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

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DECLARATION

This research project is my own original work and to the best of my knowledge has not been submitted to any other university for an award of a degree

Signature ………………………………….Date…………………………

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This research project has been submitted for examination with my approval as the duly a ppointed University Supervisor

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DEDICATION

I dedicate this research project to my family for their moral and financial support be blessed.

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LIST OF ABBREVIATIONS AND ACRONYMS

ANOVA	Analysis of Variance
CBK	Central Bank of Kenya (CBK)
C-SQ-P	Capabilities-Service Quality-Performance
DC	Dynamic Capabilities
HRMIS	Organizational Human Resource Management information systems
ICT	Information Communication Technology
KBV	Knowledge-Based View
KM	Knowledge Management
KU	Kenyatta University
NACOSTI	National Council of Science and Technology
NPD	New Product Development
NPD	New Product Development
OP	Organizational Performance
QMPs	Quality Management Practices
R&D	Research and Development
RBV	Resource Based View
SC	Strategic Capabilities
SMEs	Small and Medium-Sized Enterprises
SPSS	Statistical Package for the Social Sciences
TC	Technological Capability
TCI	Technology Capability Index

OPERATIONAL DEFINITION OF TERMS

Innovative capability; is creation of new products as well as services

Learning culture capability; combination of organizational values, conventions, processes and practices; the conventions help organizations and employees to nurture competencies and knowledge

Performance; involves different areas of company results and these includes product performance, financial performance and shareholder return.

Dynamic capabilities; they are resources, capabilities, and skills creating long term competitive advantage of the company

Technical capability; it is the ability to complete complex tasks to improve the performance of organizations

Market share; Market share is the percent of total sales in an industry generated by a particular company. It is the size of a company in relation to its market and its competitors.

Market innovation ; This is the opening up of new markets, including changing existing market structure, introducing new market devices, altering market behavior, and reconstituting market agents. In general, market innovation means altering the way in which business is done.

Strategic innovation; The process of reinventing or redesigning its corporate strategy to drive business growth, generate value for the company and its customers, and create competitive advantage

ABSTRACT

Commercial banks kenya are play a avery important role in enhancing the country's economic growth.Dynamic capabilities are significant for a business enterprises to attain competitive edge that is sustainable and make sure that the performance of the company is superior. The main main purpose was to determine the influence of dynamic capabilitiesand performance of commercial banks inNairobi City County, Kenya. Th e specific goals; to establish the influence of innovative capability, technical, and learning culture capability on performance of selected commercial banks. Theories used are; dynamic capability's theory, baclanced score card theory, resource-based view theory and frim learning theory. To achieve this objective, descriptive survey was adopted. Targeted population was 3 commercial banks that are located in Nairobi County.The study targeted 236 respondents who are management level employees of the selected banks. Selected sample was149 respondents. In order to get the required sample size, stratified random sampling technique was utilized. Data collection wasdone by the use of questionnaires which were administered individually to each respondent. Pretesting of questionnaire was done to ensure reliability and validity. SPSS (version, 23) was utilized to analyse the collected data.Quantitative data collected was scrutinized by use of descriptive statistics and inferential statistics were done.Multiple regressions were computed to find out the influence of dynamic capabilities on performance. It was found that the association of innovations capability,technical capability,learning culture capability and performance is significantly positive. The study therefore suggests management of the bank to embrace various forms of innovations including, product, service, market, and process innovations. It is also suggested that banks take a more proactive approach to producing products and services that add value to their clients. Banks must also empower their frontline executives to become more customer-centric, as this provides an opportunity for customers to provide input into 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. The study also recommends the need for policy intervention to improve operators knowledge and skills. Bank should embrace practices that improve customer service and satisfaction such as reduced costs, multiple products provisions, high levels of customer support, and effective employees.

CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

The banking system continues to undergo changes, necessitated by the changing banking climates and globalization. Regulatory, systemic and technical forces are transforming the banking climate around the world dramatically, causing extreme competitive pressures (Grigoroudis, Politis & Siskos, 2012). Competition in the banking sector is booming owing to the proliferation and standardization of the commodities offered by banks to their consumers. High quality services, offered to customers, have been associated with long-term customer relationships (Rust & Oliver, 1994; Awan & Michael, 2011). With the advent of the current technological tools and the power of information, banking has transformed money business into the information market (Lamb, 2001). Global business climate volatility has compelled and guide banks to implement Information Management (KM) and thus streamline businesses to achieve a competitive advantage (Dzinkowski, 2001). For banks, KM is a relevant and critical tool towards achieving a competitive advantage. A bank's ability to use details and the available opportunities would contribute to competitive advantage.

Various processes are fluid, such as designing new products, building business partnerships, making strategic decisions that help companies thrive in environments that are rapidly evolving (Eisenhardt and Martin, 2000). Managers reconfigure the various capabilities to suit new strategies. Complex skills reflect commonality through various companies and are often used as models of best practices. The value of varied resources resides not in the capability itself but in the reorganization of resources and those skills.

Their impact can vary from one degree of dynamism in the market to another. Volatile and competitive markets have both successful developments and emerging market that are more common. The development of diverse capacities is driven by management's ability to identify and reconfigure them to better fit increasing market conditions and continuing skills and learning processes (Eisenhardt and Martin, 2000).

There are several ways through which dynamic capabilities in a company can help the company attain improved performance levels; matching resource base transformation in the market brings change to the market (Eisenhardt & Martin, 2010); support capacity building and resource picking and techniques for ret generation (Makadok, 2011) and improved performance between companies (Gudergan *et al.,* 2012). The response of organization to turbulence in the environment can be more effective, efficient and prompt due to dynamic capabilities (Chmielewski & Paladino, 2017), which in return improves performance of a company. It also enables the company to take advantage of opportunities that can enhance revenue and make adjustments to its operations for the purpose of lowering costs (Drnevich & Kriauciunas, 2011). The company can improve its performance by adjusting its dynamic capabilities to match the opportunities they have sensed (Eisenhardt & Martin, 2010; Teece, 2017).

In Kenya, sensitization on importance of knowledge as a strategic source for competitive advantage has increased. The growth has been attributed to the fact that organization have established that dynamic capabilities can help them to outperform their competitors and therefore perform better than their competitors and therefore attain competitive advantage. In Africa, specifically Kenya there is no clear indication showing the level to which organizations have implemented KM for the purpose of improving their performance (Kinyua, Muathe & Kilika, 2015). Viewing knowledge as a source of competitive advantage incorporates KM with some aspects of strategies; it has been agreed that through KM, a company is able to remain viable in a business environment that is characterized by turbulence. Kangogo and Gachunga (2015) explained that the main challenge in KM is the aspect of capturing the knowledge and integrating it to be shared among all organizational members. Organizational success is considered to be the ability of collecting, storing and distributing special knowledge to develop sustainable competitive advantage.

1.1.1 Organizational performance

Organizational performance involves conducting an analysis on performance of a company against the goals and objectives of the company. In organizational performance, the intended outputs are compared with the actual results. There are three main focus of the analysis; performance of shareholder value, market performance and financial performance (Upadhaya, Munir & Blount, 2014). When operations and policies of a company are measured monetary in terms it is said to be financial outcomes. The measure of a firm or product’s performance in the market is said to be market performance. The measure of level in which a company enriches its shareholders is said to be shareholder value performance. Nowadays organizations use the balanced scorecard methodology to measure organizational performance where multiple dimensions are used in tracking and measuring performance. Some of the measures used are social responsibility (e.g. community outreach, corporate citizenship), financial performance (shareholders return), employee stewardship and customer services (Upadhaya, Munir & Blount, 2014).

The essential components of organizational performance are dependent on clear vision statement and how the management is able to charismatically involve all stakeholders in its application (Lebens & Euske, 2016). Similar sentiments are expressed by Ozturk and Coskun (2014) who pointed out that organization performance is mostly influenced by a leadership with charisma to properly articulate the vision of the organizations. On the other hand, dynamic capabilities are focused on alignment and dynamic change.

In South Africa, Dorsey, Cortina and Luchman (2010) explained that there are two wide categorization of performance as task performance and conceptual performance factors. Factors on task performance are the core technical activities in the organization, for instance (development of software, and manufacture of automobile). Performance components that support psychological, organizational and social environment are considered to be the contextual performance factors. These factors include show of conscientiousness, perseverance, extra efforts at work, volunteering to perform tasks that aren't mention in ones tasks and help others and cooperate with them. In Kenya, Rwoti (2015) noted that most organizations use benchmarking, balanced scorecard and results framework to determine organizational performance.

Blahová and Knápková (2016) in a study in Malaysia noted that measuring performance of organizations assesses how efficient the management is and its utilization of entrusted resources in wealth generation over a particular period of time. Ratios are used to measure performance in different points to determine how well the company uses its available resources to generate wealth. Various ratios are used based on the measurement purpose; some of the ratios are liquidity and profitability ratios (Wheleen & Hunger, 2013).

1.1.2 Dynamic Capabilities

Dynamic capabilities are they are resources, capabilities, and skills creating long term competitive advantage of the company (Mugambi,2013). In an increasingly competitive market, the dynamic capacities construct has established itself as a profound and trustworthy idea for understanding performance variances among different industries, locations, and corporate organizations. Many organizations are equipped with key capabilities. The key capabilities are what are essential for organizations business to progress smoothly. There are three crucial factors that differentiate dynamic capabilities with the basic capabilities in an organization and they are; valuable to customer, compared to those of their competitors, they are better and replacing and imitating them is difficult (Kamau & Were, 2013).

Dynamic capabilities framework according to Teece (2016) explained the way and the reason why companies build competitive advantage under the rapid transformations. Therefore, the main intention is to fill the research gap by explaining competitive advantage can be applied in safeguarding or maintaining an organization in stable situations but the study failed to describe how a company can attain competitive edge and sustain it under changing conditions.

Dynamic firm capabilities are an important element that allows a company to attain and sustain competitive advantage and also ensure superiority of their company performance. They are uncommon capabilities valuable to customers and are rare and inimitable. It is the firm ability to develop unique and distinct capabilities so that to give its customers superior products and services than those of their rivals; that is the source of a enduring competitive edge (Pearce II & Robinson, 2011). Barney and Hesterlt (2015) considered learning in an organization to be the key competencies especially in coordination of diversified skills of production and integrated technological streams.

Barreto (2010) explained that in a business environment characterized by increased turbulence, DC is justifying factors for the varying levels of success in companies. It can therefore be explained that the varying levels of performance observed among banks in Kenya can be attributed to DC. The most recent concept that has been applied in explaining varying performance levels among organizations is dynamic capabilities especially in a business environment characterized by increased turbulence (Zollo & Winter, 2012). In Kenya, commercial banks are operating in a turbulent business environment. Strategic management is also another fundamental question that has received much attention regarding contributions made by DC on performance in constantly changing business environment (Teece *et al.*, 1997). CBK has explained that performance of Kenya's commercial banks is different; with some banks recording increased profits while others record losses. It suggests that companies in the sector are performing differently compared to other sectors within the sector (CBK, 2012).

The present realities of banking necessitate the use of innovative ways that ensure a competitive advantage and long-term profitability rather than price increases (Diop & Topping, 2016). According to literature on sustainable competitive advantage, companies can attain competitive advantage if they implement strategies that haven't been executed by other rivals. With novel market and policy by government requires in the banking sector, it influenced the use on unusual metric to shoulder and withstand outstanding performance, hence the nedd for developing abilities in banking segment. From the backdrop the study will seek to establish the relationship between dynamic capabilities andperformance of commercial banks in Kenya.

1.1.3 Commercial Banks in Kenya

The vital role played by commercial banks in Kenya in financing economic development brings to the fore the need to study their performance and how various strategies they apply influence their performance. The banking environment in Kenya has, for the past decade, undergone many regulatory and financial reforms. These reforms have brought about many structural changes in the sector and have also encouraged foreign banks to enter and expand their operations in the country (Kamau, 2011). The performance of the banking industry in the Kenya has improved tremendously over the last ten years, as only two banks have been put under CBK statutory management during this period compared to 37 bank-failures between 1986 and 1998 (Mwega, 2011).

The banking sector in Kenya is regulated by the Central Bank of Kenya (CBK). Commercial banks are licensed and regulated under the Banking Act cap 488; deposits taking micro finance institutions are regulated under Micro Finance Act and the Forex Bureaus under the Central Bank of Kenya Act cap 491. The banking sector was liberalized in 1995 and exchange controls lifted. During the quarter ended 31st March 2015, the banking sector comprised 43 commercial banks, 1 mortgage finance company, 10 microfinance banks, 8 representative offices of foreign banks, 86 foreign exchange bureaus, 14 money remittance providers and 2 credit reference bureaus. Out of the 44 in stitutions, 31 are locally owned and 13 are foreign owned. The locally owned financial institutions comprise 3 banks with significant shareholding by the Government and State Corporations, 27commercial banks and 1 mortgage finance institution(CBK,2015).

Commercial Banks are further classified into three different classes depending on the market share by net assets, advances, customer deposits and pretax profits by Central Bank of Kenya. Large banks have asset size of over 15billion shillings, medium more than 5 billion shillings and small with asset size of less than 5 billion shillings. Six banks areclassified as large, fifteen as medium and twentythree as small (CBK, 2015). Only nine commercial banks are listed in Nairobi Stock Exchange (Barclays Bank, CFC Stanbic Holdings, Diamond Trust Bank, Equity Bank, Kenya Commercial Bank, National Bank of Kenya, NIC Bank, Standard Chartered Bank and The Cooperative Bank of Kenya). In 2015 the Kenyan Banking Sectori recorded improved performance with the size of net assets standing at Ksh. 3.37 trillion, loans&advances worth Ksh.2.04 trillion, while the deposit base was Ksh2.41 trillion and profit before tax of Ksh.37.3 billion as at 31st March 2015. Over the same period, the number of bank customer deposit and loan accounts stood at 29,714,738 and 5,354,017 respectively.

Nevertheless, it is critical that initiatives to increase customer awareness of new and more creative ways of doing banking business are followed by the launch of these items (CBK 2011, 2012). For instance, while Internet banking is a brisk and accommodating way to deal with perform banking trades, banking clients are not broadly acknowledged, in light of the fact that this financial strategy is as yet stressed over by numerous possible clients. A few banks likewise have concurrences with portable specialist organizations to permit their clients to purchase cell phones for versatile banking, including checking the situation with account adjusts, checking credit or charge exchanges, the installment of service bills and the exchange of assets between and inside business banks and taking all things together conditions, the competitive advantage is consistent with Porters (1991) drivers of competitive advantage; the key drivers are superior, superior capacities hence superior resources.

1.2 Statement of the Problem

Performances of banking industry have been varying from one financial year to another. This is due to the changes in regulations of the industry, economic changes and also competition. In Kenya, there was an aggregate increase in bank's balance sheet from Ksh.4.27 trillion in June 2018 to Ksh.4.41 trillion in September 2018. There was growth in EPS of 13.8% in 2018 from a decline of 1% in 2017, indicating that the strategy of diversification used by banks with the introduction of interest-rate capping. However, the net interest margin (NIM) decreased to 7.9% in FY'2018 from 8.4% in FY' 2017, showing the drop in average interest earnings assets yields. Further, the banks recorded a sluggish growth in net loans and advances which came in at 4.3%y/y to Kshs2.04tn in FY'2018 from Kshs2.0tn in FY'2017 (Cytonn report, 2018). This implies that banks performance on loans have not been impressive hence the need for the management to focus on their dynamic capabilities so as to enhance performance.

An analysis in the literature shows that several local and international research studies centered on individual causes.Ongore and Kusa (2013) found that the board decisions affect Kenya's commercial banks' performance, and that macroeconomic factors impart little on the performance of a bank. The research did, however, omit the impact of industry-specific issues on the performance of specific banks in the country.Wanyanga (2017) undertook a study on dynamic capability (DC) utilization on strategies of operations in Kenya's hotel industry.

This study focused on the hotel industry. Parnell (2014) evaluated the DC, competitive strategy, and performance of retailers in Argentina, Peru and the United States and established a link between a low cost - differentiation combo technique and excellent performance.The study was focused on retail industry and was done in Peru. Kimosop, Korir and White (2015) researched on dynamic capabilities as measures of firm performance in women-owned entrepreneurial ventures in Nairobi, Kenya and found that overall performance is affected significantly by DCs. The focus of the study was on women-owned entrepreneurial ventures in Nairobi.The study used return on assets to measure performance of women-owned entrepreneurial ventures in Nairobi.The current study used a performance index. Based on the studies, it is clear that there is no study which has been done on DCs and performance of selected commercial banks in Nairobi City County and therefore the need for this study.

1.3 Objectives of the Study

1.3.1 General Objective

The general objective of the study was to establish the influence of dynamic capabilities on performance of selected commercial banks in Nairobi City County, Kenya.

1.3.2 Specific Objective

Specifically, the study sought to;

i. To establish the influence of innovative capability on performance of selected commercial banks in Nairobi City County, Kenya

ii. To determine the influence of technical capability on performance of selected commercial banks in Nairobi City County, Kenya

iii. To establish the influence of learning culture capability on performance of selected commercial banks in Nairobi City County, Kenya

1.4 Research Questions

i. What is the influence of innovative capability on performance of selected commercial banks in Nairobi City County, Kenya?

ii. What is the influence of technical capability on performance of selected commercial banks in Nairobi City County, Kenya?

iii. What is the influence of learning culture capability on performance of selected commercial banks in Nairobi City County, Kenya?

1.5 Scope of the Study

This study sought to ascertain the link between dynamic capabilities and performance of selected commercial banks in Nairobi City, Kenya. The study sought to establish the influence of innovations capability, technical knowledge and learning culture capability on commercial banks performance in Kenya. Those targeted were senior employee from the head office of Barclays bank, KCB and Equity bank in Nairobi City County from where the study sample size was selected. The study was done between February to July 2019.The period was chosen because it witnessed a period when commercial banks went through a period of interest rate changes and a lot of technical innovations.

1.6 Significance of the Study

This study might be vital to managers at commercial banks, policy makers and academic scholars in the following ways; The study results will be of great importance to the management, as they might understand how dynamic capabilities play a goal in performance of the organizations. This study will assist them in designing dynamic capabilities which might enhance performance in their institutions.

The study finding will also be of importance to policy maker in the field of dynamic capabilities as they will gain insight on the role of dynamic capabilities on performance in commercial banks in Kenya. This will assist them in designing policies that might help banks and other organization in implementing dynamic capabilities in order better their performance and remain competitive. The study also more insight into the resource based theory.The resource based theory adds more insight into the analyzing and identifyiong a firm’s strategic advantages based on examining its distinct combnination of assets ,skills, capabilities and intangibles as an organization.Future academics and academicians will benefit greatly from this research because it may serve as the foundation for future research and supply literature for future studies. The research will add to our understanding of the impact of dynamic capabilities on performance.

1.7 Limitations of the Study

Some participants refused to partake in the survey. The researcher described the study's goal to the participants and assured them that it would take some time. The respondents feared that their information will leak to the public. The researcher promised them that the research was solely for academic goals and that their personal data would be kept private. The information was stored in the university database so that only authorised individuals can access it.

1.8 Organization of the Study

Chapter one covered the background information on dynamic capabilities, statement of the problem, study purpose, questions, scope, importance and study limitations. Chapter two entailed the theoretical, empirical review and the conceptual framework. Chapter three covered study design, population, the sampling method, data collection tool and methods, pilot tests, data analysis and presentation and ethical reflections. Chapter four covered data analysis, interpretation and discussions while the final chapter, chapter five, covered summary of the findings, conclusions and suggestions.

CHAPTER TWO

LITERATURE REVIEW

2.0 Introduction

The theoretical underpinnings of the relationship between dynamic capabilities and banking industry performance are examined. The theoretical review, empirical review, research gaps, and conceptual framework were all discussed in this chapter.

2.1 Theoretical Literature Review

The dynamic capability theory, resource-based perspective theory, organizational learning theory, and balanced score card theory were used to base the research as it seeks to evaluate the link between dynamic capabilities and commercial banks peformance.

2.1.1 Dynamic Capabilities Theory

This theory was proposed by Teece (1990).Teece's (1990) work, according to Ambrosini and Bowman (2009), was the first to clearly express the concept of dynamic capacities. He demonstrated that RBV failed propelry indicate the method utilized by numerous successful businesses to assume innovation of products rapidly and ensuring flexibility and having proper management coordinating and redeploying competencies both external and internal. According to Teece(1990) the constantly changing environment necessitates consideration of strategic management, that is primarily focused on ‘adapting, reconfiguring, and incorporating resources of an organization, both internal and external, in order to match dynamic market conditions.

Teece (2007) noted that competitive advantage, other than conflict in the industry or competitive placing, is a dynamic capacities function in chaotic contexts. One’s ability of renewing competencies to be in line with the dynamic environment is considered to be "dynamic". Teece (2007) emphasized the relevance of path dependencies and the need to restructure a firm's resources in order to accommodate change and evolution. Organizational positions, path dependencies, and processes all contribute to the development of dynamic capabilities (Teece et al., 1997).

This theory is relevant to this study in that it helps underscore the processes that are concerned with how activities are carried out, as evidenced by patterns of practice and routines. The theory also helps in analyzing internal and external capabilities to evaluate how capabilities may be developed within firms to capitalize on existing possibilities. Intellectual property, technology, and relationships with suppliers and consumers are examples of resource endowments that determine an organization's position.These can be geared towards enhancing the performance of organizations.

2.1.2 Resource Based View Theory

This theory was proposed by (Pearce II& Robinson, 2011). The process of developing capabilities with the aim of aligning business with the changing environment is said to be dynamic; this includes being innovative in marketing and timing is critical, it is difficult to predict the nature of business environment in the future and also there is fast rate of advancement in technology. The main focus of strategic management is integration, adaptation, and incorporation of skills, resources and competencies in an organization for the purpose of aligning them with the constantly changing business environment; this process is emphasized by capabilities.

This idea proposes that organizational success is governed by the company's type of resources, and that if the firm has resources that cannot be duplicated, it will achieve higher performance (Wernerfelt, 1984). The RBV theory proposes that a corporation will have a competitive edge if it has primary resources and effectively uses those resources (Barney, 1991). The numerous characteristics of a corporation may be exploited to generate primary resources that influence rivals' performance. Also, RBV states that the key sources and variables that facilitate’s a company's competitive edge as well as its success are the inimitable or replaceable unique and valuable resource..

RBV's argument is that a company's performance is determined by its specific resources and competencies (Baker & Sinkula, 2005). Durability levels, transparency, replicability, and transferability are some of the primary variables that determine RBV, according to Grant (2015). Appropriability, scarcity, durability, inimitability, complementarity, substitutability, low tradability and limited are among a company's primary resources, according to Amit and Schoemaker (1993). Day (1994) said that intangible assets give a corporation the opportunity to strengthen its competitive advantage and hence raise its market performance levels; these assets comprise market orientation, knowledge management, and learning in the firm.

Collis and Montgomery (2008) notes that, one may determine the value of a resource by determining how difficult it is to copy it, as well as how durable, appropriate, sustainable, and superior it is. According to Morgan and Katsikeas (2004), this theory comprises of the company's internal resources as well as human capital resources. A company's competitive edge provided by its resources might help it achieve superior performance. On a similar line, O'Cass and Weerawardena (2014) agreed that a company's competitive edge might be developed through its resources. This study will use RBV in examining the effects of innovation capability on the bank’s performance.

2.1.3 Organizational Learning Theory

Organizational learning theory was proposed by (Pearce *et al.*, 2011). An organization that allows its employees to learn and facilitates the process in order to facilitate its constant transformation is said to be a learning organization. An organization that is learning is said to be one that is structured in a manner that enables learning, knowledge sharing, seeking of knowledge and creation of opportunities for the purpose of generating new knowledge. Such organizations explore new markets to learn about them other than just introducing a brand (Pearce *et al.*, 2011).

Because of the stiff competition observed in the modern organizations, a learning organization is developed and this enables the company to remain competitive in market. A learning company has five key characteristics: team learning, systems thinking, mental models, personal mastery and shared vision (Serenko, Hardie, & Bontis 2007). Concept of learning organization encourages companies to change their way of thinking into a more interconnected one. An organization should behave more like a community where its workers have a sense of commitment to it and therefore get motivated to put more effort in their work (Serenko et al, 2007). The benefits enjoyed by a learning organization is high competitive and innovative levels and therefore are in a improved position to deal with the external pressure, have better knowledge for linking needs of customers and its available resources, improve output quality, improve organizational image and increasing the speed of transforming the organization.

According to OLT, an organization operating in a dynamic environment is capable of attaining competitive advantage if they make changes to their goals and the techniques they will apply in attaining those set goals (Prasarnphanich & Janz, 2003). For the purpose of facilitating learning, it is important for organizations to make conscious decisions regarding transformation of its actions when responding to changes in circumstances, must be linked consciously with the result expected (Cha, Pingry & Thatcher, 2008).

Data collection is the first learning step. First, the company acquires a valid link between action and outcome, the conditions in the environment that renders them valid, the probability of attaining the outcome expected and the challenges that might be encountered in the process. After information has been collected, it is interpreted. Most of the time, an organization conducts comparison between expected and the actual results in order to update their "memory". The next step is the action/adaptation. In this stage, the company takes the interpreted data and applies it in selecting a new action to outcome link that best suits current business environment. After adaptation stage is completed, the knowledge base of the company is updated to incorporate the selected link between action and outcome, uncertainties, probabilities, and condition applicable; this process continues over and over. The feedback process is continuous and interactive and takes place in all the phases (Serenko *et al.*, 2007).

A learning organization is characterized by constant change where individuals and groups take part in the process of earning and therefore encourage risk taking, openness to new approach and processes and consider mistakes made by workers as probable source of new ideas and accomplishing tasks (Marquardt, 2011). In a learning organization, employees are responsible for their learning as well as that of their fellow employees. Infusion of new ideas and information in a learning organization is done by continuously scanning external environments, employees' new talents and experts when need be and allocating sufficient resources for training and employee development purposes (Kinicki

& Kreitner, 2009). Modes of learning are the different techniques through which a company tries creating and maximizing their learning.

2.1.4 Balance Score Card Model

This theory was prposed by Kaplan and Norton in the early 1990s, attempts to measure an organization's performance using a variety of financial and non-financial metrics. This model primarily focuses on aligning organizational operations with its vision and strategies in order to improve both external and internal communication and track organizational performance against strategic goals. In this model, there are four dimensions: consumer perspective, innovation and learning, internal company procedure, and financial. The first three measurements give leading performance measures, while the final measure provides trailing performance measures.

It is possible to establish how capable a company is in supplying high-quality goods and services, as well as how effective delivery are and overall customer happiness, by looking at it from the perspective of the consumer. As a result, the bulk of the organization is focused on its customers, and they have established a customer mission that tries to determine organizational performance from a consumer perspective (Kaplan & Norton, 1992). According to BSC, it is the role of managers to translate the overarching declaration of the mission of services to customers into essential measurements that reflect aspects that are essential to customers.

The examination of the organization's internal processes is mostly used to measure performance from the standpoint of business processes. Internal business processes are the operations that enable an organization to meet its performance goals. Consumer-based metrics are critical, but they must be translated into what is required of the business internally in order to meet customer expectations. As a result, it is critical for managers to concentrate on critical internal processes that enable them to meet the expectations of their consumers (Kaplan & Norton, 1992). It is critical for companies to determine the processes and competences in which they wish to excel, as well as the metrics that will be employed. It is critical to keep track of crucial internal processes in order to guarantee that the results obtained are satisfactory.

Financial performance measures aid in determining whether or not a company's strategy implementation and execution contribute to overall improvements. It also aids in determining the consequence of the chosen strategic options. Financial metrics will correct themselves as important improvements in operations are made (Kaplan & Norton, 1992). To perform well, an organization should have a variety of dynamic skills that guarantee customer needs are addressed and business operations run smoothly.

2.2 Empirical Literature Review

2.2.1 Innovative Capability and Organizational Performance

Dalvand, Karampour, and Moshabaki (2015) researched on effects innovation capabilities have on performance of export companies. The researcher chose companies dealing with food because of the sector’s biasness towards innovation and because of its competitive nature. The study developed a model based on review of previously done researches. The stud selected experts, managers and high experts from the selected companies; the sample size was 340 and data was gotten from each participant using a questionnaires. SPSS and Lisrel were the selected tools for analysis the data. Effective and operational capabilities were found to positively and significantly relate with export performance; in addition, the influence of operational innovative capabilities had greater influence than effective innovation capabilities. In addition, allocation of resources, organizational, learning and culture competences achieved from effectiveness of innovation capabilities and marketing and manufacturing capabilities attained from operational innovative capabilities positively influences performance of exports.The study focused on the performance of export companies.The current study focused on commercial banks.

Zhang (2014) studied the effect innovation capability has on performance of companies: empirical research on industrial companies in transitional economy of China. The study obtained empirical data from the largest official technological survey covered six major industrial areas in 1996. A total of 3843 Chinese industrial companies in Beijing, Guangdong, Harbin City, Shanghai, Liaoning, and Jiangsu were reviewed. Using this data, the study reviewed the link that exists on performance of a company and innovation capabilities. The data allowed for comparison of data across the region and among different companies. Results showed that of the company’s performance has a significant impact on innovation capabilities. The relationship was also found to be complex. There is an independent and interactive influence of innovation capabilities on performance of a company. In addition, effects of innovation capabilities are moderated by a number of environmental as well as organizational factors.The study focused on transitional economy of China.The current study will focus on commercial banks and will be based in Kenya.

Li and Chen (2010) examined impacts innovation capacity has on new products development performance in Zhejiang Province' SMEs. Researchers focus was to find out the link between the capacity to innovate and performance of new developed products. The research created a model that relates with crucial aspects of innovation capability and how it influences performance of NPD; these included technology, strategy, marketing, manufacturing and organization. The study also examined the ink existing between the dimensions and performance of NPD. There is a study that was conducted in Zhejiang Province among manufacturing companies. Performance of NPD among the SMEs was found to be enhanced by marketing, Strategic planning and technological capabilities. The capacity of market linking was found to significantly and negatively influence NPD performance. The rest of innovation capabilities that were examined were found to be insignificant. Generally, it gave empirical proof that performance of NPD is influenced differently by aspects of innovation capacity.The study focused on SMEs.The current study focused on commercial banks.The study also focused on China whereas the current study focused on Kenya.

Mensah, (2016) researched on innovative capabilities effects on banking sector's performance; a case of Ghanaian UT Bank. Descriptive research design was used. Managers, employees and clients were targeted; this formed a target group of 201,039 from which the study selected a sample of 395 participants 150 being employees and 245 were customers. The results established that banks performance on some dimensions of innovative capacity was good. Some of the areas where banks performance was credible were innovations pertaining products, marketing, process and organizations. Performance of the banks was moderately related with process, product and marketing innovation. Nonetheless, the relationship between organizational performance and organizational innovations and collaborations was weak. The study used innovative capabilities as the independent variable.The current study used dynamic capabilities as the independent variable.The study also was based in Ghana.The current study is based in Kenya.

Oluwajoba, Oluwagbemiga, Kehinde and Akinade (2017) researched on Assessment of the capabilities for innovation by SMEs industry in Nigeria. Researcher's focus was on the ability and competency of SMEs to be innovative. The study selected purposively a sample of 100 firms from Ibadan and Lagos cities. Findings showed that there is no single company attained major innovation which can be said to be unique and based on science. Less than half (43%) had an innovative index score between 0 and 2 which suggests that most of the companies have incremental form of innovation. Only (14%) had original forms of innovation which had significant relationship with some external aspects that were inclusive of high academic degree, science or engineering education, and relevant wok experience in large multinational corporations and university and institutional research of managers or founders. Level of investment in R&D and training had a significant relationship with innovative index. Additionally, external inputs needed by a company were achieved through association with external agents.The study was focused on SMEs in Nigera.The current study was based on commercial banks in Kenya.

Kiiyuru, (2014) researched on the impacts innovative strategies have on Kenyas financial institutions performance. It was evident that Kenya's commercial banks employed value creation through resource and capability availability, pricing, satisfaction of consumers and retention and venturing into novel markets as method of market innovation. It was revealed that innovation strategies adoption influenced banks profitability. The conclusion reached was that innovation plans are critical to a bank's long-term success and viability. Commercial banks that implemented substantial innovation methods increased their profits.The study employed iinovative strategies as the independent vraibale.The current study will use dynamic capabilities as the independent variable.

Ngumi (2013) studied the impact innovations have on Kenya's commercial banks performance. Researchers focus was on innovation in areas touching on ATM, debit and credit cards, internet banking, m-banking, e-transfers and point of sale. The researcher studied the form of innovations and their effects on bank's financial outcomes. Innovations in the bank were found to have statistically significant influence banks' financial performance. Mobile phones were strong moderators than internet services on innovation of banks when it comes to their influence of banks performance financially. From results obtained, it is evident that innovations of the bank have positive influence on banks financial performance.The study used impact innovations as the independent variable.The current study used dynamic capabilities as the independent variable.

Muchemi and Moronge (2017) studied on impacts of strategic plan implementation on Kenya's commercial bank performance; the study was conducted within equity bank. Researcher's focus was establishing the impacts strategies of innovation have on Kenya's bank performance. Targeted population was employees of Equity bank at HQ and therefore the study population was 160 staff members. Strategies of market and product innovation together explain changes observed in performance of the bank. Conclusions reached were that strategic innovation determined by product and market innovation positively and significantly affected the way the selected commercial banks in Kenya performed.The study used strategic plan implementation as the independent variable.The current study used dynamic capabilities as the imndependent variable.

2.2.2 Technical Capability and Organizational Performance

Pebrianto, Suhadak, Kertahadi and Djamhur (2013) did a study on ways through which performance of the organization can be influenced by information technological capacity, KM capacity and organizational learning. The study used a sample of 72 branch offices using saturated sampling technique. The study selected head employees of the bank who have been employed for not less than three years. Information Technology Capability (ITC) significantly influenced performance. The direction of IT's influence on organizational performance is positive, implying that the greater an organization's information technology capability is, the better it performs. KM Capability significantly influenced Organizational Performance the Organizational Learning.The study used information technological capacity as the independent variable.The current study used dynamic capabilities as the indepenedent variable.

Reichert and Zawislak (2014) researched on Technological Capability and performance of organizations. Researcher's focus was to determine the link that exists in investments in technological capacity and performance of Brazilian companies in the economy. The economic development theory and the history of country's development were used and the assumption of the researcher was positively related. The study analyzed a total of 133 companies from Brazil. Considering the economic situation of emerging economy, where most companies depend on low and medium technology, it is concluded that technological capacity and performance of organizations are positively linked. Other elements that help organizations attain such performance also exist. Companies whose technological intensity was low recorded average performance in their economic indicators and their adverse investment was below those whose technological capacity was average. The findings do not negatively affect merits of the company and success of the country. The findings support the tradition of a nation that focuses its efforts on basic industries.The sudy used cechnological capability as the indepenedent variable.The current study used dynamic capabilities as the indepenedent variable.

Ahmad et al. (2014) did a review on ways through which performance is affected by technological capacity a case of companies dealing with manufacturing. Majority of developing countries including Malaysia are trying to enter the global market and because of this they have to enhance and maintain their capabilities and ensure they maintain their stability in the market. TC is strongly involved in production and operation sector which are pillars of manufacturing companies and periodically they need to be monitored and improved. Long-term commitments for creation of technological capacity and its accumulation need huge efforts in order for a company to determine the impacts brought about by TC on performance and also guide the organization in attaining competitive advantage. Based on RBV theory, a company has the ability of attaining competitive advantage using its available resources. This research emphasizes on determining ways through which TC measures performance of companies operating in the manufacturing.The study focused on the manaufacturing sector.The current study focused on the commercial banks.

Selomon (2015) researched on impacts of organizational capabilities on company success. Researcher focused on determining how the selected companies were affected by organizational capabilities. The main focus was innovativeness of managers and owners, technical skills of employees, and personal relations on company success. The study surveyed 287 SMEs dealing with wood and metal manufacture. The sample was selected by use of technique of stratification. SEM was applied to analyze collected data. It was found that success of companies depends on personal relations and innovativeness of owners/managers. Despite technical skills of employees influencing company success positively, the influence was found to be insignificant since partaking of workers in designing and development of products is limited.The study used organizational capabilities as the independent variable.The current study used dynamic capabilities.

Sobanke, Ilori, and Adegbite (2012) did a research among fabricating companies in South-western Nigeria on TC. Researcher's focus was to ascertain how performance of selected companies was affected by TC. The study randomly selected a total of 200 companies where technology capability index (TCI) was applied. Descriptive analysis was applied in analyzing collected data. Micro, small and medium companies were found to have average TCI score of 0.82, 1.10 and 1.54 respectively. Only 24.8% of the companies indicated that their innovation process was incremental; 3% were creative and all companies indicated that the idea was new to the company. In addition, there was a 85% indication that product innovation was incremental 50.4% were innovative and 95.5% were creative. Therefore, there is need to have policy intervention to improve skills and knowledge operators.The study focused on fabricating companies in Nigeria.The current study focused on commercial banks in Kenya.

Rabillo and Rotich (2018) did a study on impacts strategic knowledge capacity has on commercial banks performance. The focus was to establish the link existing between company performance and strategic knowledge capacity. To achieve this, the study made use of social survey methodology and data collected by use of questionnaires. All the 42 banks were surveyed. Performance of banks was found to have direct relationship with IT. It is therefore very important to have an organizational structure that is based on knowledge because it facilitates development of knowledge capacity and KM processes and therefore facilitate attainment of competitive advantage.The study used strategic knowledge capacity as an independent variable.The current study used dynamic capabilities as an indepenedent variable.

2.2.3 Learning Culture Capability and Organizational Performance

Based on a joint research that was done out by American Society of T&D and International Business Machines Corporation, it was established that 60% of study participants made use of mentoring in passing knowledge but still 50% of participants continued using documents repositories in capturing knowledge (Lesser & Rivera, 2006). Likewise, mentoring was effective when doe in real life where the students are mentored in real-life for the challenges they might be encountering. Therefore effectiveness of knowledge transfer depends on the nature of relationship existing between mentee and the mentor. Nonetheless, mentoring to ensure tacit knowledge transfer consumes a lot of time. Also another key concern is allocating a mentee to a mentor. The generational gap must be bridged by the relationship between mentor and mentee. It is important to develop mentorship relationship to facilitate knowledge transfer.The study was based on America.The current study was based in Kenya.

Ahmed (2016) studied impacts development has on performance and development of capabilities: Empirical Evidence from Pakistan. Researcher's focus was to establish how performance of organizations is affected by creation of superior managerial capabilities. To test the value chain link in reference to organization's ownership and size empirical evidence was used and was established that large size and multinational companies in Pakistan created learning culture and invested in development and enhanced their managerial capabilities and this led to improved performance despite the fact that there was no direct link established between organization's size and ownership with performance and managerial capabilities.The study used impacts development as an independent variable.The current study used dynamic capabilities as an independent variable.The study was also based in Pakistan.The current study was based on Kenya.

Stevens, (2010) studied strategies for knowledge transfer within multi-generational workforce framework. In his study, he compared various generations of employees and the techniques used in passing knowledge from one generation to the other. Conclusion drawn was that; it is vital for the firm to form strategies for knowledge transfers that are appropriate for employees of varied generations existing within the organization.The study used strategies for knowledge as an independent variable.The current study used dynamic capabilities as an independent variable.

Nyongesa, Namusonge and Ngeno (2016) focused on strategic learning culture capability impact on performance. To attain this goal descriptive survey was adopted. Target respondents were senior managers of the selected supermarkets. In Nairobi, there are 43 medium and 15 large supermarkets are described on the basis of the the license fee at USD 800 and USD 1200 respectively annually. To analyze the collected data, the study used regression analysis. Strategic learning culture capability was significant and positively impact on performance of retail supermarkets. It was resolved that strategic learning culture ability can result in improved performance levels of supermarkets. The results showed that strategic learning culture significantly and positively affected company performance. Future research should delve at the reasons for vendor-managed retail enterprises' low strategic adoption capacities, according to the report.The study used strategic learning culture capability.The current study used dynamic capalities as an independent variable.

Odhiambo, Kibera and Musyoka (2015), studied impact of Organizational learning Culture and Marketing Capabilities on MFIs Performance in Kenya. Target respondents were members of MFIs in Kenya. Hierarchical regression analysis was applied for hypothesis testing. Organizational culture positively and significantly influenced performance. Therefore performance is strongly related with marketing capabilities. Product capability was found to overshadow other marketing capabilities on their influence on performance. The study concluded that capability of products and culture of organizations had a strong effect on MFIs performance outcome. The study focused on MFIs Performance. The current study used dynamic capalities as an independent variable.

2.3 Dynamic Capabilities and Organizational Performance

DCs provide crucial interface for evaluating, creating and recombining resources and assists in renewing capabilities of organizations and enhance competitive strength. Dynamic capabilities include systems in the organization that involve specific integration, reconfiguration processes gaining and releasing resources that can guide in configuration of new resources (Eisenhardt & Martin, 2015).

According Teece (2017) performance can be significantly enhanced by having the ability to effectively build capabilities. A company develops and nurtures capabilities for the purpose of enhancing performance and also interacts and anticipates performance in the market. Effective systems for measuring performance has to cover all performance aspects that are crucial for organizational existence and through which the company can grow and enhance its performance (Scott & Davis, 2017). Therefore any system that is concerned with performance should incorporate more than just financial measures. Dynamic capabilities in an organization are intrinsic process of evolutionary and assist in solving problems, improving decision making process, stimulating creativity, and assist organizational members in effectively implementing objectives of the organization. Dynamic capabilities in an organization, for instance articulation of implicit knowledge and experience accumulation should transform using specific processes of distinct routine. Therefore, development of dynamic capabilities in organizations has the ability of being distinct (Drucker, 2017).

Organization performance is viewed as the attainment of superior profit levels, larger market share and the level of growth registered by companies (Lebans & Euske, 2016). This is similar to Lodato (2014) contention that organizational performance is a measure using actual results or organizational outcome determined using goals and objectives. Some of the goals are financial performance (profits, ROA, ROI); performance of products in the market (sales, market share), and returns of wealth of shareholders.

Commercial banks performance, as in any other business organization, is the level to which the bank can attain its corporate objectives. These objectives are financial and non-financial. Financial performance depends on level and sustainability of profits that the bank is able to make as a firm. The size of the market a firm controls, the efficiency and efficacy of cost-cutting measures used, and the price of the items sold are all factors that affect the company's profitability (Jones, 2015). Organizations mainly aspire to maximize on shareholders wealth, have stable share capital, and greatly expand into new markets. The non-financial performance goals include delivering sound environmental management programmes, having good corporate reputation, implementing popular corporate social responsibility programmes, and maintaining a loyal and highly skilled workforce. The attainment of these goals or its failure depends on the prevailing market and socio-economic circumstances upon which the banks operate (CBK, 2013).

2.4 Summary of Research Gaps

Table 2.1: Research Gaps Summary

Author (years)	**Research Topic**	**Research Outcomes**	**Research Gaps**	**Focus of the current study**
Dalvand, Moshabaki, and Karampour (2015)	Innovation capabilities effects on performance of exports companies.	It was shown that operational innovation capabilities have a greater impact on export performance than efficient innovation capabilities.	This study selected a sample from food export companies surveyed. The study did not focus of the banking industry.	Current study will establish the link between dynamic capabilities and Kenya's commercial banks performance
Li and Chen (2010)	Effects of innovation capability on development of novel product performance in Zhejiang Province' SMEs.	Manufacturing SMEs' NPD performance is positively influenced by their strategic planning, technology, and marketing capabilities.	The study was conducted in SMEs whose structure differs from that of the banking institutions; this study focused on innovation but failed to cover other aspects of strategic capability	Present study will be carrie out among Kenya's commercial banks

Pebrianto, Suhadak, Kertahadi and Djamhu (2013)	Impact of IT capability Organizational Learning, and Management of Knowledge on outcomes of organizations; in banks in the province of Southern Kalimantan.	Organizational Performance was influenced by information technology competencies.	The study failed to focus of the banking sector in Kenya which differs from the structure of banking institutions in other developed countries.	Present study focus on commercial banks in Kenya
Selomon (2015)	Effects of organizational capabilities on compnies success in Eritrean wood-and-metal-manufacturing firms.	Owner-managers' innovativeness and personal relations significantly affected firms' success.	They could not be generalized for the case of banking institutions because their structure and that of wood and metal manufacturing firms differ.	Present stuy will focus on Kenya's commercial banks
Ahmed (2016)	Influence of development on managerial capabilities and performance in Pakistan.	Development creates managerial capabilities, and management capabilities create performance, according to a two-link value chain relationship.	This research was done in Pakistan and therefore cannot be applied for th case of Kenya.	Preset study will determine the link tat exists between DCs and Kenya's commercial banks performance
Nyongesa,		Strategic learning culture competence	The study	Current

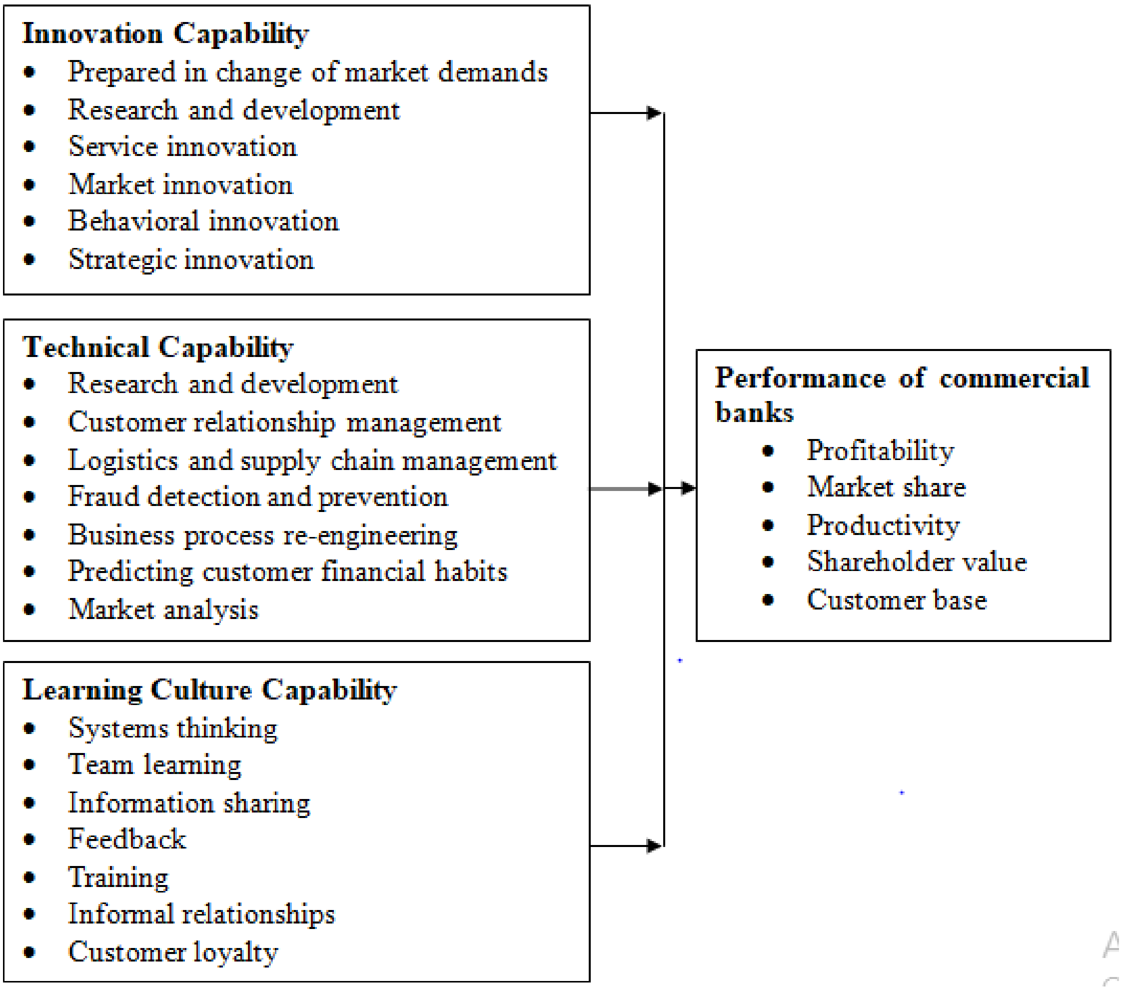
Namusonge, Ngeno, (2016)	The impact of strategic learning culture competence on vendor-managed retail medium and large supermarket performance in Nairobi County, Kenya.	was determined to be substantial at a 95% confidence level and has a favorable impact on retail supermarket performance.	focused on one aspect which is learning and was conducted in supermarkets and the findings cannot be used in Banks.	study seeks to determine the link existing between dynamic capabilities and Kenya's commercial banks performance
Zhang (2014)	effect innovation capability has on performance of companies: empirical research on industrial companies in transitional economy of China	There is an independent and interactive influence of innovation capabilities on performance of a company	The study focused on transitional economy of China	The current study will focus on commercial banks and will be based in Kenya.
Mensah(2016)	innovative capabilities effects on banking sector's performance; a case of Ghanaian UT Bank.	The results established that banks performance on some dimensions of innovative capacity was good	The study also was based in Ghana	The current study used dynamic capabilities as the independent variable.. The current study is based in Kenya.
Reichert and Zawislak (2014)	Technological Capability and performance	The economic development theory and the history of country's development were used and the assumption of the researcher was positively related.	The study used technological	The current study used

	of Brazilian companies in the economy		capability as the independent variable	dynamic capabilities as the independent variable.
Oluwajoba, Oluwagbemiga, Kehinde and Akinade (2017)	Assessment of the capabilities for innovation by SMEs industry in Nigeria.	Findings showed that there is no single company attained major innovation which can be said to be unique and based on science. Level of investment in R&D and training had a significant relationship with innovative index.	The study was focused on SMEs in Nigeria	The current study was based on commercial banks in Kenya.

Source: Researcher(2021)

2.5 Conceptual Framework

A diagrammatic representation showing the nature of interaction existing between variables being studied is referred to as a conceptual framework. The conceptual framework in this case shows the relationship between innovation capability, technical knowledge capability, quality service capability, learning capability and commercial banks performance



Independent Variable **Dependent Variable**

Figure 2.1: Conceptual Framework

Source: Researcher (2021)

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

The chapter discusses the research methodology adopted in the study. These include; the research design, the target population, the sampling technique, data collection instruments, data collection methods, pilot tests, data analysis and presentation and ethical considerations.

3.2 Research Design

Research design used was descriptive research design. This research design as described by Cooper and Schindler (2011) assists the researcher in establishing whether there is a link existing between variables at particular time (Mugenda, 2008). According to Creswell *et al.* (2003), explained such research design to answers who, what and how questions of a phenomenon being investigated. The goal of descriptive research design is to provide statistical data and allow for generalization of study findings.

Descriptive research design was adopted since it's considered suitable in determining the influence dynamic capabilities have on banks performance. For this design, data was obtained by administering questions to individuals who members of a selected representative sample; the questions are administered in a standardized procedure as it aims to establish the link existing between factors being investigated (Saunders *et al*, 2007). This study was establishing the influence of dynamic capabilities onperforman ce of selected commercial banks in Nairobi City County Kenya.

3.3 Target Population

In research, group of elements that researchers wants to collect information from is considered to be the target population. The study targeted 3 commercial banks located in Nairobi City County. Comprising; the KCB, Equity Bank and ABSA Bank. The unit of analysis was 3 commercial banks.The choice of these 3 commercial banks is based on the fact that they are among the leading banks in Kenya on customer numbers and market share.Management level employees (senior employees) selected from headquarters of the three selected banks will be targeted.

Therefore, 236 management level employees from the headquarters of Equity bank, KCB, and Barclays bank formed the target population.The top level management include the Chief operations officer,the chief information officer and the chief executive officer.The middle management include the branc managers and the low level management include the cashiers and the credit officers.The study selected senior employees because they clearly understand how response strategies affect performance of the commercial bank.

Table 3.1: Distribution of Target Population

	Category	Population	Percent
KCB	Top level management	11	5
	Middle level management	24	10
	Low level management	46	19
Equity	Top level management	13	6
	Middle level management	26	11
	Low level management	57	24
Barclays	Top level management	8	3
	Middle level management	16	7
	Low level management	35	15
	Total	**236**	**100**

Source: Researcher(2021)

3.4 Sampling Technique

A list that comprises of all units is a study population and is used to select a sample is called a sampling frame (Kombo & Tromp 2006). In this study, the sampling frame was the list of all management level employees in head offices of the three selectedco mmercial banks. Sample size to be used was ascertained by the use of Krejcie and Morgan formula formula is;

$$n = N / 1 + (N-1)\, e^2$$

Where n= the required sample size,

N = is the Target Population

e = accuracy level required. Standard error = 5%

= 236/ 1+ (236-1) 0.05^2 = 149 respondents

From the above formula, the study used a sample of 149 respondents which is a representation of 63.14% of the targeted population.

Ngechu (2004) insists on advantage of using a sampling frame to select a representative sample. A sample is formed by selecting the number of elements or subjects from the sampling frame. In this study, stratified and simple random sampling approach were used the selection of study sample. Stratfied random sampling technique results in a sample of great precision and is representative and is selected from relatively homogeneous population. The main aim of stratification is controlling the variance and therefore lowers the standard error. Respondents from each stratum was drawn by use of simple random sampling to form required sample of 149 which represents 63.14% of target population. Simple sampling affords that every population member has an equivalent opportunity of being part of the sample. According to Mugenda (2008) a representative sample is one whose sample size is between 10 and 70% of the population being targeted. Advantage of applying random technique of sampling is, it minimizes populations sampling error and therefore improves on how precise the technique applied is (Cooper & Schindler, 2011).Table 3.2: Distribution of Sample

	Strata	Population	Sample Proportion	Sample size
KCB	Top level management	11	63.14%	7
	Middle level management	24	63.14%	15
	Low level management	46	63.14%	29
Equity	Top level management	13	63.14%	8
	Middle level management	26	63.14%	16
	Low level management	57	63.14%	36
Barclays	Top level management	8	63.14%	5
	Middle level management	16	63.14%	10
	Low level management	35	63.14%	22
	Total	**236**	**63.14%**	**149**

Source: Researcher(2021)

3.5 Data Collection Instruments

This tool is selected for data collection. Creswell (2013) explained a questionnaire as measuring tool which purposes to communicate to the researcher the information required by eliciting it from respondents to achieve the intended objective. Kothari (2004) asserts that questionnaires are best data collection tools for descriptive researches since they can be applied with ease and less skill required.

Respondents selected for the study received questionnaires to help with data collection. The questionnaires were drafted based on research objective and focused on answering the research questions. Semi-structures questionnaires was used. The study collected more structured responses using closed-ended questions and they therefore facilitated tangible recommendations. Also, using open ended questions, various attributed was examined and by doing so, the researcher was able to collect more varied responses. Information that won't be covered by closed-ended questions was captured using the open-ended questions.

3.6 Pilot Test

The primary goal of piloting is to pre-test and validate the data collection tool. Cronbach's alpha was utilised in finding out the reliability. This technique uses the correlation of all measurable items. Cronbach alpha methodology is most suitable for the research design selected. Pilot test allowed reliability test to be conducted. Reliability was tested by conducting a pilot test using 20 respondents; the selected individuals for the pilot test was 10% of the target population.

3.6.1 Validity Test

Validity is responsible for determining if particular measures provide accurate measures of the aspects they aimed to obtain its measures (Zikmund, 2003). Validity according to Thietart (2001), focuses on determining if the data is precise and relevant and also to determine the degree to which the data obtained can be generalized. Validity in this study focused on determining whether measures are appropriately designed and whether the questions are properly presented to address the research questions and research problem. Validity was ensured as the researcher sort expertise and supervisor's opinion. This helped in enahncing the questionnaire before collection of data.

3.6.2 Reliability Test

The extent to which the responses obtained from data collection tool are consistent after several administrations is referred to as reliability (Mugenda & Mugenda, 2008). According to Silverman (1993), there are several techniques to achieve reliability and they include: the use of fixed choice questions, pretesting of data collection tools, and systematic collection, transcription and reporting of field notes to be reviewed by others. By conducting pilot test, the study was able to pre-test the research instrument and enhance its reliability by correcting inconsistencies that may exist; by doing so, the required measures will be provided. For reliability to be enhanced, it is important to ensure data collection tool can be clearly understood by respondents. Adding items resembling each other test a sample that is diverse and making use of similar testing procedures can also enhance reliability.

Using Cronbach's Alpha reliability was ascertained. This techniques uses correlation of all measurable items to determine reliability and therefore can be considered to measure internal consistency. SPSS is applied to compute Cronbach's alpha. The cronbach alpha value ranges from 0 to 1, with higher values indicating more reliability. Acceptable alpha value for reliability is 0.7 (Cooper & Schindler, 2011).The threshold for this study was 0.7

3.7 Data Collection Procedure

Before collecting data, a permit to conduct research was sought from NACOSTI and an introductory letter from Kenyatta University. The research tools were given to the participants by the researcher. To achieve high response rate, the researcher maintained care and control by having a register for tracking those questionnaires issued and the ones returned. Administration of questionnaires was done with the assistance of research assistants and used drop and pick approach.

3.8 Data Analysis and Presentation

SPSS (version, 23) is the selected tool for data analysis where descriptive statistics which include mean, SD, frequencies and percentages was used and findings displayed in tables and figures. To achieve this, tallying, computation of percentages of variation, description of the data and its interpretation in line with study specific objectives was done. Collection of qualitative data was by use of open ended questions; analysis of these data was by use of content analysis and presentation was done in prose form. Qualitative data was done by the use of a likert scale.

The influence dynamic capabilities have on performance of commercial banks was determined by computing multiple regressions. SPSS will be used to compute multiple regressions and tables will be used to present the findings. The model for regression equation will be:

$$Y= \beta_0+ \beta_1X_1+\beta_2X_2+ \beta_3X_3+ \varepsilon$$

Where Performance (Y) is the dependent variable, β_0 is the regression constant, β_1, β_2, β_3 are the coefficients of independent variables, X_1=Innovative Capability, X_2 is Technical Capability, X_3 Learning Culture Capability.

3.9 Ethical Considerations

Data obtained was sensitive and so confidentiality was on check and data gathered was used only for academic reasons.Confidentiality was therefore assured to the respondents and the information given given by them that was to be used for research purposes only. Respondents were not required to provide their identities anywhere in the data collection instrument to protect the anonymity of the information they contribute. The respondent was informed that their information would be treated with care, and they were urged to offer honest and accurate data. Respondents' involvement in the study was entirely voluntary; no one was forced to take part, as evidenced by the need that all participants sign an informed consent form.

CHAPTER FOUR

RESEARCH FINDINGS AND DISCUSSION

4.1 Introduction

This chapter offers and examines research findings that are relevant to the study's goal. The study's major goal was to determine the associtaion of dynamic capacities and performance of a group of commercial banks in Nairobi, Kenya. To discuss the study's findings, descriptive and inferential methods were used.

4.2 Response Rate

The sample was 149 members of staff in management level currently working at Kenya Commercial Bank, Equity Bank and Barclays bank head office in Nairobi City. All the staff selected were issued with questionnaires but only 121 were fully filled and returned. This represented a response rate of 81.2%. Mugenda and Mugenda (2008) indicted that, a 50% rate of response and more is considered good, 60% and above is adequate and 70% and above is excellent. So, this study's rate of response was seen as excellent of analysis and reporting as indicated in Table 4.1.

Table 4.1: Response Rate

Questionnaire	Frequency	Percent
Returned	121	81.2
Unreturned	28	18.8
Total	**149**	**100.0**

Source: Researcher(2021)

4.3 Reliability Analysis

The study obtained a sample of 20 respondents from the study population who were used in piloting. The results of the test were used to investigate reliability of the questionnaire. The questionnaire's reliability was determined through Cronbach's Alpha which is a measurement of internal consistency. The alpha value of 0.7 and above was acceptable reliability coefficient. Outcomes in Table 4.2 show that innovations capability has an alpha value of 0.745, technical knowledge capability has alpha value of 0.778, service quality capability has alpha value of 0.768, learning culture capability has cronbach alpha value of 0.798 and performance has alpha value of 0.745. The outcomes show that cronbach alpha value for all the variables is greater than 0.7 which suggest that all of them were reliable and were all incorporated in the study.

Table 4.2: Reliability Results

Scale	Cronbach's Alpha	Number of Items
innovations capability	0.745	7
technical knowledge capability	0.778	7
service quality capability	0.768	8
learning culture capability	0.794	7
performance	0.754	7

Source: Researcher(2021)

4.4 Demographic Findings

In this section the general information of study participants is presented. Specifically, the study presents respondents' gender, level of education, experience, thei position in the organization and the length of time they have served in that position. The findings are presented hereunder.

4.4.1 Gender of the Respondents

Participants indicated their gender and the outcomes were as seen in Table 4.3.

Table 4.3: Gender of the Respondents

Organization	Category	Frequency	percent
KCB	Male	21	17%
	Female	16	13%
Equity	Male	34	28%
	Female	24	20%
Barclays	Male	16	13%
	Female	10	8%

Total		**121**	**100%**

Source: Researcher(2021)

From the findings, in KCB 17% of the respondnets were male while 13% were female. In equity, 28% of the respondnets were male and 20% were female. In Barclays 13% were male while 8% were female. Because respondents of all genders were included in the survey, this indicates that it was not gender biased. The findings also suggest that KCB, Equity Bank and Barclays banks are not biased in terms of gender when selecting or promoting their employees to management level positions in their head offices.

4.4.2 Respondents Highest Level of Education

Respondents indicated their highest level of education as presented in Table 4.4.

Table 4.4: Respondents Highest Level of Education

Organization	Category	Frequency	percent
KCB	Certificate/Diploma	7	6%
	Degree	16	13%
	Masters	10	8%
	PhD	6	5%
Equity	Certificate/Diploma	8	7%
	Degree	20	17%
	Masters	12	10%
	PhD	7	6%
Barclays	Certificate/Diploma	5	4%
	Degree	14	12%
	Masters	12	10%
	PhD	4	3%
Total		**121**	**100**

Source: Researcher(2021)

The outcomes in Table 4.4 show that, the respondents had degree as their highest education were 13% in KCB, 17% in Equity and 12% in Barclays, those with master's were 8% in KCB, 10% in Equity and 10% in Barclays, those with certificate/diploma were 6% in KCB, 7% in Equity and 4% in Barclays and those with PhD were 5%, 6% and 3% in KCB, Equity and Barclays respectively. The findings also suggest that KCB, equity and Barclays banks employ individuals with different levels of education.

4.4.3 Respondents Period of Service

Respondents indicated the number of years they have served in their respective banks and the results were as shown in Table 4.5

Table 4.5: Respondents Length of Service in the Organization

Organization	Category	Frequency	Percent
KCB	1-3 years	5	4%
	4-6 years	13	11%
	7-9 years	14	12%
	Above 10 years	8	7%
Equity	1-3 years	3	2%
	4-6 years	15	12%
	7-9 years	19	16%
	Above 10 years	13	11%
Barclays	1-3 years	3	2%
	4-6 years	10	8%
	7-9 years	11	9%
	Above 10 years	7	6%
Total		**121**	**100**

Source: Researcher(2021)

From the findings, the respondnets who had served their organization for between 7 to 9 years were 12% in KCB, 16% in Equity and 9% in Barclays. Those who da served between 4- years were 11% in KCB, 12% in Equity and 85% in Barclays. Those who had worked between 1-3 years were 4% in KCB, 2% in Equitry and 2% in Barclays. While those who had served in their organization for above 10 years were 7% in KCB, 11% in Equity and 6% in Barclays. This is an indication that the respondents used in the study had worked in their respective banks long enough and therefore possessed the information needed for this study. Most (35.9%) of the employees had served in the organization for 7 to 9 years.

4.4.4 Respondents Position in the Organization

Respondents were asked to indicate their position in the organization. The results were as shown in in Table 4.6

Table 4.6: Respondents Position in the Organization

Organization	Category	Frequency	Percent
KCB	Top level	6	5%
	Middle level	11	9%
	Low level	20	17%
Equity	Top level	7	6%
	Middle level	14	12%
	Low level	36	30%
Barclays	Top level	4	3%
	Middle level	9	7%
	Low level	14	12%
Total		**121**	**100**

Source: Researcher(2021)

From the findings, respondents who indicated their position in the organization as low level management were 17% in KCB, 30% in Equity and 12% in Barclays. Middle level managers were 9% in KCB, 125% in Equity and 7% in Braclays bank. Top level managers were 5%, 6% and 3% in KCB, Equity and Barclays banks respectively. This shows that the the study used respondents from various management levels in the organization. Majority (58.4%) were in low level of management.

4.4.5 Respondents Length of Service in their Current Position

Respondents indicated the number of years they have served in their current position. The results were as presented in Tbale 4.7

Table 4. 7: Length of Service in their Current Position

Organization	Category	Frequency	Percent
KCB	Less than 1 year	5	4%
	1-5 years	13	11%
	6-10 years	13	11%
	Over 10 years	7	6%
Equity	Less than 1 year	8	7%
	1-5 years	15	12%
	6-10 years	19	16%
	Over 10 years	11	9%
Barclays	Less than 1 year	5	4%
	1-5 years	6	5%
	6-10 years	10	8%
	Over 10 years	9	7%
Total		**121**	**100**

Source: Researcher(2021)

From the outcomes, the respondents who specified that they hadserved in their current position for 6 to 10 years were 11%, 16% and 8% in KCB, Equity and Barclays respectively. Those who had served in their position for 1-5 years were 11%, 12% and 5% in KCB, Equity and Barclays respectively. Those who had served for less than 1 years were 4%, 7% and 4% in KCB, Equity and Barclays respectively. While those who had served in their current position for over 10 years were 6%, 9% and 7% in KCB, Equity and Barclays respectively.

4.5 Descriptive Statistics

In this section the study presents characteristics of various variables based on respondents' responses. The responses of the respondents were interpreted using means and standard deviations.

Mean values were interpreted as 0.5-1.4 as Strongly disagree, 1.5-2.4 as disagree, 2.5-3.4 moderate, 3.5-4.4 agree and 4.5-5 as strongly agree. The outcomes are presented hereunder.

4.5.1 Innovations Capability and Banks Performance.

Respondents expressed their level of agreement on innovation competence influence on commercial bank performance. The outcomes are indicated in Table 4.8.

Table 4.8: Innovations Capability

Statements	1	2	3	4	5	Mean (M)	Std. Dev. (SD)
The bank employees are innovative	3	2	3	103	9	3.922	1.472
The bank has the capacity of developing novel products to satisfy market needs	6	6	9	98	3	3.719	1.397
The bank has the ability to generate these new items using relevant process technologies.	3	3	7	104	3	3.819	1.496
To meet future needs, the bank has the ability to adopt new products and processing technologies.	7	3	1	100	10	3.856	1.426
The bank is prepared to take advantage of unforeseen chances presented by competitors..	2	6	18	90	5	3.741	1.255
The bank has adopted new systems to improve customer service	3	3	6	107	2	3.848	1.548
The bank has developed a set of abilities, knowledge and routines that aim at reducing its marketing cost	3	3	10	101	3	3.798	1.445

Source: Researcher(2021)

From the outcomes, the participants agreed that the bank employees are innovative as shown by mean of 3.922, to meet future needs, the bank has the ability to adopt new products and processing technologies 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 ability to generate these new items using relevant process technologies 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 competitors' unanticipated opportunities as shown by mean of 3.741, and that the bank has the ability to generate these novel products using acceptable process technologies as shown by a mean of 3.719.

The findings agree with Zhang (2014) who studied the impact of innovation abilities on firm performance and found that innovation capabilities carry significant implications for enhancing firm performance. Product, marketing, and process innovations all had a moderate association with firm performance, Mensah (2016) discovered that commercial banks' profitability was influenced by their adoption of innovation strategies, and that, as a result, innovation methods are critical to a bank's growth and sustainability; banks with well established innovation plans increased their profitability.

The respondnets were also asked to indicated how else innovation capability influence performance. They pointed out that effective innovation capabilities management aids in the delivery of more effective innovation results, which leads to improved performance.

4.5.2 Technical Capability and Banks Performance.

Respondents provided their agreement level with statements regarding the influence of technical capability on performance. The results were as presented in Table 4.9.

Table 4.9: Technical Capability

Statements	1	2	3	4	5	Mean (M)	Std. Dev. (SD)
The bank's research and development team help in identifying customer needs	6	2	12	95	7	3.800	1.337
The banks maintains good relationship with customers by responding to their needs	3	6	3	102	7	3.859	1.457
The bank's logistics and supply chain management get to the customers at the right time	2	3	3	110	3	3.905	1.597
The bank has adopted fraud detection and prevention to ensures smooth operations	3	6	2	102	9	3.902	1.456
Technical capability leads to business process improvement and re-engineering	2	2	2	110	5	3.955	1.592
The bank has an understanding of their customers hence they are able to provide products to suit their needs	2	2	2	114	1	3.915	1.669
The bank has an established market analysis procedures to identify new market needs	3	4	6	107	1	3.827	1.550

Source: Researcher(2021)

From the outcomes in Tbale 4.9, the participants were in agreement that technical capability leads to business process improvement and re-engineering as shown by a mean of 3.955, the bank has an understanding of their customers hence they are able to provide products to suit their needs by a mean of 3.915, the banks' logistics and supply chain management get to the customers at the right time as shown by a mean of 3.905, the bank has adopted fraud detection and prevention to ensures smooth operations as shown by a mean of 3.902, the banks maintains good relationship with customers by responding to their needs as shown by a mean of 3.859, the bank has an established market analysis procedures to identify new market needs indicated by a mean of 3.827 and the bank's research and development team help in identifying customer needs indicated by a mean of 3.800.

The study outcomes agree with Reichert and Zawislak (2014) who researched on Technological Capability and Firm Performance. From the economic realities of an emerging economy, where most of enterprises basis is low and medium-low-technology industries, a positive relationship on technological aptitude and firm performance cannot be established. There exists other factors that enable businesses to reach such outcomes. Firms in lower technological intensity industries outperformed the national average in economic performance indices, but they capitalized less in technological competence than the national average.

It also agrees with Rabillo and Rotich (2018) studied the impact of dynamic knowledge capability on bank's peformance. The outcomes revealed a significant and positive link on IT and performance in banks. As a result, establishing a knowledge-based organizational structure is critical for knowledge management and the development of dynamic knowledge capability for long-term competitive advantage.

It was further revealed that workers share their knowledge with their team members as shown by a mean of 3.994, skills are acquired through training (M=3.944), employees are supported to grow their talents (M=3.944), employees are able to solve any problems that arise (M=3.854), employees understand their duties (M=3.899), and employees work under minimum supervision (M=3.803).

On how else technical capability influence performance. The respondnets indicated that they are able to share their knowledge among their team members and solve problem when arise. This helps to improve their performance and the overall performance of the firm.

4.5.4 Learning Culture Capability and Banks Performance.

Respondents indicated how much they agreed with statements about the impact of learning culture capabilities on performance. The outcomes are shown in Table 4.10.

Table 4.10: Learning Culture Capability

Statements	1	2	3	4	5	Mean (M)	Std. Dev. (SD)
The bank supports employees career growth	6	2	5	100	8	3.846	1.423
Employees attend training programmes regularly	4	4	5	105	3	3.818	1.514
Employees attend seminars so that they can interact with their colleagues in other organizations and learn new things	4	4	10	99	4	3.793	1.408
There is a strictly followed training program in my bank	6	2	12	94	7	3.778	1.321
Employees help each other in performing their tasks	4	6	2	102	7	3.845	1.459

Employees receive feedback on their work performance	4	6	4	102	5	3.802	1.461
Employees are able to develop their own ideas and practices to improve their work	2	6	10	100	4	3.813	1.424

Source: Researcher(2021)

From the outcomes in Tbale 4.10, the respondents agreed that the bank supports employees' career growth as shown by a mean of 3.846, employees help each other in performing their tasks as shown by a mean of 3.845, employees attend training programmes regularly as shown by a mean of 3.818, employees are able to develop their own ideas and practices to improve their work as shown by a mean of 3.813, employees receive feedback on their work performance as shown by a mean of 3.802, employees attend seminars so that they can interact with their colleagues in other organizations and learn new things as shown by a mean of 3.793, and that there is a strictly followed training program in their bank (M = 3.778).

The outcomes support those of a joint study conducted by IBMC and ASTD, which nited that mentoring is most effective in learn-while-doing scenarios, in which mentors provide student's guidance in realistic circumstances they may face. Knowledge transmission will not occur unless a mentorship connection is created. Ahmed (2016) noted that though there is no direct relationship on firm size and ownership and managerial capabilities and performance, multinational and large-sized firms in Pakistani develop a culture of learning and investing in development to improve their managerial abilities, resulting in enhanced performance.

On how else learning culture capability affects performance. The respondnets indicated that, learning helps them to to acquire new knowledge, they also able to learn new ways of doing their work and learning helps them to perfrom their work better. This impacts positively on the performance of the organization.

4.5.5 Performance of Selected Commercial Banks

Respondents indicated their level of agreement on the statements about performance of. The outcomes were as shown in Table 4.11.

Table 4.11: Performance of Commercial Banks

Statements	1	2	3	4	5	Mean (M)	Std. Dev. (SD)
The bank has increased its consumer base	6	5	9	95	7	3.776	1.337
The bank has witnessed an increase in its market share	6	6	8	96	6	3.757	1.356
The bank profitability has increased	4	4	10	100	3	3.765	1.429
Employee productivity has improved	6	0	10	101	4	3.798	1.445
There is an increase in shareholders' value	4	2	4	106	5	3.869	1.528
The bank has improved the customer services	6	6	5	100	5	3.788	1.426
There are more products from which customers can choose from	4	4	5	105	3	3.818	1.514

Source: Researcher(2021)

The respondents agreed, based on the findings, 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 indicated by a mean of 3.776, the bank profitability has increased indicated by a mean of 3.765, and that the bank has witnessed an increase in its market share (M = 3.757). These findings concur with Lodato (2014) contentions that organizational performance is a metric of an firm's actual output as compared to its aims and objectives. Financial performance, product market performance and return on shareholder wealth are among the objectives.

4.5 Inferential Statistics

The study computed inferential statistics which included correlation and multiple regression analysis to determine the relationship existing between variables. The results are presented in subsections below.

4.5.1 Correlation Analysis

Correlation analysis is a statistical tool for determining the degree of relationship between two variables. It was used in the study to find the strength of the association of the predictor and response variables. The outcomes were as presented in Table 4.12.

Table 4.12: Correlation

		Performance	Innovations Capability	Technical Capability	Learning Culture Capability
Performance	Pearson Correlation	1			
	Sig. (2-Tailed)				
	N	121			
Innovations Capability	Pearson Correlation	.725**	1		
	Sig. (2-Tailed)	.000			
	N	121	121		
Technical Capability	Pearson Correlation	.707**	.412	1	
	Sig. (2-Tailed)	.001	.043		
	N	121	121	121	
Learning Culture Capability	Pearson Correlation	.772**	.352	.245	1
	Sig. (2-Tailed)	.001	.071	.040	
	N	121	121	121	121

Source: Researcher(2021)

From the findings, innovations capability was seen to have a strong, positive significant link with performance ($r = 0.725$, $p = 0.000<0.01$). This concurs with the findings of

Ngumi (2013) who evaluated how bank innovations affects commercial bank financial performance, and it was discovered that bank innovations have a favorable impact on financial performance.

Technical capability had strong positive significant link with performance ($r = 0.707$, $p = 0.001<0.01$). The outcomes agree with Pebrianto, Suhadak, Kertahadi, and Djamhur (2013) evaluating the effect of firm learning, IT and knowledgement management capabilities on firm outcomes and discovered that knowledge management capability significantly impacted on organizational learning.

The study further revealed that learning culture capability had a great affirmative significant link with performance ($r = 0.772$, $p = 0.001<0.01$). The results concurs with Nyongesa, Namusonge, and Ngeno (2016) reviewed how dynamic learning culture abilities impact on the performance of supermarkets in Nairobi County, Kenya, and noted that dynamic learning culture capability helps supermarkets perform better.

4.5.2 Multiple Regression Analysis

Multiple regressions were used to find out the impact of dynamic capabilities on commercial bank performance in Kenya. The results were in form of three tables presented hereunder.

4.5.2.1 Model Summary

This was done to see how the response variable changed due to the predictor variables changing. It showed the variation in ternms of percentage in performance of selected commercial banks as a result of changes in innovations capability, technical capability and learning culture capability.

Table 4.13: 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 outcomes, the value of R^2 was 0.524 meaning that changes in innovations capability, technical capability, and learning culture capability can be qualified to 52.4% variation in performance. The remaining 47.6% suggest that there exists more elements that impact on commercial banks performance which were no art of this study model. The results also reveal that the objectives are substantially and definitely connected, as evidenced by the R value of 0.724.

4.5.2.2 Analysis of Variance

This was computed in order to find if the data utilized for this study is significant. The study selected a significance level of 0.05 and therefore the data was considered significant if p-value obtained is below the selected level of significance.

Table 4.14: Analysis of Variance

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	24.316	3	8.105	98.841	.001[b]
	Residual	9.628	117	0.082		
	Total	**33.944**	**120**			

Source: Researcher(2021)

Table 4.14 shows that the population parameters have a 0.001 significance level. The data was deemed adequate for scrutiny and conclusion of the populace being investigated because the P-score (0.001) was smaller than the chosen significance level (0.05). The value of F-critical, obtained from f-critical tables, was below f-calculated (98.841>2.682). This implies that innovations capability, technical capability and learning culture capability significantly influence performance of selected commercial banks in Nairobi City, Kenya.

4.5.2.3 Beta Coefficients of the study Variables

The beta coefficients were fitted to the regression model to create a regression equation for predicting commercial bank performance.

Table 4.15: 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 Capability	0.287	0.052	0.383	5.519	0.005
	Learning Culture Capability	0.253	0.05	0.412	5.060	0.007

Source: Researcher(2021)

From the outcomes of beta coefficients, the equation for regression was as follows;

$$Y = 0.519 + 0.327 X_1 + 0.287 X_2 + 0.253 X_3:$$

Where Y is Performance; X_1 is innovation capability, x_2 is technical capability, x_{30p} is learning culture capability.

From the above equation, holding innovations capability, technical knowledge capability, and learning culture capability constant, the variables would influence performance signifcantly (constant = 0.519).

Innovations capability is statistically significant to performance (β = 0.327, P = 0.002). It means that the connection of innovations capability and performance is significantly positive. So growing innovations capability by a single unit should lead to a rise in performance of selected commercial banks by 0.327 units.

Technical capability is statistically significant to performance ($\beta = 0.287$, $P = 0.005$). This means that the link between technical knowledge capability and performance is significantly positive. So rising technical knowledge capability by a single unit ought to rise in performance of selected commercial banks in Nairobi City, Kenya by 0.287 units.

Learning culture capability is statistically significant to performance ($\beta = 0.253$, $P = 0.007$). This means that the link of service quality capability and performance is significantly positive. So rising learning culture capability by a single unit ought to rise in performance of selected commercial banks in Nairobi City, Kenya by 0.253 units.

CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

This chapter is a presentation of the summary of findings, conclusions drawn from the findings highlighted and recommendations made there-to. The objective of the study was to to establish the link of dynamic capabilities and performance of selected commercial banks in Nairobi City, Kenya.

5.2 Summary of the Findings

In this section the study presents summary of the findings in relation with study's specific goals. The study specific objectives were: to establish the influence of innovations capability on performance; to determine the influence of technical capability on performance; and to establish the influence of learning culture capability on performance of selected commercial banks.

5.2.1 Innovations Capability and Organizational Performance

It was found that the bank has introduced new products, to meet future needs, the bank has the ability to adopt new products and processing technologies, the bank has adopted new systems to improve customer service, the bank has the ability to generate these new items using relevant process technologies, the bank has developed a set of abilities, knowledge and routines that aim at reducing its marketing cost, the bank has the capacity to respond to unexpected opportunities created by competitors, and to manufacture these new items, the bank has the ability to use appropriate process technologies.

The findings agree with Zhang (2014) who studied the innovation capabilities impact on firm performance and found that innovation capabilities carry significant implications for enhancing firm performance. Mensah, (2016) who researched in the banking industry, the impact of innovative skills on performance Product innovation, marketing innovation, and process innovation all exhibited a moderate link with organizational success, according to a case study of UT Bank Ghana. The study discovered that commercial banks' profitability was influenced by their adoption of innovation strategies, and that, as a result, innovation strategies are critical to a bank's future growth and sustainability; commercial banks with serious innovation strategies increased their profitability.

5.2.2 Technical Capability and Organizational Performance

The study found that technical capability leads to business process improvement and re-engineering, the bank has an understanding of their customers hence they are able to provide products to suit their needs, the bank's logistics and supply chain management get to the customers at the right time, the bank has adopted fraud detection and prevention to ensures smooth operations, the banks maintains good relationship with customers by responding to their needs, the bank has an established market analysis procedures to identify new market needs and the bank's research and development team help in identifying customer needs.

The outcomes agree with Reichert and Zawislak (2014) who researched on Technological Capability and Firm Performance. Given the economic realities of an emerging country, where the bulk of firms are based on low and medium-low-technology industries, it is impossible to assert that technological aptitude and firm performance are positively related. There are other factors that enable businesses to reach such outcomes. Firms in lower technological intensity industries outperformed the national average in economic performance indices, but they invested less in technological competence than the national average.

It also agrees with Rabillo and Rotich (2018) who studied the effect of dynamic knowledge capability on performance of banks. The outcomes were that there is a significant and positive link between information technology and performance in commercial banks. As a result, establishing a knowledge-based organizational structure is critical for knowledge management and the development of dynamic knowledge capability for long-term competitive edge.

5.2.3 Learning Culture Capability and Organizational Performance

It was revealed that the bank supports employees' career growth, employees help each other in performing their tasks, employees attend training programmes regularly, employees are able to develop their own ideas and practices to improve their work, education on new technologies is provided by the bank, employees attend seminars so that they can interact with their colleagues in other organizations and learn new things, and that there is a strictly followed training program in their bank.

The results agree with findings of a joint study done by IBMC and ASTD that mentoring is very effective in learning actions, where mentors provide advise to students in real-world settings. Knowledge transmission will not occur if a mentoring connection cannot be created. Ahmed (2016) focused on effect of development on managerial capabilities and performance in Pakistan. Though there is no direct relationship between size and ownership of the firm and managerial abilities and performance, multinational and large-sized Pakistani firms create a culture of learning and invest in development to improve their managerial capabilities, resulting in improved results.

5.3 Conclusions

Conclusions of the study were made based on the outcomes of the study.

5.3.1 Innovations Capability and Organizational Performance

It was noted that innovations capability is significant to performance of commercial banks. It was also revealed that the relationship between innovations capability and performance is significantly positive. The study therefore concluded that increasing Innovations capability by a single unit would influence a rise in performance of selected commercial banks in Nairobi City, Kenya by 0.327 units.

5.3.2 Technical Capability and Organizational Performance

The study revealed that technical knowledge capability is statistically significant to performance. It further established that the relationship between technical knowledge capability and performance is significantly positive. From the outcomes, the study resolves that technical knowledge capability by a single unit would influnce a rise in performance of selected commercial banks in Nairobi City, Kenya by 0.287 units.

5.3.3 Learning Culture Capability and Organizational Performance

It was found that learning culture capability is statistically significant to performance. It was further found that the link between service quality capability and performance is significantly positive. The study therefore concludes that, increasing learning culture capability by a single unit would influence the rise in performance of selected commercial banks in Nairobi City, Kenya by 0.253 units.

5.4 Recommendations

The study found that innovations capability have positive impact on performance of the bank. The study therefore suggests management of the bank to embrace various forms of innovations including, product, service, market, and process innovations. Banks should also adopt a more proactive approach to developing products and services that offer value to their customers, according to the report. Banks must also empower their frontline executives to become more customer-centric, as this allows customers to have a say in how creative decisions are made.

The study found that technical 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 dynamic knowledge capability for sustainable competitive advantage.

Learning culture capability positively influence performance. The study suggests that bank executives cultivate a learning culture and invest in development to strengthen their managerial talents, resulting in improved performance. The study also suggests knowledge transfer methodologies that are compatible with multi-generational workforce dynamics, taking into account the workplace's age variety.

5.5 Suggestions for Further Studies

The general objective of the study was to establish the link between dynamic capabilities and performance of selected commercial banks in Nairobi City, Kenya. The variables used in the study were able to explain only 52.4% variation in performance of commercial banks; so it suggested that further studies to be done on other factors influencing performance of commercial banks. The study was conducted in Nairobi city further research can be done in other cities in the country. The study further recommends that future studies should look into levels of dynamic adoption capabilities by commercial banks and the challenges they encounter.

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APPEDINCES

Appendix I: Letter of Introduction

From:

To: Respondent

Dear Respondent,

RE: Questionnaire

I'm a masters students at Kenyatta University doing master's in business administration. In partial fulfillment of the requirements for the award of this degree, I am undertaking a research study on **DYNAMIC CAPABILITIES AND PERFORMANCE OF SELECTED COMMERCIAL BANKS IN KENYA.** I humbly request your help in filling the attached questionnaire for data collection. Your help will facilitate successful completion of this research project. Thanks for your willingness to be part of this study, your help is much appreciated. Thank you.

Yours sincerely,

Zamzam Mohamed Ali

Appendix II: Questionnaire

Kindly tick appropriately

Part A: Demographic Information

1. Kindly indicate your gender

   Male ( ) Female ( )

2. Indicate the highest level of education you have attained

   Certificate/Diploma ( )

   Degree ( )

   Masters ( )

   PhD ( )

3. How many years have yuu been working in the organization

   1-3 years ( )

   4-6 years ( )

   7-9 years ( )

   Above 10 years ( )

4. What is your position? ....

5. For how long have you been holding your current position

   Less than 1 year ( )

   1-5 years ( )

   6-10 years ( )

   Over 10 years ( )

NB:

For Part B to E use the scale 1- Strongly disagree, 2- disagree, 3-moderate, 4-agree, 5-strongly agree to indicate the extent to which you agree/disagree with the statements tabled

Part B: Innovative Capability and Performance of Selected Commercial Banks

1. Indicate your level of agreement on the statements about the influence of innovative capability on performance of selected commercial banks in Kenya.

Statements	**1**	**2**	**3**	**4**	**5**

The bank employees are innovative					
The bank has the capacity of developing new products to satisfy market n eeds					
The bank has the capacity of applying appropriate process technologies t o produce these new products					
The bank has the capacity of adopting new products and processing techn ologies to satisfy future needs					
The bank has the capacity to respond to unexpected opportunities created by competitors.					
The bank has adopted new systems to improve customer service					
The bank has developed a set of abilities, knowledge and routines that aim at reducing its marketing cost					

2. How else does innovative capability influence performance?

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Part C: Technical Capability and Performance of Selected Commercial Banks

3. Indicate your level of agreement on the statements about the influence of technical capability on performance of selected commercial banks in Kenya.

Statements	**1**	**2**	**3**	**4**	**5**
The bank's research and development team help in identifying customer needs					
The banks maintains good relationship with customers by responding to their needs					
The bank's logistics and supply chain management get to the customers at the right time					
The bank has adopted fraud detection and prevention to ensures smooth operations					
Technical capability leads to business process improvement and re-engineering					

The bank has an understanding of their customers hence they are able to provide products to suit their needs					
The bank has an established market analysis procedures to identify new market needs					

4. How else does technical capability influence performance?

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Part D: Learning Capability and Performance of Selected Commercial Banks

5. Indicate your level of agreement on the statements about the influence of learning capability on performance of selected commercial banks in Kenya.

Statements	**1**	**2**	**3**	**4**	**5**
The bank supports employees career growth					
Employees attend training programmes regularly					
Employees attend seminars so that they can interact with their colleagues in other organizations and learn new things					
There is a strictly followed training program in my bank					
Employees help each other in performing their tasks					
Employees receive feedback on their work performance					
Employees are able to develop their own ideas and practices to improve their work					

6. How else does learning capability influence performance?

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Part E: Performance of Commercial Banks in Kenya

7. Indicate your level of agreement on the statements about performance of commercial banks in Kenya.

Statements	**1**	**2**	**3**	**4**	**5**
The bank has increased its customer base					
The bank has witnessed increased share in the market					
The bank profitability has increased					
Employee productivity has improved					
There is an increase in shareholders' value					
The bank has improved the customer services					
There are more products from which customers can choose from					

THANK YOU