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CEO ATTRIBUTES, 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 CEO Attributes and competitive advantage of commercial banks in Kenya. Few commercial banks in Kenya especially tier one banks have gained competitive advantage compared to their peers in tier 2 and tier 3. Some tier 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 the right CEO Attributes. Other studies done on the effect of CEO Attributes on competitive advantage have shown varying contradictory findings. This study postulates that social capital could be playing a mediating role in the nexus between CEO Attributes and competitive advantage. The study was guided by stewardship 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 results between CEO attributes (β =0.282; t=5.745; p=0.000) and competitive advantage. Furthermore, the study showed that social capital had a significant mediating effect on the relationship between CEO attributes and competitive advantage (indirect effect=0.295; LLCI=0.218, ULCI=0.376). Total effect of board diversity in the presence of social capital on competitive advantage is 0.577 (t=11.046, p=0.000). The study recommends that commercial banks should employ a CEO with the right attributes while simultaneously embracing social capital to achieve maximum competitive advantage.

Keywords: Competitive Advantage, CEO Attribute's, 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, board diversity and CEO attributes are the cornerstones of good governance practices.CEO Attributes-an element of corporate governance is the focus of this study. A CEO with better attributes is likely to have greater social capital than one with less attributes.

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 CEO Attributes and competitive advantage with diverse results. Singh et al. (2018) examined the connection between CEO duality and performance of Chinese firms. The research showed that CEO duality had a significant positive relationship with the competitive advantage of Chinese organizations. Song and Kang (2019) study revealed a significant negative relationship between geographic diversity and CEO duality. Krause, Semadeni and Cannella (2014) study concluded that CEO duality has insignificant effect on competitive advantage.

This means that the effect of CEO Attributes 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 CEO Attributes, 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 CEO Attributes and competitive advantage of commercial banks in Kenya.

Hypothesis of the study:

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

Stewardship Theory

The stewardship theory was posited by Donaldson and Davis in 1991 and advanced in 1993. According to Keay (2017), the steward's behavior will not deviate from the objectives of the firm since the steward intends to optimize the interests of the institution where steward's utilities are also maximized as organizational success increases; which is very important to achieve the mission of the stewards (Smallman, 2004). As Gordon (2017) argued, stewardship theory revolves around the notion that CEO attributes can instill a common set of values and understanding within an institution and that stewardship has the capacity to subsume and incorporate concerns about efficiency into a more socially responsible, normative framework.

Stewardship theory supports a positive correlation between CEO attributes and the competitive advantage of the firm and therefore the stewards protect the institution and maximize the performance and try to satisfy most of the stakeholder groups in an institution. Wan Yusoff, and Alhaji (2012) quotes Donaldson and Davis (1991) and postulates that in stewardship theory, there is no pertinent problem of executive control, implying that firm managers tend to be benign in their actions. Moreover, the key assumption underlying the adoption of stewardship theory is that the conduct of the management is in line with the goals of the shareholders (Choi, Lee &Williams, 2011). The theory puts greater value on objectives convergence among the players involved in corporate governance than on managements' personal objectives (Choi et al., 2011). Awoyemi and Abioye (2015) point out that the long-term viability of the organization requires its leaders to implement strategies and practices that provide value-added benefits to the organization. Stewardship theory implies that reciprocally trusting relationships, empowering organizational structures, and involvement-oriented contexts foster company performance because of pro-organizational behaviors (Davis et al., 1997; Corbetta & Salvato, 2004)

Conceptual Framework

In keeping with Kasomo (2006), conceptual framework for this research is shown in Figure 1.

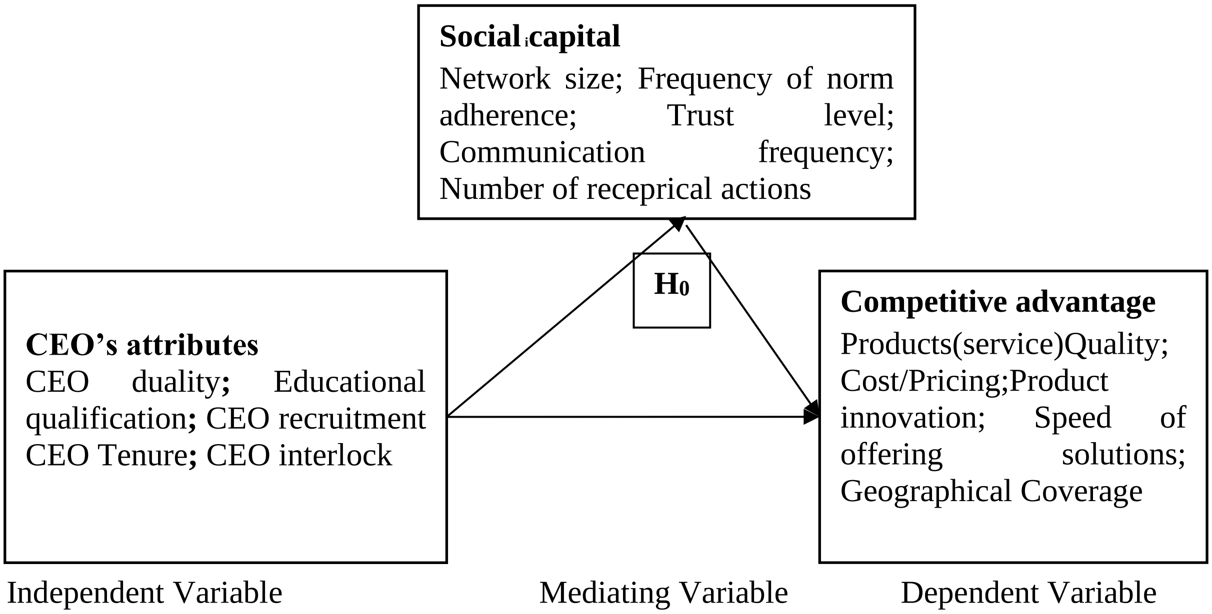

Figure 1: Conceptual framework

Empirical Review of CEO's Attributes and Competitive Advantage

Song and Kang (2019) looked into the moderating effect of CEO duality on the relationship between geographic diversification and firm performance in the US lodging industry. The research comprised data obtained between, 1993 and 2017 from 262 firm year observations. The random effects regression model revealed a significant negative relationship between geographic diversity (GD) and CEO duality (DUAL). However; GD positively correlates but insignificantly with organizations' competitive advantage at 5% significance level. The model, however, showed a significant positive effect of the interaction term (GD X DUAL), (p-value = 0.050) hence leading to conclusion that the size of the geographic diversification's effect on Tobin's Q is significantly higher when CEO duality is present.

A research by Singh et al. (2018) examined the connection between CEO duality and performance of Chinese firms. The research used a panel dataset to determine the effect of CEO duality on firm performance with firm size and CSR as moderators. The empirical examination of the research showed that CEO duality had a significant positive relationship with the competitive advantage of Chinese organizations. The research confirmed the moderating effects of firm size (small and large) and CSR practices on the relationship between CEO duality and the competitive advantage of Chinese firms. Therefore, firm size and CSR positively and significantly moderate the effect of CEO duality on the competitive advantage of Chinese organizations. The research findings provide evidence that firms can benefit by adopting CEO duality to attain competitive advantage.

A study by Krause, Semadeni and Cannella (2014) concluded after studying the extant literature that, CEO duality is highly complex to be examined dichotomously, with dual CEOs portrayed as wielding unchecked power while separated CEO ,and chair positions embodying the essence of good governance. The review urged researchers to explore new methods, new contexts and new theories in order to reveal the nuance and clarify the strategic value of a phenomenon which has been a fixture of corporate governance research since its inception.

Research Design

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.

Sampling and Sampling Technique.

This study used census method to collect data. 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 were 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) and took the form;

$$\mathbf{Y = \beta_{01} + \beta_1 X_1 + \varepsilon \ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots \text{ Equation 1}}$$

Where,

Y represents competitive advantage
X_1 represents CEO Attributes
ε represents error component
β_0 represents Y-Intercepts(constant)
β_1 represents the model coefficient of the independent variable.

In order to test the mediating effect of Social Capital, four-step regression method was used as postulated by Baron and Kenny (1986). It is a four-step approach in which several regression analyses are conducted and significance of the coefficients examined at each step. Hayes 2022 Process Macro model 4 was used to test the mediation hypothesis. Mackinon's 2012 procedure was followed.

Descriptive Statistics

This section illustrates descriptive findings and discussions based on the objectives of the study. The study focused on the following variables: CEO attributes, social capital and competitive advantage. The findings were presented in form of Mean and Standard Deviations. 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 CEO Attributes

The study analyzed the views of the respondents in respect to CEO Attributes and competitive advantage. Table 1 shows the results of the analysis.

Table 1: Distribution of responses for CEO Attributes on Competitive Advantage

Statements.	N	SA (%	A (%)	N (%)	D (%)	SD (%)	Min	Max	Mean	Std. Dev
The combination of CEO and Chairperson roles in the bank has in the past contributed to a more streamlined decision-making process.	234	47.9 (112)	45.3 (106)	6.8 (16)	0	0	3	5	4.41	0.617
Separating the CEO and Chairperson roles has in the past promoted a healthier balance of power and oversight on the board.	234	27.4 (64)	52.6 (123)	17.1 (40)	2.6 (6)	0.4 (1)	1	5	4.04	0.766
The CEO's educational background has in the past significantly influenced the bank's strategic direction and performance.	234	30.3 (71)	52.1 (122)	15.8 (37)	0.9 (2)	0.9 (2)	1	5	4.10	0.751
The CEO's educational qualifications are perfectly well-aligned with the technical demands of the banking industry.	234	32.9 (77)	50.4 (118)	14.5 (34)	1.3 (3)	0.9 (2)	1	5	4.13	0.767
The CEO's involvement in external boards positively impacts the bank's networking opportunities and industry influence.	234	44.9 (105)	41.9 (98)	12.0 (28)	1.3 (3)	0	2	5	4.30	0.728

From Table 1 above, the findings show that the respondents strongly agreed (Mean = 4.41; Std Dev =0.617) with the statement that the board chairperson and CEO roles be streamlined. Respondents also agreed with (Mean = 4.04; Std Dev =0.766) on the statement that the separation of chairperson's role and that of CEO lead to a healthier oversight on the board. The findings further indicate (Mean = 4.10; Std Dev = 0.751) that the bank CEO educational background affects the banks strategic direction. In addition, respondents concurred (Mean = 4.13; Std Dev =0.767) that the CEO educational background aligned with the bank's technical expectation. Finally, the study indicates that the respondents agreed (Mean =4.30; Std Dev = 0.728) that the Bank CEO's external boards involvement improves the banks networking opportunities. These findings are supported by research by Singh et al. (2018) which explored the connection between CEO duality and performance of Chinese firms. The research findings provide evidence that firms can benefit by adopting CEO duality to attain competitive advantage.

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.

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 section outlined the relationship between the various independent variables on the dependent variable. This study conducted correlation analysis and regression analysis between the independent variables, mediating variable and the dependent variable.

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	CEO Att
CA	Pearson Correlation	1	
	Sig. (2-tailed)		
CEO Att	Pearson Correlation	.650**	1
	Sig. (2-tailed)	.000	
	N	**227**	**227**

Where; CA- Competitive Advantage**, CEO Att-** CEO Attributes**,**
Table 4 shows that there is a strong positive and statistically significant correlation between CEO attributes and competitive advantage ($r=0.650$, $p = 0.000$) at 0.01 level of significance. This implies that CEO attributes affects competitive advantage of commercial banks in Kenya. These findings are in line with the findings of a research by Singh et al. (2018) who explored the connection between CEO duality and performance of Chinese 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	122.065	0.000
	Residual	62.636	225	0.282		
	Total	188.186	226			

a. Dependent variable: Competitive advantage
b. Predictors (constant). CEO Attributes.

The Table 5 shows ANOVA output for the effect of CEO Attributes on competitive advantage. ANOVA results gave F statistic of 122.065 and a p value of 0.000. The p-value obtained is less than 0.05 which is a clear indication that CEO Attributes 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

Multiple regression analysis was conducted in order to determine the relationship between Competitive advantage and independent variable (CEO Attributes). MacKinnon (2012) four- steps procedures plus the total effect were followed to analyze all the direct and the mediation effect of corporate governance, social capital and competitive advantage.

OLS Model for CEO Attributes and Competitive Advantage is:

Competitive Advantage = -0.012 + 0.282(CEO Attribute) …………………... **Eq 1**

Table 6 shows the results of the relationship between direct effect of CEO's attributes on competitive advantage on one hand, total effect of CEO's attributes in the presence of the mediator and consequently the effect of social capital as a mediator.

Table 6: Effect of CEO's Attributes on Competitive Advantage

Direct Effect of CEO's Attributes on Competitive Advantage						
	Effect	se	t	p	LLCI	ULCI
Model 1	.282	.050	5.635	.000	.183	.380

Total Effect of CEO's Attributes on Competitive Advantage in the Presence of Social Capital						
	Effect	se	t	p	LLCI	ULCI
Model 2	.577	.052	11.048	.000	.474	.680

Mediating (Indirect) Effect of Social Capital on the Relationship between CEO's Attribute and Competitive Advantage				
	Effect	BootSE	BootLLCI	BootULCI
Social capital	.295	.041	.218	.376

Table 6 shows that CEO Attributes had a significant direct effect on competitive advantage with β = .282, t=5.635 *p* =.000. The total effect using the data without outliers, (direct + indirect effect) = .577 implying that the two paths contribute to the total effect, hence giving rise to a partial mediation.Finally, applying Zhao *et al*., (2010) steps discussed in the previous chapter on mediation to the present study findings, the study found the mean indirect effect from the bias-corrected percentile bias bootstrap analysis as positive and significant from the data M_2=**.295**, SE =.0049, 95% CI= [.218,.376] which was significant with both CI being none zero.

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 CEO Attributes and Competitive Advantage of Commercial Banks in Kenya.

From **Model 1** in Table 6, the t -value obtained was 5.635. Comparing the t-tabulated and t-calculated values statistically, it is thus evident that the t-calc > t-α. This study therefore concludes CEO Attributes 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. Therefore, the null hypothesis is rejected.

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). The **total effect** (direct + indirect effect) = 0.282+0.295= 0.577

implying that the two paths contribute to the total effect, hence giving rise to a partial mediation (F (5,221) = 122.065, *p* =.000).

Contribution of the Study to Theory and Practice

The findings of the study affirms that there is a positive direct relationship between CEO Attributes and competitive advantage. This supports the stewardship theory in that a CEO with the right attributes is likely to be a good steward who can take care of the bank in a manner that brings forth competitive advantage. The study further found that social capital had a significant mediating effect on the relationship between CEO Attributes and competitive advantage. Therefore, banks should in practice embrace simultaneously CEO Attributes and social capital to gain maximum competitive advantage.

Conclusion

The study concludes that social capital mediates the relationship between CEO's attributes and competitive advantage. Therefore, banks should embrace social capital and CEO Attributes simultaneously to achieve maximum competitive advantage. The study is of value to commercial banks in Kenya because the research affirmed on the mediating effect of social capital on the association between CEO Attributes 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 and CEO attributes 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 CEO Attributes and competitive advantage so as to compare with the mediating effect. Other studies can utilize other mediators on the relationship between CEO Attributes and competitive advantage as may be recommended by other literature.

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