

**RESOURCE ISOLATING MECHANISM AND COMPETITIVE ADVANTAGE  
AMONG COMMERCIAL BANKS IN KENYA**

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## DECLARATION

This thesis is my original work and to the best of my knowledge, it has not been submitted for award of degree in any other University. No section of this thesis may be copied without the consent of the author and/ or Kenyatta University.

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## **DEDICATION**

To my husband (Duncan), our children (David, James, Fredrick, Anthony and Brenda) and our grandchildren (Nobel, Nathan, Purity, Alfa and Isabella).

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## OPERATIONAL DEFINITION OF TERMS

<b>Competitive Advantage</b>	Firm's ability to provide products or services with greater value than those of competitors efficiently at a lower cost.
<b>Economic Deterrence</b>	Ability to invest sizeable and valuable assets such as capital investments, patents and copyrights which enable a firm to sustain competitive advantage.
<b>Exploitation of Opportunities</b>	Conducting activities that enable a firm to discover opportunities in its external environment. The activities include organizing and acquiring resources and competences so that a firm can create or develop new products and markets. The is also a way of improving existing products or markets for effective service delivery.
<b>External Environment</b>	Factors outside the firm that it interacts with either directly or indirectly and can influence its operations. It is composed of external forces which influence the firms operations and of which the firm has no control of.
<b>Identification of Rival Competitive Advantages</b>	Involves establishing the strengths of rival firms that enable the rival to have competitive advantage to articulate and enforce strategies that enable it resist competition in a particular industry. It enables it determine the rivals' strategic intent and behavior in order to choose a course of action in order to explore opportunities within its external environment.
<b>Management Characteristics</b>	Involves in planning, organizing, controlling and allocation of resources of the firm. Also involved in making critical

decisions of the firm and this entails ability to forecast the future trends in the firm's external environment.

**Organizational Capabilities**

Skills and talents a firm uses to coordinate and allocate resources to enable completion of tasks which creates competitive advantage. Firms ability to combine resources and processes to transform inputs into outputs and also integrate multiple streams of technologies.

**Resource Isolating Mechanism**

Hypothetical concept that explains sustainability of competitive advantage process in RBV model. It is also a concept that serves as barriers that limit rivals from duplicating or imitating strategies or competitive advantage of a firm.

**Sustainable Competitive Advantage:**

This is a state attained by an entity that allows a business to remain ahead of its competitors, and helps in maintaining firm's dominance in a particular industry. If a competitive advantage continues to exist and current and potential rivals are not able to duplicate, then the condition is said to be sustained.

## ABBREVIATIONS AND ACRONYMS

<b>CA</b>	Competitive Advantage
<b>CBK</b>	Central Bank of Kenya
<b>CGMA</b>	Chartered Global Management Accountant
<b>CRB</b>	Credit Reference Bureaus
<b>HRM</b>	Human Resource Management
<b>IMF</b>	International Monetary Fund
<b>IT</b>	Information Technology
<b>KFSS</b>	Kenya Financial Sector Stability
<b>KBV</b>	Knowledge-Based View
<b>MDBT</b>	Model-Driven Business Transformation
<b>MFC</b>	Mortgage Finance Company
<b>MRP</b>	Money Remittance Provider
<b>OEM</b>	Original Equipment Manufacture
<b>RIM</b>	Resource Isolating Mechanism
<b>R&amp;D</b>	Research and Development
<b>SCA</b>	Sustainable Competitive Advantage
<b>SEPO</b>	Senate Economic Planning Office
<b>SWOT</b>	Strength, Weaknesses, Opportunities and Threats
<b>TMT</b>	Top Management Teams
<b>VCA</b>	Value Chain Analyses
<b>VRIN</b>	Valuable, Rare, Imperfectly Imitable, Non-Substitutable

## ABSTRACT

Commercial banks in Kenya are facing intense rivalry within the industry. For these banks to survive, it is important that they respond to the changes in the external environment. Competitive advantage which has become the core focus of corporate strategy, has increasingly gained much attention in strategic management and is a concept which enables organizations to survive in the long-run. Studies done on competitive advantage show a number of empirical and theoretical gaps as they concentrated on the resources a firm should have to create competitive advantage but lacked explanation on which resource isolating mechanisms a firm should adopt to sustain the competitive advantage. The main purpose of this study was to establish the effect of resource isolating mechanism on competitive advantage among commercial banks in Kenya. The specific objectives in this study were to determine the effect of economic deterrence, identification of rival competitive advantage and exploitation of opportunities on competitive advantage among commercial banks in Kenya. This relationship was mediated by organizational capabilities and moderated by management characteristic and external environment. Descriptive and explanatory research design was employed in the study. The research population was all 40 commercial banks in Kenya. Purposive sampling was used to select a sample of 160 respondents from the key departments of Finance, Sales and Marketing, Strategy and Operations of all the 40 commercial banks' headquarters in Nairobi. The data collection instrument used was semi-structured questionnaire. The variables characteristics were summarised using descriptive statistics. Hypotheses testing was done to determine the effect of the resource isolating mechanism on competitive advantage. The study found that economic deterrence was not significant and had negative effect on CA, identification of rival competitive advantage was significant and had positive effect on CA and exploitation of opportunities was significant and had positive effect on CA. There exists a significant partial mediation by organizational capabilities on the relationship between resource isolating mechanism and competitive advantage. The moderating effect of management characteristics was significant, whereas external environment was found not to have moderating effect on the relationship between RIM and CA. The study concluded that there exists a positive effect of resource isolating mechanism on competitive advantage. The study contributes to the body of knowledge as well as policy in terms of understanding the effect of resource isolating mechanism on competitive advantage. This study recommends that it is important for the commercial banks management to implement strategies that reflect the changes in the external environment and appropriate allocation of resources. Commercial bank should also effectively position the banks' products, build strong customer relationships and focus on competitive activities which create and sustain competitive advantage. Further, the researcher recommends a similar study could be conducted to other sectors other than commercial banks for generalization purposes.

# **CHAPTER ONE**

## **INTRODUCTION**

### **1.1 Background of the Study**

Rapid change in economic and business environments has resulted to firms competing for profits, customers, and products that are perceived to be of value by customers (Dirisu, Iyiola & Ibidunni, 2013). Also liberalization of the economy and opening of global markets has increased the rate of global competition among business entities (Khandekar, & Sharma, 2005). The intense competition has resulted in firms constantly implementing defensive and offensive strategies (Yannopoulos, 2011). The firm's main concern is to defend its high market shares and reacting aggressively to the competitors moves by trying to build its own strengths (Porter, 1980). Profitability and high market share can only be achieved when a firm is in a position to create and sustain competitive advantage (Rothaermel, 2008).

Competitive advantage is a prolonged benefit and can only be achieved and sustained when value creation strategies which cannot be duplicated by competitors are formulated and implemented by a firm (Hoffman, 2000). Competitive advantage is created and sustained when a firm have a competitive edge against rivals (Porter, 1985). It is only realised if and when there exists real value addition for customers and when the organization succeeds in harvesting and exploiting its core competences and capabilities (Thompson, 2001). This makes competitive advantage achievable and sustainable (McGrath, 2013).

To sustain competitive advantage, firm should design effective resource isolating mechanism that can create effective barriers to imitation (Li & Tsai, 2009; Foon, 2011). Resource isolating

mechanism enables a firm to determine which resources are valuable and how to protect them from being imitated by competitors (Mazur & Kulczyk, 2013). Therefore, isolating mechanism reduces capability of rival firms in imitation and increases costs of imitation significantly (Li & Tsai, 2009). Sustainability of competitive advantage depends on how quickly competitors are capable to imitate and how costly it is to do so (Hoskisson, Hitt, Ireland & Harrison, 2010).

Firms should put more focus on the area of strategic management for survival (He, 2012). This would enable them analyze competitors' information (Fitzroy & Hulbert, 2009). According to Pearce and Robinson (2005), a firm's strength depends on the resources acquired, activities that the resources are engaged in and the extent to which they are rare, and imitable. A financially healthy business contributes to the attainment of corporate performance objectives and is able to enhance shareholder value (Thompson, 2010). This is achieved when a firm strategically positions its resources and its ability to utilize scarce resources (Prasad, 2010).

Increased competition in the banking industry has led to reduced attractiveness and reduced profits (Kungu, Desta & Ngui, 2014). Commercial banks should therefore, pay more emphasis on valuable products, learning and development of employees, innovation and speedy development of new products (Kotze, 2002), and determine the profitability whether it is above or below the industry average (Meyer & Wit, 2005). Commercial Banks in Kenya therefore, need to identify the resource isolating mechanism that would help them create and sustain competitive advantage to be able to compete efficiently and effectively (Madhok, Li, & Priem, 2010).

### **1.1.1 Competitive Advantage**

The concept of competitive advantage has been given attention by scholars from as early as 1957 (Foon & Nair, 2010). Alderson (1965) was the first scholar to recognize the need for differentiation aspect by firms so as to distinguish themselves to the customer as unique from the competitors (Hoffman, 2000). Researches on competitive advantage increased in 1980s, which included: Porter, (1985); Day and Wensley, (1988); Dierickx and Cool, (1989); Ghemawat, (1986); Hamel and Prahalad, (1989); Hunt and Morgan, (1995). Competitive advantage has a life cycle which starts from a planned selection and subsequent resource accumulation and that calls for continuous improvement and innovation to maintain it so that the firm is able to survive in the market (Ning, 2012).

Porter, (1995) developed three generic competitive strategies which centres on two issues: the scope of the market to be served and basis of competition (Capon, 2009). Three generic strategies result: cost leadership, differentiation and focus that are applied at the business unit level and are called generic strategies because they are not firm or industry dependent (Porter, 1995). Generic strategy is a firm's attempt to seek competitive advantage based on three generic strategies: low-cost leadership in the industry, differentiation (unique products) and focusing (Pearce & Robinson, 2011). Product differentiation is tool for achieving competitive advantage (Dirisu, Iyiola & Ibidunni, 2013).

Products/services should be differentiated to provide value to customers (Vinayan, Jayashree, & Marthandan, 2012). This enable firms to possess the advantage of brand recognition and customer loyalty (Katsioloudes, 2006; Hall, 1993; Kungu, Desta, & Ngui, 2014). Focus strategy has two variants: cost focus and differentiation focus (Meyer & Wit, 2005). A firm competing

on low cost is distinguishable from a firm competing through differentiation in terms of market positioning, resources and capabilities, and organizational characteristics (Grant, 2010). The firm should therefore, strive to provide differentiated products, be a low-cost producer in the industry and concentrate on a small portion of the market to achieve and sustain competitive advantage (Porter, 1985).

A firm which is able to sustain competitive advantage enjoys market leadership, restricts competitors' powers and has ability to access resources and customers (Hakkak, & Ghodsi, 2015). Firms therefore, should endeavour to offer superior goods and services at low cost for effectively competition against rivals (Porter, 1980; Harrison & Hoek, 2005). Competitive advantage tends to be harder for competitors to copy if they are based on unique bundles of resources (Dess, Lumpkin & Eisner, 2009). Quality services or products which are considered of value and reliable enhance customer loyalty (Agyei & Kilika, 2013).

Differentiation of products/ services makes a firm's offerings harder to imitate and provide employees with a better understanding of customers' value creation processes (Eawag, Gustafsson and Witwell, 2011). Differentiation strategy enables a firm to produce quality products perceived of value by customers (Hoskisson, Hitt, Ireland & Harrison, 2008; Grant, 2010). Competitive advantage through product differentiation establishes brand reputation that attracts customer loyalty (Thompson, Strickland & Gamble, 2010), this results in customer satisfaction (Auka, 2014). In this study competitive advantage was operationalized as: product differentiation, cost leadership and organizational responsiveness.

### **1.1.2 Resource Isolating Mechanism**

Resource isolating mechanism is a crucial hypothetical concept which explains the competitive advantage sustainability process in a resource-based model for it discusses the competition among firms in a particular industry (Mahoney & Pandian, 1992). Resource isolating mechanism protects the firms resources from imitation by rivals (Mazur & Kulczyk, 2013). Resource isolating mechanism creates barriers to imitation and this helps firm earn superior performance and thus, remain competitive in a particular industry (Grant, 2010). Resource isolating mechanism creates barriers to imitation of competitive advantage and this influences industry dynamic (Li & Tsai, 2009).

When barriers to entry are high in an industry, competition declines over time and it makes it hard for beginning firms to get into the industry (Pearce & Robinson, 2005). Grant (2010) indicated that a firm needs to have effective isolating mechanisms that serve as barriers to imitation to remain competitive. This allows a long duration of competitive advantage which helps entities generate abnormal profits (Mazur & Kulczyk, 2013).

Literature has suggested several isolating mechanisms that organizations can use to protect their strategies from imitation by others (Mahoney & Pandian, 1992; Oliver, 1997; Li & Tsai, 2009; Grant 2010; Mazur & Kulczyk, 2013). Several authors have proposed: economic deterrence, identification of rival competitive advantages and exploitation of opportunities as relevant strategies for resource isolating mechanism (Grant 2010; Pearce & Robinson, 2011; Li & Tsai, 2009; Mazur & Kulczyk, 2013; Johnson, Scholes & Whittington, 2006; Barney & Hesterly, 2008; Thompson, Strickland & Gamble, 2010).

Economic deterrence as a form of resource isolating mechanism is a strategy that enables a firm to determine its internal strengths (Chaharbaghi & Lynch, 1999). Economic deterrence involves large capital investments in capacity to provide products or services in a given market that are scale sensitive (Pearce & Robinson, 2011). Resources controlled by the firm should be valuable, unique, difficult to duplicate and substitute for competitive advantage to be sustained (Harrison, 2009), and this is by acquisition of valuable resources such as unique intellectual property rights which improves efficiency and effectiveness above the competing firms in the industry (Oluwole, 2006; Davenport, 2007; Barney, 2007; Barney & Hesterly, 2008; Meyer & Wit, 2005; Harrison & Hoek, 2005; McGrath, 2013; Khota & Stern, 2005).

Identification of rival competitive advantages is a strategy that enables the firm evaluate the sustainability of its competitive advantage by benchmarking their business against key competitors (Pearce & Robinson, 2011), and entails establishing comparison of performance of various companies in terms of their value chain activities as well as costs of these activities (Thompson, Strickland & Gamble, 2010). Firm's ability to evaluate its competitive positioning enables exploitation of surrounding opportunities effectively (Pearce & Robison, 2005). Competitive strength assessment measures firm's competitive strengths and weaknesses and is a list of the industry's key success variables (Thompson, Strickland & Gamble, 2010). Analysing competitors' strategies, behaviour and goals helps a firm to determine the strategic move to take in order to compete effectively (Porter, 1980; Thompson, Strickland & Gamble, 2010; Analoui, & Karami, 2005; Hoskisson, Hitt, Ireland & Harrison, 2008; Prasad, 2010; Harrison, 2003; Kotelnikov, 2004; Katsioloudes, 2006).

Exploitation of opportunities as a form of resource isolating mechanism is required due to increased rate of global competition (Dirisu, Iyiola & Ibidunni, 2013; Pearce & Robinson, 2010).

Strategic plans that are able to tap internal strengths and respond to environmental opportunities, neutralizing micro threats and avoiding inner downfalls of the organization should be implemented in order to create competitive advantage (Oluwole, 2006). A positive company reputation creates competitive advantage and therefore, creates and sustains competitive advantage (Hoskisson, Hitt, Ireland & Harrison, 2008; Hazen, & Byrd, 2012). For firms to compete effectively within the industry, they should segment the market (should concentrate on a narrow market) (Porter, 1990; Pearce & Robison, 2005; Hughes, Ralf, & Michels, 2005; Pearce, Robinson & Mital, 2007). Customer segmentation and positive relationship with stakeholders enhances competitive advantage of the firm (Prasad, 2010; Hazen, & Byrd, 2012).

### **1.1.3 Organizational Capabilities**

Organizational capabilities refer to an organization's ability to assemble, integrate, and deploy valued resources (Bordella, Liu, Ravarini, Wu & Nigam, 2012). It is the ability of the firm to employ competitive strategies that turns technical knowledge into results (Akaegbu & Usoro, 2017). Capabilities that are valuable, rare, imperfectly imitable and non-substitutable are sources of competitive advantage (Hitt, Ireland & Hoskisson, 1995; Cabral, 2013). Interplay between capabilities and resources builds core competencies which creates high value products at lower costs than rivals (Rothaermel, 2008). Organizational capabilities are achieved if the internal resources and potentiality of the entity are able to create and sustain competitive advantage (Zekiri, & Nedelea, 2011).

An organization should be in a position to integrate and assemble valued resources, exploit opportunities in the macro-environment and also utilize unique resources to sustain competitive advantage (Bordella, Liu, Ravarini, Wu & Nigam, 2012; Wheelen & Hunger, 2013; Barney, 1991). This can be achieved by engaging skilled employees who are capable of managing

processes to create value and meet the objectives and goals of a firm (Khandekar & Sharma, 2005). Rapid dynamic technological changes within external environment have bestowed decrease in commodities life cycle and thus, a firm must put more emphasis on organizational capabilities and competitive advantage to enable it gain competitive edge over other competitors (Dirisu, Iyiola & Ibidunni, 2013).

There is need for a firm to build capabilities that enable conversion of resources into processes to create and sustain competitive advantage (Kabue & Kilika, 2016). Due to consumer dynamics over time, there is need for continuous assessment of level of competences present and reinvention (Fitzroy & Hulbert, 2009). Therefore, an organizational capability does not automatically help an entity to have competitive advantage but it depends on how it is used in view of keeping the environmental variables in building of competitive advantage (Prasad, 2010; Grant, 2010). Firms should thus, evaluate the capability of their resources and configurations so as to create and sustain competitive advantage (Mutunga, Minja, and Gachanja, 2014).

The firm can therefore, gain and sustain competitive advantage by its ability to modify and configure its resource base (Rothaermel, 2013). For an organization to make a unique place in the market and increase its market share, it must be able to align competencies, capabilities and resource strategically (Smith, 2008). Commercial banks in Kenya should therefore train staff (Mbobua, Juma, & Musiega, 2013), for skilled staff and quality assets determine the performance and profitability of the bank (Ongore, & Kusa, 2013).

#### **1.1.4 Management Characteristics**

Management characteristics involves the ability to initiate and manage strategic management process (Wheelen & Hunger, 2008). This depends on the composition and the degree of

integration of knowledge of individual managers and the stability of the management teams (Sanchez, 2008). A firm's The firm's management should have characteristics of transformational leaders who provide change and movement in an organization by providing a vision for change (Wheelen & Hunger, 2008), and should understand the entity's internal strengths and weaknesses before formulating strategies (Miller, 2007). Since competitive advantage is jeopardized when leadership fails to be proactive in the global dynamic environment (Hoskisson, Hitt, Ireland & Harrison, 2010).

The firm's management should have the capacity to determine the kind of competitive forces in the outside environment, industrial changes and how they can affect on the performance of the entity (Thompson, Strickland & Gamble, 2010). They should also be able to forecast future environmental trends and events such as technological innovation, shifts in government priorities and the stability of economic conditions (David, 2013; Prahalad & Hamel, 1990). Identifying firm's internal ups and downs, taking care of the changes and threats in the external environment helps the firm to appraise its growth, profit potential and competitive position within an industry (Thompson, Strickland & Gamble, 2007).

Management characteristics involves identifying winning resources (such as brand, distribution network, technology, culture, reputation or processing plant, serving a limited range of company's offerings) which gives the company an advantage which is strictly competitive in particular type of offerings for sustained value-building (Miller, 2007; Collis, 2013; Cole & Kelly, 2011). The firm's management should have characteristics which include diversity of skills since their job is multidimensional and is oriented towards the welfare of the organization in totality and influences the success or failure of an organization (Wheelen & Hunger, 2008; WYATT, 2014; Ghillyer, 2012; DuBrin, 2008). Good decision making in matters concerning

organization and employees, clear communication, accomplishment of work assignments, good interpersonal skills, success orientation and delegation skills (Ghillyer, 2012; DuBrin, 2008), will determine the future direction of the business in its competitive environment (Collis, 2013). The decisions made by the management of the banks are key determinant of how commercial banks in Kenya perform (Ongore & Kusa, 2013).

### **1.1.5 External Environment**

The concept of competitive advantage arising from both resource isolating mechanism and resource capability is an input that requires an entity to consider its external forces (Meyer, 2008). Competitive advantage relates to the firm's ability to match internal capabilities and strengths with the opportunities available in the industry and external environment (Grant, 2010). The forces in the external environment of the business can influence the future direction of the firm and the business situation within an industry (Thompson, Strickland & Gamble, 2007). Also, striking advances in globalization, and the external business environment such as shifting of social values, technology, changes in labour force among other shifts have created a challenging environment for organization's day to day operations (Daft, 2012).

Porters five force framework and cycles of competition help in identifying the sources of competition in an industry (Johnson, Scholes & Whittington, 2006). The industry environment consists of set of factors: threat of new entrants; suppliers; buyers; product substitutes; and the intensity of rivalry among competitors, that influence the firm's competitiveness (Hitt, Ireland & Hiskisson, 1995; Pearce & Robison, 2005). Dynamic changes in the environment are very fast in creating new opportunities and threats (Prasad, 2010).

Management should therefore be able to predict future trends in the environment (Barney, 2007). This is by environmental scanning that includes monitoring, evaluation, and dissemination of information from the external and internal environments to key people within the organization (Wheelen, & Hunger, 2013). Managers scan the environment to stay up-to-date on important factors in their industry (Williams, 2010). The environmental analysis provides the company's real situation that is, whether it is healthy or unhealthy (Thompson, Strickland & Gamble, 2007).

The PESTEL framework categorises environmental influence into six main types – political, economic, social, technological, environmental and legal and changes in these factors affects the competitive environment in which organisations operate (Johnson, Scholes & Whittington, 2006). The key external influences on organisation is composed of the major stakeholders groups and other factors such as the technological, the nature of the industry and labour markets (Cole, 1997). Industry and competitive analysis reveal key success factors and competitive capabilities that separate industry winners and losers (Thompson, Strickland & Gamble, 2010).

#### **1.1.6 Commercial Banking in Kenya**

CBK Act Cap 491 and Banking Act Cap 488 regulates banking systems in Kenya. The banking sector in Kenya constitutes of the CBK as the regulatory body, forty commercial banks and one mortgage finance company which totals to forty one banking institutions as at 31<sup>st</sup> December 2015 (CBK, 2015). Commercial banks in Kenya are further grouped into 3 groups namely tier one, tier two and tier of large, medium and small that uses a weighted composite index which consists of customer deposits, number of loan accounts, capital reserves, net assets and number of deposit accounts, and (CBK, 2014).

As at 31<sup>st</sup> December, 2016 there were six tier one commercial banks, fifteen tier two commercial banks and twenty one tier three commercial banks (CBK, 2016). Two banks, Chase Bank and Imperial Bank were under receivership (Cytonn, 2016), one bank, Charterhouse Bank Limited was under statutory management and one bank, Fidelity Commercial Bank Limited was undergoing transition whereby it was to be acquired (CBK, 2016). All the banks are required to maintain a minimum liquidity ratio and cash reserves with Central Bank of Kenya (Cytonn, 2016).

The banking system in Kenya faces challenges in funding large corporate investments as more alien companies intend to control natural resources and larger infrastructure investment get underway (KFSS, 2013). Commercial banks facilitate trade by provision of liquidity, guarantee payments and settlement of trade obligations (CBK, 2016). Commercial Banks in Kenya recorded an increased asset growth of 5.8 % as at 31<sup>st</sup> December 2016 compared to 5.6 % in December 2015. The Kenyan banking sector has continued to grow in profitability, assets, deposits, and product offering over the last few years (Cytonn Investment, 2015). Commercial banks in Kenya have embraced (ICT) platforms in order to provide robust banking services and that have increased efficiency in customer service (CBK, 2016).

Commercial banks in Kenya were expected to increase in assets quality and the ones which deteriorated were closely monitored by the CBK (CBK, 2014). The Kenyan Barclays bank executed its transformation strategy in 2013 focusing on international banking and also to enable it deliver services to their customers effectively and this was also to position itself for growth within the industry (Barclays PLC Annual Report, 2014). Therefore, commercial banks in Kenya should embrace technology for effective and efficient service delivery and thus, enhance

customer confidence and loyalty, improve service quality and minimize costs and maximize on profits (Mbobua, Juma & Musiega, 2013; Kungu, Desta, & Ngui, 2014).

Challenges experienced by commercial banks include high levels of non performing loans, increased interest rates, high operating expenses, deficiencies in the accounting practices, corporate governance, lack of proper disclosure systems and absence of domestic credit rating (SEPO, 2005). As a measure to protect the borrowers and savers, the National Assembly passed The Banking (Amendment) Bill, 2015 on 27<sup>th</sup> July 2016 which compelled the banks to disclose all charges and terms related to loans, restricted the banks from setting their own interest rates for loans.

Increased political and regulatory framework have made the banking sector to experience serious challenges which are associated with global uncertainty (Barclays PLC Annual report, 2014). Internal forces emanating from stakeholders and external forces resulting from the government pressures, customers, competitors, NGOs and the society within the banking industry force banks to integrate daily sustainability practices and corporate policies (Jeucken & Bouma, 1999).

The intense competition among commercial banks in Kenya has led to banks implementing strategies that enable them survive in the industry. For instance, Kenya Commercial Bank approved its sustainability framework in 2013 where the strategy of the bank was to continue investing in long-term business customer relationships, robust governance and management of risk (KCB Annual Report, 2013). Cooperative Bank of Kenya implemented strategy which strengthened bank's resilience by focusing on individual, small and medium sized customers. This enabled it to acquire its strong track record (The Cooperative PLC Annual Report and Accounts, 2014). The National Bank of Kenya transformation agenda was to lay down strong

foundations to enable bank's growth to top tier bank by year 2016, an initiative Board and Management took to enhance sustainable business growth (NBK Annual Report, 2014). The banking sector increased performance by 10.0 percent in December 2016 and that was as a result of higher increase in income compared to rise in expenses (CBK, 2016).

## **1.2 Statement of the Problem**

The banking industry in Kenya has experienced an increasing competition over the years whereby commercial banks have been competing among themselves and also with other financial institutions (Kungu, Desta & Ngui, 2014). At the same time, the CBK Annual Report (2015) indicates that there has been high fluctuation in the level of competitive advantage achieved by individual banks in the last five years with several banks being ranked in different positions over the same period. The Banking Act chapter 488 requires banks to publish their results and bank charges (CBK, 2015), this exposes commercial banks to imitation by their rivals.

Commercial Banks are required to publish their quarterly and year end audited financial statements which must be published through newspapers and their websites and are subjected to external audits in order to monitor compliance (CBK, 2016). Central Bank of Kenya has closely monitored banks in regard to liquidity and credit risks (CBK, 2016). Liquidity is an important indicator of the bank's capability to fund increased property and meet its liabilities (CBK, 2016). Asset quality, high capital investment and efficiency is an indicator of performance (Ongore, 2013). The Banks therefore, face a challenge regarding how to prevent their rivals from imitating their strategies and their sources of competitive advantage, how to maintain skilled human capital and intellectual property to avoid losing them to competitors (Kungu, Desta, &

Ngui, 2014). The respective resource isolation mechanism each bank has employed to enact barriers to imitation therefore need consideration.

The extant theoretical literature has suggested that a macro level analysis is required in explaining competitive advantage so as to include aspects of the organizations external environment, structure, size, technology and strategy (Porter, 1985; Barney, 1991; Grant, 2010). Even though Oliver (1997) further called for research on sustainable competitive advantage to extend beyond the attributes of an entity resources to include institutional capital as a potential source of competitive advantage as well as the integration of various dimensions of capabilities, these suggestions have however not been addressed in empirical studies. The studies have failed to include the role of the environment and the aspect of potentiality in the issue of sustainable competitive advantage.

Since competitive advantage can be modelled as an aspect of firm strategic behavior, a more robust framework connecting firm strategies with capabilities in the context of firm environment is required to guide empirical work (Hoffman, 2000; Campbell, Coff & Kryscynski, 2012). Sandberg and Abrahamsson (2011) recommended that firms should integrate several organizational functions to sustain competitive advantage. The study was based on case study in two Swedish companies where two rounds of interviews were conducted to top managers.

Most studies done in the banking sector in Kenya have laid emphasis on the strategies the banks need to adopt to gain competitive advantage (Kungu, Desta & Ngui, 2014; Gudmundsson, Kisinguh & Odongo, 2013). Studies done on isolating mechanisms focusing on competitive advantage have mainly focused on resources controlled by firms (Oliver, 1997; Li & Tsai, 2009; Mazur & Kulczyk, 2013).

Thus, the area of resource isolating mechanism has been given little attention in the banking industry and in strategic management (Mazur & Kulczyk, 2013). Hence, there is lack of adequate understanding on the set of resource isolating mechanism adopted by commercial banks in Kenya and how they influence competitive advantage, as well as the role played by capabilities generated by the bank resources and the external environment. The purpose of this study therefore was to determine the effect of resource isolating mechanism on competitive advantage among commercial banks in Kenya.

### **1.3 Objectives of the Study**

The study sought to achieve general and specific objectives captured here under.

#### **1.3.1 General Objective**

The main objective of the study was to investigate the effect of resource isolating mechanism on competitive advantage among Commercial Banks in Kenya.

#### **1.3.2 Specific Objectives**

- i) To determine the effect of economic deterrence on competitive advantage among commercial banks in Kenya.
- ii) To determine the effect of identification of rival competitive advantages on competitive advantage among commercial banks in Kenya
- iii) To establish the effect of exploitation of opportunities on competitive advantage among commercial banks in Kenya
- iv) To establish the mediating effect of the organizational capabilities on the relationship between resource isolating mechanism and competitive advantage among commercial banks in Kenya.

- v) To establish the moderating effect of management characteristics on the relationship between resource isolating mechanism and competitive advantage among commercial banks in Kenya.
- vi) To determine the moderating effect of the external environment on the relationship between resource isolating mechanism and competitive advantage among commercial banks in Kenya

#### **1.4 Research Hypotheses**

- H<sub>01</sub>:** Economic deterrence has no significant effect on competitive advantage among commercial banks in Kenya.
- H<sub>02</sub>:** Identification of rival competitive advantages has no significant effect on competitive advantage among commercial banks in Kenya
- H<sub>03</sub>:** Exploitation of opportunities has no significant effect on competitive advantage among commercial banks in Kenya
- H<sub>04</sub>:** Organizational capabilities have no significant mediating effect on the relationship between resource isolating mechanism and competitive advantage among commercial banks in Kenya.
- H<sub>05</sub>:** Management characteristics has no significant moderating effect on the relationship between resource isolating mechanism and competitive advantage among commercial banks in Kenya.
- H<sub>06</sub>:** There is no significant moderating effect of external environment on the relationship between resource isolating mechanism and competitive advantage among commercial banks in Kenya.

## **1.5 Significance of the Study**

The findings of this study are important to management especially commercial banks in Kenya since insight on resource isolating mechanism has been provided. The research is of great importance to the government and organizational policy makers for they can use the findings in this research to formulate and develop strategies on resource isolating mechanism for implementation in both public and private sectors. The study provides insight on what resource isolating mechanism firms should embrace to sustain a competitive advantage. The study contributed towards filling of the information gap on the subject matter which is useful for future research. The study also contributes to the existing body of knowledge, which can be used as reference point by academicians, scholars and researchers.

## **1.6 The Scope of the Study**

The scope of the study was all Commercial Banks in Kenya, specifically, the headquarters based in Nairobi, Kenya. Two banks (Chase Bank Kenya and Imperial Bank Kenya) which were put under receivership were not considered in this study. The respondents targeted for this research were the key functional/departmental managers in Marketing and Sales, Finance, Operations and Strategy in all 40 commercial banks in Kenya who were well conversant to the required information in regard to this study. The purpose of this study was to establish the effect of the resource isolating mechanism on competitive advantage among commercial banks in Kenya. The study was guided by RBV theory, KBV theory, dynamic capability theory, institutional theory, management cognition theory and Porter's five forces model. Descriptive and explanatory research design was adopted for the study and data was analysed using descriptive and multiple regression analysis. The independent variable in this study was resource isolating mechanism while dependent variable was competitive advantage, the mediating variable was

the organizational capabilities and the moderating variables were management characteristics and external environment.

### **1.7 Limitations of the Study**

Some of the respondents were not willing to provide relevant information due to requirement of maintaining confidentiality in work place. The researcher mitigated this by assuring the respondents that information obtained was for academic purposes only and the information provided would be treated with confidentiality. The researcher used the introduction letter from Kenyatta University and the permit from National Council of Science and Technology as an evidence that the information sought was only be for academic purposes. Also the study only focused on the commercial banks in Kenya, specifically management at the headquarters of commercial banks based in Nairobi. Future studies however should consider other sectors other than commercial banks for comparison purposes.

### **1.8 Organization of the Study**

This thesis is organised as follows: The first chapter provides the background of the study, statement of the problem, research objectives and hypothesis, significance, scope, justification and the limitations of the study. The second chapter presents the literature review which included theoretical review, empirical study and conceptual framework for the study. Third chapter presents the research methodology. Chapter four presents the discussions on the research findings whereas chapter five presents the summary, conclusions and recommendations of the study.

## **CHAPTER TWO**

### **LITERATURE REVIEW**

#### **2.1 Introduction**

The chapter reviews specific conceptual and empirical literature selected covering the main parameters used in this study aimed to point out current research gaps. It also emphasised on literature covered in other areas of resource isolating mechanism and competitive advantage and focused on identification of areas where research gaps exist. The theories of the study included resource based view, knowledge based view, dynamic capability theory, institutional theory, managerial cognitions theory and lastly five forces model by Porter. This study parameters were to identify the existing gaps from the past studies and the literature review. The Conceptual framework of this study was developed to bridge the existent research gaps.

#### **2.2 Theoretical Review**

The thesis sought to determine the effect of resource isolating mechanism on sustainable competitive advantage. This section reviewed existing theories related to the study variables. Several theories have been advanced by scholars, researchers and writers in SCA. The most prominent of these theories are resource-based theory and knowledge-based theory.

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

Resource-Based View (RBV) theory was developed by Penrose in 1959 and developed by Penrose, (1980); Wernerfelt, (1984); Barney, (1986); Barney, (1991); Grant, (1991); Peteraf, (1993); Makhija, (2003) (Curado, Lupi & Lisboa, 2006). Main RBV theories were developed between 1988-1997 (Barney & Hesterly, 2008). RBV theory indicates that resources are what aids an organization tap opportunities and neutralize external forces threat (David, 2013).

Resource-Based View theory is useful for it helps firms sustain competitive advantage for a firm can gain exceptional advantages since the model analyses information of the resources under its control (Peteraf, 1993). Resource-Based framework determines valuability of resources and if exploited well sustains competitive advantage (Amis, Pant, & Slack, 1997). Resource Based View and Knowledge Based View compliment each other since firm's assets and knowledge capabilities significantly creates and sustains competitive advantage (Theriou, Aggelidis & Theriou, 2009).

Resource based theory provides a framework which explains and predicts the origin of the competitive advantage of the business (Konzlenkovan, Samaha, & Palmatier, 2013). According to Grant, (1991), RBV approach helps the firm develop uncommon characteristics to realise the relationships that exist between firms resources, competencies, potentiality and its gainfulness and the mechanism that can be used to integrate these resources to sustain the competitive advantage. This can be achieved by designing and implementing strategies which can exploit the opportunities in the external environment (Grant, 1991).

Resource based theory focused on firm resources and creation of sustainable competitive advantage (Barney, Ketchen, & Wright, 2011). RBV explains how firms can compete effectively and efficiently by exploitation of specific resources and capabilities which possesses uniqueness and are imitable by competitors for they are factors of sustainable competitive advantage and high performance of the firm (Theriou, Aggelidis & Theriou, 2009). Sustainability of competitive advantage is determined by the level to which competitors are able to match the uniqueness of their resources and that of other firms (Olavarrieta, & Ellinger, 1997).

According to Das, and Teng, (2000), RBV approach helps a firm to maximize value and minimizing costs by utilizing valuable resources and by integration of resources. Competitive advantage according to RBV can only be realized if a firm has unique resources and is able to combine these unique resources which are inimitable such as patents, trademarks and copyrights, rare, imperfectly mobile and unsubstitutable (Das, & Teng, 2000).

The basic rationale of RBV is that an entities competitive advantage basically uses of valuable bundle of resources (Harrison, 2009). Bordella, Liu, Ravarini, Wu and Nigam, (2012) proposed an influencer business motivation model as a way of acquiring and sustaining competitive advantage by evolving concepts from RBV of the firm. The RBV was originally developed to elucidate sustained competitive advantage and its purpose was to explain persistent success in customer markets (Collis, 2013). The RBV approach to competitive advantage contends that the internal firm resources are more significant than those in external firm environment (David, 2011). In order to create an exceptional strategy companies should seek to exploit all sources of competitive advantage, (O'Sullivan, 2011).

RBV identifies four characteristics known as resource isolating mechanism of firm's resources as physically unique (virtually impossible to imitate), path-dependent resources (very difficult to imitate), causal ambiguity (very difficult to imitate due to its complexity), economic deterrence (resources which requires high capital investment) (Pearce & Robinson, 2005). Resource Based View theory is important in this study for its main concern is the resources controlled by a firm and how these resources can be linked to produce competitive advantage. This study puts more emphasis on resources and therefore, RBV theory was very critical in guiding this study and addressed the independent and mediating variables of the study.

### **2.2.2 Knowledge-Based View (KBV) Theory**

Knowledge Based Theory is build upon and an extension of Resource Based View Theory of the firm which originated from strategic management literature and developed by Grant in 1996 (Grant, 1996; Curado, Lupi & Lisboa, 2006). Knowledge-based view is an extension of resource based view of the firm in creation of competitive advantage, value and heterogeneity (Felin & Hesterly, 2007). Creation and sustainability of competitive advantage depends upon inimitability of the capabilities and this underlies in the scope of specialized knowledge within an organization (Grant, 1996).

The firm is able to create new value if its capabilities and knowledge are rooted in experts and specialist for this provides the starting point in creation and sustaining competitive advantage (Felin & Hesterly, 2007). Knowledge management enable organization to generate business value out of the available knowledge resources of an organization and because of this, it is essential for an organization to establish new strategic practices that leverage knowledge-based resources (DuBrin, 2006; Campion, Medsker, & Higgs, 1993; Grant, 2010). Whereas others have focused on individual resources, such as general mental ability and conscientiousness (Barrick, Stewart, Neubert & Mount, 1998).

Knowledge management is significant in increasing people skills and expertise, enables people collaboration and ability to extract organization problem and solutions to this problem as well as prevent companies from constantly reinventing the wheel (Deloitte, 2013). Organizational learning combined with creativity and knowledge management leads to resources personality (non physical resources) which when configured result in to sustainable competitive advantage (Chowtupalli & Rafi, 2013). KBV involves the firm's intangible know how and skills such as

technological and management skills or talents which are inimitable due to barriers in information and are protected (Das, & Teng, 2000).

Firms should therefore, develop systems, procedures and processes for critical knowledge transmission within the organization, implement structures for effective communication and focus on developing and continuously improving knowledge transmission systems to attain competitive advantage sustainability (Njuguna, 2009). KBV of an entity provides five very important characteristics which include a Schumpeterian rent creation logic, it presents an important role in the sustainability of competitive advantage, it helps in development of idiosyncratic non physical assets through path reliability, it also increases knowledge and skills that cannot easily depreciate and causal ambiguity (Curado, Lupi & Lisboa, 2006).

Acquiring knowledge through learning triggers insights into organizational routines, beliefs, values and culture (Clegg, Kornberger & Pitsis, 2014). Therefore, continuous learning of the organization's employees capable to develop capabilities and competencies that are sources of sustainable competitive advantage (Njuguna, 2009; Chowtupalli & Rafi, 2013). Specialised knowledge enhances the firm's capabilities and competencies (Grant, 1996). Managers should therefore be able to identify staff with unique skills and talents which cannot be duplicated by rivals (Hatch, & Dyer, 2004).

Organizations should embrace learning that focuses on the situation in the market and learning that have critical capabilities to shape the organization's creativity vividness and as a result provide to its sustainable competitive advantage (Weerawarden & O'Cass, 2003). The idea of knowledge rises into two distinct forms: explicit knowledge such as architects' drawings,

business plans, patents, processes and techniques, tacit knowledge which includes experiences and background of the employees (Capon, 2009).

Knowledge process of a firm require interaction between both tacit knowledge (know how) which includes the intuitions and insights of people and explicit knowledge (know that) which is useful for it can be documented and shared by employees (Sanchez, 2008). Tacit knowledge is the core firm's prior knowledge base for it is embedded within the employees minds and firm's explicit knowledge such as firm-specific blueprints and standard operating procedures, are useful only when tacit knowledge is well utilized by the employees of the organization (Tushman & Anderson, 2004).

Usually in the domain of subjective, cognitive and experiential learning, highly personal and hard to formalize is knowledge with skills, abilities and competencies (Cole & Kelly, 2011), and is relatively immobile and ambiguous and therefore, inhibits imitation by rivals (Sanchez, 2008). Knowledge Based View theory in this study is used to inform both the independent, mediating and moderating variables. Firms operate in a turbulent environment whereby changes in the external environment of the firm keeps on changing especially in the technological environment and therefore continuous innovation is required.

### **2.2.3 Dynamic Capability Theory**

A dynamic capability is acquired if a firm is able to integrate, build and configure both internal and external competences in order to address dynamic changes in the environment (Teece, Pisano & Shuen, 1997). Dynamic capability theory originated from Schumpeter (1934) and is based on the resource-based theory approach (Gathungu & Mwangi, 2012). The aspect of dynamic capabilities is important for sustaining competitive advantage despite dynamic changes

in the external environment (Zaidi & Othman, 2012). Dynamic capability theory is concerned on what organizations should adapt to sustain competitive advantage (Kitenga & Kuria, 2014). Dynamic capabilities are developed via three mechanisms which include tacit accumulation of past experience, knowledge articulation and knowledge codification processes (Zollo & Winter, 2002).

According to Teece, (2017), strong dynamic capabilities help an organization to compete effectively and efficiently. This is by building resources, renewing and reconfiguring those resources. As a result, the firm is able to respond to the changes in the environment as well as the changing customer preferences. Dynamic capability is grouped into three clusters which includes sensing, seizing and transforming (Teece, 2017). Sensing capabilities involves continuous scanning of the environment in view of identifying new inventors and exploration of markets needs. Seizing capabilities entails seizing the opportunities within the firm's environment and this assist in market segmentation and identification of right technology (Teece, 2017).

Transformation capabilities involve recombination and reconfiguration of resources in view of addressing the changes and opportunities in the environment (Breznik & Lahovnik, 2016). Dynamic capability theory address the mediating variable, organizational capabilities for it mainly focuses on the sufficiency and appropriateness of resources and competences required for organization's survival and prosperity.

#### **2.2.4 Institutional Theory**

Institutional theory of organizations emerged from Philip Selznick in 1948, whereby he noted that organizations have their own life cycle and are created to achieve goals. Institutional theory

model views organizational structures as a means of shaping the organization's characteristics in response to the changes in the external environment (Tosi, 2009). Institutional theory of organizations provides a multifaceted view of firms and argues that firms are predisposed by normative pressures, from either internal or external sources (Zucker, 1987). It is a concept that best captures the process of homogenization and this enable the characteristics of the organization to be modified in the right direction which is compatible with the characteristics of the external environment (DiMaggio & Powell, 1983).

Institutional theory is concerned with progressions by which structures are recognized as authoritative guidelines for social behavior (Scott, 2004). Institutional theorists are concerned with how organizational structures and processes become established over time (Oliver, 1997). Institutional theory focuses mainly on distinguished and specialized cognitive and normative systems that classifies human activities within an organization (Tosi, 2009). Institutional theories see local actors (individuals, organizations or national states) as affected by institutions built up in much wider environments.

Institutionalization is a process concerned with creation of social reality whereby there are social orders in an organization and each individual actors takes action (Tosi, 2009). Institutionalized products or services, techniques, policies, and programs and function are powerful myths (Meyer & Rowan, 1977). Institutions have cultural or discursive dimensions and also structural or organizational ones (Meyer, 2008). From an institutional perspective, the most important aspect of isomorphism interaction with environmental institutions is the evolution of organizational language (Meyer & Rowan, 1977).

DiMaggio and Powell, (1983), identified three mechanism of institutional isomorphic change: coercive isomorphism which arises from political influence and the problem of legitimacy; mimetic isomorphism which is as a result of standard responses to uncertainty and normative isomorphism which is associated with professionalism. The thought of institutional isomorphism is useful instrument for modern organizational dynamics (DiMaggio & Powell, 1983).

Institutionalized organizations have the benefits of institutional strategies concerned with formation and development of institutions, rules and regulations controlling these structures. (Thomas, 1999). Without institutional control, a firm's innovative processes finally lack strategic direction and focus (Barney, 2007). Rationalized institutions create myths of formal structure which shape organizations (Meyer & Rowan, 1977). Therefore, institutional theory considers processes by which structures become established as authoritative guidelines for organizational behavior (Prasad, 2010). Therefore, institutional theory is important for it explains the firms structure which leads to institutional isomorphism (Zucker, 1996).

Organizations that omit environmental legitimated elements of structure or create unique structures lack acceptable legitimated accounts of their activities (Meyer & Rowan, 1977). Institutional isolating mechanism can also be involuntary and exogenous and exist when otherwise accessible resources and capabilities that support a competitive advantage are rejected if they fail to fit with prevailing cultural norms or political interests (Oliver, 1997). It is important for firms to adapt to environmental changes for the ones whose structural elements are not institutionalised in their environment may not survive and therefore managers should articulate the internal structures of the firm (Meyer & Royan, 1977).

Institutionalized institutions are capable of implementing decisions, adapt to changes in the environment, are able to construct internal structures in line with their goals and also manage workload in order to survive (Peters, 2000). Institutional resource isolating mechanism denotes barriers to imitation and this helps a firm to protect its competitive advantage (Oliver, 1997). Institutional Theory in this study is an important guide for it emphasizes on structures that support processes of and organization for sustainability of competitive advantage. Institutional theory in this study addresses three variables independent, mediating and moderating variables.

### **2.2.5 Managerial Cognitions Theory**

The roots of cognitive theory can be found on the Carnegie school researchers in the late 1040s Uotila, (2015). Cognitive theory of the firm postulates that the main purpose of an organization is to manage cognition, in a wide sense of perceptions, meanings, interpretations, values and norms of behaviour (Nooteboom, 2006). Cognition entails attention towards significance of information, knowledge organisation, problem solving and making of decisions and thus, organisations resemble cognitive systems when they represent abilities and processes for sensing, perceiving, filtering and attention, storing and organizing knowledge, problem solving and learning (Nobre, Tobias & Walker, 2008).

Managerial cognitions indicate various frameworks which help managers to make decisions especially when solving complex problems of the firm which requires cognitive efforts (Uotila, 2015). Cognitive approaches are significant to the firm due to the fact that they form the most dominant strands of the literature on an organizational knowledge and learning that are strongly informed by ideas drawn from cognitive psychology (Marshall, 2007). Whereby cognitive psychology contributes to the school of thought of how perceptual and cognitive processes affect decision-making (Wood & Bandura, 1989).

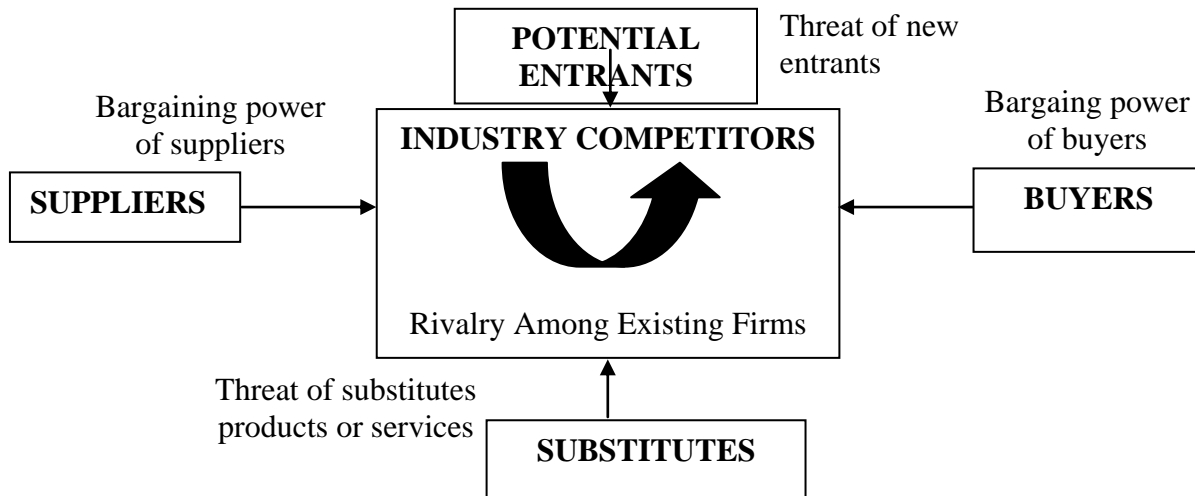
Cognitive limitations can lead to strategic drift if managers resist change of which creates conflict with their predominant way of understanding their organization and its environment (Stacey, 2007). According to Nobre, Tobias, and Walker (2008), organizational cognition is concerned with processes which provide organizations and its agencies, the learning ability for decisions making and problem solving and are supported by goals, technology and structure. Organizational cognition contributes to improve the computational capacity of the organization along with its ability for knowledge management and plays an important part in organization design, and vice-versa, and also in the analyses of the relations between the organization and the environment (Nobre, Tobias & Walker, 2008).

Organizational cognitive focus, shaped by organizational culture, forms the core organizational identity and constitutes the advantage of organization over market (Nooteboom, 2006). Top managers should make timely adjustments to their mental models to enable them make linkages between environmental change and corporate strategy and this way organisational renewal is possible (Stacey, 2007). Top management of an organization are involved in making critical decisions allocation of resources and therefore managerial cognition theory help managers to understand the organization and the environment they operate in. Managerial cognition theory in this study was used to address the management characteristics and external environment variables.

### **2.2.6 Porter's Five Forces Model**

Five forces model was developed by Michael Porter of Havard Business School in 1979. According to Porter (1980), the state of competition in an industry depends on five basic forces which determine the ultimate profit potential in the industry. All five competitive forces shown in Figure 2.1 jointly determine the intensity of industry competition and profitability (Porter,

1980), and reveals the drivers of industry competition (Porter, 2008). Porter's five forces help firms to understand the changing attractiveness of an industry for they constitute an industry's structure and provides useful insights into the forces at work in an industry (Johnson, Whittington & Scholes, 2010).



**Figure 2.1: Forces Driving Competition**  
**Source: Porter, (1980)**

Porter, (1980), identified six barriers to entry which include: economies of scale, product differentiation, capital requirements, cost advantages, government policy and switching costs. Threat of entry puts a cap on the profit of an industry and depends on the height of entry barriers present and reactions from the incumbents firms (Porter, 2008). The five forces determine the profitability of an industry and thereby shaping competition in a particular industry (Pearce & Robison, 2005). The firms can use the five forces model to formulate strategies and assess their strengths and weaknesses (Cole & Kelly, 2011).

The five forces framework is crucial for it guides the managers in the formulation of long term strategies which facilitates effective competition within the industry (Zekiri, & Nedelea, 2011).

According to Thompson, Strickland and Gamble (2010), the use of five competitive force enables the firm establish the competitive pressures within the operating industry, their strengths and their impact on values of firm. To enable formulation of competitive strategies, it is important for the firm to consider analysis of existing competitors and the threat they pose to the firm environment in terms of trade entry barriers and exit barriers. The behaviour of suppliers and customers in bargaining and forecast on future mergers and acquisitions (Porter, 1980).

Ensuring economies of scale in production, access to the supplier or distributor marketing channels, overcoming expected retaliation by industry rivals, differentiation of firm products to that of competitors, overcoming government action, investment in large capital and proprietary technology are some of the actions that enable a firm overcome barriers to market entry and hence the firm is able to compete effectively (Johnson, Whittington & Scholes, 2010; Pearce & Robison, 2005). Thus, the firm should be in a position to design products or services perceived as unique such as brand image, technology, product features, unique customer service and durable products better than competitors (Porter, 1980).

According to Grant (2010); Pearce and Robinson (2005) the Porter's five forces establish that presence of substitutes pose a threat to a firm's goods and services since substitutes result to reduced profit by firms. As a result, firms opt for differentiation, improved quality and competitive price ceilings as compared to rivals and the substitute, such that the substitute product fails to offer performance advantage to the consumer and hence the firm is able to neutralize threat posed by substitute product (Johnson, Whittington & Scholes, 2010; Pearce & Robinson, 2005).

For firms to survive in the industry, they must understand the customers' needs, changing preference behavior and attitude and also be able to deliver superior services beyond customer expectations (Auka, 2014). Therefore, a firm should have two products which complements to each other for profitability of a firm (Grant, 2010). Porter, (1980) further reinforces that firms in an industry are able to sustain competitive advantage through implementation of the generic strategic approaches including cost leadership, differentiation and focus strategies. Cost leadership strategy enables a firm gain more returns on investment than rivals and firm may become market leader in terms of profitable and maximization of economies of scale technology.

Differentiation strategy facilitates product uniqueness, valuability and quality which enables the products and services that exceed customer expectations thus, building on customer relationships and loyalty hence contribute to increament of market share. Focus strategy enables the targeting of a particular market which may also be a source of large returns for a firm. This enables the firm to serve the identified market effectively and efficiently and as a result promoting profitability and increase in the market share (Porter, 1980). This study focused more on intense competition among commercial banks in Kenya and therefore, Porter's five forces model serves as an important guide in this study and addressed the dependent and mediating variables.

## **2.3 Empirical Review**

This section presents the literature in regard to the research objectives on economic deterrence, identification of rival competitive advantage, exploitation of opportunities, organizational capabilities, management characteristics and external environment. It highlights the existing gaps in relation to the study objectives and issues of interest to the current study.

### **2.3.1 Economic Deterrence and Competitive Advantage**

Gaya, Struwig and Smith, (2013) found that the presence of tangible resources, both financial and capital are the main source of sustainable competitive advantage. The study was conducted in the motor vehicle industry in Kenya where senior managers and CEO were interviewed. The study concluded that a firm should possess bundle of resources which are rare, immobile, inimitable and unsubstitutable in order to perform at higher level than rivals. The study is on the indicator of economic deterrence, capital investment.

Gudmundsson, Kisinguh and Odongo (2013), sought to establish the role of capital requirements on Bank competition and stability: the case study of the Kenyan banking industry. The purpose of the study was to examine the role of capital requirements on bank competition and stability in Kenya for a period 2000-2011. The target population was thirty six commercial banks. Return on equity was an indicator in measuring earnings and profitability of the banking sector. Bank competition was measured by lerner index and the Panza Ross H Statistics. The study found that there was evidence that capital has a linear effect on competition and that there was benefit of increasing capital requirements on competitiveness which are realized once consolidation of resources take place. The study is on the indicator of economic deterrence, capital investment.

Ismail, Rose, Uli and Abdullah, (2012) study sought to establish the relationship between organizational resources, capabilities, systems and competitive advantage. The target population consisted of manufacturers listed in the 2008 Federation of Malaysian Manufacturers Directory. A cross-sectional research design was employed where structured questionnaire was used to obtain responses from the manufacturers. A sample of one thousand manufacturers were randomly selected however, 127 respondents duly filled and returned the questionnaires for analysis (12.7% response rate).

The study found that there was positive effect of organizational resources, capabilities and systems on competitive advantage and recommended that organizations should consider having sound work systems that facilitate internal capabilities and resources to achieve competitive advantage, and that the organisations should improve their research and development (R&D) and product promotion capabilities to attain and sustain competitive advantage. The study was on the indicator of economic deterrence, unique business systems (Ismail, Rose, Uli & Abdullah, 2012).

Teixeira & Ferreira, (2018) found that the use of informal protection mechanisms, such as lead time and trade secrets, fosters the companies' competitiveness, whereas the use of formal protection mechanisms, such as patents, trademarks and geographical indications, negatively impacts on competitiveness. The study was to assess the impact of IPR protection mechanisms on the competitiveness of startups. The targets of the study was academic spin-offs (ASOs), more precisely, startups located in Portuguese science and technology parks and incubators. Methodology was quantitative analysis. The study was on indicator of economic deterrence, intellectual property rights.

According to Foon and Nair (2010), it is of paramount importance that firms should put more emphasis on learning, innovative, able to implement knowledge and information management systems and have intellectual capital to sustain competitive advantage. The research was conducted in Malaysian multinational companies (MNCs). The main objective of the study was to understand the concept of sustainable competitive advantage and how the sources of competitive advantage varied in the 21<sup>st</sup> century context. Twenty MNCs in manufacturing industry were selected from the directory of Federation of Malaysian. Eighty nine respondents were targeted of which sixty nine questionnaires were returned (Foon & Nair, 2010). The study is on the indicator of economic deterrence, capital investment.

Cabral (2013), did a research on corporate reputation and sustainable competitive advantage at New York University and from the result developed a model which suggested that firms with a superior reputation should invest heavily on building that reputation. The finding was in agreement with Saloner (2001) that if sources of competitive advantage resist competition, then the competitive advantage is ranked as sustainable. The researcher argued that a firm with superior reputation possesses dynamic capability and succeeds in the long run. The study is on the indicator of economic deterrence, intellectual property rights.

### **2.3.2 Identification of Rival Competitive Advantages and Competitive Advantage**

Kungu, Desta and Ngui (2014) found that equity bank used different competitive strategies among them the combination strategy, cost leadership strategy, differentiation strategy, and focus strategy and also it possessed various strengths that enabled it to survive in the market and also enabled it to compete favourably against rival firms. The study recommended that commercial banks should improve their information systems, come up with policies that would address the challenges they faced in maintenance of customer demands, pricing strategies and advanced

technology to ensure improved quality and reduced costs to their customers. They also recommended further research in the area of the factors affecting the effectiveness of competitive strategies in dealing with falling demand of banking services in Kenya. The study is on indicator, competitors strength and weaknesses.

Ning (2012), study sought to investigate the maintainance of sustainable competitive advantage, specifically on the evolution of organizational strategic management where the key concern was the absence or extinction of sustainable competitive advantage for many businesses and the need to maintain the business strengths and advantages for market survival. The study adopted exploratory and historical case study approach where emprirical literature was used to establish the evolution of firm strategic planning process. Secondary sources of data collection included the media and database sources.

The study established that competitive advantage occurred in phases/life cycle which commenced with planning and resource gathering. The study concluded that enduring success requires sustainable competitive advantage and that calls for continuous improvement and innovation to maintain the competitive advantage so as to survive in the market. The researcher recommended for future research to enable a more detailed research (Ning, 2012). The study is on indicator, competitors strength and weaknesses.

Foon (2011), study focused on capability differentials as strategic assets of firms. The main purpose was development of conceptual model for the study where capability differentials sought to relate with sustainable competitive advantage. the study established that for capability differentials to be considered as strategic assets, four critical dimensions were fundamental, that is, functional capabilities, cultural, regulatory and positioning capabilities. This effectively

facilitate sustainable competitive advantage. The model is useful as it enables management of an organization to identify the resource profile of the firm as well as make comparisons with the resource profile of firms across related industries which have similar features. The study proposed further study in other industries that were not addressed in the study. The study is an indicator of identification of rival competitive advantage, cross-company comparisons.

### **2.3.3 Exploitation of Opportunities and Competitive Advantage**

Iberg (2015) found that firms that invest in sustainability create strong comparative advantages for their businesses in the 21<sup>st</sup> century. The purpose of the study was to outline successful tactics of incorporating sustainability strategy in the company's objectives to create competitive advantage in the premium market segment. The study was done on different industries among them the clothing, transportation, restaurants, cleaning products in University of Tennessee. The researcher used secondary data from various publications.

Creating new market segments for sustainable products allows a firm to have a first mover advantage and allows their customers to have alternative products. By innovations and improved sustainable products, firms are able to capture market share above their competitors and improve brand equity, the firms can improve their customers' perception. The recommendation was that sustainability of the firm's competitive advantage and strategies is a requirement for long-term business success and this is due to the rise in consumer demands for valuable products, strained resources and uncertainty in the firm's environment (Iberg, 2015). The study is an indicator, customer segmentation.

Jekaterina (2010) concluded that there is more evidence that successful strategic positioning starts with developing products based on the company's existing strengths of the product and

competitive advantage. The purpose of the study was to examine the concepts of sustainable competitive advantage and strategic position in the food industry in Germany. Qualitative study was conducted on three beverage producers and cases were analysed based on the theoretical models. The conclusion of the study was that evaluation of the company's success and its strategies should be performed by combining different theories and models for companies are complex structures and their success depends on different elements, whether is sustainable competitive advantage or strategic position. The study recommended for future research which should focus on the compatibility and comparison of theories on positioning and brand building strategies. The study is on indicator, strategic positioning.

Wu (2010), explored how stakeholder management influences competitive advantage. The study found that stakeholder management helps in sustaining competitive advantage by generating resource isolating mechanism which preserve competitive advantage and recommended that firms should not only strengthen the capacity of resource advantage but also enhance relationships with their stakeholders to sustain competitive advantage. The study was conducted in all Taiwanese firms and was guided by theoretical framework and research questions. The study recommended future study on large firms for Taiwan firms are small. The study is on indicator, relationship with stakeholders.

Choi and Shepherd (2004) studied on Entrepreneurs' Decisions to exploit opportunities in US. The purpose of the study was to establish the entrepreneurs decisions to begin exploiting business opportunities from the resource-based view. Experimental research design was used. The target population were entrepreneurs involved in high-technology located in business incubators in US. Thirty seven business incubators were randomly selected from the US list of incubator members whereby two sixty seven entrepreneurs were contacted via telephone or

emailed letters. The respondents were CEOs or presidents of the business. Only sixty eight respondents completed the experiment a rate of 24% (Choi & Shepherd, 2004).

The study found that it was likely for entrepreneurs to exploit opportunities if more knowledge of customer demands are perceived for new products, technologies are fully developed and presence of managerial capability and strong stakeholder support. Recommended for future research in order to develop understanding of opportunity exploitation to complement recent works on opportunity discovery and recognition (Choi & Shepherd, 2004). The study is on indicator, identifying unique opportunities.

#### **2.3.4 Resource Isolating Mechanism, Organizational Capabilities and Competitive**

##### **Advantage**

According to Gitonga, Kilika and Obere, (2016), Commercial banks are required to employ employees with adequate skills since employees are key resources in delivery of quality products and services. Employees with right skills enables the bank to realize its goals and objectives and thus, creation and retention of competitive advantage. The study was on generation Y talent management strategy and competitive advantage. The population of the study was all 43 commercial banks in Kenya. The research design employed was descriptive survey research design. The study found that identification of mixture of resources and capabilities contributes towards creation of competitive advantage. The study is on indicator of organizational capabilities, employee skills and talents.

Dirisu, Iyiola and Ibidunni (2013), found that there was positive significant relationship between higher quality product and the sales growth of an organization, a study of Unilever, Nigeria. The purpose of the study was to determine the relationship between product differentiation and

organizational performance. The study adopted survey research design due to the nature of the respondents which entailed administering of questionnaires to the chosen sample. The population of the study were customers/consumers of the Unilever products, Nigeria Plc at Ota, Ogun state. The study recommended that product differentiation can be used as a tool for achieving competitive advantage and enhancing greater organizational performance. The study is on indicator of organizational capabilities, unique resources.

Sandberg and Abrahamsson (2011), sought to explore the generation of sustainable competitive advantage by Swedish firms that exploited logistics as source of competitiveness. Case study research design was employed where trends were empirically investigated over a span of two years. Primary materials include interviews and questionnaires whereas secondary materials such as annual reports and news bulletins were considered, where targeted population were top management teams. The findings of the study established that dynamic capabilities were not limited to certain organizational part of the economy but a broad different activities were necessary to integrate several organizational functions. The study recommended that dynamic capabilities should be framed and incorporated in other functions of the firm (Sandberg & Abrahamsson, 2011). The study is on indicator of organizational capabilities, coordination of activities.

Korhonen and Niemelä (2005) study focused on conceptual analysis of capabilities. The main purpose of the study was investigation of the relationship between firm capabilities and competitive environment of firms in the wood industry, where the scope entailed the identification and classification of sources of competitive advantage. The study adopted descriptive multiple-case study, where independent firms in the wood industry as well as

subsidiaries or sections of large companies were considered as unit of analysis. Eleven cases were considered where primary data collection was conducted, which represented the core business cultures in the wood industry, that is, timber, panel and EWP. Secondary literature was also considered for the purpose of provision of additional background information, establishment of validity and reliability and time effectiveness in the company visits for data collection.

The study established that firms aiming at identifying the capabilities contributing to competitive advantage should consider filtering the capabilities needed for staying in business within their own industry and also identify capabilities which were rare among their competitors within a selected market and industry context. This would enable the firm establish capabilities with valuability, inimitability and unsubstitutability properties. It would also enable the firm to identify the desired capability portfolio, analyse the inputs from the resources acquired by the firm, infrastructure and processes capable of building the firm's competencies (Korhonen & Niemelä, 2005). The study is an indicator of organizational capabilities, coordination of activities.

Anyim (2012), found that service differentiation strategy used by the private hospitals to gain competitive advantage enhances service delivery and leads to high customer loyalty. The purpose of the study was to determine service differentiation as a phenomenon among private hospitals in Nairobi in order to assess the extent to which service differentiation can be used to gain sustainable competitive advantage in the private hospital sector. The research used descriptive survey design. The target population were all private hospitals in Nairobi. A sample study of 30 private hospitals in Nairobi was selected through purposive sampling method. The recommendation from the study findings was that other sectors of the economy should practice

service differentiation to gain competitive advantage. The study measured SCA through service differentiation. The study is on indicator of organizational capabilities, unique resources.

Zekiri, and Nedelea (2011), studied on Strategies for Achieving Competitive Advantage in Macedonia. The main objective was to outline and discuss the relevant issues and challenges faced by companies during formulation of strategy in order to achieve competitive advantage. The study concentrated on secondary sources of research from the leading authors in the field as well as textbooks and electronic academic sources. The study found that in order to gain competitive advantage it entails a set of specialized skills, assests, and capabilities for the firm. They concluded that competitive advantage was an important concept for it defines the uniqueness of an organization vis-à-vis its competitors and the business level strategy of an organization is which the sustainable competitive advantage is gained. The study is on indicator of organizational capabilities, employee skills.

Vinayan, Jayashree and Martandan (2012), recommended that for unique resources to give competitive advantage to a firm, they must provide value to customers such that competitors fail to duplicate it, therefore, the uniqueness of organization is met. The main objective of the study was to develop measurable variables on sustainable competitive advantage. Cross-sectional email survey was conducted on the Manufacturing organizations in Malaysia. A total of 960 questionnaires were emailed to the respondents out of which 300 completed questionnaires were received, signifying a response rate of 31% (Vinayan, Jayashree & Martandan, 2012).

The findings indicated that the theoretically formulated measurement criteria or dimensions of SCA are significantly and positively linked with the construct of sustainable competitive advantage. The study provided a strong groundwork for future research on regard to

measurement of sustainable competitive advantage (Vinayan, Jayashree & Martandan, 2012). The study is on indicator of organizational capabilities, unique resources. The study is on indicator of organizational capabilities, unique resources.

### **2.3.5 Resource Isolating Mechanism, Management Characteristics and Competitive Advantage**

Ongore, and Kusa, (2013), found that management efficiency and quality of assets determines the performance of the bank. The finding was on the study on 37 commercial banks in Kenya. The study used secondary data from CBK, IMF and World Bank and explanatory research design was adopted. The purpose of the study was to determine the factors of financial performance of commercial banks in Kenya. The study concluded that factors controlled by the management significantly determined the performance of commercial banks in Kenya. The study was on indicator of management characteristics, decision making skills.

Khandekar and Sharma (2005) explored on management of human resources capabilities for sustainable competitive advantage. The study was an empirical analysis from Indian global organization. The survey research design was adopted. Out of nine organisations, eight hundred and fifteen managers from top, middle and senior level were approached but only three hundred questionnaires were returned. The findings of the study revealed that human resources capabilities are positively correlated to organizational performance and that human resource capability was found to be a significant predictor of SCA. The study recommended that human resource capabilities can help in building a culture of sharing knowledge and experimentation which is sustainable. The study was on indicator of management characteristics, decision making skills.

Onuonga (2014), studied on the internal factors analysis of profitability of six top commercial banks in Kenya. The purpose of the study was to investigate the impact of the internal determinants of profitability of Kenya`s top six commercial banks over the period 2008-2013. The research was based on the panel data of the top six commercial banks in Kenya which covered a period of six years from 2008 to 2013. The research findings was that bank size, capital strength, ownership, operations expenses, diversification significantly influence profitability of commercial. The recommendations was that for survival, growth and enhanced performance, commercial banks should invest in technologies and management skills. The study was on indicator of management characteristics, decision making skills.

### **2.3.6 Resource Isolating Mechanism, External Environment and Competitive Advantage**

Srivastava, Franklin, and Martinette, (2013) sought to analyze cross-industrial best practices and future trends in the context of the contemporary resource based competitive advantage model of the firm. The study used online survey within a typical Hi-Technology company. Thirty three questions requiring graded or multiple-choice answers was issued to respondents. The main aim for the questionnaires was to collect data on the quantitative assessment or relative feedback in areas considered to play very important role in building or sustaining a firm`s competitive advantage.

The findings indicated that high-tech firms SCA was dependent on agility and customer centric approach further, engagement of new employees improved market viability and an investment in the necessary infrastructure to secure a deeper level of mutual trust with the firm`s key customers. The study concluded that longer-term perspective in building resources and capabilities that has entry barriers against competitors were essential for firms. In the long run

such barriers would ensure the few players are exposed to opportunities, among them technology which ensure high business margin and security of SCA. Once attained, these higher levels of trust and differential technology can open up opportunities of maintaining a higher margin business and so securing a sustained competitive advantage (Srivastava, Franklin, & Martinette, 2013).

The study also found that there are other forces in the firm's external environment such as globalization, digitization, partnerships, joint ventures and de-regulations which creates barriers for companies to compete effectively. From the result findings, the study recommended for future research on this area in order to gain a deeper understanding of the relative influence of these factors on a firm's ability to remain competitive in the longer term (Srivastava, Franklin, & Martinette, 2013). The study was indicator of external environment, technological changes.

Ong and Ismail (2008), study sought to establish the relationship between information technology competence and sustainable competitive advantage, where the focus of the study was on the resource based view on SMEs in Malaysia. The unit of analysis was SMEs whereby data was collected through various methods from the selected sample. A total of 2572 personal emails were sent to respondents of which 1575 successfully reached the respondents but only 152 respondents responded. The study established that there existed a relationship between information technology competence and sustainable competitive advantage. The study further recommended that firms continuously renew their ICT competencies to sustain the competitive advantage of the firm. The study was indicator of external environment, technological changes.

Hazen and Byrd (2012), found that implementation of logistics information technology innovation produces positive performance outcome in terms of efficiency, effectiveness and

resiliency and that help firms achieve competitive advantage. The limitation of the study suggested that adoption of logistics innovation can not produce a sustained competitive advantage by itself and therefore, firms adopting innovation should combine firm's complimentary resources and innovation to yield sustained competitive advantage. They proposed an updated logistics innovation model as a foundation of future research. The study was indicator of external environment, technological changes.

Auka (2014) found that there exists positive correlation between the generic strategies (differentiation, cost leadership and focus strategies) and customer satisfaction. The study was on the effects on Porters generic competitive strategies on the the customer satisfaction in Commercial Banks in Kenya within Nakuru Municipality. Descriptive survey design was used and purposive sampling technique was employed to identify the banks while systematic random sampling for selection of respondents (Auka, 2014).

The study concluded that for commercial banks to survive in the industry, they must understand the customers' needs, changing preference behavior and attitude and also be able to deliver superior services beyond customer expectations. The study recommended an improvement on implementation of all the three Porters generic strategies to enhance customer satisfaction. The study was indicators of external environment, social pressures and economical factors.

Eawag, Gustafsson and Witwell (2011) study sought to establish the relationship among customer centricity, innovativeness, service differentiation, customer needs, and business performance among European-based manufacturing companies, Sweden. The targeted population of the study was comprised of CEOs marketing managers or service managers who

had an experience of more than ten years in a variety industries among them pulp and paper, electronics, optical equipment, mechanical equipment, chemicals, and plastics.

The findings was that strong emphasis on differentiation of services was valuable in the sense that it made a firm's offerings harder to imitate, improve manufacturing firm's payoff for customer centricity and provide employees with a better understanding of customers' value creation processes. The study also found out that service differentiation had a complex moderation effect on the relationship among complexity of customer needs, innovativeness, and competitive advantage Eawag, Gustafsson and Witwell (2011). The study was indicators of external environment, social/cultural pressures and economical factors.

Ramadan (2010), study sought to investigate the influence of organizational culture on SCA of small and medium sized establishments. The main objective of the study was to determine the relationship between business's organizational culture and sustainable competitive advantage SMEs located in Wisconsin. The unit of analysis of the study was manufacturing establishments in Wisconsin. The sample size is 492 establishments representing a 6% of the target population. The findings of the study indicated that organization culture had a relationship with sustainable competitive advantage and formed framework for understanding and investing in firm SCA and that distinctive attributes of a firm's organizational culture influence the foundations of and results of competitive advantage (Ramadan, 2010).

The study further provided empirical evidence about the links between the objective aspects of organizational culture and objective dealings of the outcomes from sustainable competitive advantage. The study findings further indicated that employees' training is the objective element of organizational culture which is most strongly associated with the objective results of

sustainable competitive advantage. The statistical results show that employee training within SMEs has a strong association with the positive outcomes that are associated with sustainable competitive advantage. Talent management has a strong association with productivity growth and with the percentage of annual sales derived from new products. Employee participation in empowered work teams shows a strong association with productivity growth and with the percentage of reduction in the total value of inventory throughout the supply chain for the primary product (Ramadan, 2010).

From the research findings, the recommendation was that managers should increase the percentage of employees who regularly participate in empowered work teams, to increase the number of formal training hours devoted annually to each employee and to increase the percentage of employees dedicated to assessing and upgrading the organization's talent pool (Ramadan, 2010). indicator of external environment, social/cultural pressures.

#### **2.4 Summary of Literature Review and Research Gaps**

Summary of empirical literature on the variable in the study is presented in Table 2.1. The independent variables in respect to resource isolating mechanism are economic deterrence, identification of rival competitive advantages, and exploitation of opportunities. The mediating variable in the study was organizational capabilities while the moderating variables were management characteristics and firm external environment.

**Table 2.1: Summary of Literature Review and Research Gaps**

<b>Author(s)</b>	<b>Focus of Study</b>	<b>Key Findings</b>	<b>Research Gap</b>	<b>Focus of Current Study</b>
Gaya, Struwig, and Smith, (2013)	Creating a sustainable competitive advantage at a high performing firm in Kenya	The study found that tangible resources also possesses characteristics of rarity, valuability, inimitability and unsustainability and thus, creates sustainable competitive advantage.	The study was conducted in a motor vehicle service industry and therefore need for a similar study in a banking industry	The current study focuses on all 40 commercial banks in Kenya
Gudmundsson, Kisinguh and Odongo, (2013)	the role of capital requirements on Bank competition and stability: the case study of the Kenyan banking industry.	The study found that regulatory efficiency improves competition in the banking sector and that capital has a linear effect on competition.	Only 36 commercial banks in Kenya were surveyed. There is need to empirically test on all commercial banks in regard to sustainability of competitive advantage.	The current study was conducted on all the 40 commercial banks in Kenya.
Ismail, A. I., Rose, R. C., Uli, J. and Abdullah, H., (2012).	The Relationship Between Organisational Resources, Capabilities, Systems and Competitive Advantage	The overall findings indicated significant, positive effects of organisational resources, capabilities and systems collectively on competitive advantage, providing support and corroboration to the resource-based view (RBV).	The study narrowed up to only manufacturing company.	The current study focusses on the service industry (commercial banks in Kenya).
Teixeira, & Ferreira, (2018)	Intellectual Property Rights and the Competitiveness of Academic Spin-off	The study found that use of informal protection mechanisms, such as lead time and trade secrets, fosters the companies' competitiveness, whereas the use of formal protection mechanisms, such as patents, trademarks and geographical indications,	The study was to assess the impact of IPR protection mechanisms on the competitiveness of startups.	The current study is to establish the effect resource isolating mechanism on CA among commercial banks in Kenya.

		negatively impacts on competitiveness.		
Foon and Nair, (2010)	Revisiting the Concept of Sustainable Competitive Advantage: perceptions of Managers in Malaysian MNCs	81% of managers in Malaysia understands the importance of SCA and how to achieve and sustain to help their organization maintain a competitive edge	Low response was experienced	The current study focuses on the response from managers in selected departments
Cabral, (2013)	Living Up To Expectations: Corporate Reputation and Sustainable Competitive Advantage	The findings agreed with that of Salomer (2001) on if sources of competitive advantage resist competition, then the competitive advantage is ranked as sustainable.	The study was not empirically tested.	The current study focus was on intellectual property rights.
Kungu, Desta and Ngui, (2014)	An Assessment of the Effectiveness of Competitive Strategies  by Commercial Banks	The study found that equity bank makes organizational changes that make it to remain competitive in the banking industry in Kenya. The study recommended that the policies and an environment for investment and market competition in the banking industry should be created.	The study did not research on what mechanism to adopt to sustain the strategies adopted by the commercial banks in Kenya	The current study is to determine which resource isolating mechanism should be adopted to sustain competitive advantage.
Ning, H. (2012)	How to maintain sustainable competitive advantages----case study on the evolution of organizational strategic management	Sustainable competitive advantage requires planning, accumulation of resources, continuous improvement and innovation.	The study did not research on what mechanism to adopt to sustain the strategies adopted by the commercial banks in Kenya	The current study used both primary and secondary data.
Foon, L.S. (2011)	Capabilities differentials as strategic assets of firms: A pragmatic review	Firms can possess sources of sustainable competitive advantage via the development of strategic assets.	The study did not research on what mechanism to adopt to sustain the strategies adopted by the commercial banks in Kenya	The current study was conducted on all commercial banks in Kenya.
Iberg, (2015)	Creating	The finding was that	The study did not	The current

	Competitive Advantage in the Premium Market Segment through a Sustainability Strategy.	firms that invest in sustainability creates strong comparatives advantages for their businesses in the 21 <sup>st</sup> century.	consider on what mechanism should be used for sustainability of the competitive advantage	study was based on both secondary and primary data from all commercial banks in Kenya.
Jekaterina, B., (2010).	Strategic Positioning and Sustainable Competitive Advantage in Food Industry	The result of the study was that there was no single theory found which would be universal in explaining the success of the brands. Companies are complex structures and their success depends on many different elements which should be analyzed in combination	The study was conducted on only three beverage companies which is not ideal.	The current study is contextually different as it was done in all commercial banks in Kenya.
Wu, (2010)	The Search for Sustainable Competitive Advantage: A Stakeholder Management Perspective	The study found that the sources of firm's competitive advantage is from its resources and that stakeholders influence the process of value creation.	The researcher recommended for future research on large firms. This study will be conducted on all commercial banks in Kenya some of which are large banks.	The current study was conducted on all commercial banks in Kenya some of which are large firms.
Choi and Shepherd, (2004)	Entrepreneurs' Decisions to Exploit Opportunities	It is more likely for entrepreneurs to exploit business opportunities if there is more knowledge on customer demand for new products, when the necessary technologies are developed, managerial capability presence and if there was stakeholder support.	Response rate was very low at 24%  Recommended for further research on that area.	The current study focused on identification of unique opportunities.
Gitonga, A. G., Kilika, J. M., and Obere, E., (2016)	Generation Y talent management strategies and competitive advantage: Case of Commercial Banks	Employees are key resources towards delivery of quality services and products for creation of competitive advantage.	The study did not research on what mechanism to be adopted by Commercial Banks in Kenya in	The current study is to determine the resource isolating mechanism to

	in Kenya		order to sustain competitive advantage	be adopted by commercial banks in Kenya to order to create and maintain competitive advantage.
Dirisu, Iyiola and Ibidunni, (2013)	Product Differentiation: A Tool of Competitive Advantage and Optimal Organizational Performance (A Study of Unilever Nigeria Plc)	They found that there was positive significant relationship between higher quality product and the sales growth of an organization, new product innovation and customer satisfaction, product design and sales growth of an organization and unique product features and customer satisfaction of an organization. Therefore from the result they concluded that there was a significant relationship between product differentiation and organizational performance.	The study was conducted on a manufacturing firm and not service firms.	The current study looked into service industry, Commercial Banks in Kenya.
Sandberg, E. and Abrahamsson, M., (2011).	Logistics capabilities for sustainable competitive advantage	The result of the study was that dynamic capabilities were not limited to certain organizational part of the economy but a broad different activities should be needed to integrate several organizational functions.	More research on sustainability of competitive advantage required.	The current study focuses on coordination of activities by commercial banks in Kenya
Korhonen, S. and Niemelä J. S., (2005).	Conceptual Analysis of Capabilities: Identifying and Classifying Sources of Competitive Advantage in the Wood Industry	The study found that firms aiming to identify the capabilities contributing to competitive advantage should first decide which ones are needed	The study narrowed to capability as sources of sustainable competitive advantage	The current study focuses organizational capabilities variable as a mediator of the relationship between

		for staying in business within their own industry and also identify the ones that are rare among their competitors within a selected market and industry context.		resource isolating mechanism and sustainable competitive advantage.
Anyim, M. A., (2012).	Gaining Sustainable Competitive Advantage Through Service Differentiation Among Private Hospitals In Nairobi	The study found that service differentiation strategy used by the private hospitals to gain competitive advantage enhance service delivery which led to high customer loyalty.	The aspect of how to sustain the competitive advantage was not factored in the study.	The current study seeks a holistic view of sustainable competitive advantage.
Zekiri, and Nedelea, (2011)	Strategies for Achieving Competitive Advantage	The study found that in order to gain competitive advantage it entails a set of specialized skills, assests, and capabilities for the firm	More research on sustainability of competitive advantage should be done.	The current study concentrates on primary data.
Vinayan, Jayashree and Martandan, (2012)	Critical Success Factors of Sustainable Competitive Advantage: a Study in Malaysian Manufacturing Industries	The findings indicated that the theoretically formulated measurement criteria or dimensions of SCA are significantly and positively linked with the construct 'sustainable competitive advantage'.	The study was conducted on a manufacturing industries in Malaysia. The current study will focus on service industry (banking) in Kenya.	The current study focus is on resource isolating mechanism and SCA.
Ongore, V. O., and Kusa, G. B., (2013)	Determinant of financial performance of Commercial banks in Kenya	The study found that performance of the commercial banks financially is determined by the management decisions and assets quality	The study was conducted on 37 commercial Banks in Kenya	The current focuses on all 40 commercial banks in Kenya.
Khandekar and Sharma (2005)	Managing Human Resource Capabilities for Sustainable Competitive Advantage	The findings of the study reveal that human resource capabilities are positively correlated to organizational performance, and also	Need to research on other companies in this aspect of sustainable competitive advantage.	The current study was conducted on all commercial banks in Kenya.

		constitutes a source of sustainable competitive advantage		
Onuonga, 2014	The Analysis of Profitability of Kenya`s Top Six Commercial Banks: Internal Factor Analysis	The research findings was that bank size, capital strength, ownership, operations expenses, diversification significantly influence profitability of commercial.	The study did not indicate on how to sustain the competitive advantage.	The current study focus is how to create barriers for imitation of the competitive advantage
Srivastava, Franklin, and Martinette, (2013)	Building a Sustainable Competitive Advantage.	The study found that high-tech firms should adopt a more agile and customer centric approach in order to identify new markets and future products and for achieve this the firm need a new level of employee engagement, improved market viability and an investment in the necessary infrastructure to secure a deeper level of mutual trust with the firm`s key customers.	The study recommended for future research on this area for firm to remain competitive in the longer run.	The current study focuses on external environment as a moderator of resource isolating mechanism and sustainable competitive advantage
Ong and Ismail, (2008)	Sustainable Competitive Advantage through Information Technology Competence: Resource-Based View on Small and Medium Enterprises	They found that information technology competence of the entrepreneur yields sustainable competitive advantage	The study focused on SMEs in Malaysia	The current study focuses on all commercial banks in Kenya.
Hazen and Byrd, (2012)	Toward Creating Competitive Advantage with Logistics Information Technology	The findings suggest that adoption of logistics information technology promotes enhanced levels of effectiveness, efficiency and resiliency for adopting firm and that the quality of the buyer-supplier relationship	Research on how to sustain competitive advantage required.	The current study focuses on technological changes in the external environment

		moderates the degree of efficiency and resiliency realized via adoption		
Auka, D. O, (2014)	Porter's Generic Competitive Strategies and Customer Satisfaction in Commercial Banks in Kenya	Study findings indicated positive correlation between Porter's generic competitive strategies and customer satisfaction	The study concentrated on the Commercial Banks in Nakuru Municipality and therefore some data on other banks may not have been captured.	The current study focuses on all 40 Commercial Banks in Kenya
Eawag, H. G., Gustafsson, A. and Witwell, L., (2011).	Competitive Advantage Through Service Differentiation by Manufacturing Companies	The finding was that strong emphasis on service differentiation is a valuable resource that makes a firm's offerings harder to imitate, can improve a manufacturing firm's payoff for customer centricity and provide employees with a better understanding of customers' valuecreation processes and has a complex moderation effect on the relationship among complexity of customer needs, innovativeness, and business performance.	Narrowed down to manufacturing companies only.	The current study focus is on service industry.
Ramadan, W. H., (2010).	The Influence of Organizational Culture on Sustainable Competitive Advantage of Small and Medium sized Establishments.	Organizational culture forms a basis for creating a framework for understanding and, more importantly for investing in a firm's sustainable competitive advantage.	More research in this area required.	The current study is on how to sustain competitive advantage of commercial banks in Kenya.

Source: Author (2017)

## 2.5 Conceptual Framework

The conceptual framework illustrates the direction of the relationship between study variables: Resource isolating mechanism, organizational capabilities, management characteristics, external environment and competitive advantage

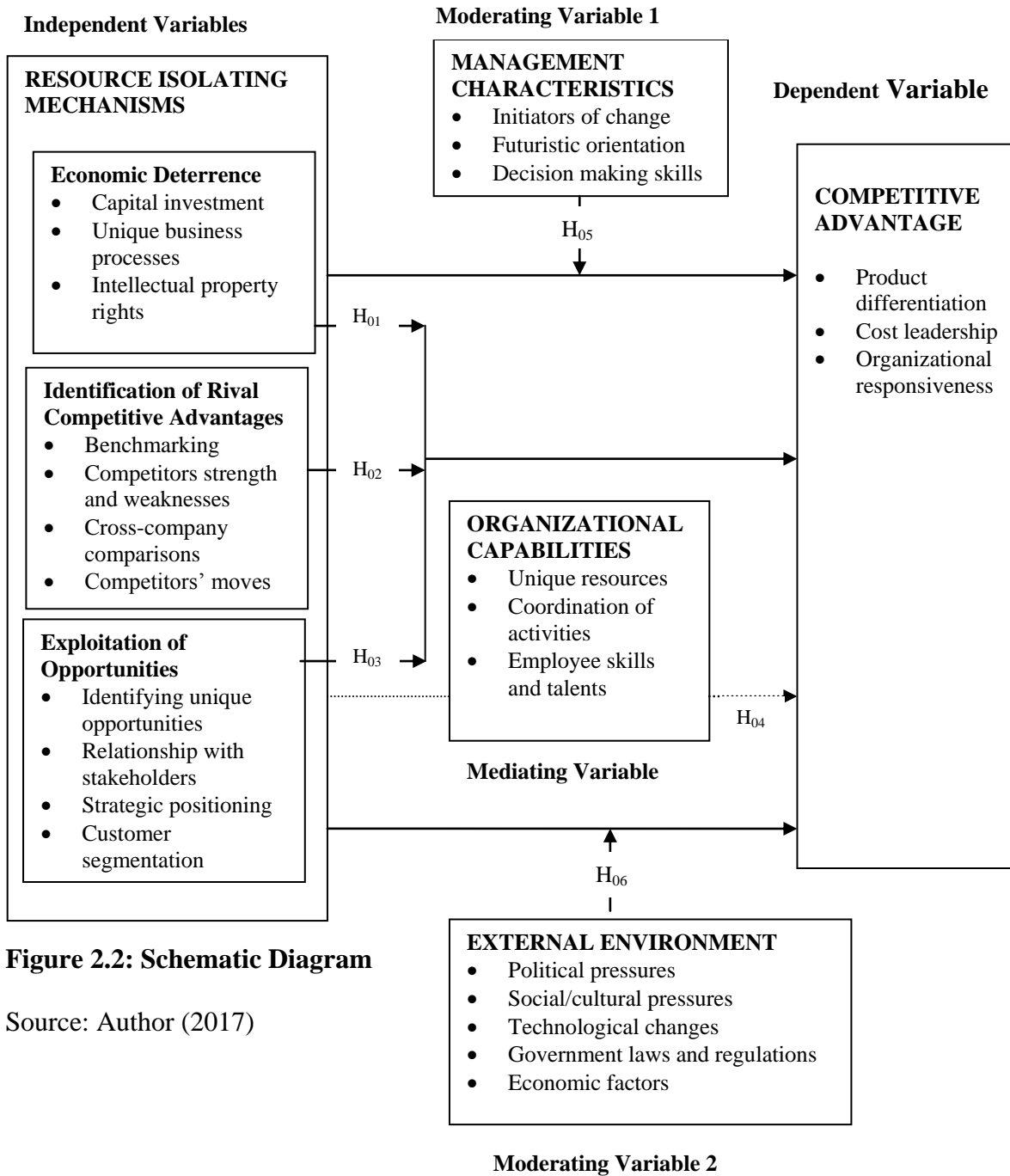


Figure 2.2: Schematic Diagram

Source: Author (2017)

Figure 2.2 presents the relationship of variables of the study. The independent variable, resource isolating mechanism consists of three sub variables namely economic deterrence, identification of rival competitive advantages and exploitation of opportunities. The study sought to establish the direct relationship between resource isolating mechanism and competitive advantage (dependent variable). Organizational capabilities mediated the direct relationship, whereas management characteristics and external environment were the moderating variables. Each of the variables were operationalized into measurable constructs (indicators) in chapter three.

The framework suggests that there is a relationship between resource isolating mechanism and competitive advantage but this is facilitated by factors that strengthen the relationship. The framework also suggests that organizational capabilities mediate the relationship between resource isolating mechanism and competitive advantage, whereas management characteristics and external environment have moderating effect on the relationship between resource isolating mechanism and competitive advantage.

## **CHAPTER THREE**

### **RESEARCH METHODOLOGY**

#### **3.1 Introduction**

This chapter describes the methodology that was used in achieving the research objectives. In particular, the chapter describes procedures for data collection, data analysis and presentation of findings. This chapter therefore focuses on the research design, research philosophy, operationalization and measurement of variables, target population, population sample and sampling procedures, research instruments, reliability and validity of the research instruments, data collection and analysis techniques that was applied during the study.

#### **3.2 Research Philosophy**

Research philosophy describes how information about a phenomenon should be gathered, analyzed and used (Saunders, Thornhill & Lewis, 2009). Research philosophy contains important assumptions which underpin research strategy and has significant understanding of what is being investigated (Saunders, Philip & Thornhill, 2010). Research philosophy, therefore, is a paradigm which involves a broad framework, comprising of perception, beliefs and understanding of several theories and practices used to conduct a research (Cohen, Manion & Morrison, 2000).

The researcher used positivist philosophy for it was based purely on facts and depended on quantifiable observations that lead to statistical analysis and also for its advantage in fast speed of conducting the research and its coverage of a wide range of situations. This philosophy entails making observations and conducting experiments to collect numeric

data (Smith, 2006), helps researcher to evaluate social world with objectivity in place of subjectivity (Cooper & Schindler, 2006), and also helped in ascertaining the truth as recommended by Creswell, (1998).

This study sought to determine the effect of resource isolating mechanism on competitive advantage. The study mainly focused on the opinions and information gathered from the respondents in order to explain what mechanism firms can adopt to sustain competitive advantage and come up with recommendations from the research findings. The positivist philosophy was therefore suitable in this study for it allowed hypothesis testing.

### **3.3 Research Design**

This study used descriptive cross-sectional research design and explanatory research design. As explained by Sekaran (2003), descriptive study helps to ascertain and comprehensively describe the characteristics of the variables of interest in any situation. Explanatory research design further builds on the descriptive design and enables further discussion on causal effects of the variables under study. It is against this base that the researcher opted for a combination of descriptive and explanatory research design (Kothari, 2009).

Moreover, the design was used because of the proximity of the case and faster access to information compared to other research designs. Consequently, the design not only enabled the researcher to quantify social issues, problems or conditions, but also allowed room for inductive and deductive reasoning in order to arrive at generalizations. Therefore, in the study, the research design was used to test hypotheses about causality between the independent and dependent variables.

### 3.4 Empirical Model

As defined by Brambor, Clark and Golder (2006), an empirical model mathematically expresses the relationship between the dependent and independent variable(s). Based on the conceptual framework given in Chapter Two, the study used multiple regression analysis. According to Field (2009) several models could be used in analysis of quantitative data, such as logit, probit, discriminant analysis and regression models. However, logit, probit, discriminant analysis are suitable where the dependent variable is binary whereas multiple regression model is suitable where the dependent variable is a continuous variable.

Further, Mugenda and Mugenda (2003) noted that multiple regression analysis is suitable where several predictor variable are used in explaining a dependent variable. Multiple regression model helped in predicting values for a dependent variable from the values for the independent variable (Cooper & Schindler, 2003). Apart from analysing the direct relationship between the dependent variable and the independent variables, the model was also involved in analysing the moderating and mediating effects (Field, 2009). Therefore, this study incorporated three-in-one multiple regression analysis as discussed herein.

#### 3.4.1 Model Specification for the Direct Relationship

The first multiple regression analysis involved regressing the dependent variable on the three independent variables. The corresponding model for this analysis was in the form:

$$Y = \beta_0 + \beta_1X_1 + \beta_2X_2 + \beta_3X_3 + \varepsilon \dots\dots\dots (3.1)$$

Where,

Y= Competitive Advantage

X<sub>1</sub>= Economic deterrence

X<sub>2</sub>= Identification of rival advantages

X<sub>3</sub>= Exploitation of opportunities

β<sub>0</sub> = Constant (intercept)

β<sub>1</sub>,β<sub>2</sub>,β<sub>3</sub>= Beta coefficients of the independent variables

ε = Error term, assumed to be normally distributed about a mean of 0 and variance σ<sup>2</sup>

The coefficients path β<sub>1</sub>, β<sub>2</sub> and β<sub>3</sub> measured the corresponding effects of the resource isolating mechanism (independent variables) on competitive advantage. Significance of resource isolating mechanism was determined based on the p-value for the corresponding coefficient. Since there were three independent variables, three hypotheses that tested for the significance of each of resource isolating mechanism was computed as follows H<sub>01</sub>, H<sub>02</sub> and H<sub>03</sub>. This direct effect of the independent variables on the dependent variable was established after controlling moderating and mediating factors.

### **3.4.2 Model Specification for the Mediated Relationship**

For mediating effect, mediation variable (organizational capabilities) was denoted as OrgC. The corresponding hypothesis for testing about the significance of the mediation effect was denoted as H<sub>04</sub>. Mediation was tested using the step by step approach as suggested by Baron and Kenny (1986). A new variable X<sup>\*</sup>, a composite index that merges the three independent variables was computed using a formular for harmonic mean (Gupta, 2008) and adjusted to provide for relative weight of each independent variable considered in the study (Kilika, K'Obonyo, Ogutu & Munyoki, 2012). The

variable  $X^*$  was, therefore, jointly denoted resource isolating mechanism with a corresponding coefficient  $\beta_1^*$ .

$$C_i = \sum_{j=1}^N \left( \left( \frac{n}{\sum_{j=1}^n \frac{1}{X_j}} \right) W_j \right)$$

**Source:** Kilika *et al.* (2012)

**Where:**

$C_i$  = Composite index for variable i. The variables for which indices were computed were resource isolating mechanism

$N$ = Total number for componenets that comprised the specific variable

$n$ = Total number of respondents who responded to the respective section of the questionnaire

$X_i$  = Percentage mean score for each resource isolating mechanism computed as a ratio of the actual score to the maximum possible score on the statements for each variable

$W_i$  = The relative weight given to each component in a particular variable.

Thus, according to Baron and Kenny (1986), analyzing the mediation effect proceeded as follows:

Step 1: Conducting a simple regression analysis of  $X^*$  affecting  $Y$ .

$$Y = \beta_0 + \beta_1^* X^* + \varepsilon \dots \dots \dots (3.2)$$

Step 2: Conducting a simple regression analysis with  $X^*$  affecting OrgC

$$\text{OrgC} = \beta_0 + \beta_1 X^* + \varepsilon \dots \dots \dots (3.3)$$

Step 3: Conducting a simple regression analysis with OrgC affecting Y

$$Y = \beta_0 + \beta_1 \text{OrgC} + \varepsilon \dots \dots \dots (3.4)$$

Step 4: Conducting a regression analysis with  $X^*$  and OrgC affecting Y

$$Y = \beta_0 + \beta_1 X^* + \beta_2 \text{OrgC} + \varepsilon \dots \dots \dots (3.5)$$

The purpose for the above stepwise approach was to establish that there are zero relationships among the variables. This implied that if one or more of these relationships are non-significant, the conclusion was that mediation was not possible.

**Table 3.1 Mediation decision making criteria**

	<b>Outcome</b>	<b>Conclusion</b>
1.	If $\beta_1$ is significant in model 3.3	Complete mediation
	If $\beta_1$ is significant in model 3.4	
	If $\beta_1$ is significant and $\beta_2$ is significant in model 3.5	
2.	If $\beta_1$ is significant in model 3.3	Partial mediation
	If $\beta_1$ is significant in model 3.4	
	If $\beta_1$ in model 3.3 is significant but $\beta_1$ is not significant in model 3.4 and $\beta_2$ is not significant in model 3.5	
3.	If $\beta_1$ is not significant in model 3.3	No mediation
	If $\beta_1$ is not significant in model 3.4	
	If $\beta_1$ in model 3.3 is significant and equal to $\beta_1$ in model 3.4 and $\beta_2$ is not significant in model 3.5	

Source: Baron and Kenny (1986)

### 3.4.3 Model Specification for the Moderating Relationship

Moderation effects explained how firm environment and management characteristics influenced competitive advantage (Y). Significance of the effects of the moderating variables was determined from the corresponding p-values for  $\beta_5$  and  $\beta_6$ . Consequently,

the p-values was used to test hypotheses H<sub>05</sub> and H<sub>06</sub>. Moderation test involved determining whether the coefficient for the interaction term was significant.

**3.4.3.1 Model Specification for the Moderating Effect of Management Characteristics on the Relationship between Resource Isolating Mechanism and Competitive Advantage.**

The hypothesis testing was done in three steps:

The first step, conduct regression analysis of the composite of independent variables ( $X^*$ ) affecting the dependent variable (y).

The established equation was:

$$Y = \beta_0 + \beta_1^* X^* + \epsilon \dots\dots\dots(3.6)$$

The second step, conduct regression analysis of management characteristics affecting competitive advantage.

The established equation was:

$$Y = \beta_0 + \beta_5 \text{MngC} + \epsilon \dots\dots\dots(3.7)$$

The third step, conduct regression analysis of the moderated relationship of resource isolating mechanism, management characteristics affecting competitive advantage.

The established equation was:

$$Y = \beta_0 + \beta_1^* X^* + \beta_5 \text{MngC} + \epsilon \dots\dots\dots(3.8)$$

**3.4.3.2 Model Specification for the Moderating Effect of External Environment on the Relationship between Resource Isolating Mechanism and Competitive Advantage.**

The hypothesis testing was conducted in three steps where:

The first step was to establish regression analysis of the composite of independent variables and the dependent variable.

The established equation was:

$$Y = \beta_0 + \beta_1^* X^* + \varepsilon \dots \dots \dots (3.9)$$

The second step was the establishment of regression analysis of external environment and competitive advantage

The established equation was:

$$Y = \beta_0 + \beta_6 \text{EEEnv} + \varepsilon \dots \dots \dots (3.10)$$

The third step was establishment of regression analysis of the moderated relationship of resource isolating mechanism, external environment and competitive advantage.

The established equation was:

$$Y = \beta_0 + \beta_1^* X^* + \beta_6 \text{EEEnv} + \varepsilon \dots \dots \dots (3.11)$$

**Table 3.2 Moderation decision making criteria**

<b>Model 3.7</b>	<b>Model 3.8</b>	<b>Total effect</b>	<b>Conclusion</b>
$\beta_1$ is not significant ( $p>0.05$ )	-	-	No overall effect to moderate
$\beta_1$ is significant ( $p<0.05$ )	$\beta_1$ is not significant ( $p>0.05$ )	-	Moderating variable is an explanatory variable
$\beta_1$ is significant ( $p<0.05$ )	$\beta_1$ is significant ( $p<0.05$ )	-	Moderator variable has moderating effect

Source: Aiken and West (1991)

### 3.5 Target Population

The population of this study was 40 commercial banks in Kenya. The targeted respondents were managers of key departments in these 40 commercial banks in Kenya. The study was conducted at the commercial banks' headquarters in Nairobi, Kenya. In Kenya there were 42 commercial banks, however, two banks, Chase Bank Kenya and Imperial Bank Kenya were placed under receivership (Cytonn, 2016), hence excluded from the study. Consequently, the unit of analysis in this study was the bank while the unit of observation was the functional/departmental area. According to CBK (2015), commercial banks had been classified into three categories, which are tier one (large banks), tier two (medium banks) and tier three (small sized banks) according to the market share as Table 3.3.

**Table 3.3 Population Distribution**

<b>Strata</b>	<b>Population</b>
Tier One Banks	6
Tier Two Banks	13
Tier Three Banks	21
<b>Total</b>	<b>40</b>

Source: CBK, (2017)

### 3.6 Sampling Design

A sample is a representative portion of a population selected to be observed and used to estimate some population characteristics. The study applied purposeful sampling method, as a technique to select respondents from the four key departments of Finance, Sales & Marketing, Operations and Strategy. In every bank four respondents were targeted. Purposeful sampling method was used to identify and select individuals who were knowledgeable and experienced in regard to the phenomenon of interest (Cresswell & Clark, 2011). Distribution of sample is shown in Table 3.4.

**Table 3.4 Sampling Design**

<b>Strata</b>	<b>Population</b>	<b>Target Respodents</b>	<b>Target Sample Size</b>	<b>Percentage</b>
Tier 1 (Large sized Banks)	6	4	24	15
Tier 2 (Medium sized Banks)	13	4	52	32.5
Tier 3 (Small sized banks)	21	4	84	52.5
<b>Total</b>	<b>40</b>	<b>4</b>	<b>160</b>	<b>100</b>

**Source: CBK (2017)**

### 3.7 Data Collection Instruments

The study used primary data collection method to obtain information from the sampled bankers. Both quantitative and qualitative data was used in the study. Primary data sources was collected using self-administered semi-structured questionnaire as per appendix II. The questionnaire contained both open-ended and close-ended questions for ease of collecting quantitative and qualitative data. Open ended questions was used since gave respondents a chance to freely express their attitude and perception thereby

providing qualitative insight to the study. Questions in the instrument were structured such that they addressed various aspects of the study variables.

### **3.8 Operationalization and Measurement of Variables**

Operationalization of a variable means finding a measurable, quantifiable and valid index for the study variables, that is, the independent and dependent variables (Trochim & Donnelly, 2007). The independent variable in this study was resource isolating mechanism while the dependent variable was competitive advantage. The mediating variable was organizational capabilities while the moderating variables were management characteristics and external environment. Table 3.5 presented the operationalization and measurements of variables.

**Table 3.5 Operationalization and measurement of Variables**

<b>Variable</b>	<b>Type</b>	<b>Operationalization</b>	<b>Indicators</b>	<b>Measure</b>	<b>Question Number</b>
Economic deterrence	Independent variable	Firm's economic capability strategy barring competitors to imitate its competitive advantage	<ul style="list-style-type: none"> <li>• Capital investment</li> <li>• Unique business systems</li> <li>• Intellectual property rights</li> </ul>	5-point Likert scale	Section B Question (a)
Identification of rival competitive advantages	Independent variable	Firm's strategy of identifying rival intent and behavior so as to be proactive against competition	<ul style="list-style-type: none"> <li>• Benchmarking</li> <li>• Competitors strengths and weaknesses</li> <li>• Cross company comparisons</li> <li>• Competitors' moves</li> </ul>	5-point Likert scale	Section B Question (b)
Exploitation of opportunities	Independent variable	Activities that enable firm discover opportunities in the business environment	<ul style="list-style-type: none"> <li>• Identifying unique opportunities</li> <li>• Relationship with shareholders</li> <li>• Strategic positioning</li> <li>• Customer segmentation</li> </ul>	5-point Likert scale	Section B Question (c)
Organizational Capabilities	Mediating variable	Core competences of a firm that enable it to sustain competitive advantage	<ul style="list-style-type: none"> <li>• Unique resources</li> <li>• Coordination of activities</li> <li>• Employee skills and talents</li> </ul>	5-point Likert scale	Section B Question (d)
Management Characteristics	Moderating variable	Team concerned in making the decisions of the firm	<ul style="list-style-type: none"> <li>• Initiators of change</li> <li>• Futuristic orientation</li> <li>• Decision making skills</li> </ul>	5-point Likert scale	Section B Question (e)
External environment	Moderating variable	External forces that influence the operations of an	<ul style="list-style-type: none"> <li>• Political pressures</li> <li>• Social/cultural</li> </ul>	5-point Likert scale	Section B Question (f)

		organization	pressures <ul style="list-style-type: none"> <li>• Technological changes</li> <li>• Government laws and regulation</li> <li>• Economic factors</li> </ul>		
Competitive Advantage	Dependent variable	The state attained by a firm when it is able to remain ahead of its competitors	<ul style="list-style-type: none"> <li>• Differentiation and innovation</li> <li>• Cost leadership</li> <li>• Organizational responsiveness</li> </ul>	5-point Likert scale	Section B Question (g)

**Source: Author, (2017)**

### **3.9 Validity and Reliability of Research Instruments**

Pilot testing was conducted to confirm the reliability and validity of the research instruments (Cooper & Schindler, 2010). Pilot test is an activity that assists a researcher in determining if there are flaws, limitations, or other weaknesses within the selected research instruments and allows the researcher to make necessary revisions prior to the actual data collection and analysis (Kvale, 2007). The pilot testing was conducted using at least one manager from each category of commercial banks to confirm the validity and reliability of the research instrument. This pilot test group was picked through random sampling. The rule of thumb is that 1% of the sample should constitute the pilot test (Cooper & Schindler, 2010).

#### **3.9.1 Validity of Research Instrument**

Validity is the degree to which an instrument measures what it is supposed to measure. That is, validity refers to the extent to which the research instruments correctly and accurately estimates the variable under study (Mugenda, 2008). According to Saunders, Lewis and Thonhill (2009), validity can be classified into two major categories, which are

external and internal validities. The former type of validity refers to the ability of a data set to be used to make generalization across persons, settings and times in the entire population. Internal validity, also known as content validity, refers to the ability of research instruments to measure what it is purposed to measure (Cooper & Schindler, 2003).

Several types of validity tests are used to test the goodness of measures such as content validity test, criterion-related validity and construct validity (Sekaran, 2003). The research instruments was validated in terms of content and face validity. Content validity provided adequate coverage of the investigative questions guiding the study for it contained a representative sample of the universe of the subject matter of interest (Cooper & Schindler, 2003).

### **3.9.2 Reliability of Research Instrument**

According to Saunders, Lewis and Thonhill, (2009), reliability is the extent to which the techniques of data collection or procedures of analysing the data yields consistency findings. That is, reliability is an indication of stability and consistency of the instrument. Reliability, therefore, helps in assessing goodness of a measure (Sekaran, 2003). As explained by Cooper and Schindler (2003), reliability helps in estimating the degree to which a measurement is free of random or unstable error and also internal consistency. The researcher used Cronbach's Alpha to measure internal consistency. Cronbach's alpha, as a parameter, determined the internal consistency or average correlation of items in a survey instrument to gauge its reliability and ranges in value from 0 to 1. The parameter is used to describe the reliability of factors extracted from dichotomous (Santos, 1999).

The closer Cronbach's alpha is to 1, the higher the internal consistency (Sekaran, 2003; Weiner & Hopkins, 2007). The researcher measured the reliability of the questionnaire to determine its consistency. The test re-test technique was used to estimate the reliability of the instruments which involved administering the same test twice to the same group of respondents. As a rule of the thumb, reliability value of 0.7 and above is recommended for it showed reliability of the instrument (Robert, 2006). This study used a cut off coefficient point of 0.7 and above as a strong measure of coefficient as shown in Table 3.6.

**Table 3.6 Reliability test Results**

<b>Variable</b>	<b>Cronbach's Alpha</b>	<b>No. of items</b>	<b>Comment</b>
Economic deterrence	0.830	5	Reliable
Identification of rival competitive advantage	0.887	5	Reliable
Exploitation of opportunities	0.843	5	Reliable
Organizational capabilities	0.914	6	Reliable
Management characteristics	0.939	6	Reliable
External environment	0.728	7	Reliable
Competitive advantage	0.907	6	Reliable
<b>Overall score</b>	<b>0.864</b>	<b>40</b>	Reliable

Survey data (2017)

The results of reliability analysis show that the Cronbach Alpha index ranged between 0.728 and 0.939 for external environment and management characteristics respectively. Moreover, the overall score of reliability for the seven variables was 0.864 which was greater than the adopted threshold of 0.7 as recommended by Robert (2006).

### **3.10 Data Collection Procedure**

The researcher first obtained authority to conduct research from the School of Business, Kenyatta University (Appendix V) and permit from National Council of Science and Technology (NACOSTI) (Appendix VI), and clearance from the Ministry of Education

State Department of Basic Education (Appendix VII). A total of 160 questionnaires were distributed to the selected respondents. Data was collected between 28<sup>th</sup> April 2017 and 6<sup>th</sup> June 2017. After collecting the distributed questionnaires, data editing was done to check for completeness, consistency and reliability. Data editing and/or cleaning enabled detection of errors. The researcher used SPSS for data analysis.

### **3.11 Data Analysis and Presentation**

Quantitative and qualitative data were collected, both quantitative and qualitative data analysis methods was used.

#### **3.11.1 Quantitive Data Analysis**

As quantitative methods, data analysis involved computation of both descriptive and inferential statistics using Statistical Package for Social Sciences (SPSS). Descriptive statistics analysis entailed calculation of means, variances, coefficients' of variation, correlation coefficients and regression models constants of the responses without giving detailed explanation of the values computed. Descriptive analysis therefore, gave general description of the collected responses. Output of these procedures was presented through frequency distribution tables. In inferential procedures, interpretations of values obtained from descriptive procedures was given. Inferential statistics therefore, provide deeper understanding of descriptive statistics.

The research hypothesis was tested at 95% level of confidence in order to provide for drawing of conclusions that if the p-value is less than 5%, the null phyphotesis was rejected and the alternative hypothesis was accepted. If p-value was greater than 5%, the null hypothesis was not rejected and the alternative hypothesis was rejected. Pearson's

product movement correlation ( $r$ ) was derived to show the nature and strength of the relationship. Coefficient of determination ( $r^2$ ) was used to measure the amount of variations in the dependent variable explained by the relationship between variables.

### **3.11.2 Qualitative Data Analysis**

Content and thematic analysis was used in analysis and interpretation of qualitative data. In content analysis, responses and/or perceptions of respondents towards the overall topic of the study was analyzed. Thematic analysis, on the other hand, involved understanding various responses on specific themes or topics under competitive advantage.

### 3.11.3 Summary of Data Analysis

Table 3.7 presents a summary of data analysis.

Table 3.7 Summary of Data Analysis

Research Objective	Hypothesis	Regression Model	Hypothesis Test
To determine the effect of economic deterrence on competitive advantage among commercial banks in Kenya.	<b>H<sub>01</sub></b> : Economic deterrence has no significant effect on competitive advantage among Commercial Banks in Kenya	$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \varepsilon$ Where,  Y= Competitive Advantage (Dependent Variable), $\beta_0$ = Constant (intercept) $\beta_1 - \beta_3$ = the coefficients for $X_1 - X_3$	$H_0: \mu = 0$ $H_1: \mu \neq 0$ Reject $H_0$ if $p < 0.05$  $\beta_1$ , F value
To determine the effect identification of rival competitive advantages on competitive advantage among commercial banks in Kenya.	<b>H<sub>02</sub></b> : Identification of rival competitive advantages has no significant effect on the competitive advantage among Commercial Banks in Kenya	$X_1 - X_3$ = Resource Isolating Mechanism Where, $X_1$ = Economic deterrence $X_2$ = Identification of rival competitive advantages $X_3$ = Exploitation of opportunities $\varepsilon$ = error term	$H_0: \mu = 0$ $H_1: \mu \neq 0$ Reject $H_0$ if $p < 0.05$  $\beta_2$ , F value,
To determine the effect of exploitation of opportunities on competitive advantage among commercial banks in Kenya.	<b>H<sub>03</sub></b> : Exploitation of opportunities has not significant effect on the competitive advantage among Commercial Banks in Kenya		$H_0: \mu = 0$ $H_1: \mu \neq 0$ Reject $H_0$ if $p < 0.05$  $\beta_3$ , F value
To determine the mediating effect of organizational capabilities on the relationship between resource isolating mechanism and competitive advantage among commercial banks in Kenya.	<b>H<sub>04</sub></b> : There is no significant mediating effect of organizational capabilities on the relationship between resource isolating mechanism and competitive advantage among commercial banks in Kenya.	Four linear regression models Model one: $Y = \beta_0 + \beta_1^* X^* + \varepsilon$ Model two: $OrgC = \beta_0 + \beta_1^{**} X^* + \varepsilon$ Model three: $Y = \beta_0 + \beta_1 OrgC + \varepsilon$ Model four: $Y = \beta_0 + \beta_1^* X^* + \beta_1 M + \varepsilon$  Where, Y= Competitive Advantage $\beta_0$ = the y-intercept $\beta_1$ = the coefficient for OrgC $X^*$ = compressed firm's resource isolating mechanism	$H_0: \mu = 0$ $H_1: \mu \neq 0$ Reject $H_0$ if $p < 0.05$  Change in $R^2$ , $\beta$ coefficients

		$\beta_1^{**}$ = coefficient for firm's resource isolating mechanism OrgC = Organizational Competencies $\varepsilon$ = error term	
To establish the moderating effect of Management characteristics on the relationship between resource isolating mechanism and competitive advantage among commercial banks in Kenya.	<b>H<sub>05</sub></b> : There is no significant moderating effect of Management characteristics on the relationship between resource isolating mechanism and competitive advantage among commercial banks in Kenya.	Three linear regression models Model one: $Y = \beta_0 + \beta_1^* X^* + \varepsilon$ Model two: $Y = \beta_0 + \beta_5 \text{MngC} + \varepsilon$ Model three: $Y = \beta_0 + \beta_1^* X^* + \beta_5 \text{MngC} + \varepsilon$ Where: Y= Firm Competitive Advantage $\beta_0$ = the y-intercept $\beta_1^*$ = the coefficient for compressed Resource Isolating Mechanism $X^*$ = compressed Resource Isolating Mechanism $\beta_5$ = coefficient for management characteristics MngC = management characteristics $\varepsilon$ = error term	H <sub>0</sub> : $\mu = 0$ H <sub>1</sub> : $\mu \neq 0$ Reject H <sub>0</sub> if $p < 0.05$  Change in R <sup>2</sup> , $\beta$ coefficients
To determine the moderating effect of the external environment on the relationship between the resource isolating mechanism and competitive advantage among commercial banks in Kenya	<b>H<sub>06</sub></b> : There is no significant moderating effect of the external environment on the relationship between the resource isolating mechanism and competitive advantage among commercial banks in Kenya	Three linear regression models Model one: $Y = \beta_0 + \beta_1^* X^* + \varepsilon$ Model two: $Y = \beta_0 + \beta_6 \text{EEEnv} + \varepsilon$ Model three: $Y = \beta_0 + \beta_1^* X^* + \beta_6 \text{EEEnv} + \varepsilon$ Where: Y= Firm Competitive Advantage $\beta_0$ = the y-intercept $\beta_1^*$ = the coefficient for compressed Resource Isolating Mechanism $\beta_1^{**}$ = Coefficient of composite of resource isolating mechanism $X^*$ = compressed Resource Isolating Mechanism $\beta_6$ = coefficient for firm's external environment EEEnv = firm's environment	H <sub>0</sub> : $\mu = 0$ H <sub>1</sub> : $\mu \neq 0$ Reject H <sub>0</sub> if $p < 0.05$  Change in R <sup>2</sup> , $\beta$ coefficients

		$\varepsilon$ = error term	
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**Source: Author, (2017)**

### **3.12 Diagnostic Tests**

Diagnostics tests was conducted to minimize errors that might distort inferences made from the collected data. This study used multiple regression analysis and therefore diagnostic tests was performed to check whether there were violations to various assumptions in regression analysis. The tests included tests for normality, multicollinearity, homoscedasticity and autocorrelation.

#### **3.12.1 Multicollinearity**

Multicollinearity refers to existence linear relationship among two or more explanatory variables in a multiple regression analysis. Multicollinearity was tested using SPSS Program and conclusion was made depending on the value of Tolerance value and Variance Inflation Factor (VIF). As explained by Field (2009), a small tolerance value indicates that the variable under consideration is almost a perfect linear combination of the independent variables already in the equation and that it should not be added to the regression equation. However, a tolerance value of less than 0.1 indicated existence of multicollinearity. On the other hand, VIF measures the impact of collinearity among the variables in a regression model (Field, 2009). This measure is computed as the reciprocal of tolerance.

Values of VIF that exceed 10 are often regarded as indicating multicollinearity, but for weak models lower values up to 2.5 may indicate presence of multicollinearity (Field, 2009). Apart from using Tolerance and VIF, multicollinearity was also detected by

examining changes in the regression coefficients if other variables are excluded or included in the model. Large changes in the regression coefficients indicated that the particular variable causes multicollinearity and should be excluded from the model. This process was repeated until the model stabilizes, where the coefficients do not change significantly by further addition or removal of the explanatory variables in the model.

### **3.12.2 Homoscedasticity**

Homoscedasticity occurs when each variable in an experiment has approximately equal and finite variance. This test was important since confirmed one assumption through which linear models are built. Homoscedasticity test is usually done using Levene's test (1960). This test for equality was conducted using one way ANOVA procedure. From the analysis of variance, coefficient of determination ( $R^2$  %) was used to measure the amount of variations in the dependent variable explained by the independent variable.

### **3.12.3 Normality**

To determine how normal the collected data is, histogram was used to determine the normality of distribution of sample data. Normality test was a crucial procedure because it ensured that inferences made from the collected data were made by using an unbiased data (Field, 2009).

## **3.13 Ethical Considerations**

Ethics in research refers to method, procedure or perspective for guiding solving of complex issues and problems which helps promote moral and social welfare (Bryman, 2012). Quality of the study assured observance of certain research ethics. The principles not only ensured rights of all participants were observed, but also made certain that

validity and reliability of the study was upheld. The researcher was first issued with an introduction letter from the Kenyatta University, Graduate School (Appendix V). then a permit to conduct research was issued by NACOSTI (Appendix VI), finally clearance from the Ministry of Education State Department of Basic Education (Appendix VII).

One research ethic was the principle of voluntary informed consent (Sharmoo & Resnik, 2009). The ethic involved informing participants about importance of the study and reasons for participation. The ethic further involved briefing participants about their roles in the survey and importance of the study. The principles of voluntary participation and right of withdrawal, as research ethics, implied that none of the participants would be tricked to take part in the study. Similarly, participants were allowed to withdraw their participation, for any reason, at any stage of the study (Yuengert, 2004). Although withdrawal was highly discouraged. As another research ethic, the study did not apply incentives or deception to attract participants (Smith & Albaum, 2004).

Prior briefing of anticipated detriment was another research ethic the study observed. The principle involved informing participants about unexpected damages or research losses. Privacy was another research ethic that the study highly pegged on. The principle ensured that responses from a participant remained as confidential and anonymous as possible. Other research ethics the study observed included not falsifying research findings or evidence, selective publication of research findings, criticism in an unprofessional or a defamatory manner, and using legal documents to prove the authenticity of the research.

**CHAPTER FOUR**  
**RESEARCH FINDINGS AND DISCUSSION**

**4.1 Introduction**

This chapter presents the study findings and discuss the study response rate, descriptive statistics, the bio-data of the study responses, the descriptive analysis and frequencies of the respondents' responses, section 4.3 discuss the inferential analysis of the study, while section 4.4 discuss the qualitative analysis.

**4.2 Analysis of Response Rate**

This sections presents response rate, summary of respondents' demographic information and industry bio data.

**4.2.1 Response Rate**

Table 4.1 presents the tabulation on the response rate of the study respondents

**Table 4.1 Response rate**

<b>Strata</b>	<b>Distribution</b>	<b>Response Frequency</b>	<b>Percentage Response Rate</b>
Tier one banks	24	10	41.67
Tier two banks	52	44	84.62
Tier three banks	84	75	89.29
<b>Total</b>	<b>160</b>	<b>129</b>	<b>80.63</b>

Source: Survey data (2017)

The researcher administered 160 questionnaires among the Commercial Banks of interest. However, 129 dully filled questionnaires were collected from the respondents translating to a response rate of 80.63% as shown in Table 4.1. According to Churchill (2010), low response rate limits the generalizability of results from questionnaire due to low statistical power in testing of hypotheses. Further, Mugenda and Mugenda (2012) cited that

response rate of 50% is adequate and sufficient for data analysis. The response rate for the study was satisfactory for data analysis.

#### 4.2.2 Respondents' Demographic Information

This section of the study presents the findings on the biographic information of the study respondents. The demographic characteristics of the respondents are summarized in the Table 4.2.

**Table 4.2 Respondent Bio-data**

Biographic characteristics	Bank Category			Total	Percentage (%)
	Tier 1 banks	Tier 2 banks	Tier 3 banks		
<b>Gender</b>					
Male	4	15	40	59	45.7
Female	6	29	35	70	54.3
<b>Total</b>	<b>10</b>	<b>44</b>	<b>75</b>	<b>129</b>	<b>100.0</b>
<b>Age</b>					
21-30 years	3	17	28	52	40.3
31-40 years	7	26	43	72	55.8
41-50 years	0	1	4	5	3.9
<b>Total</b>	<b>10</b>	<b>44</b>	<b>75</b>	<b>129</b>	<b>100.0</b>
<b>Years of Work</b>					
Less than one year	0	0	1	1	0.8
1-2 years	0	10	17	27	20.9
3-5 years	5	17	37	59	45.7
6-10 years	4	17	18	39	30.2
Above 10 years	1	0	2	3	2.3
<b>Total</b>	<b>10</b>	<b>44</b>	<b>75</b>	<b>129</b>	<b>100.0</b>
<b>Education</b>					
Diploma	0	2	1	3	2.3
Degree	8	34	64	106	82.2
Masters	2	7	9	18	14.0
Other (specify)	0	1	1	2	1.6
<b>Total</b>	<b>10</b>	<b>44</b>	<b>75</b>	<b>129</b>	<b>100.0</b>

Source: Survey data (2017)

From the findings, 45.7% of the respondents were male whereas 54.3% of the respondents were female. Approximately 40.3% of the respondents were aged between 21-30 years, 55.8% were aged between 31-40 years and 3.9% were aged between 41-50 years. The most frequent respondents (96.1%) were youthful i.e aged between 21 to 40 years.

Based on education levels, 2.3% of the respondents had attained diploma level of education, 82.2% had attained degree level of education, 14.0% had attained master level of education whereas 1.6% had attained some other level of education not categorized in the study. Most of the respondents (98.5%) had attained some level of post-secondary education. Based on years of work, 0.8% of the respondents had worked for less than a year, 20.9% had worked between 1-2 years, 45.7% had worked between 3-5 years, 30.2% had worked between 6-10 years whereas 2.3% had worked above 10 years. The study respondents had some good level of work experience when the study was being conducted.

From the above findings, four males and six females worked in tier one banks, fifteen males and twenty-nine females worked in tier two banks, whereas forty females and thirty-five males worked in tier three banks. More females than males worked across all the banks types. Based on years of work, only one respondent was working in tier three bank, for less than one year. Between 1 and 2-year experience, 10 had worked in tier two banks and 17 in tier three banks. Fifty-nine respondents had worked in between 3 and 5 years, where 5 had worked in tier one banks, 17 in tier two banks and 37 in tier three banks; thirty-nine respondents had worked between 6 and 10 years where 4 had worked

intier one banks, 17 in tier two banks and 18 in tier three banks. Lastly, three respondents had worked over 10 years where 1 worked in tier one bank while two worked in tier three banks. Respondents with work experience of between 3 and 5 years were a majority across all the bank types.

From the findings, majority of the respondents had worked for the banks between three to five years. Therefore, the respondents were experienced, skilled, knowledgeable and also exposed in regard to the operations of the bank. They were therefore, able to give accurate information regarding the operations of the bank. Based on age, 52 respondents were of 21-30 years of age where 7 worked in tier one banks, 17 tier two banks and 28 tier three banks. 72 respondents were aged 31-40 years where 3 worked in tier one banks, 26 in tier two banks and 43 in tier three banks. Five respondents were aged between 41 and 50 years where 1 worked in tier two banks whereas 4 worked in tier three banks. Respondents aged between 21 and 30 years of age were a majority.

Based on level of education, three respondents were of diploma category where 2 were in tier two banks and 1 in tier three banks. One hundred and six respondents were degree holders where 8 were in tier one banks, 34 in tier three banks and 64 in tier three banks. Eighteen were master holders where 2 were in tier one banks, 7 in tier two banks and 9 in tier three banks. Two respondents, one in tier two banks and the other in tier three banks had alternative education. Respondents who were degree holders were a majority across all bank type categories. From the result findings, majority of the respondents' academic qualification was degree category implying that they were knowledgeable and skilled and therefore, were well placed to make sound decisions of the banks' operations. They were also able to interpret the research questions since they were literate.

### **4.3 Descriptive Statistics**

This section of the study discusses the characteristics of the variables through measures of central tendency and dispersion of the mean and standard deviation respectively. The study consisted of six variables namely, economic deterrence, identification of rival competitive advantages, exploitation of opportunities, organizational capabilities, management characteristics, external environment and competitive advantage. The descriptive statistics were used to summarize the characteristics of the variables based on the scale of the questionnaire. The statements used for this study were ranked on a five-point Likert scale where 1= to no extent 2= to a little extent 3=to a moderate extent 4= to a high extent 5= to a very high extent.

#### **4.3.1. Economic Deterrence**

The first variable of the study was economic deterrence and was used in the study because of its focus on existing resources in exploiting business opportunities and sustaining competitive advantage. The variables were measured using five indicators. The descriptive statistics showing the characteristics of the indicators of this variable are shown in Table 4.3.

**Table 4.3: Economic Deterrence**

<b>Statements on Economic Deterrence</b>	<b>n</b>	<b>Min</b>	<b>Max</b>	<b>Mean</b>	<b>SD</b>
Bank investment beyond the statutory cash reserve requirement	129	3.00	5.00	3.84	.67
Bank investment on unique business systems.	129	2.00	5.00	3.94	.81
Bank acquisition of intellectual property rights	129	1.00	5.00	3.85	1.01
Bank investment in highly qualified and competent workers	129	2.00	5.00	4.04	.81
Bank adequacy of workforce unique to organization structure.	129	2.00	5.00	3.91	.75
<b>Aggregate score</b>				<b>3.91</b>	<b>0.81</b>

Source: Survey data (2017)

Table 4.3 above indicates that based on the statement on bank's heavy investment on capital base beyond statutory cash requirement, respondents indicated that the investment was to a moderate extent ( $mean=3.84$ ). The responses had a low variation ( $s.d.=0.67$ ). Responses to the statement on bank's investment of huge percentage of resources on unique business process was to a moderate extent ( $mean=3.94$ ) with relatively low variation ( $s.d.=0.81$ ).

Responses to the statement on bank acquisition of intellectual property rights for all its inventions had a mean of 3.85, indicating that the respondents thought that the bank had acquired intellectual property rights to a moderate extent. The responses had a high variation ( $s.d.=1.01$ ). The statement on bank's investment in the employment of highly qualified and competent staff had a mean of 4.04, was related at the level of a high extent. The responses had a low variation ( $s.d.=0.81$ ). Statement on the adequacy of workforce that was unique to the bank's organization structure was answered by 129 respondents where the respondents thought that their banks had unique adequate workforce to a moderate extent. The responses had a low variation ( $s.d.=0.75$ ).

The aggregate mean for the variable of economic deterrence was 3.91 indicating that overall, the respondents largely agreed to the statements on economic deterrence. The aggregate standard deviation was 0.81 indicating that variation of responses by the respondents was not high.

### 4.3.2 Identification of Rival Competitive Advantages

The second variable of the study was identification of rival competitive advantages and was used in the study because of its linkage of company environment and sustainable competitive advantage. The variable was measured using five indicators. The descriptive statistics showing the characteristics of the indicators of this variable are shown in Table 4.4.

**Table 4.4: Identification of Rival Advantages**

<b>Statement on Identification of Rival competitive Advantages</b>	<b>n</b>	<b>Min</b>	<b>Max</b>	<b>Mean</b>	<b>SD</b>
Bank benchmarking within banking industry.	129	1.00	5.00	3.89	.88
Bank identification of strengths of other banks in this industry.	129	1.00	5.00	3.90	.85
Bank capture of strategic signals by competitors.	129	2.00	5.00	4.03	.69
Bank cross-company comparisons.	129	1.00	5.00	4.01	.85
Bank monitoring of competitors	129	1.00	5.00	4.02	.73
<b>Aggregate score</b>	<b>129</b>			<b>3.97</b>	<b>0.80</b>

**Source: Survey data (2017)**

From the findings, the statement on bank progressive bench marking to learn from others in the industry, the statement had a mean of 3.89, indicating that the respondents thought their bank was benchmarking to learn from those in the industry to a moderate extent. The responses had a low variation ( $s.d.=0.88$ ). Responses to the statement on bank attempt to identify sources of strength for other banks in the industry had a mean of 3.90, indicating that the respondents opined that their banks sought the sources of strength of

other banks in the industry, to a moderate extent. The responses had a normal variation ( $s.d.=0.85$ ).

Responses to the statement on bank trial to capture strategic signals by competitors had a mean of  $4.03$ . This indicated that the respondents thought that their banks had made attempt to capture strategic signals by competitors to a high extent. The responses had a low variation ( $s.d.=0.69$ ). Statements on attempts by the banks to consistently make cross company comparisons had a mean of  $4.01$  showing that the respondents thought that their banks had constantly made cross company comparisons to a high extent. The responses had a low variation ( $s.d.=0.85$ ).

Responses to the statement on bank monitoring of competitors and identification of their strategic moves had a mean of  $4.02$ . This signified that the respondents thought that their banks had monitored and identified their competitors' strategic moves to a high extent. The responses had a low variation ( $s.d.=0.73$ ). The responses on all the statements on identification of rival advantages had an aggregate mean of  $3.97$  indicating that the respondents generally agreed to the statements on identification of rival advantage. The aggregate standard deviation was  $0.80$ , showing a low variation on the respondents' responses.

### **4.3.3 Exploitation of Opportunities**

The third variable of the study was exploitation of opportunities and was used in the study because of its focus on exploitation of market environment in sustaining competitive advantage. The variables were measured using five indicators. The

descriptive statistics showing the characteristics of the indicators of this variable are shown in Table 4.5.

**Table 4.5: Exploitation of Opportunities**

Statements on Exploitation of Opportunities	n	Min	Max	Mean	SD
Bank external environmental scanning for new business opportunities	129	2.00	5.00	4.20	.73
Bank customer groups segmentation	129	1.00	5.00	4.17	.59
Bank strategy for strong customer relations .	129	1.00	5.00	4.33	.66
Bank product positioning	129	2.00	5.00	4.19	.73
Bank stakeholder involvement in decision making.	129	2.00	5.00	4.12	.78
<b>Aggregate score</b>				<b>4.21</b>	<b>0.70</b>

**Source: Survey data (2017)**

From the findings, responses to the statement on scanning by banks on external environment to identify new business opportunities had a mean of 4.20. This indicated that the respondents confirmed that their banks scan the external environment for new business opportunities to a high extent. The responses had a low variation ( $s.d.=0.73$ ). Based on the statement on market segmentation into specific customer groups by banks, the responses had a mean of 4.17. This showed that the respondents thought that their banks had segmented the market into specific customer groups to a high extent. The responses had a low variation ( $s.d=0.59$ )

Responses to the statement on bank strategy of building strong relations with customers had a mean of 4.33. This showed that the respondents thought that their banks had a strategy of building strong relationship with their customers to a high extent. The responses had a low variation ( $s.d=0.66$ ). Responses to the statements on product positioning by bank in the market had a mean of 4.19. This indicated that the respondents

were of the view that the bank had positioned their product well in the market to a high extent. The responses had a low standard deviation ( $s.d=0.73$ ).

Responses to the statement on stakeholder consideration and involvement in decision making by bank had a mean of 4.12. This showed that the respondents thought that their bank considered and involved relevant stakeholders in decision making to a high extent. The responses had a low standard deviation ( $s.d=0.78$ ). Overall, the variable Exploitation of Opportunities had an aggregate mean of 4.21 showing that the respondents largely agreed to the statements on exploitation opportunities. The aggregate standard deviation was 0.70 indicating a low deviation on the respondents' responses.

#### 4.3.4 Organizational Capabilities

The mediating variable of the study was organizational capabilities and was used in the study because of its focus on the role of organization capabilities derived from resource isolation mechanism strategies in sustaining competitive advantage. The variable was measured using six indicators. The descriptive statistics showing the characteristics of the indicators of this variable are shown in Table 4.6.

**Table 4.6 Organizational Capabilities**

<b>Statements on Organizational Capabilities</b>	<b>n</b>	<b>Min</b>	<b>Max</b>	<b>Mean</b>	<b>SD</b>
Talented and professional workforce	129	1.00	5.00	4.12	.61
Unique business operations	129	1.00	5.00	3.94	.88
Assembling and integration of valuable resources	129	2.00	5.00	3.90	.66
Deployment of valuable resources	129	2.00	5.00	3.85	.82
Integration of multiple technologies	129	1.00	5.00	4.13	.76
Computerization of processes or business operations.	129	1.00	5.00	4.14	.72
<b>Aggregate score</b>				<b>4.01</b>	<b>0.74</b>

**Source: Survey data (2017)**

From the findings, responses to the statement on bank employment of talented and professional workforce had a mean of *4.12*. This showed that respondents thought their banks had a talented and professional workforce to a high extent. The responses had a low variation (*s.d=0.61*). Based on the statement on unique business operations by bank, the respondents indicated that the bank had unique business operations to a moderate extent (*mean=3.94*). The responses had a low variation (*s.d=0.88*).

Responses to the statement on assembling and integrating of valuable resources as a barrier for imitation by rivals had a mean of *3.90*, with a standard deviation *0.66* of indicating that the respondents agreed to this statement to a high extent. The responses to the statements on deployment of valuable resources as a barrier for imitation by rivals had a mean of *3.85*, and a standard deviation of *s.d=0.82* indicating that the respondents agreed to the statement to a moderate extent.

Responses to the statement on integration of multiple technologies towards creation of new products had a mean of *4.13*. This showed that the respondents thought their banks had integrated multiple technologies to create new products to a high extent with a standard deviation of *s.d=0.76*. Responses to the statement on computerization ranged had a mean of *4.14*. This indicated that the respondents thought that their banks had computerized their processes or business operations to a high extent (*s.d=0.72*).

The statements on organizational capabilities had a mean of *4.01* showing that the respondents agreed to the statements on organizational capabilities to a large extent. The aggregate standard deviation was *0.74* indicating a low variation on the respondents' responses.

#### 4.3.5. Management Characteristics

The first moderating variable of the study was management characteristics and was used in the study because of its focus on the role of team concerned in making the decisions of the firm towards competitive advantage. The variables were measured using six indicators. The descriptive statistics showing the characteristics of the indicators of this variable are shown in Table 4.7.

**Table 4.7: Management Characteristics**

<b>Statements on Management Characteristics</b>	<b>n</b>	<b>Min</b>	<b>Max</b>	<b>Mean</b>	<b>SD</b>
As initiators of change.	129	1.00	5.00	4.09	.86
As futuristic oriented.	129	1.00	5.00	4.05	.90
As market opportunity driven.	129	1.00	5.00	3.94	.89
As system oriented.	129	1.00	5.00	4.09	.88
As transformational.	129	1.00	5.00	3.99	.95
As environmental focused.	129	1.00	5.00	3.93	1.01
<b>Aggregate score</b>				<b>4.01</b>	<b>0.93</b>

Source: Survey data (2017)

From the findings in Table 4.7, the respondents thought that their bank management were initiators of change to a high extent ( $mean=4.09$ ). The responses had a low variation ( $s.d=0.86$ ). Responses to the statements on futuristic orientation had a mean of 4.05, indicating that the respondents thought that their bank management were futuristic oriented to a high level. The responses had a low variation ( $s.d=0.90$ ). Response to the statement on market opportunity driven as bank management characteristic had a mean of 3.94 indicating that the respondents agreed with the statement to a moderate extent. The responses had a low variation ( $s.d=0.89$ ).

Based on system orientation as a bank management characteristic, the responses had a mean of 4.09, showing that the respondents agreed with the statement to a high level. The

responses had a low variation ( $s.d=0.88$ ). Statement on transformation as bank management characteristic had a mean of 3.99, indicating that the respondents thought that their management was transformational to a moderate extent. The responses had a wide variation ( $s.d=0.95$ ). Statement on environmental focus as bank management characteristic had a mean of 3.93. The respondents thought that their bank management had environmental focus to a moderate extent and had a wide variation of responses ( $s.d=1.01$ ). The aggregate mean for responses on the statements on management characteristics was 4.01 indicating that the respondents agreed to the statements on management characteristics to a large extent. The aggregate standard deviation was 0.93 indicating a low variation on the respondents' responses.

#### 4.3.6 External Environment

The second moderating variable, external environment was used in the study because of its focus on the role of macro environmental elements on exploitation of resources in sustaining competitive advantage. The variables were measured using seven indicators. The descriptive statistics showing the characteristics of the indicators of this variable are shown in table 4.8.

**Table 4.8: External Environment**

Statements on External Environment	n	Min	Max	Mean	SD
Political stability in the country	129	1.00	5.00	3.84	.99
Cultural and religious factors	129	1.00	5.00	2.69	.78
Social factors	129	1.00	5.00	3.58	1.05
Technological factors	129	1.00	5.00	3.93	.79
Government regulations on certain requirements	129	1.00	5.00	4.03	.93
The level of unemployment in Kenya.	129	2.00	5.00	3.53	.86
The level of inflation in Kenya.	129	1.00	5.00	3.64	1.01
<b>Aggregate score</b>				<b>3.61</b>	<b>0.92</b>

Source: Survey data (2017)

From the table 4.8 above, the total number of respondents was 129. Based on the statements on political stability the country, the respondents agreed to a moderate extent (mean=3.84), the responses had a high variation ( $s.d=0.99$ ). Based on the statements on cultural and religious factors such as product offering based on religious backgrounds, the respondents agreed to the statement to a little extent ( $mean=2.69$ ), the responses had a high variation ( $s.d=0.78$ ).

The respondents agreed to the statement on social factors to a moderate extent (mean=3.58), indicating that the respondents thought that their banks' product offering were based on social classes, the responses had a high variation ( $s.d=1.05$ ). Based on technological factors, the respondents agreed to the statement to a moderate extent ( $mean=3.93$ ), indicating that the respondents thought their banks used technological systems to a moderate extent. The responses had a low variation ( $s.d=0.79$ ). Responses to the statement on government regulation were to a high extent ( $mean=4.03$ ), showing that the respondents opined that government regulations on certain requirements such as restrictions and guidelines on minimal capital ratio/reserves, was to a high extent. The responses had a low variation ( $s.d=0.93$ ).

Responses to the statement on unemployment level in Kenya was to a moderate extent ( $mean=3.53$ ), indicating that the respondents indicated that unemployment was an external environment to a moderate extent. The responses had a high variation ( $s.d=0.93$ ). Responses to the statement on inflation level in Kenya was to a moderate extent (mean=3.64), showing that the respondents thought that inflation was an external force on SCA to a moderate extent. The responses had a high variation ( $s.d=1.01$ ). The

aggregate mean was 3.61 indicating that the respondents generally agreed to the statements on external environment to a moderate extent. The aggregate standard deviation was (s.d. = 0.92) indicating a normal deviation on the respondents' responses.

#### 4.3.7. Competitive Advantage

The dependent variable, competitive advantage was used in the study because of the expected outcomes from the resource isolating mechanism strategies. The variables were measured using six indicators. The descriptive statistics showing the characteristics of the indicators of this variable are shown in Table 4.9.

**Table 4.9: Competitive Advantage**

Statements on Competitive Advantage	n	Min	Max	Mean	SD
<b>Differentiation</b>					
• Bank earnings above average profits.	129	2.00	5.00	3.88	.73
• Achievement of public reputation.	129	1.00	5.00	4.05	.89
<b>Cost leadership</b>					
• Market share leadership in the banking sector	129	2.00	5.00	3.82	.79
• Attaining a relative competitive position.	129	1.00	5.00	3.82	.83
<b>Responsiveness</b>					
• Positive public image	129	1.00	5.00	4.05	.79
• Consistent recognition as the Bank of the Year/Best Bank.	129	1.00	5.00	4.00	.90
<b>Aggregate score</b>				<b>3.94</b>	<b>0.82</b>

Source: Survey data (2017)

From the Table 4.9, bank earning above average profits, the respondents indicated that their banks earned profits above average to a moderate extent ( $mean=3.88$ ) the responses had a low variation ( $s.d=0.73$ ). Based on achievement of public reputation, the respondents agreed that the bank had achieved public reputation to a high extent ( $mean=4.05$ ) and had a low variation ( $s.d=0.89$ ) among responses. Statement on market

share leader in the banking sector had a mean of 3.82, this signified that the respondents agreed that their banks were market share leaders to a moderate extent.

The responses had a low variation ( $s.d=0.79$ ). Responses to the statement on bank relative competitive position had a mean of 3.82, indicating that the respondents agreed to the statement to a moderate extent, the responses had a low variation ( $s.d=0.83$ ). Based on bank positive public image, respondents agreed to this to a high extent indicating that the respondents agreed that their bank had positive public image to a high extent ( $mean=4.05$ ) and similarly, the respondents thought that their bank had consistently been recognized as best ( $mean=4.00$ ) to a high level. The responses to the statements on positive public image and annual award to a high variation ( $s.d=0.90$ ).

The responses on the statements on competitive advantage had an aggregate mean of 3.94 indicating that the respondents generally agreed to the statements on sustainability. The aggregate standard deviation was 0.82 indicating a low variation on the respondents' responses.

#### **4.4 Inferential Statistical Analysis**

The section contains results of the hypotheses tests conducted to determine effect of Resource Isolating Mechanism on competitive advantage among commercial banks in Kenya, while taking into consideration the influence of moderating and mediating factors on the relationship. This section also describes the diagnostic tests performed by the study for accurate estimation of the regression models.

#### **4.4.1 Diagnostic Tests**

Field *et al.*, (2009) notes that diagnostic tests enable the determination of accuracy of a regression model, and for conclusions on regression analysis to be drawn on a given sample, several assumptions have to be held true. Some of the assumptions include: variable types should be quantitative with no constraints on the outcome; the predictors should have some value, that is greater than zero; no perfect relationship between two or more of the explanatory variables; predictors should be uncorrelated with external variables that are not included in the study; residuals at each level of the predictor should have same variance and for any two observations, the residuals should be independent. In this section these assumptions were tested under multicollinearity, homoscedasticity, and normality tests as discussed in subsections 4.4.1.1, 4.4.1.2, and 4.4.1.3.

##### **4.4.1.1 Multicollinearity**

Multicollinearity measures existence of linear relationship of two or more explanatory variables where the tolerance value of less than 0.1 and VIF values of above 10 indicate presence of multicollinearity. Multicollinearity tests were done for the three types of hypotheses tested in the study and the results are presented in Table 4.10.

**Table 4.10 Multicollinearity**

Coefficients			
	Collinearity Statistics		Remarks
	Tolerance	VIF	
(Constant)			
Economic deterrence	0.420	2.382	No Multicollinearity
Identification of rival advantages	0.214	4.682	No Multicollinearity
Exploitation of opportunities	0.416	2.404	No Multicollinearity
Organizational capabilities	0.181	5.525	No Multicollinearity
Management characteristics	0.263	3.801	No Multicollinearity
External environment	0.848	1.180	No Multicollinearity

Dependent Variable: Competitive Advantage

**Source: Survey data (2017)**

From the Table 4.10, after moderation the VIF values of economic deterrence=2.382, identification of rival advantages=4.682, exploitation of opportunities=2.404, organizational capabilities=5.525, management characteristics=3.801 and external environment=1.180. Both the tolerance and VIF values met the criteria in the direct, mediated and moderated relationships. Therefore, the researcher concluded the data had no evidence of multi-collinearity significant enough to affect the results of the study.

#### **4.4.1.2 Homoscedasticity**

Homogeneity was used to test the variability of the study variances. This was conducted by use of Levene's test as shown in Table 4.11.

**Table 4.11 Test of Homogeneity of Variance**

		<b>Lavene Statistic</b>	<b>df1</b>	<b>df2</b>	<b>Sig.</b>
Economic Deterrence	Based on Mean	1.801	1	122	.182
	Based on Median	.418	1	122	.519
	Based on Median and with adjusted df	.418	1	108.732	.519
	Based on trimmed mean	1.196	1	122	.276
Identification of Rival Advantages	Based on Mean	3.165	1	122	.078
	Based on Median	.420	1	122	.518
	Based on Median and with adjusted df	.420	1	80.727	.519
	Based on trimmed mean	.857	1	122	.356
Exploitation of Opportunities	Based on Mean	.927	1	122	.338
	Based on Median	.287	1	122	.593
	Based on Median and with adjusted df	.287	1	75.353	.594
	Based on trimmed mean	.381	1	122	.538
Organizational Capabilities	Based on Mean	2.275	1	122	.134
	Based on Median	.353	1	122	.554
	Based on Median and with adjusted df	.353	1	75.303	.554
	Based on trimmed mean	.586	1	122	.445
Management Characteristics	Based on Mean	.094	1	122	.760
	Based on Median	.046	1	122	.830
	Based on Median and with adjusted df	.046	1	120.488	.830
	Based on trimmed mean	.003	1	122	.960
External Environment	Based on Mean	3.028	1	122	.084
	Based on Median	1.849	1	122	.176
	Based on Median and with adjusted df	1.849	1	96.283	.177
	Based on trimmed mean	2.092	1	122	.151

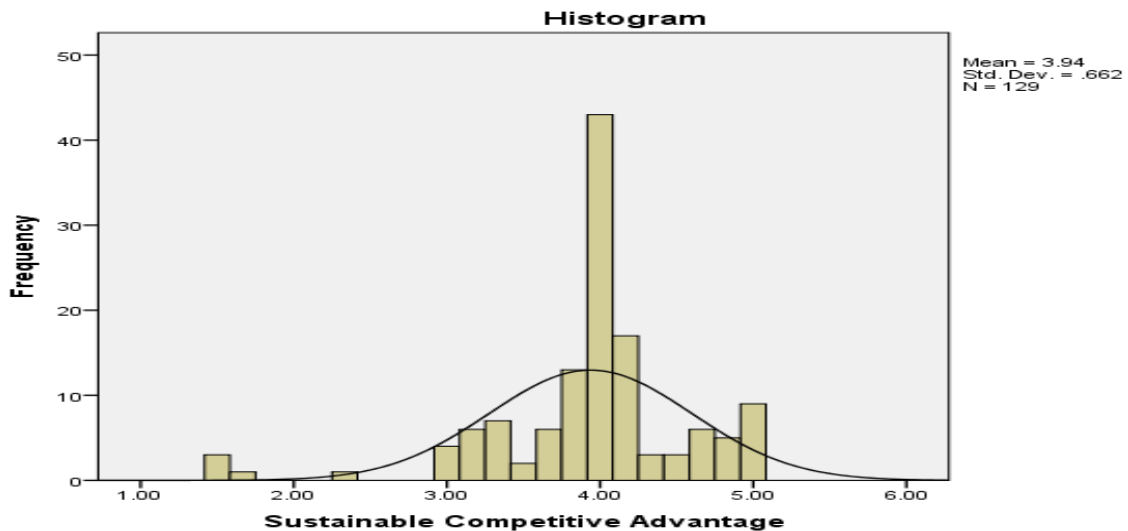
Source : Survey data (2017)

From the established findings, all the study variables have equal variances where df 1 and df 2 were the gender of the study respondents. The homogeneity was based on means (Field, 2009) where for Economic deterrence, the variances were equal for male and female respondents at  $F(1, 122)=1.89, p>0.05$ . Identification of rival advantages had

equal variances of male and female respondents at  $F(1, 122)=3.165$ ,  $p>0.05$ . Exploitation of opportunities had equal variances of male and female respondents at  $F(1, 122)=0.927$ ,  $p>0.05$ . Organizational capabilities had equal variances of male and female respondents at  $F(1, 122)=2.275$ . For Management characteristics, the variances on male and female respondents had equal variances at  $F(1,122)=0.046$ . External environment had equal variances for male and female respondents at  $F(1,122)=3.028$ . The decision criteria was that  $p>0.05$  indicated homogeneity of variances. The above results confirmed homogeneity of variances on data used for the study.

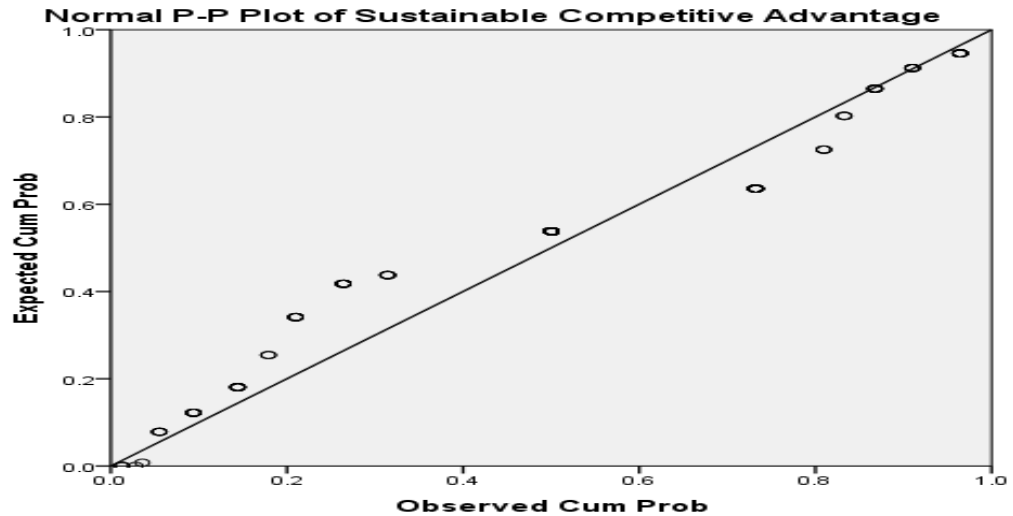
#### 4.4.1.3 Normality test

This test was conducted to determine normal distribution of the variables using the normality test histogram and the P-Plot. Previous researchers used similar approaches (Tanui, 2015 ; Tanui, Kilika & Mugambi, 2017). The results are shown in Figure 3 and 4.



**Figure 4.1: Normality test histogram**

Source: Survey data (2017)



**Figure 4.2: Normality test P Plot**

Source: Survey data (2017)

According to Gujarati and Porter, (2009) the results for regression analysis are valid if the normality condition of the sample data is satisfied. The plots for the histogram and normal probability depicted in Figures 4.1 and 4.2 respectively confirm the normality of the study sample.

#### **4.4.2 Test of Hypotheses**

In this part, the findings on the thesis hypotheses are discussed. The study sought to investigate the possibility of non-existence/existence of direct and indirect relationship between resource isolating mechanism and competitive advantage. The main objective of the research was to determine the effect of resource isolating mechanism on competitive advantage among commercial banks in Kenya. The objective was answered through six hypotheses adopted by the study.

The hypotheses were grouped into three categories: direct, mediated and moderated. To determine direct relationship between resource isolating mechanism and competitive advantage, only one step was involved. For mediated relationship, four steps were taken such as direct relationship; relationship between mediator and dependent variable; between independent and mediator variables and finally a combination of effect of independent, mediator, and dependent variables.

For moderation relationships, three steps were taken i.e. direct relationship; relationship between moderated and independent variable and combination of the three variables. For the test of mediated and moderated hypotheses ( $H_{04}$ ,  $H_{05}$ ,  $H_{06}$ ) a composite index of Resource Isolating Mechanism was used.

#### **4.4.2.1. Test of Direct Relationship Hypotheses**

The results on the test of the direct relationship using multiple linear regression as shown in the Table 4.12.

**Table 4.12: Regression analysis for the direct relationship between resource isolating mechanism and competitive advantage**

Model Summary <sup>b</sup>						
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson	
1	.778 <sup>a</sup>	.605	.596	.42069	1.972	
ANOVA <sup>a</sup>						
Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	33.939	3	11.313	63.922	.000 <sup>b</sup>
	Residual	22.122	125	.177		
	Total	56.061	128			
Coefficients						
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	.402	.270		1.490	.139
	Economic Deterrence	-.001	.091	-.001	-.016	.987
	Identification of Rival Advantages	.442	.091	.442	4.869	.000
	Exploitation of Opportunities	.424	.082	.408	5.148	.000

**Source: Survey data (2017)**

The model summary table represents the strength of the relationship between the independent and dependent variables used. The findings indicated that 59.6% of the change in competitive advantage in commercial banks in Kenya is explained by exploitation of opportunities, economic deterrence and identification of rival advantages. However, the remaining 40.4% of the variation of competitive advantage was attributable to factors not included in the study. The ANOVA table for direct relationship indicates that the model was fit at  $F=63.922$  ;  $p < 0.001$

The established regression equation for direct relationship was:

$$Y = 0.402 - 0.001 X_1 + 0.442 X_2 + 0.408 X_3 + \varepsilon \dots \dots \dots (3.1)$$

The constant of the study ( $\beta_0$ ) was 0.402 and was non-significant at  $p < 0.05$ . This indicated that if all factors remained constant, a unit change in resource isolating mechanism would result to 0.402 change in competitive advantage.

#### **4.4.2.2 Effect of economic deterrence on competitive advantage**

The first hypothesis of the study sought to determine the effect of Economic Deterrence on competitive advantage of commercial banks in Kenya. The hypothesis was stated in the null form as:

***H<sub>01</sub>: Economic Deterrence has no significant effect on competitive advantage among commercial banks in Kenya.***

From the established regression equation from the findings reported in Table 4.12, economic deterrence had a negative coefficient ( $\beta = -0.01$ ) and a statistical significance of  $p > 0.05$ . The coefficient indicated that with all the other variables constant, one-unit increase in economic deterrence would cause a 0.01 units reduction in competitive advantage. This indicates a negative relationship between economic deterrence and competitive advantage. However, the relationship was non-significant. As a result  $H_{01}$  was supported and the study concluded that economic deterrence had a negative effect on competitive advantage which was not statistically significant.

The variable of Economic Deterrence is one that focuses on investment in physical assets, intellectual property rights, human resources and business processes. Investments by their nature involve huge financial outlays in the short term, yet the returns are expected in the medium and long-haul. The indicators for this variable with high scores were those focusing on human capital investment. Even though the scores were high for employment

of qualified workforce and one that is unique to its organization structure, the relative contribution of these towards competitive advantage may not have been realized. This interpreted in terms of previous research in this industry by Ismail *et al.*, (2012), Gaya *et al.*, (2013) whereby development and improvement on HRD, and possession of bundle of resources could enable the firm to create and competitive advantage against their rivals.

Explanation on the findings on Hypothesis One, is the set of previous empirical findings. The empirical findings supported that dynamic competitive capabilities of firms are not limited to the economic part of an organization and that value creation to customers as well as integration of various organizations functions, that is, physical assets, was key to ensuring sustainable competitive advantage (Gudmundsson *et al.*, 2013). Hockinsson *et al.*, (2010) agree on firm tendency to invest and rely on intangible resources that are rare, invisible and difficult for competitors to comprehend.

Similarly, the study Ismail *et al.*, (2012) found out a positive relationship between organization resources, capabilities, systems and competitive advantage. However, the study scope was in Malaysian manufacturing industry and the population was larger than the current study, further, the study focused on competitive advantage strategies and effective resource utilization. The current study found that the economic deterrence was not significant and had a negative effect competitive advantage sustainability.

Based on the findings and explanations given on hypothesis one, the study makes an important contribution towards the effect of economic deterrence on competitive advantage, that integration of both physical and human assets are essential in the future

competitive advantage of an organization. Previous studies such as Zekiri (2011); Zekiri *et al.*, (2012) had identified specialized skills, capabilities and assets strategic human resource skills for competitive advantage, in addition, the current study incorporates human resource skills as a form of resource isolating mechanism.

#### **4.4.2.3 Effect of identification of rival competitive advantage on competitive advantage**

The second hypothesis of the study sought to determine the effect of identification of rival competitive advantage on sustainable competitive advantage of commercial banks in Kenya. The hypothesis was stated in null form as:

*H<sub>02</sub>: Identification of Rival Competitive Advantages has no significant effect on Competitive Advantage among Commercial Banks in Kenya*

From the established equation, identification of rival competitive advantage had a positive coefficient ( $\beta=0.442$ ) and a significance of  $p=0.000$  which is less than the threshold of  $p<0.05$ . The coefficient indicated that, with all variables remaining constant, one unit increase in rival competitive advantage would result to 0.442 unit increase in competitive advantage among commercial banks in Kenya. This indicates a positive relationship between identification of rival competitive advantage and competitive advantage. As a result the study rejected  $H_{02}$  and concluded that identification of rival competitive advantage had a positive effect on competitive advantage which is statistically significant.

The role of identification of rival competitive advantage variable in building competitive advantage as discussed in Table 4.5 is that of identifying rival intent and behavior so as to

be proactive against competition. Capturing of strategic signals by competitors, Cross company comparison and monitoring of strategic moves, scored highly. Even though benchmarking and identification of rival strength scored relatively lower means, they have a lot of potential in helping companies identify rival advantages.

The second dimension is based on past empirical findings where, the high scores were based on dimensions of permanence, mobility and traceability that are considered along sustainable competitive advantage which enable a firm measure resilience toward competition, extent of transfer of resources between competing firms and ease of imitation by competitors respectively (Grant 1995). In addition, Hazen and Bryd (2012) pointed that logistics information technology innovation and combination of firm's resources enhances production of the firm against rivals. Further, Ning (2002) supports that these resources have evolved to be more intangible and that firm maximization on innovation, continuous improvement of business process and response to competition results to sustainable competitive advantage.

The current study findings on this variable agree with those of previous researches such as Kungu *et al.*, (2014); Ning (2012); which found that uniqueness against competition, continuous innovation and service differentiation against competitor were indicators of rival advantage. From the findings and explanations given on hypothesis two, the study makes an important contribution that, focus on benchmarking and monitoring of competitor activities are rival competitive advantages that affect sustainable competitive advantage. Also, previous studies such as Foon *et al.*, (2011) did not discuss how rival advantages related to Competitive Advantage as in the current study.

#### **4.4.2.4 Effect of exploitation of opportunities on competitive advantage**

The third hypothesis of the study sought to determine the effect of exploitation of opportunities on competitive advantage of commercial banks in Kenya. The hypothesis was stated in the null form as:

*H<sub>03</sub>: Exploitation of opportunities has no significant effect on competitive advantage among commercial banks in Kenya*

Exploitation of opportunities had a positive coefficient and significance at  $\beta=0.408$ ;  $p=0.000$ . The coefficient indicated that, with all the variables remaining constant, one unit increase in exploitation of opportunities would result to 0.408 unit increment in competitive advantage among commercial banks in Kenya. The findings of the study indicated a strong positive relationship between exploitation of opportunities and competitive advantage at  $p=0.00$ ;  $t=5.148$ . As a result the study rejected the null hypothesis and concluded that exploitation of opportunities had a positive effect on competitive advantage which was statistically significant.

The role of the exploitation of opportunities on competitive advantage is that of activities that enable firms discover opportunities in the environment. The descriptive findings as in table 4.6 show that commercial banks consider all the indicators on exploitation of opportunities where scanning of business environment; market segmentation of customer groups; building strong relationships with customers; product positioning by the bank and stakeholder participation ranked highly.

This indicates that the banks have given attention to strategic practices that seek to exploit external opportunities as a way of enhancing linkages with the external environment and so obtain a strategic fit. The result from the study findings, the strategic fitness attained, the high descriptive scores support the positive influence of exploitation of opportunities as a resource isolating strategy on sustainable competitive advantage among commercial banks. Based on previous studies such as, Jaketerina (2010); Iberg (2015); Chowtupalli and Raffi (2013) a positive relationship exists between competitive advantages, customer relationship, information technology resources, exploitation of opportunities and competitive advantage.

Chowtupalli and Raffi (2013) study asserted that resource configuration and organization identity were sources of competitive advantage practises that resulted to organization learning, knowledge management and innovation which are indicators of sustainable competitive advantage where resource configuration and organization identity serve as opportunities for firm to be rare and unique both internally and externally. Jekaterina (2010) further noted that strategic positioning of firms that entailed new product development based on company existing strengths and competitive advantages led to sustainable competitive advantage, similarly the study found out that banks considered environmental scanning, product positioning and market segmentation as indicators of exploitation of opportunities.

In relation to the above discussion, the study makes the following contribution: exploitation of opportunities through stakeholders and external environment has positive impact on strategic direction of competitive advantage. While the previous studies such

as Choi and Shepherd (2004) did not relate exploitation to performance outcomes which had the ability to explain how exploitation influences Sustainable Competitive Advantage, the current study expands on this variable by incorporating performance measure. The current study findings are supported by previous studies such as Iberg (2015); Jekaterina (2010) agree that segmentation of the markets and strategic positioning are strong attributes in exploitation of opportunities for competitive advantage.

#### **4.4.2.5 Effect of organizational capabilities on the relationship between resource isolating mechanism and competitive advantage**

Hypothesis four of the study sought to establish the mediating effect of organizational capabilities on the relationship between the resource isolating mechanism and competitive advantage. The hypothesis was presented in null form as:

*H<sub>04</sub>: There is no significant mediating effect of organizational capabilities on the relationship between resource isolating mechanism and competitive advantage among commercial banks in Kenya.*

This was conducted in four steps: The first step was to establish regression analysis of the composite of independent variables and the dependent variable. Where the composite index of the independent variables forming Resource Isolating Mechanism (that is, economic deterrence, Identification of Rival advantages and exploitation of opportunities were aggregated to form one composite variable). The second step involved establishment of regression analysis of composite of resource isolating mechanism and the mediator, organizational capabilities. The third step was the establishment of regression analysis of organizational capabilities and competitive advantage. The fourth

step was establishment of regression analysis of resource isolating mechanism, organizational capabilities and competitive advantage.

**Step 1: Conducting a simple regression analysis of composite of resource isolating mechanism affecting competitive advantage.**

**Table 4.13 Regression analysis for the composite of resource isolating mechanism affecting competitive advantage**

Model Summary <sup>b</sup>						
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson	
1	.755 <sup>a</sup>	.570	.567	.43545	2.088	
ANOVA <sup>a</sup>						
Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	31.984	1	31.984	168.677	.000 <sup>b</sup>
	Residual	24.081	127	.190		
	Total	56.065	128			
Coefficients						
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	.397	.275		1.443	.151
	Resource isolating mechanism	.878	.068	.755	12.988	.000

Source: Survey data (2017)

In step one, the constant ( $\beta_0$ ) was non-significant at  $\beta=0.397$ ;  $p > 0.05$ , indicating that if all factors remained constant, a unit increase in resource isolating mechanism would result to 0.397 unit increase in competitive advantage. The established equation was:

$$CA = 0.397 + 0.755RIM + \varepsilon \dots\dots\dots(3.2)$$

This indicates a positive relationship between resource isolating mechanism and competitive advantage. Resource isolating mechanism had a strong positive relationship with competitive advantage at  $p=0.00$

**Step 2: Conducting a simple regression analysis with composite of resource isolating mechanism affecting organizational capabilities**

**Table 4.14 Regression analysis for the composite of resource isolating mechanism affecting organizational capabilities**

Model Summary <sup>b</sup>						
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson	
1	.811 <sup>a</sup>	.657	.654	.39593	2.572	
ANOVA <sup>a</sup>						
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	38.148	1	38.148	243.353	.000 <sup>b</sup>
	Residual	19.908	127	.157		
	Total	58.056	128			
Coefficients						
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	.151	.250		.605	.546
	Resource isolating mechanism	.959	.061	.811	15.600	.000

Source: Survey data (2017)

In step two, the constant ( $\beta_0$ ) was non-significant at  $\beta=0.151$ ;  $p>0.05$  indicating that if all factors remained constant, a unit change in resource isolating mechanism would result to 0.151 unit change in organizational capabilities.

The established equation was:

$$OrgC = 0.151 + 0.811RIM + \varepsilon \dots\dots\dots(3.3)$$

This indicates a positive relationship between resource isolating mechanism and competitive advantage. Resource isolating mechanism had a strong positive relationship with organizational capabilities at  $p=0.00$ .

**Step 3: Conducting a simple regression analysis with organizational capabilities affecting competitive advantage**

**Table 4.15 Regression analysis for the relationship between organizational capabilities and competitive advantage**

Model Summary <sup>b</sup>						
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson	
1	.837 <sup>a</sup>	.700	.698	.36379	1.954	
ANOVA <sup>a</sup>						
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	39.258	1	39.258	296.644	.000 <sup>b</sup>
	Residual	16.807	127	.132		
	Total	56.065	128			
Coefficients <sup>a</sup>						
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	.634	.194		3.258	.001
	Organization competencies	.822	.048	.837	17.223	.000

Source: Survey data (2017)

In step three, the constant ( $\beta_0$ ) was significant at  $\beta=0.634$ ;  $p<0.05$ , indicating that if all factors remained constant, a unit change in organizational capabilities would result to 0.634 unit change in competitive advantage.

The established equation was:

$$CA = 0.634 + 0.837OrgC + \varepsilon \dots\dots\dots(3.4)$$

**Step 4: Conducting a regression analysis with composite of resource isolating mechanism and organizational capabilities affecting competitive advantage**

**Table 4.16 Regression analysis for the mediated relationship of resource isolating mechanism, organizational capabilities and competitive advantage**

Model Summary <sup>b</sup>						
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson	
1	.847 <sup>a</sup>	.718	.713	.35454	1.915	
ANOVA <sup>a</sup>						
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	40.227	2	20.113	160.013	.000 <sup>b</sup>
	Residual	15.838	126	.126		
	Total	56.065	128			
Coefficients <sup>a</sup>						
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
	(Constant)	.300	.224		1.336	.184
1	Resource isolating mechanism	.261	.094	.225	2.777	.005
	Organization capabilities	.643	.079	.655	8.098	.000

Source: Survey data (2017)

In step four, the constant ( $\beta_0$ ) was non-significant at  $\beta=0.300$ ;  $p>0.05$ , indicating that if all factors remained constant, a unit increase in resource isolating mechanism would result to 0.300 unit increment in competitive advantage.

The established equation was:

$$Y = 0.300 + 0.225 RIM + 0.655 OrgC - 0.53 (RIM * Org C) + \varepsilon \dots\dots\dots(3.5)$$

**Table 4.17 Summary of mediated relationship**

Parameter	Model 1: Direct relationship	Model 2: Mediator relationship	Model 3: Mediator and dependent	Model 4: Mediated relationship	P Value	change
$\beta$ RIM	0.755			0.225	0.005	-0.53
$\beta$ Organizational Capabilities		0.811	0.837	0.655	0.000	-0.156
R square	0.570	0.657	0.700	0.718		0.148
$\beta$ Constant	0.397	0.151	0.634	0.300	0.184	-0.097
F	168.677	243.353	296.644	160.013	0.000	-8.664

Source: survey data (2017)

From the above summary of findings, on the influence of independent variable, resource isolating mechanism declines by 0.53. when the mediating variable is introduced. The strength of the relationship (r square) increased by 14.8%. When index of independent variable is regressed against the dependent variable, the resulting  $R^2$  is 0.570 and  $\beta=0.755$ . When the index of the independent variable is introduced with the mediating variable present, the  $R^2$  becomes 0.657. When the index of the independent variable, the mediator variable and the dependent variable are regressed the  $R^2$  becomes 0.718 and the  $\beta$  RIM becomes 0.225. That is, as the  $R^2$  value increases, the index  $\beta$  value reduces.

The conclusion as to whether there is mediation or not, is done in line with the rule provided by MacKinnon, Fairchild and Fritz (2007) which states that, if both the direct and mediated relationships are significant, then there is evidence of mediation. If the treatment coefficient is zero when the mediator is included in the model, then the relationship is entirely mediated by the mediating variable. If, however, the absolute size of the direct effect between the independent variable and the dependent variable is reduced after controlling for the mediator the mediation effect is said to be partial.

According to this rule, the results of the test of hypothesis four show evidence of partial mediating effect by organizational capabilities on the relationship between resource isolating mechanism and competitive advantage. This indicates that  $H_{04}$  is not supported and the study therefore concludes that the strength of the relationship between resource isolating mechanism and competitive advantage depends on organizational capabilities derived from resource isolating mechanism.

The findings may be supported by several bases. The role of organizational capabilities is that of major competencies of an entity that enable its competitive advantage. First, the descriptive findings showed that respondents scored highly to statements on talented and professional workforce, multiple technologies and computerized process or business operations to a high extent. The descriptive findings agree with those of resource isolating mechanism where the commercial banks agreed to exploitation of opportunities in the business environment, opted for strategic fitness and considered technology in business operations although technology, being part of economic deterrence had no-significant relationship with CA.

It is observable that organizational capabilities derive from resource isolating mechanism. Unique business operations; assembling and integrating of valuable resources as a barrier for imitation of rivals and deployment of valuable resources as barrier for imitation of rivals has low scores and even though not considered by commercial banks could still be significant in mediation of relationship between resource isolating mechanism and CA.

Previous literature, forms the third basis. Sandberg and Abrahamson (2011) indicated that organizational capabilities such as capability portfolio, top management teams, had a positive relationship with competitive advantage. Therefore, supporting the findings on the role of organizational capabilities. In relation with the study various resources such as human resources, technology were used to test organizational capabilities among commercial banks in Kenya.

Korhonen and Niemelä,( 2005) study on the identification and classification of sources of competitive advantage found out the need for organization resources to be rare among

competitors, valuable, inimitable and hard to substitute so as to enable identification of desired capability portfolio. This is in line with resource based view hypothesis which anchors resource isolating mechanism and shows mediator is related to the resource isolating mechanism.

Relying on the discussion above the study makes the contribution that uniqueness of organizational capabilities in terms of human resource and technology explain the influence of RIM on Competitive Advantage. This was supported by previous study by Gitonga, Kilika and Obere, (2016) which concluded that the firm should retain employees with right skills to sustain competitive advantage.

The previous studies have not tested organizational capabilities as a mediator in the relationship between RIM and CA. This study has shown that there exists a mediating effect of organizational capabilities on the relationship between RIM and CA. This confirms the findings of previous studies such as Foon (2011); Sandberg *et al.*, (2011); Korhonen *et al.*, (2005) which recommended identifying and deployment of dynamic capabilities to sustain competitive advantage.

#### **4.4.2.6 Moderating effect of management characteristics on the relationship between resource isolating mechanism and competitive advantage.**

Hypothesis five of the thesis aimed to determine the moderating effect of management features on the relationship between the resource isolating mechanism and competitive advantage. This hypothesis was stated in null form as:

*H<sub>05</sub>: There is no significant moderating effect of management characteristics on the relationship between resource isolating mechanism and competitive advantage among commercial banks in Kenya.*

Hypothesis testing was done in three steps: The beginning step was to establish regression analysis of the composite of independent variables and the dependent variable. The second step was the establishment of regression analysis of management characteristics and competitive advantage. The third step was establishment of regression analysis of the moderated relationship of resource isolating mechanism, management characteristics and competitive advantage

**Step 1: Conducting a simple regression analysis of resource isolating mechanism composite affecting competitive advantage.**

**Table 4.18 Regression analysis for the composite of resource isolating mechanism affecting competitive advantage**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson	
1	.755 <sup>a</sup>	.570	.567	.43545	2.088	
ANOVA <sup>a</sup>						
Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	31.984	1	31.984	168.677	.000 <sup>b</sup>
	Residual	24.081	127	.190		
	Total	56.065	128			
Coefficients <sup>a</sup>						
		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
Model		B	Std. Error	Beta		
1	(Constant)	.397	.275		1.443	.151
	Resource isolating mechanism	.878	.068	.755	12.988	.000

Source: Survey data (2017)

In step one, the constant ( $\beta_0$ ) was non-significant at  $\beta=0.397$ ;  $p>0.05$ , indicating that if all factors remained constant, a unit increase in resource isolating mechanism would result to 0.397 unit increase in competitive advantage.

The established equation was:

$$CA = 0.397 + 0.755RIM + \varepsilon \dots\dots\dots(3.6)$$

This indicates a positive crucial relationship between resource isolating mechanism and competitive advantage at  $p=0.00$ .

**Step 2: Conducting a simple regression analysis with Management characteristics affecting competitive advantage**

**Table 4.19 Regression analysis for relationship between Management Characteristics and competitive advantage**

Model Summary <sup>b</sup>						
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson	
1	.726 <sup>a</sup>	.527	.523	.45700	1.954	
ANOVA <sup>a</sup>						
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	29.541	1	29.541	141.450	.000 <sup>b</sup>
	Residual	26.524	127	.209		
	Total	56.065	128			
Coefficients <sup>a</sup>						
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)		1.584	.202	7.846	.000
	Management characteristics	.588	.049	.726	11.893	.000

Source: Survey data (2017)

In step two, the constant ( $\beta_0$ ) was significant at  $\beta=1.584$ , indicating that if all factors remained constant, a unit rises in management characteristics would result to 1.584 unit rise in competitive advantage. The constant was significant at  $p=0.00$ .

The established equation was:

$$CA = 1.584 + 0.726 \text{ MngC} + \varepsilon \dots\dots\dots(3.7)$$

This indicates a strong positive relationship between competitive advantage features and management characteristics at  $p=0.00$ .

**Step 3: Conducting a regression analysis with Resource isolating mechanism and Management characteristics affecting competitive advantage**

**Table 4.20 Regression analysis for moderated relationship between resource isolating mechanism, management characteristics and competitive advantage**

Model Summary <sup>b</sup>						
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson	
1	.801 <sup>a</sup>	.642	.636	.39903	1.988	
ANOVA <sup>a</sup>						
Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	36.003	2	18.001	113.058	.000 <sup>b</sup>
	Residual	20.062	126	.159		
	Total	56.065	128			
Coefficients <sup>a</sup>						
Model	Unstandardized Coefficients			Standardized Coefficients	t	Sig.
	B	Std. Error	Beta			
1	(Constant)	.434	.252		1.720	.088
	Management characteristics	.309	.061	.381	5.024	.000
	Resource isolating mechanism	.562	.088	.484	6.370	.000

Source: Survey data (2017)

In step three, the constant ( $\beta_0$ ) was non-significant at 0.434;  $p>0.05$ , indicating that if all factors of management characteristics remained constant at zero, it would result to 0.434 unit increase in competitive advantage. The constant was non-significant at  $p=0.00$

The established equation was:

$$CA = 0.434 + 0.484 RIM + 0.381 MngC - 0.274 (RIM * MngC) + \varepsilon \dots\dots\dots (3.8)$$

This indicates a strong positive (+ve) relationship between relationship between resource isolating mechanism, management characteristics and CA at p=0.00.

**Table 4.21 Summary of moderator (management characteristics) relationship**

Parameter	Model 1: Direct relationship	Model 2: Moderator relationship	Model 3: Moderated relationship	P Value	Change
β Resource Isolating Mechanism	0.755		0.481	0.000	-0.274
β Management Characteristics		0.726	0.381	0.000	-0.345
R Square	0.570	0.527	0.642		0.072
β Constant	0.397	1.584	0.434	0.088	-0.309
F	168.677	141.450	113.058	0.000	-55.712

Origin: survey data (2017)

Table 4.21 presents the summary of findings of moderating impact of management characteristics on the relationship of the resource isolating mechanism and CA. The influence of management characteristics on the relationship between resource isolating mechanism and competitive advantage reduced by 0.27 units. The strength of the relationship (r square) increases by 7.2%. The model was fit at F=113.058; p<0.05. When index of independent variable is regressed against the subject variable the resulting R<sup>2</sup> is 0.570 and β=0.755.

When the index of the autonomous variable is introduced when the moderating variable is present, the R<sup>2</sup> becomes 0.527 and the β RIM becomes 0.726 When the index of the independent variable, the moderator variable and the dependent variable are regressed the R<sup>2</sup> becomes 0.642 and the β RIM becomes 0.481. According to Fairchild and MacKinnon (2009), moderator is said to be an explanatory variable if the coefficient

changes from significance to non-significance. However, the moderator is said to have moderating effect if the interaction coefficients remains significant.

Based on this criteria, management characteristics has a moderating effect on the relationship between resource isolating mechanism and competitive advantage indicating the relationship between resource isolating mechanism and competitive advantage is conditioned by management characteristics and as a result, the research rejected the null hypothesis and concluded that management characteristic had a moderating effect on the relationship between resource isolating mechanism and competitive advantage.

Several bases support these findings, from the descriptive findings, indicators of change, system and future orientation were ranked highly. The variable of management characteristics focused on team concerned in making decisions of the firm. From the findings the strength of the relationship between resource isolating mechanism used by commercial banks is increased when it is conditioned by management characteristics. Among the commercial banks, indicators of change, system oriented and future oriented characteristics scored highly as compared to market opportunistic, transformational and environmental focused management characteristics indicating that these may be significant in a different industry other than banking.

The current study findings on management characteristics agree with previous studies such as Onuonga (2014); Khandekar and Sharma (2005); Ramadan (2010) on management characteristics where respondents agreed to items such as environmental focus such as both internal and external advancements which could be in technology and human resource capabilities. Based on discussion above, the study makes contribution

that: initiators to change, future orientation and system orientation are part of knowledge organization techniques that influence the relationship between resource isolating mechanism and sustainable competitive advantage. The current study used management characteristics as a moderator and exhibit evidence of moderating influence.

#### **4.4.2.7 Moderating effect of external environment on the relationship between resource isolating mechanism and competitive advantage**

Hypothesis six of the thesis sought to determine the moderating effect of external environment on the relationship between the resource isolating mechanism and competitive advantage. This was stated in the null form as:

*H<sub>0i6</sub>: There is no significant moderating effect of external environment on the relationship between resource isolating mechanism and competitive advantage among commercial banks in Kenya.*

The hypothesis testing was conducted in three steps where: The first step was to establish regression analysis of the composite of independent variables and the dependent variable. The second step was the establishment of regression analysis of external environment and competitive advantage and the third step was establishment of regression analysis of the moderated relationship of resource isolating mechanism, external environment and competitive advantage.

**Step 1: Conducting a simple regression analysis of composite of resource isolating mechanism affecting competitive advantage.**

**Table 4.22 Regression analysis for relationship between resource isolating mechanism and competitive advantage**

Model Summary <sup>b</sup>						
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson	
1	.755 <sup>a</sup>	.570	.567	.43545	2.088	
ANOVA <sup>a</sup>						
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	31.984	1	31.984	168.677	.000 <sup>b</sup>
	Residual	24.081	127	.190		
	Total	56.065	128			
Coefficients <sup>a</sup>						
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	.397	.275		1.443	.151
	Resource isolating mechanism	.878	.068	.755	12.988	.000

Source: Survey data (2017)

In step one, the constant ( $\beta_0$ ) was 0.397. Indicating that if all factors remained constant, a unit increase in resource isolating mechanism would result to 0.397 unit increment in competitive advantage. However, the constant was non-significant at  $p > 0.05$ .

The established equation was:

$$CA = 0.397 + 0.755RIM + \varepsilon \dots\dots\dots (3.9)$$

This indicates a positive relationship between resource isolating mechanism and competitive advantage. Resource isolating mechanism had a strong positive relationship with competitive advantage at  $p = 0.00$ . The model was fit at  $F = 168.77$ ;  $p = 0.00$ .

**Step 2: Conducting a simple regression analysis with external environment affecting competitive advantage**

**Table 4.23 Regression analysis for relationship between external environment and competitive advantage**

Model Summary <sup>b</sup>						
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson	
1	.260 <sup>a</sup>	.068	.060	.65392	2.554	
ANOVA <sup>a</sup>						
Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	3.798	1	3.798	8.881	.003 <sup>b</sup>
	Residual	52.169	122	.428		
	Total	55.966	123			
Coefficients <sup>a</sup>						
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	3.051	.305	9.997		.000
	External environment	.251	.084	.260	2.980	.003

Source: Survey data (2017)

In step two, the constant ( $\beta_0$ ) was 3.051, indicating that if all factors remained constant, a unit increase in external environment would result to 3.051 unit increment in competitive advantage. The constant was significant at  $p=0.00$ .

The established equation was:

$$CA = 3.051 + 0.260 EEnv + \varepsilon \dots\dots\dots(3.10)$$

This indicates a strong positive (+ve) relation between external environment and competitive advantage at  $p<0.05$ . The model was fit at  $F=8.881$ ;  $p<0.05$ .

**Step 3: Conducting a regression analysis with resource isolating mechanism and external environment affecting competitive advantage**

**Table 4.24 Regression analysis for moderated relationship between resource isolating mechanism, external environment and competitive advantage**

Model Summary <sup>b</sup>						
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson	
1	.778 <sup>a</sup>	.605	.598	.42762	2.025	
ANOVA <sup>a</sup>						
Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	33.840	2	16.920	92.530	.000 <sup>b</sup>
	Residual	22.126	121	.183		
	Total	55.966	123			
Coefficients <sup>a</sup>						
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	.183	.300		.611	.542
	Resource isolating mechanism	.930	.073	.777	12.818	.000
	External environment	.003	.058	.003	.043	.966

Source: Survey data (2017)

In step three, the constant ( $\beta_0$ ) was 0.183, indicating that if all factors remained constant at zero, competitive advantage would increase by 0.183 units. The constant was non-significant at  $p=0.542$ .

The established equation was:

$$CA = 0.183 + 0.777 RIM + 0.003 EEnv + 0.022 (RIM * EEnv) + \varepsilon \dots\dots\dots (3.11)$$

This indicates a positive relationship between resource isolating mechanism and competitive advantage at  $p < 0.05$ . There was however no relationship between external environment and competitive advantage.

**Table 4.25 Summary of moderated relationship between resource isolating mechanism, external environment and competitive advantage**

<b>Parameter</b>	<b>Model 1: Direct Relationship</b>	<b>Model 2: Moderator Relationship</b>	<b>Model 3: Moderated Relationship</b>	<b>P Value</b>	<b>Change</b>
$\beta$ RIM	0.755		0.777	0.000	0.022
$\beta$ External environment		0.260	0.003	0.966	0.26
R square	0.570	0.068	0.605		0.035
$\beta$ Constant	0.397	3.051	0.183	0.000	-.241
F	168.677	8.881	92.530	0.000	-76.147

Source: Researcher (2017)

Table 4.25 presents the summary of the moderating effect of external environment on the relationship between resource isolating mechanism and competitive advantage. From the above summary of findings, the work of external environment on the relationship between resource isolating mechanism and competitive advantage reduces by 0.022 units. The strength of the relationship (r square) increases by 3.5%. The model was fit at  $F=113.058$ ;  $p<0.05$ . When index of independent variable was regressed against the dependent variable the resulting  $R^2$  is 0.570 and  $\beta=0.755$ .

When the index of the independent variable was introduced when the moderating variable is present, the  $R^2$  becomes 0.068 and the  $\beta$  RIM becomes 0.260, when the index of the independent variable, the moderator variable and the subject variable are regressed the  $R^2$  becomes 0.605 and the  $\beta$  RIM becomes 0.777. The moderating effect is positive; however, it is non-significant. As a result the null hypothesis was supported and it was therefore reasoned out that external environment has no moderating effect on the relationship between resource isolating mechanism and competitive advantage.

However from the study finding, external environment variable was found to be an explanatory variable. According to Fairchild and MacKinnon (2009), moderator is said to be an explanatory variable if the coefficient changes from significance to non-significance. From the several bases, external environment has not been used to test moderation, however the study adds contribution that external environment has the role of explanatory variable in the relationship between resource isolating mechanism and CA.

Based on the descriptive findings, technological factors and government regulations scored highly as compared to other indicators of external environment. This implies that the ability of commercial banks to implement RIM is explained by technological factors and government regulations. Cultural and religious factors, social factors, level of unemployment and inflation are other factors that have a explanatory effect but is of little impact among commercial banks in Kenya.

Management cognition theory supports that timely adjustment of mental models by top management enables linkage between the external environment and organization strategy. Hence organization renewal and understanding of this environment facilitates decision making and resource allocation. Where the external environment is uncontrollable and hence adjustment on the forces ensures firm sustainability in competitive environment.

The current study findings on external environment is supported by previous findings such as Srivastava *et al.*, (2013); Ong *et al.*, (2008) which found out that technological aspect of firms and long-term perspective in building resources from immediate environment were strong determinants of sustainable competitive advantage. Ong and

Ismail (2008) study found that information technology competence of the entrepreneur yields competitive advantage of the firm where continued competence results to increased competitive advantage.

#### 4.4.3 Summary of Hypotheses Testing

The table below gives a summary of the hypotheses test findings.

**Table 4.26 Results of Findings of Hypothesis tests**

<b>Objective</b>	<b>Hypothesis</b>	<b>Result</b>	<b>Decision</b>
To determine the effect of economic deterrence on the competitive advantage among Commercial Banks in Kenya.	<b>H<sub>01</sub></b> : Economic deterrence has no significant effect on the competitive advantage among Commercial Banks in Kenya.	P = .987 $\beta_1 = -0.01$	The study failed to reject H <sub>01</sub> since $\beta_1$ was found to be statistically not different from zero, $p > 0.05$
Determine the effect identification of rival competitive advantages on competitive advantage among Commercial Banks in Kenya.	<b>H<sub>02</sub></b> : Identification of rival competitive advantages has no significant effect on the competitive advantage among Commercial Banks in Kenya.	P = 0.000 $\beta_2 = 0.442$	The study rejected H <sub>02</sub> since $\beta_2$ was found to be statistically different from zero, $p < 0.05$
To determine the effect of exploitation of opportunities on competitive advantage among Commercial Banks in Kenya.	<b>H<sub>03</sub></b> : Exploitation of opportunities does not have significant effect on the competitive advantage among Commercial Banks in Kenya	P = 0.000 $\beta_3 = 0.408$	The study rejected H <sub>03</sub> since $\beta_3$ was found to be statistically different from zero, $p < 0.05$
To determine the mediating effect of organizational capabilities on the relationship between resource isolating mechanism and competitive advantage among Commercial Banks in Kenya.	<b>H<sub>04</sub></b> : Organizational capabilities does not have significant mediating effect on the relationship between resource isolating mechanism and competitive advantage among Commercial Banks in Kenya.	Stage one: P = 0.000 $\beta_1^* = 0.755$ $p < 0.05$ Stage two: P = 0.000 $\beta_1^* = 0.811$ $p < 0.05$ Stage three: P = 0.000 $\beta_4 = 0.837$ $p < 0.05$ Stage four: P = 0.184	The study rejected H <sub>04</sub> since the change in coefficients indicated partial mediation effect.

		$\beta_1^* = 0.225$ $p > 0.05$	
Establish the moderating effect of Management characteristics on the relationship between resource isolating mechanism and competitive advantage among Commercial Banks in Kenya.	<b>H<sub>05</sub>:</b> Management characteristics does not have significant moderating effect on the relationship between resource isolating mechanism and competitive advantage among Commercial Banks in Kenya.	Stage one: P = 0.000 $\beta_1^* = 0.755$ $p < 0.05$ Stage two: P = 0.000 $\beta_5 = 0.726$ $p < 0.05$ Stage three: P = 0.000 $\beta_1^* = 0.381$ $p < 0.05$	The study rejected H <sub>05</sub> since $\beta_5$ was found to be statistically different from zero, $p < 0.05$
To determine the moderating effect of the external environment on the relationship between resource isolating mechanism and competitive advantage among Commercial Banks in Kenya.	<b>H<sub>06</sub>:</b> External environment does not have significant moderating effect on the relationship between the resource isolating mechanism and competitive advantage among Commercial Banks in Kenya.	Stage one: P = 0.000 $\beta_1^* = 0.755$ $p < 0.05$ Stage two: P = 0.003 $\beta_6 = 0.260$ $p < 0.05$ Stage three: P = 0.966 $\beta_1^* = 0.003$ $p > 0.05$	The study failed to reject H <sub>06</sub> since the change in coefficients indicated explanatory effect rather than moderating effect.

Source: Author (2017)

#### 4.5 Qualitative Data Analysis

Table 4.27 discusses the qualitative analysis:

**Table 4.27 Qualitative Data Analysis**

<b>Factor</b>	<b>Description</b>
<b>Any other investments the bank would employ to sustain competitive advantage</b>	Most of the respondents opined that commercial banks should embrace digital capabilities to enhance employees experience in order to achieve competitive advantage.
<b>Other things that the bank should do to identify rival advantages</b>	Most of the respondents were of the opinion that to attain sustainable competitive advantage, the banks should widen the scope of competitors' analysis to include global banks and trend could be an added advantage
<b>Other capabilities the bank has other than the above mentioned</b>	The respondents emphasised that the banks should embrace professionalism and integration of valuable resources and also should build strong organizational culture of customer centricity.
<b>Any other characteristics top management of this bank possess than the ones mentioned</b>	Most of the respondents agreed that human resource management capability was an additional benefit to management characteristics
<b>Other external environment variable that have impact on the operations of the bank</b>	Some of the respondents felt that commercial banks should be sensitive on global trends, regulations and standards for survival in the industry.
<b>Other measures that can be adopted by the bank in order to gain SCA over its competitors</b>	Some of the respondents suggested that commercial banks should continuously review their profitability and performance.

Source: survey data (2017)

Table 4.27 agrees with both the descriptive and inferential findings which agreed that there existed a connection between resource isolated mechanism on competitive advantage. The findings validate the argument by the various works such as, Gitonga *et*

*al.*, (2016); Sandberg *et al.* (2011); Zekeri *et al.*, (2012) that competitive advantage is driven by resource isolating mechanism.

Qualitative finding also agree with the findings by various scholars works like Kung, *et al.*, (2014),and Ong, *et al.*, ((2008) that the firms should improve their business systems and processes, should be customer focused, should improve the skills of the employees and also continuously enhance the ICT capabilities to competitive advantage sustainability.

The study results was with agreement with the work conducted by Srivastava, *et al.*, (2013) that a firms should be sensitive to other external factors such as globalization, joint ventures and digitilization to enable the firms compete effectively.

The current sudy is with agreement with the previous study result like Gaya, *et al.*, (2013) and Mutunga, *et al.*, (2014), that the firm must possess bundle of resources and be able to integrate valuable resources to sustain competitive advantage.

## CHAPTER FIVE

### SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

#### 5.1 Introduction

This chapter discusses the summary, conclusions and recommendations drawn from the thesis findings and recommendation for future research.

#### 5.2 Summary

The aim of the research was to establish effect of resource isolating mechanism on competitive advantage among commercial banks in Kenya. The general objective of this study sought to determine whether there has significant effect of resource isolating mechanism on competitive advantage. The specific objectives of this study were to determine the effect of economic deterrence, identification of rival competitive advantage and exploitation of opportunities on competitive advantage among commercial banks in Kenya.

The study also sought to establish the mediating effect of organizational capabilities, the moderating effect of management characteristics and external environment on the relationship between resource isolating mechanism and competitive advantage. The study consisted of six objectives which were answered and discussed in chapter four of the study. The study findings consisted of descriptive and inferential statistics. Descriptive statistics included respondent bio data, industry characteristics, and variation of respondent responses. Inferential statistics included test of hypotheses.

The thesis data was gathered from a sample of 129 respondents majorly comprising of selected managers from the key banks' departments of Finance, Sales and Marketing,

Operations and Strategy. The bank category were: tier 1, tier 2 and tier 3 banks. The research assumed positivism research philosophy, descriptive and explanatory research design and purposive sampling technique. The study results found a positive relationship between resource isolating mechanism and competitive advantage.

First objective of this research sought to determine the effect of economic deterrence on sustainable competitive advantage. The study established that there is no significant effect of economic deterrence on competitive advantage among commercial banks in Kenya. Objective two of this research sought to determine the effect of identification of rival competitive advantage on SCA among commercial banks in Kenya. The results on objective two indicated that there was significant effect of identification of rival competitive advantage on competitive advantage among commercial banks in Kenya.

Third objective of the research sought to establish the effect of exploitation of opportunities on CA. The third hypothesis was meant to address this objective by testing the effect of exploitation of opportunities on CA among Kenyan commercial banks. The study established that exploitation of opportunities had a significant effect on competitive advantage. Fourth objective of the research sought to determine the mediating effect of organizational capabilities on the relationship between resource isolating mechanism and competitive advantage.

Fourth hypothesis addressed this objective by testing the mediating effect of organizational capabilities on the relationship between resource isolating mechanism and competitive advantage among commercial banks in Kenya. Findings on the fourth

objective indicated that organizational capabilities had a partial mediating effect on the relationship between resource isolating mechanism and competitive advantage.

The fifth objective sought to establish the moderating effect of management characteristics on the relationship between resource isolating mechanism and competitive advantage. The fifth null hypothesis answered this objective by testing the moderating effect of management characteristics on the relationship between resource isolating mechanism on competitive advantage. Results of the hypothesis five found out that as the  $R^2$  value increases, the  $\beta$  value for the composite index of resource isolating mechanism decreases. The study findings established that management characteristics has a moderating influence on the relationship between resource isolating mechanism and competitive advantage.

Sixth objective sought to determine the moderating effect of the external environment on the relationship between resource isolating mechanism on competitive advantage. The sixth hypothesis addressed this objective by examining the moderating effect of external environment on the relationship between resource isolating mechanism and competitive advantage. The study established that external environment has no moderating effect on the relationship between resource isolating mechanism and competitive advantage.

### **5.3 Conclusions**

The objective of the study was to determine the effect of resource isolating mechanism on competitive advantage among Commercial Banks in Kenya. Relying on the study findings, the study makes several conclusions. Findings on research objective one indicated that economic deterrence was not statistically significant and had a negative

effect on competitive advantage. Regarding the research finding on objective two relating to identification of rival competitive advantage, it was found to be significant and had a positive relationship with SCA. In regard to objective three, the study found that exploitation of opportunities was significant and had effect on competitive advantage.

Regarding the fourth objective of the study, the researcher found that there was mediating effect of organizational capabilities on the relationship between resource isolating mechanism and competitive advantage. The findings on research objective five revealed that management characteristics had a positive effect on the relationship between resource isolating mechanism and CA among commercial banks in Kenya. Regarding the sixth objective, the study concluded that external environment had no moderating effect on the relationship between resource isolating mechanism and competitive advantage, but instead it was found that it had explanatory effect.

In conclusion, the study found that identification of rival advantages and exploitation of opportunities are indicators of competitive advantage among commercial banks in Kenya. Organizational capabilities influence the relationship between resource isolating mechanism and CA. The relationship between resource isolating mechanism and competitive advantage is moderated by management characteristics and forces in the external environment.

#### **5.4 Contribution of the Study to Knowledge**

This thesis contributes to the body of knowledge in the following ways: The study sought to establish the effect of resource isolating mechanism on competitive advantage among commercial banks in Kenya. It provides an understanding of how resource isolating

mechanism behave in banking sectors. Secondly, the study integrated various components of resource isolating mechanism in a single study to demonstrate their contribution and developed empirical models which were used for inferential analysis.

Thirdly, the empirical studies focused on resources of the firm as sources of competitive advantage. The current study focuses on the resource isolating mechanism a firm should adopt to sustain competitive advantage. The study adds to the existing knowledge that there exists positive relationship between resource isolating mechanism and competitive advantage among commercial banks in Kenya. Organizational capabilities variable in this study was used as a mediator, while management characteristics as well as external environment were used as moderators of the relationship between resource isolating mechanism and competitive advantage.

Fourth, the current study supports the RBV theory that emphasizes on unique resources as a source of sustainable competitive advantage. The current study adds to the existing knowledge integration of both physical and human assets are essential in creation and sustainability of competitive advantage. The current study is also in agreement of KBV Theory that argues that identifying of rival competitive advantage is acquired through selection of highly knowledgeable individuals for development of collective values and facilitate transfer of knowledge.

Lastly, the current study supports the institutional theory that scanning of environment, stakeholder participation and relationship building enhances sustainable competitive

advantage. The current study also supports the managerial cognition theory that the ability of commercial to employ talented and professional workforce, multiple technologies depends on management cognitive ability of effective decision making.

## **5.5 Recommendations**

The study found a positive effect of resource isolating mechanism on competitive advantage. This study findings makes several recommendations. Firstly, management who are involved in making decisions and reviewing of the policy should consider formulation and implementation of strategies which are future oriented and flexible such that the changes in the external environment especially changes in technology are taken care of.

Secondly, the finance, operations and marketing should work together as a team to ensure that the resources of the banks are well utilized for the success of the bank. Commercial banks should consider allocation of more resources on the strategies such as benchmarking, cross company comparison and monitoring of competitors moves which helps the bank to identify the rivals' competitive advantage for these activities were found to bestow attainment of competitive advantage of the commercial banks.

Thirdly, the study found that engaged of qualified and competent works contributed to sustainability of competitive advantage. Therefore, the commercial banks management should build and develop staff talents to enable production of quality and valuable products or services in order to sustain competitive advantage. Fouthly, from the study finding, such aspects of exploitation of opportunities such as scanning of business

environment; market segmentation of customer groups; building strong relationships with customers; product positioning and stakeholder participation were found to sustain competitive advantage. From the study finding, the commercial bank management should put more emphasis on advertisements and promotion the banks' products.

Lastly, based on the study findings and conclusions, which found out a positive effect of resource isolating mechanism on competitive advantage, the study makes recommendations to policy makers that first, it is important for managers in various firms especially in the Kenyan banking sector and other developing countries to embrace resource isolating mechanism as a strategy for sustainability of their competitive advantage for survival in the banking industry. The study also recommends that the government and organizational policy makers use the findings to formulate and develop identification of rival competitive advantage and exploitation of opportunities strategies for implementation in both public and private sectors.

## **5.6 Recommendations for Future Research**

The current study sought to establish the effect of resource isolating mechanism on sustainable competitive advantage among commercial banks in Kenya. The study concentrated on commercial banks in Kenya. Similar study could be conducted on other commercial banks in developing countries especially in Africa to gather more information on the effect of resource isolating mechanism and sustainable competitive advantage.

This study used external environment as a moderator between resource isolating mechanism and sustainable competitive advantage. The study found that external

environment did not have moderating effect but explanatory one. Also economic deterrence was found to have negative effect on sustainable competitive advantage. This study recommends further study on external environment and economic deterrence variables in order to compare result findings of this current study.

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## APPENDICES

### APPENDIX I: LETTER TO RESPONDENTS

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Dear Sir/Madam,

I am a Kenyatta university student, taking a Doctorate Degree in B.A (Business Administration), specialising in Strategic Management. As a partial fulfilment of award of the Degree, I am required to conduct a research on my area of study.

I humbly request you to complete the attached questionnaire and give truthful information as possible to the best of your knowledge. The information that will be obtained from this questionnaire will be used for academic purposes only and your responses be kept confidential.

Thank you.

Yours faithfully,

**Purity Ndegwa**  
**Researcher.**

## APPENDIX II: QUESTIONNAIRE

The main purpose of this questionnaire is to collect data on “*Resource Isolating Mechanism and Competitive Advantage among Commercial Banks in Kenya*”. Please reply by ticking appropriately in the boxes given or by writing a short statement in the provided spaces.

### SECTION A: BIOGRAPHIC DATA

1. Please indicate your sex/gender                      Male ( ) Female ( )
  
2. Number of service years worked in current bank  
(Tick as appropriate)
  - I. < one year
  - II. one–two years
  - III. three-five years
  - IV. six-ten years
  - V. Above ten years
  
3. Age (Tick as appropriate)
  - a. under twenty one years
  - b. twenty one-thirty years
  - c. thirty one-forty years
  - d. forty one-fifty years
  - e. Over fifty years
  
4. Educational Qualification (Tick appropriately)
  - a) Certificate
  - b) Diploma
  - c) Degree
  - d) Masters
  - e) Others (specify)
  
5. Bank name (Optional) .....

**SECTION B: STATEMENTS ON RESOURCE ISOLATING MECHANISM VARIABLES**

The questions in this section are on the mechanism the bank has put in place to protect against imitation of its advantages by rivals in the industry. For each of the statements, respond in the scale of 1-5 where:

- 1 – No extent**
- 2 – Little extent**
- 3 – Restrained extent**
- 4 – High extent**
- 5 – Extremely high extent**

<b>(a) Economic Deterrence</b>						
<b>S/No.</b>	<b>Statement</b>	<b>5</b>	<b>4</b>	<b>3</b>	<b>2</b>	<b>1</b>
6.	The bank has invested heavily on its capital base beyond the statutory cash reserve requirement of 5.25% or Kshs. 122.8 billion.					
7.	The bank has invested huge percentage of resources on unique business processes.					
8.	The bank has acquired intellectual property rights for all its inventions.					
9.	The bank has invested in the employment of highly qualified and competent workers in all categories.					
<p><b>10. Please comment on any other investments the bank would employ to sustain competitive advantage</b></p> <hr/> <hr/>						
<b>(b) Identification of Rival Advantages</b>						
<b>S/No.</b>	<b>Statement</b>	<b>5</b>	<b>4</b>	<b>3</b>	<b>2</b>	<b>1</b>
11.	The bank progressively benchmarks to learn from others in this industry.					
12.	The bank attempts to identify the sources of strengths for other banks in this industry.					
13.	The bank tries to capture strategic signals by competitors.					

14.	The bank constantly makes cross-company comparisons.					
15.	The bank monitors competitors identify their strategic moves.					
<b>16. Please comment on anything else the bank need to do to identify rival advantages</b>						
_____						
_____						
<b>(c) Exploitation of Opportunities</b>						
<b>S/No.</b>	<b>Statement</b>	<b>5</b>	<b>4</b>	<b>3</b>	<b>2</b>	<b>1</b>
17.	The bank constantly scans the external environment to identify new business opportunities					
18.	The bank segments its market into specific customer groups.					
19.	The bank has a strategy for building strong relations with customers.					
20.	The bank has positioned its products well in the market.					
21.	The bank considers relevant stakeholders and involves them in decision making.					
<b>22. In your own view, what other options are available to the bank for exploitation of the opportunities in the external environment.</b>						
_____						
_____						
<b>(d) Organizational Capabilities</b>						
<b>S/No.</b>	<b>Statement</b>	<b>5</b>	<b>4</b>	<b>3</b>	<b>2</b>	<b>1</b>
	<i>Over the last five years the bank has been able to build Organizational Capabilities in:</i>					
23.	Talented, competent and professional workforce					
24.	Unique resources.					
25.	Assembling, integrating and deploying valuable resources as a barrier for imitation by rivals.					
26.	Integrating multiple technologies to create new products.					
27.	Computerized processes.					
<b>28. Please comment on other capabilities the bank has other than the above mentioned</b>						
_____						
_____						
<b>(e) Management Characteristics</b>						
<b>S/No.</b>	<b>Statement</b>	<b>5</b>	<b>4</b>	<b>3</b>	<b>2</b>	<b>1</b>
	<i>How would you describe the Management Characteristics of this</i>					

	<i>bank:</i>						
29.	As initiators of change.						
30.	As futuristic oriented.						
31.	As market opportunity driven.						
32.	As system oriented.						
33.	As transformational.						
34.	As environmental oriented.						
<b>35. What other characteristics top management of this bank other than the ones mentioned above?</b>							
_____							
_____							
<b>(f) External Environment</b>							
<b>S/No.</b>	<b>Statement</b>	<b>5</b>	<b>4</b>	<b>3</b>	<b>2</b>	<b>1</b>	
	<i>How would describe to what extent the factor in the external environment have affected the operations of the bank:</i>						
36.	Political instability.						
37.	Social, cultural and religious factors.						
38.	Technological factors.						
39.	Government regulations on certain requirements, restrictions and guidelines on minimum capital ratio/reserves, disclosure of financial and other information, requirement of licenses and supervision.						
40.	The level of unemployment and inflation in Kenya.						
<b>41. Please comment on other external environment factors that have affected the operations of the bank</b>							
_____							
_____							
<b>( f ) Competitive advantage</b>							
<b>S/No.</b>	<b>Instruction/statement</b>	<b>5</b>	<b>4</b>	<b>3</b>	<b>2</b>	<b>1</b>	
	<i>How would you describe the state of performance of the bank in the last five years in term of:</i>						
42.	Earning above average profits.						
43.	Achieve public reputation.						
44.	Market share leader						
45.	Relative competitive position.						
46.	Public image						
47.	Consistently recognized as the Bank of the Year/Best Bank.						

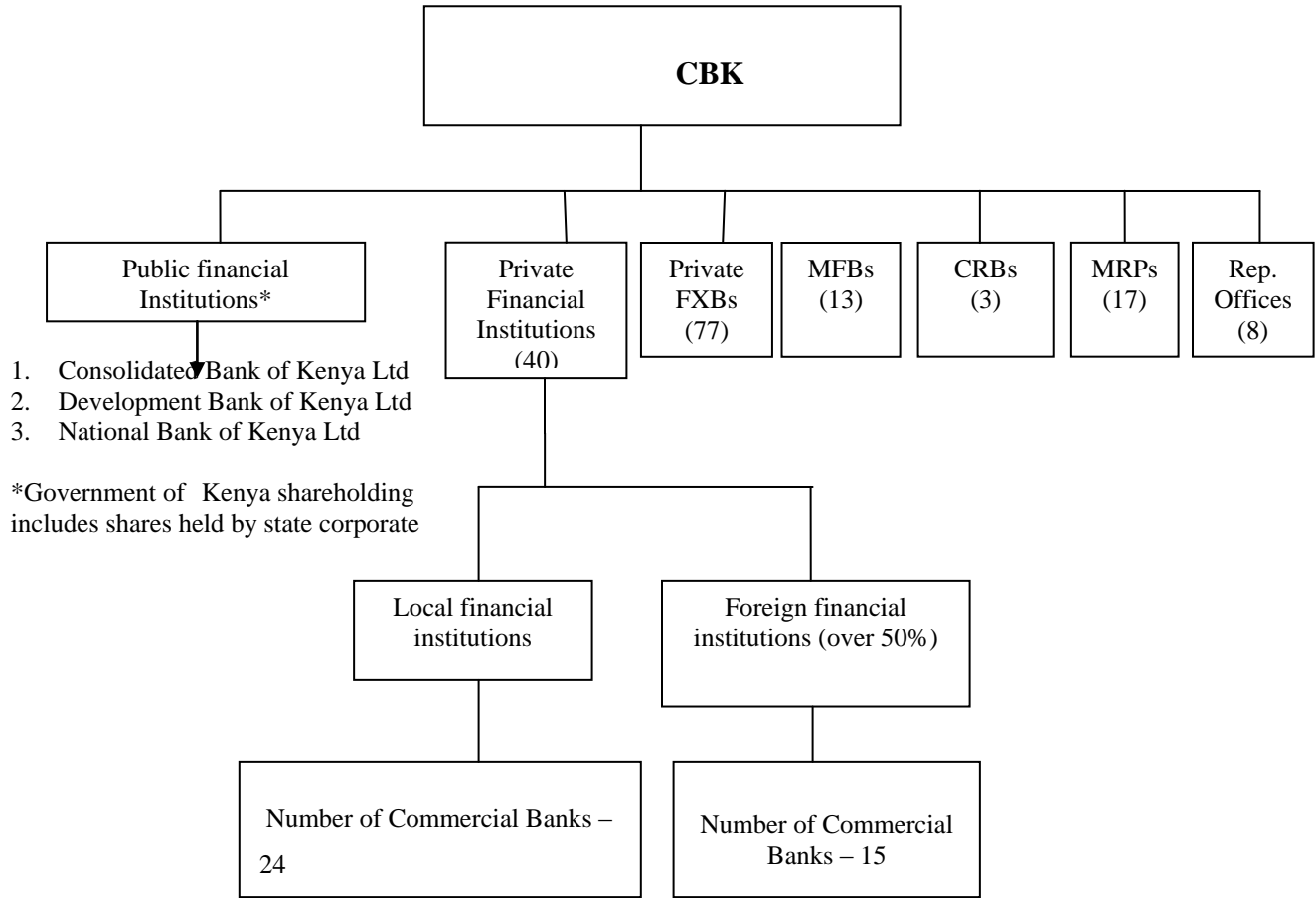
**SECTION C**

**48. Please suggest other measures that can be adopted by the bank so as to gain competitive advantage:**

.....  
.....  
.....

**THANK YOU FOR YOUR RESPONSES**

**APPENDIX III: STRUCTURE OF BANKING SECTOR**



**Source of information: CBK, (2016)**

## APPENDIX IV: LIST OF COMMERCIAL BANKS IN KENYA

- |  |   |                       |
|--|---|-----------------------|
| <ol style="list-style-type: none"> <li>1. Kenya Commercial Bank</li> <li>2. Cooperative Bank of Kenya</li> <li>3. Equity Bank</li> </ol>   | } |                       |
| <ol style="list-style-type: none"> <li>4. Barclays Bank Kenya</li> <li>5. Standard Chartered Bank</li> <li>6. Commercial Bank of Africa</li> </ol>   | } | LARGE BANKS (Tier 1)  |
| <ol style="list-style-type: none"> <li>7. Diamond Trust Bank</li> <li>8. CFC Stanbic (K) Ltd</li> </ol>  | } |                       |
| <ol style="list-style-type: none"> <li>9. NIC Bank</li> <li>10. I &amp; M Bank</li> <li>11. National Bank of Kenya</li> <li>12. Chase Bank (K) Ltd*</li> <li>13. Citibank N.A</li> </ol>   | } |                       |
| <ol style="list-style-type: none"> <li>14. Family Bank Ltd</li> <li>15. Bank of Baroda Ltd</li> </ol>  | } | MEDIUM BANKS (Tier 2) |
| <ol style="list-style-type: none"> <li>16. Bank of Africa (Kenya)</li> <li>17. Prime Bank (Kenya)</li> <li>18. Imperial Bank Limited*</li> <li>19. Housing Finance Company of Kenya</li> <li>20. Ecobank Kenya</li> <li>21. Bank of India</li> </ol>   | } |                       |
| <ol style="list-style-type: none"> <li>22. Guaranty Trust Bank Kenya</li> <li>23. Gulf African Bank</li> <li>24. African Banking Corporation Ltd.</li> <li>25. Victoria Commercial Bank</li> <li>26. Sidian Bank Limited</li> <li>27. Giro Commercial Bank</li> <li>28. Fidelity Commercial Bank Limited</li> <li>29. Development Bank of Kenya</li> <li>30. Jamii Bora Bank</li> <li>31. Spire Bank Limited</li> <li>32. First Community Bank</li> <li>33. Guardian Bank</li> <li>34. Consolidated Bank of Kenya</li> </ol> | } |                       |
| <ol style="list-style-type: none"> <li>35. Habib Bank A. G. Zurich</li> <li>36. Trans National Bank Kenya</li> <li>37. Habib Bank Ltd.</li> <li>38. Paramount Universal Bank</li> <li>39. Oriental Commercial Bank</li> <li>40. Credit Bank</li> <li>41. Middle East Bank Kenya</li> <li>42. UBA Kenya Ltd.</li> </ol>   | } | SMALL BANKS (Tier 3)  |

**\*Banks under receivership**

**Source: CBK, (2016)**

# APPENDIX V: AUTHORITY TO CONDUCT RESEARCH BY KENYATTA UNIVERSITY



KENYATTA UNIVERSITY  
GRADUATE SCHOOL

E-mail: [dean-graduate@ku.ac.ke](mailto:dean-graduate@ku.ac.ke)

Website: [www.ku.ac.ke](http://www.ku.ac.ke)

P.O. Box 43844, 00100

NAIROBI, KENYA

Tel. 810901 Ext. 57530

Internal Memo

FROM: Dean, Graduate School

DATE: 17<sup>th</sup> October, 2016

TO: Ms. Purity W. Ndegwa  
C/o Department of Business Administration  
Kenyatta University

REF: D86/CTY/22893/12

SUBJECT: APPROVAL OF RESEARCH PROPOSAL

This is to inform you that Graduate School Board at its meeting of 7<sup>th</sup> October, 2016 approved your Research Proposal for the Ph.D. Degree, entitled "Resource Isolating Mechanism and Sustainable Competitive Advantage among Commercial Banks in Kenya".

You may now proceed with your Data collection, subject to clearance with the Director General, National Commission for Science, Technology & Innovation

As you embark on your data collection, please note that you will be required to submit to Graduate School completed supervision Tracking Forms per semester. The form has been developed to replace the progress Report Forms. The Supervision Tracking Forms are available at the University's Website under Graduate School webpage downloads.

By copy of this letter, the registrar (Academic) is hereby requested to grant you Substantive registration for your Ph.D. studies.

Thank you.

RUBEN MURIUKI  
FOR: DEAN, GRADUATE SCHOOL

c.c. Chairman, Department of Business Administration

Registrar Academic – Att. J. Likam

Supervisors:

1. Dr. James Kilika  
C/o Department of Business Administration  
KENYATTA UNIVERSITY
2. Dr. Muathe SMA  
Department of Business Administration  
C/o KENYATTA UNIVERSITY

RM/cao



KENYATTA UNIVERSITY  
GRADUATE SCHOOL

E-mail: [kubps@yahoo.com](mailto:kubps@yahoo.com)  
[dean-graduate@ku.ac.ke](mailto:dean-graduate@ku.ac.ke)  
Website: [www.ku.ac.ke](http://www.ku.ac.ke)

P.O. Box 43844, 00100  
NAIROBI, KENYA  
Tel. 8710901 Ext. 57530

---

Our Ref: D86/CTY/22893/12

Date: 17<sup>th</sup> October, 2016

The Director General,  
National Commission for Science, Technology & Innovation  
P.O. BOX 30623-00100  
NAIROBI

Dear Sir/Madam,

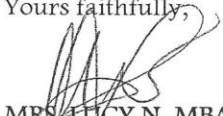
RE: RESEARCH AUTHORIZATION FOR MS. PURITY W. NDEGWA REG. NO D86/CTY/22893/12

I write to introduce Ms. Ndegwa who is a Postgraduate Student of this University. She is registered for Ph.D. degree programme in the **Department of Business Administration in the School of Business**.

Ms. Ndegwa intends to conduct research for Ph.D. Degree thesis entitled **“Resource Isolating Mechanism and Sustainable Competitive Advantage among Commercial Banks in Kenya”**.

Any assistance given will be highly appreciated.

Yours faithfully,


  
MRS. LUCY N. MBAABU  
FOR: DEAN, GRADUATE SCHOOL

RM/cao

# APPENDIX VI: PERMIT TO CONDUCT RESEARCH BY NACOSTI

**THIS IS TO CERTIFY THAT:**  
**MS. PURITY WAIRIMU NDEGWA**  
**of KENYATTA UNIVERSITY, 0-100**  
**NAIROBI, has been permitted to conduct**  
**research in Nairobi County**  
**on the topic: RESOURCE ISOLATING**  
**MECHANISM AND SUSTAINABLE**  
**COMPETITIVE ADVANTAGE AMONG**  
**COMMERCIAL BANKS IN KENYA**  
**for the period ending:**  
**9th March, 2018**

**Permit No : NACOSTI/P/17/24867/15929**  
**Date Of Issue : 9th March, 2017**  
**Fee Received :Ksh 2000**



**Applicant's Signature** 

**Director General**  
**National Commission for Science,**  
**Technology & Innovation**





**NATIONAL COMMISSION FOR SCIENCE,  
TECHNOLOGY AND INNOVATION**

Telephone: +254-20-2213471,  
2241349,3310571,2219420  
Fax: +254-20-318245,318249  
Email: dg@nacosti.go.ke  
Website: www.nacosti.go.ke  
when replying please quote

9<sup>th</sup> Floor, Utalii House  
Uhuru Highway  
P.O. Box 30623-00100  
NAIROBI-KENYA

Ref. No. **NACOSTI/P/17/24867/15929**

Date:  
**8<sup>th</sup> March, 2017**

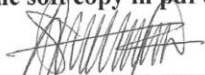
Purity Wairimu Ndegwa  
Kenyatta University  
P.O. Box 43844-00100  
**NAIROBI.**

**RE: RESEARCH AUTHORIZATION**

Following your application for authority to carry out research on “*Resource isolating mechanism and sustainable competitive advantage among Commercial Banks in Kenya.*” I am pleased to inform you that you have been authorized to undertake research in **Nairobi County** for the period ending **9<sup>th</sup> March, 2018.**

You are advised to report to **the Chief Executive Officers of selected commercial Banks, the County Commissioner and the County Director of Education, Nairobi County** before embarking on the research project.

On completion of the research, you are expected to submit **two hard copies and one soft copy in pdf** of the research report/thesis to our office.

  
**DR. STEPHEN K. KIBIRU, PhD.**  
**FOR: DIRECTOR-GENERAL/CEO**

Copy to:

The Chief Executive Officers  
Selected commercial Banks.

The County Commissioner  
Nairobi County.

**COUNTY COMMISSIONER  
NAIROBI COUNTY  
P.O. Box 30124-00100, NBI  
TEL: 311666**

National Commission for Science, Technology and Innovation is ISO 9001:2008 Certified

**APPENDIX VII: RESEARCH AUTHORIZATION FROM MINISTRY OF  
BASIC EDUCATION**



Republic of Kenya

**MINISTRY OF EDUCATION  
STATE DEPARTMENT OF BASIC EDUCATION**

Telegrams: "SCHOOLING", Nairobi  
Telephone: Nairobi 020 2453699  
Email: [rcenairobi@gmail.com](mailto:rcenairobi@gmail.com)  
[edenairobi@gmail.com](mailto:edenairobi@gmail.com)

**REGIONAL COORDINATOR OF EDUCATION  
NAIROBI REGION  
NYAYO HOUSE  
P.O. Box 74629 - 00200  
NAIROBI**

When replying please quote

Ref: **RCE/NRB/GEN/1/VOL. 1**

DATE: **25<sup>th</sup> April, 2017**

Purity Wairimu Ndegwa  
Kenyatta University  
P O Box 43844-00100  
**NAIROBI**

**RE: RESEARCH AUTHORIZATION**

We are in receipt of a letter from the National Commission for Science, Technology and Innovation regarding research authorization in Nairobi County on "**Resource isolating mechanism and sustainable competitive advantage among Commercial Banks in Kenya.**"

This office has no objection and authority is hereby granted for a period ending **9<sup>th</sup> April, 2018** as indicated in the request letter.

Kindly inform the Sub County Director of Education of the Sub County you intend to visit.



**ANTHONY MBASI  
FOR: REGIONAL COORDINATOR OF EDUCATION  
NAIROBI**

c.c

Director General/CEO  
Nation Commission for Science, Technology and Innovation  
**NAIROBI**