mutual support.	234	60.7 (142)	32.1 (75)	5.6 (13)	1.7 (4)	0	2	5	4.43	0.605
The frequency of reciprocal actions is monitored and evaluated frequently within the network as it contributes to a sustainable cycle of support and reciprocity.	234	49.6 (116)	31.6 (74)	7.3 (17)	7.3 (17)	4.3 (10)	2	5	4.40	0.681

The results in Table 2 indicate that respondents strongly agreed (Mean = 4.40; Std Dev = 0.998) with the statement that the bank has one of the highest networks that enhances its access to resources. The high standard deviation on this statement means the views were most divergent on this statement. The respondents strongly agreed that the bank has a 100% compliance to social norms within the banking industry on a regular basis to strengthen the bank's social reputation (mean of 4.47;standard deviation of 0.649). The respondents strongly agreed with the statement that the bank has high levels of trust within its social network as noted from operational data and this positively influence collaboration and cooperation(mean of 4.54;standard deviation of 0.700). The respondents strongly agreed with the statement that there are mechanisms within the bank for maintaining regular communication within the bank's social network that fosters knowledge sharing and mutual support(mean of4.43;standard deviation of 0.605. Lastly, the respondents strongly agreed with the statement that the frequency of reciprocal actions is monitored and evaluated frequently within the network as it contributes to a sustainable cycle of support and reciprocity(mean of 4.40 and standard deviation of 0.681).

Descriptive Statistics for Competitive Advantage

The study also sought to determine the respondent’s level of agreement with statements on competitive advantage of Kenyan banks. Table 3 shows the findings.

Table 3: Descriptive statistics for Competitive Advantage

Statements.	N	SA (%)	A (%)	N (%)	D (%)	SD (%)	Min	Max	Mean	Std. Dev
The superior quality of our products/services as reported in industry surveys gives us a distinct edge over competitors in the market.	234	64.1 (150)	29.1 (68)	5.6 (13)	1.3 (3)	0	2	5	4.56	0.661
Our cost/pricing strategy allows us to offer competitive rates ensuring we are always profitable for the last 10 years.	234	59.0 (138)	30.3 (71)	6.4 (15)	4.3 (10)	0	2	5	4.44	0.796
Consistent product innovation ensures that we stay ahead in meeting evolving customer needs and preferences as indicated by consistent growing customer numbers in the last 10 years.	234	62.4 (146)	27.8 (65)	7.7 (18)	2.1 (5)	0	2	5	4.50	0.731
Our ability to rapidly offer solutions sets us apart, enabling us to address customer challenges in a timely manner which is why we operate in most towns that other banks don't operate.	234	60.7 (142)	32.1 (75)	5.6 (13)	1.7 (4)	0	2	5	4.52	0.682
Our wide geographical coverage enhances our reach and accessibility to over 80% of Kenya, giving us a competitive advantage.	234	49.6 (116)	31.6 (74)	7.3 (17)	7.3 (17)	4.3 (10)	1	5	4.15	1.107

From Table 3 above, the findings show that the respondents strongly agreed (Mean = 4.56; Std Dev =.661) with the statement that the bank offers the highest quality of products gives it distinct edge over competitors. Respondents also strongly agreed (Mean = 4.44; Std Dev =0.796) on the statement that the low bank charges have enabled the bank to be highly profitable over the last ten years. The findings further indicate (Mean = 4.50; Std Dev = .731) that the bank offers the most innovative products amongst banks in Kenya. In addition, respondents concurred with (Mean = 4.52; Std Dev =.682) that the bank offers rapid banking solutions to customers in Kenya. Finally, the study indicates that the respondents agreed (Mean = 4.15; Std Dev = 1.107) that the bank has invested in a wide reliable distribution network.

Inferential Statistics

This study conducted correlation analysis and regression analysis between the variables.

Correlation Results

Correlation between variables is a measure of how the variables are related (Lindquist, Xu, Nebel, & Caffo, 2014). The bivariate Pearson correlation indicates whether a statistically significant linear relationship exists between two continuous variables. If the correlation is positive, that means both the variables are moving in same direction. Negative correlation implies, when one variable increases the other variable decreases (Haining, 1991). The correlation results are depicted in Table 4.

Table 4: Correlation Results

		CA	BD	SC
CA	Pearson Correlation	1		
	Sig. (2-tailed)			
BD	Pearson Correlation	.0.763**	1	
	Sig. (2-tailed)	.000		
SC	Pearson Correlation	0.708**	.605**	1
	Sig. (2-tailed)	.000	.000	
	N	**227**	**227**	**227**

Where; CA- Competitive Advantage, **BD-** Board Diversity, **CEO Att-** CEO Attributes, **SC-** Social Capital.

The results in Table 4 indicates that there is a positive and statistically significant strong correlation between Board diversity and competitive advantage (r=0.763, p = 0.000) at 0.01 level of significance. This implies that board diversity strongly correlates with competitive advantage of commercial banks in Kenya. These findings are supported by the literature findings by Kılıç and Kuzey (2016) who evaluated the influence of board gender diversity on competitive advantage of Turkish firms.

Analysis of Variance (ANOVA) for the Regression Models

ANOVA tests whether the regression model is generally a good fit for the data. The results obtained are presented in Table 5.

Table 5: ANOVA of the Variables

Model		Sum of squares	df	Mean square	F	Sig.
1	**Regression**	125.551	1	31.838	235.913	0.000
	Residual	62.636	225	0.282		
	Total	188.186	226			

a. Dependent variable: Competitive advantage
b. Predictors (constant). Board diversity,

The Table 5 shows ANOVA output for effect of board diversity on competitive advantage. ANOVA results gave F statistic of 235.913 and a p value of 0.000. The p-value obtained is less than 0.05 which is a clear indication that board diversity significantly predicts competitive advantage of commercial banks in Kenya. This demonstrates that the regression model 1 is statistically significant at 95% level of significance considering that the p- values were less than 0.05. It is evident that the independent variables significantly predict the dependent variable, which depicts a goodness of fit of the regression model for the data.

Regression Analysis

Regression analysis was conducted in order to determine the relationship between Competitive advantage and Board Diversity.

OLS Model for Board Diversity and Competitive Advantage is:

Competitive Advantage = 0.009 + 0.448(Board diversity) ………………………... **Eq 1**

Table 6 shows the regression coefficients of the variables and their significance.

Table 6: Significance of Regression Coefficients

		Unstandardized Coefficients		Standardized Coefficents		
Model		**B**	**Std. Error**	**Beta**	**t**	**sig**
1	**(Constant)**	.009	.035		.263	.793
	Board diversity	.448	.049	.445	8.571	.000

a. Dependent Variable: Competitive advantage

Table 6 indicates that the relationship between Board Diversity and Competitive Advantage was positive and statistically significant (β =.448, t=8.571 *p* =.000). The β_1 value of 0.448 implies for every unit change in board diversity, competitive advantage changes by 0.448. The null hypothesis that states that Board Diversity has no significant effect on Competitive Advantage was rejected at 0.05 significance level. The study therefore concludes that Board Diversity has a significant effect on Competitive Advantage of Commercial banks in Kenya. This supports the findings of Kılıç and Kuzey (2016) as well as Green and Homroy (2018) studies that revealed that board diversity had positive relationship with competitive advantage of firms.

Mediating Effect of Social Capital on the Relationship between Board Diversity and Competitive Advantage

MacKinnon (2012) four- steps procedures plus the total effect were followed to analyze all the direct and the mediation effect of board diversity, social capital and competitive advantage. Table 7 shows the results of the relationship between direct effect of board diversity on competitive advantage on one hand, total effect of board diversity in the presence of the mediator and consequently the effect of social capital as a mediator (indirect effect on the relationship between board diversity and competitive advantage).

Table 7: Effect of Board Diversity on Competitive Advantage

Direct Effect of Board Diversity on Competitive Advantage

	Effect	se	t	p	LLCI	ULCI
Model 1	.440	.051	8.571	.000	.339	.541

Total Effect of Board Diversity (Independent) on Competitive Advantage in the Presence of Social Capital (Mediator)

	Effect	se	t	p	LLCI	ULCI
Model 2	.720	.047	15.359	.000	.627	.812

Mediating (Indirect) Effect of Social Capital on Relationship between Board Diversity and Competitive Advantage

	Effect	BootSE	BootLLCI	BootULCI
Social capital	.280	.034	.216	.351

Based on Table 7, the results of multiple regression analysis using Hayes (2019) PROCESS Macro version 3.4 (Model 1) from the data set found that board diversity had a significant direct effect on competitive advantage (β =.440, t=8.571 *p* =.000). The total effect (model 2) using the data set (direct + indirect effect) = .720 implying that the two paths contribute to the total effect, hence giving rise to a partial mediation.

The study found the mean indirect effect from the bias-corrected percentile bias bootstrap analysis as positive and significant based on the data with M_1=**.280**, SE =.034, 95% CI= [.216,.351] which was significant with both CI being none zero. From the above results, there is evidence that the confidence intervals for the indirect effect does not straddle a zero in between, which supports the presence of mediating effect of social capital (Memon, Cheah, Ramayah, Ting, & Chuah, 2018). The study concludes that social capital has a significant mediating effect on the relationship between board diversity and competitive advantage.

Hypotheses Testing

In this study, t-test was used to test for individual significance of the coefficients under the null hypothesis for the direct effects. The test was done at 95% level of confidence (α=0.05), critical value t=1.96. The null hypothesis was rejected when the t-calculated was strictly greater than the t-tabulated. Mediating effect was determined using the upper and lower confidence intervals (LLCI and ULLC). For mediating effect to be significant, the mediating effect coefficient should be non zero (should not straddle the zero point).

The results of hypothesis testing were as follows:

H_0: Social capital has no mediating effect on the relationship between Board Diversity and Competitive Advantage of Commercial Banks in Kenya.

The ***H_0*** was tested at 95% level of confidence (α=0.05), critical value t =1.96. T-test statistic was used to test for the significance of ***board diversity***. From **Model 1** in Table 7, the t -value obtained was 8.571. Comparing the t-tabulated and t-calculated values statistically, it is thus evident that the t-calc > t-α. This study therefore concludes that Board Diversity has a significant **direct effect** on competitive advantage of commercial banks in Kenya. The study found the mean **indirect effect** from the bias-corrected percentile bootstrap analysis as positive and significant with M= **.280**, SE =.038, 95% CI= [.126,.277] which was significant with both CI being none zero. The null hypothesis is thus rejected.

The **total effect** (direct + indirect effect) = 0440+0.280= 0.720 implying that the two paths contribute to the total effect, hence giving rise to a partial mediation (F (5,221) = 235.913, *p* =.000). From the above results, there is evidence that the confidence intervals for the indirect effect does not straddle a zero in between, which supports the presence of mediation effect (Memon, Cheah, Ramayah, Ting, & Chuah, 2018).

Contribution of the Study to Theory and Practice

The findings of the study affirms that there is a positive direct relationship between board diversity and competitive advantage. This supports the stakeholder theory in that a diverse board brings on board various stakeholders whose interests when taken care of will endear them to the bank thus bringing forth competitive advantage. The study further found that social capital had a significant mediating effect on the relationship between board diversity and competitive advantage. Therefore, banks should in practice embrace simultaneously board diversity and social capital to gain maximum competitive advantage.

Conclusion

The study concludes that social capital has significant mediating effect on the relationship between board diversity and competitive advantage of commercial banks in Kenya.Therefore, banks should embrace social capital and board diversity to achieve competitive advantage. The study will be of value to commercial banks in Kenya because the research will clarify on the mediating role of social capital on the association between board diversity and bank competitive advantage. The application of this knowledge might boost confidence of the general public in the banking sector. The banks might use the results of the study to design a framework that will catapult the bank to competitive advantage and in turn promote economic growth. The study consequently will help the Board of Directors and Management to pinpoint drivers of effective utilization of social capital in their corporate governance with the objective of achieving competitive advantage

Recommendations for further research

The study recommends future research to find out the moderating effect of social capital on the relationship between board diversity and competitive advantage so as to compare with the mediating effect. Other studies can utilize other mediators on the relationship between board diversity and competitive advantage as may be recommended by other literature.

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