INFLUENCE OF STRATEGIC MANAGEMENT CAPABILITIES ON THE PERFORMANCE OF COMMERCIAL BANKS IN KENYA: CASE OF NAIROBI CENTRAL BUSINESS DISTRICT

Nthoki, J., Omwenga, J., & Litunya, R.

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[1] Nthoki, J. [2] Omwenga, J., & [3] Litunya, R.

[1] MBA candidate, School of Business and Entrepreneurship, JKUAT, Kenya
[2] Doctor, Senior Lecturer, School of Business and Entrepreneurship, JKUAT, Kenya
[3] Doctor, Lecturer, School of Business and Entrepreneurship, JKUAT, Kenya

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ABSTRACT

This study determined the influence of strategic management capabilities on the performance of commercial banks in the Nairobi County. The study deployed descriptive research design. The study was anchored on three theories; Resource Based View Theory, Competitive Advantage Theory and Dynamic Capabilities Theory. From a total population of 42 commercial banks with 902 line managers in the head offices that is middle and senior level, a sample of 270 respondents was used. The data was analyzed using SPSS software. Descriptive statistics such as tables, Pearson's correlation and regression were used in analyzing the data. The study found out that managerial capabilities has a weak negative relationship with the performance of commercial banks. The findings indicated that the collaborative decision making process is very important in the bank performances as well as nurturing creativity and innovation among employees. It was also apparent that the various banks use different strategies in the evaluation of the level of achievement of the set targets. In addition, it was clear that, marketing research played a big role in banks performance as the banks were able to introduce products that met customer's needs. The key aspects of banks financial capability was proper cash management which ensured continued business with minimal interruptions and timely payment of bills. The study found out that technological capability as a strategy to reach unbanked and to ease banking queues which in turn increased sales. Effective strategic management capabilities have direct influence on the performance of commercial banks. The study recommended that commercial banks should continuously engage in updating their systems to remain relevant in the market engage in creating visions and missions statements that spell their strategic focus in the future. The study also recommended that commercial banks should have market policy framework which sensitive to the action of rival banks and activities in the financial market plan on effective performance strategies to evaluate the achievement of performance targets. From the findings, the study concluded that appropriate application of strategic organizational capabilities and accurate response to market dynamics enhances the performance of commercial banks in Kenya.

Key Words: *Management Capability, Marketing, Finance, Technology*

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INTRODUCTION

Banks contributes to growth of the economy both through increased investment and through enhanced efficiency in usage of resources since no growth can be achieved unless savings are efficiently channeled into investment. Banks are the single most important supplier of credit as they help state and local governments fund a variety of public improvements like schools, roads, water and sewer and public health facilities and are also a major players in financing the government as both dealers and holders of Treasury and agency debt securities. In each of these roles, banks support the creation of jobs and the growth of our economy. Main aim of Commercial Banks in Kenya is to register better performance through sustained profitability and growth (Pearce & Robinson, 2011)

The world is in a state of flux, being influenced by the forces of globalization and fast technological changes and as result firms are facing intense competition. A global perspective means being open to new ideas, issues and solutions. Often times, it even means being open to changing the way you do things if you find a new system that works better. It means being culturally sensitive and willing to learn from others. To achieve competitiveness, managements of commercial banks should put in place effective and proactive leadership, strategic planning, adopt up to date technology, embrace innovativeness and ensure they have a knowledgeable, skillful and talented workforce.

Strategic management as a practice originated in the 1950's and 60's with significant contributors being Chandler, Ansoff, Porter and Drucker (Freeman, 2010). According to Adeleke, Ogundele and Oyenuga, 2008),strategic management practice is seen as the process of scrutinizing both present and future environments with the view of coming up with the organizations objectives, realizing and directing decisions focused on achieving these objectives in the present and future environments. The study further alludes that strategic management elaborates in deploying a firm's internal strengths and weakness to take advantage of its external opportunities and minimize its internal threats or problems. Elsewhere Thompson and Strickland (2003) viewed strategic management practice as the process whereby organization's long-term goal is set and the means to achieve these goals put in place. Specific objectives are set, to help organization develop the bigger goal. Managers ensure that resources are mobilized to make it easier to achieve the overall goal.

Study on the influence of firm activities on performance of commercial bank in Kenya, Mwangi (2016) indicated a positive significant relationship between bank activities and performance of the commercial banks in Kenya. In spite of these performance related strategies, commercial banks in Kenya are still facing challenges due to the dynamism of the environment in which they operate. Some of the challenges include declining interest margins, global financial crisis, increasing levels of inflation, exchange rate volatility, increased competition from banks and non-banks, technological changes, product improvement, and new regulations (Watuka, 2014). Whereas, studies have identified strategic management capabilities as critical factors contributing largely to the performance of commercial banks in developed countries, the same has not been fully replicated in Kenya. Failure to seek management strategies to guarantee performance and survival of commercial banks will lead to decline in profits and flight of critical stakeholders.

Statement of the Problem

Strategic management is essential in identifying the organization's internal strengths and weakness which in turn makes it easier to take advantage of its external opportunities and minimize its external problems (Tatar & Moradi, 2015). According to Melchorita (2013), for a company to succeed or fail, strategic management must play a big role. It has been found that strategic management capabilities greatly improve the performance of financial organizations like commercial banks. The performance of commercial banks is decreasing everyday as they face stiff competition from new entrants like mobile phone companies and international banks (CBK, 2015). In this regard, incorporation of strategic management capabilities will go a long way in reducing this competition thus enhancing performance. One way commercial banks in Kenya have attempted to wither competition is the adoption of market expansions strategies to realize larger customer base like opening new branches and operating beyond.

Organizations today operate in fairly competitive environment which makes it necessary for them to put in place strategies that enhance their competitiveness. A considerable number of scholars have already discussed the presumed relationship between strategic management practice and firms growth. However, empirical research results appear to be limited and even somewhat contradictory, while a number of studies suggest that strategic management practice enhances growth in firms (Bracker et al., 1988; Lyles et al., 1993), other researchers have found insignificant or negative effects in this context (Gibson and Cassar, 2002). Thus, there still seems to be a need to shed more light on the influence of strategic management capabilities on organization growth. Commercial banks in Kenya face challenges due to the dynamism of the environment in which they operate. According to financial stability report by CBK, there is a downward trend on general performance of commercial banks in Kenya, (CBK, 2017). Some of the challenges include declining interest margins, global financial crisis, increasing levels of inflation, exchange rate volatility, increased competition from banks and non-banks, technological changes, product improvement, and new regulations. Despite these challenges faced by the commercial banks, generally, the Kenyan banking industry is more stable currently than it has ever been.

A number of studies have been done on strategic management capabilities. These include international studies such as Jradi. (2009), which looked at strategic management in the German Banking Industry. In USA, Muogbo, (2013) studied on the impact of strategic management on organizational growth and development. Some of the local studies done on strategic management capabilities include study by Kivuja (2011) Strategic management in SME's at Kariobangi light industries. Lwova (2013) Strategic management practices of savings and credit coop societies in Mombasa County. Mbondo (2011) Strategic management practices at the Kenya police staff Sacco. Ng'ang'a (2001) Real time strategic management practices in the Kenyan companies quoted at the Nairobi Stock Exchange.

However, there has been little documented study on the influence of strategic management capabilities on organizational profitability in the commercial banks. To this effect, this study analyzed how strategic management capabilities influence the Commercial Banks to effectively derive plans for its growth and intends to fill the gap by providing answers to the following questions.

Objective of the Study

The general objective of the study was to determine the influence of strategic management capabilities on the performance of commercial banks in Nairobi Central Business District. The study was guided by the following specific objective;

- To establish the influence of managerial capability on the performance of commercial banks Nairobi CBD in Nairobi City County.

LITERATURE REVIEW

Theoretical Review

The Resource Based View

According to Mwasaa (2017), the Resource based view is concerned with mapping the resources of the firm and capabilities to the opportunities in the external environment. The firms sustainable profits do not come from necessarily accrue from imitating other firms but instead from exploiting the identified gaps between them. Penrose in 1957

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developed the VRIN model which stands for resources which are valuable, rare, imperfectly, imitable hard to copy and non-substitutable with other resources. According to Kibwi (2015) the RBV points out that, firms can develop sustained competitive advantage only by creating value in a way that is rare and difficult for competitors to imitate. Competing firms could enter the market with resources which are able to tear down the competitive advantage of the competing firm, which results in reduction of firm "resource-based view which explains its ability in the delivery of sustainable competitive advantage if resources are managed in a way that their its outcomes cannot be copied by competitors, which creates a barrier in competition (Martynova and Renneboog, 2008).

The Resource Based View Theory (RBT) was advanced by organizational structuralisms (Freeman, 2010). He argued that a firm's competitive advantage is gained out of firm-specific resources that are valuable, rare, imperfectly imitable, and non-substitutable. A firm's resources may include various forms such as machinery and equipment, financial capital, human capital, management team, management systems, technology and knowledge, and intangible assets like reputation and brand. It is the availability of these resources that provides a firm with advantages for growth and development. Resources should be indispensable to generate differentially greater value, leading to better performance for the firm (Kotler & Armstrong, 2013). Whether a resource is critical or not is determined by its superior efficiency that can provide the customers with higher value with a given cost or can provide them with the same level of value with a lower cost. The RBT also focuses on the resources controlled by a firm and to center on intangible resources such as capabilities, knowledge, and reputations (Peteraf, 1993). RBT explains performance disparity across firms in a factor-based, efficiency-oriented, and firm-level approach (Peteraf & Bergen, 2003). The theory is based on the idea that the effective and efficient application of all useful resources that the company can gather helps determines its competitive advantage (Dixon, 2011). In this study, RBT sees a commercial bank as a collection of assets, or capabilities. In the modern economy, most of these assets and management capabilities are intangible. This theory supports marketing capability and technological capability.

Competitive Advantage Theory

Besanko, Dranove, Shanley and Schaefer (2013) case upon highlighting that the sustainability of competitive advantage depends on the isolation mechanisms, which may be defined as factors that stop competitors from neutralizing a higher performance in a given company, and which can be obtained by innovation, organization evolution and the company's domestic environment. According to Julio (2016) Sustainable competitive advantage construct is an important antecedent of organizational performance because it highlights fundamental attributes for organizations to achieve positive economic consequences. The organizational performance targets the quality and profitability of goods and services and the return on investments, as well as the reduction of operational costs, compounding the overall performance of the company against the competition (Paladino, 2007).

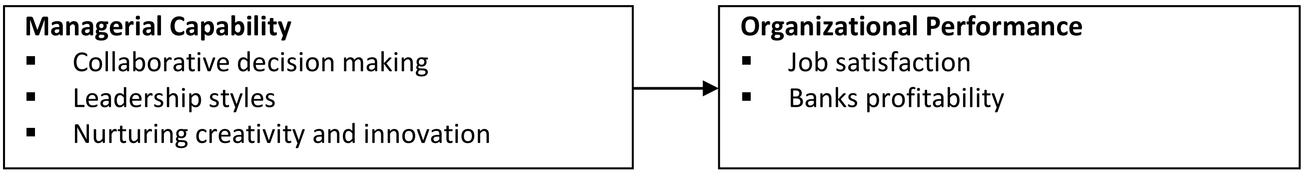
To sustain a competitive advantage, an organization uses its own resources and capabilities, incapable of being rapidly developed elsewhere and firmly attached to the organization that deploys or uses them (Mwasaa, 2017). In today's competitive environment, to sustain a competitive advantage, firms need to provide value to customers which can either be cost advantage, services or differentiated strategies (Waiganjo, 2013).

This theory is relevant because in an organization the porter's five forces come in to play. These are buyers' power, the suppliers' power, threat to new entry, threat of substitutes and organization rivalry. Advocates of this theory argue that the only way for a firm to win the competitive battle is through possessing capabilities which are superior and more relevant to those of its competitors. The researcher will use this theory to enhance the marketing capability variable.

Dynamic Capabilities Theory

Ambrosini and Bowman (2009) termed Teece's paper (1990) as the first contribution to distinctively bring out the idea of dynamic capabilities. He illustrated that RBV did not clearly demonstrate the criteria used by some successful firms to undertake rapid and flexible product innovation and timely responsiveness along with the capability of the management to properly coordinate and redeploy external and internal competences.

Dynamic capabilities are developed from a framework composed of three factors: organizational positions, path dependencies and processes (Teece et al., 1997). The processes look at how tasks are performed hence: patterns of practice and routines. They determine ways in which capabilities can be developed within the organizations to capitalize on the current opportunities through analysis of internal and external capabilities. Resource endowments such as intellectual property, technology and associations with suppliers and customers define the position of an organization (Teece et al., 1997). This theory cuts across all the four variables which are; the managerial, marketing, financial and technological variables.



Independent Variable **Dependent variable**

Figure 1: Conceptual Framework

Empirical Review

Organizations today operate in fairly competitive environment which makes it necessary for them to put in place strategies that enhance their competitiveness. A considerable number of scholars have already discussed the presumed relationship between strategic management practice and firms growth. However, empirical research results appear to be limited and even somewhat contradictory, while a number of studies suggest that strategic management practice enhances growth in firms, other researchers have found insignificant or negative effects in this context. Thus, there still seems to be a need to shed more light on the influence of strategic management capabilities on organization growth. Commercial banks in Kenya face challenges due to the dynamism of the environment in which they operate. Some of the challenges include declining interest margins, global financial crisis, increasing levels of inflation, exchange rate volatility, increased competition from banks and non-banks, technological changes, product improvement, and new regulations. Despite these challenges faced by the commercial banks, generally, the Kenyan banking industry is more stable currently than it has ever been.

METHODOLOGY

This study used descriptive research design. The population of interest was all the commercial banks in Kenya. All commercial banks represented in Nairobi were considered including private and public owned banks. According to Central Bank of Kenya (CBK) weekly bulletin, there were 41 commercial banks in Kenya then obtained from CBK website as at the end of December 2017. The respondents were drawn from those working within the middle and senior management positions. The sample size was 30% of the total population. A stratified random sampling was used in the study and would involve a random selection

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of respondents from each stratum to select various categories of line managers across the locally and foreign owned banks. The study focus was the 41 Commercial Banks in Kenya and the unit of analysis was the four departments respectively.

To establish the influence of strategic management capabilities on performance of Commercial Banks in Kenya, a self-administered questionnaire was designed to specifically elicit the relevant data to aid in answering the research questions and distributed among sampled respondents. Primary data was collected from support managers likely to have information on the operation of their banks. Structured questionnaire was used to collect information from line managers and key employees within the banks. Secondary data was also used in this research, drawn from annual reports of the CBK and commercial banks. Qualitative data was coded transcribed and presented as reports. The study used linear regression analysis model with the aid of Statistical Package for the Social Science version 26.0 (SPSS) analytical software.

In the multiple regression models, analysis of variance (ANOVA) was used to test the significance of the overall model. Like correlation regression analysis assumes that the relationship between variables is linear (Kothari, 2008). Coefficient of correlation (R) was used to determine the strength of the relationship between the dependent and independent variables.

FINDINGS

Descriptive Analysis of Study Variables

The descriptive analysis was anchored under four independent variables (IV), namely managerial capabilities, marketing capabilities, financial capabilities and technological capabilities and dependent variable (DV) which was performance of commercial banks in Kenya.

Managerial capability

Table 1 statements relating to the influence of managerial capabilities on the performance of commercial banks.

Table 1: Managerial Capability

Statement	1	2	3	4	5
Collaborative decision making has helped managers find the best solutions by involving the people affected by the problem	1.9%	2.4%	42.4%	49%	4%
Collaborative decision making has led to the increase in diverse knowledge and perspectives to the issue at hand by managers	15.7%	3.8%	31.0%	19.0%	30.5%
Provision of guidance by the manager as a leadership style has helped subordinates perform their work effectively and efficiently	11%	21.1%	39.7%	23.4%	4.8%
Creating confidence as a leadership style can result to effective achievement of goals as a result of the managers explaining clearly the role and giving the subordinates guidelines	12.4%	7.2%	17.2%	49.3%	13.9%
Nurturing creativity and innovation has helped managers have greater knowledge base and more ideas leading to creating new products and services.	0%	14.8%	36.4%	25.4%	23.4%

Key: 1-strongly disagree; 2-disagree; 3-undecided; 4- agree; 5- strongly agree

The study sought to find out how managerial capabilities were achieved by commercial banks, where the researcher drew statements relating to managerial capabilities to seek opinion of the respondents. According to the above findings, 53% of the respondents were in agreement with the statement that collaborative decision making has helped managers find the best solution by involving the affected people.in addition a total of 49.5% of respondents agree that collaborative decision led to diverse knowledge. However the majority of respondents of 39.7% are undecided whether the provision of guidance by managers has helped subordinate in their work. 63.2% of respondents are in agreement that creation of confidence led to the achievement of organizational goals. On the

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question whether nurturing creativity and innovation led to creation of new products, the majority of respondents 48.8% are in agreement while 14.8% disagree with the statement.

Organizational performance

Table 2: Organizational Performance Indicators

Statement	5	4	3	2	1
What was the banks' rating on the financial report given by the CBK	7.1%	29.5%	41.9%	14.3%	7.1%
How do you rate the banks' profitability in general	25.7%	37.6%	3.8%	30.5%	2.4%
How has the banks' performance generally performed	14.3%	28.6%	38.6%	13.8%	4.8%
Tick how you rate your job satisfaction in your department	2.4%	37.1%	26.7%	16.2%	17.7%
Generally how has total revenue collection been by the customers	1.9%	57.1%	1.0%	10.5%	29.5%

Key: 1-poor; 2-fair; 3-good; 4- very good; 5- excellent

On the statement of how do you rate the banks performance based on financial report given by CBK? The majority of respondents adding up to 78.5% rated good performance and the rest 21.5% rated as poor. On banks profitability in general the majority of respondents summing up to 63.3% were not impressed with the performance while the rest of the respondents which were 36.7% were impressed. On the question where the researcher wanted to know the general performance of the banks, 56.2% of respondents were satisfied with the performance while the 43.8% were not impressed with the performance. Majority of the respondents 60.5% rated the level of job satisfaction at department level as good. However, 39.5% were not impressed with the job satisfaction at the department. On the question on how the revenue collection from customers has been, the majority of respondents 59% rated it as poor while the rest 41% were impressed.

Inferential Analysis

The study used correlation and regression analysis to determine the relationship between the independent and the dependent variables of the study. The dependent variable was banks performance while the independent variables were managerial capability, marketing capability, financial capability and technological capability. The study first conducted correlation then regression.

Correlation Analysis Findings

Table 3: Correlation Analysis

Correlations

		Managerial capability	Marketing capability	Financial capability	Technological capability	Banks performance
Managerial capability	Pearson Correlation	1	.289**	.014	.078	-.028**
	Sig. (2-tailed)		.000	.838	.263	.000
	N	210	210	210	210	210
Marketing capability	Pearson Correlation	.289**	1	-.395**	-.222**	.124**
	Sig. (2-tailed)	.000		.000	.001	.001
	N	210	210	210	210	210
Financial capability	Pearson Correlation	.014	-.395**	1	.336**	-.029**
	Sig. (2-tailed)	.838	.000		.000	.000
	N	210	210	210	210	210
Technological capability	Pearson Correlation	.078	-.222**	.336**	1	-.343**
	Sig. (2-tailed)	.263	.001	.000		.000

	N	210	210	210	210	210
Banks performance	Pearson Correlation	-.028**	.124**	-.029**	-.343**	1
	Sig. (2-tailed)	.000	.001	.000	.000	
	N	210	210	210	210	210

**. Correlation is significant at the 0.01 level (2-tailed).

According to Kothari (2014), the correlation coefficient can range from -1 to +1, with -1 indicating a perfect negative correlation, +1 indicating a perfect positive correlation, and 0 indicating no correlation at all. A linearity test was conducted as evidenced by the Pearson correlation coefficient. Kothari (2014) further stated that the importance of correlation is to determine the extent to which changes in the value of an attribute is associated with changes in another attribute.

The researcher performed Pearson's product correlation to determine the degree of relationships between the explanatory variables. The correlation was done using a 99% confident level in a 2-tailed test and therefore the significance value was set at 0.01 above which the relationship is deemed insignificant. The study found out that managerial capability and banks performance were weakly negatively correlated, *r* (210) = -0.028, *p*< .000. The results for correlation analysis between marketing capability and banks performance indicated that the two variables were weakly positively correlated *r* (210) = .124, *p*< .000. Further, the study determined that financial capability and banks performance were weakly negatively correlated, *r* (210) = -0.29, *p*< .000. The results for correlation between technological capability and banks performance showed that there was strong negative correlation between the two variables, r (210) =-0.343, *p*< .000

**. Correlation is significant at the 0.01 level (2-tailed).

Correlation between managerial capability and Banks Financial Performance: As indicated, there is a significant inverse relationship between managerial capability and banks performance. Managerial capability and banks performance had a highest relationship (-.28, p<.01). This implies there is a negative correlation to the way the decisions are made and the general leadership style of managers. Therefore the commercial banks found it important to change their approach to decision making and the style of leadership to raise their performance. Also teams were encouraged to nurture creativity and innovation among employees.

Regression Analysis Results

This study was based on the principle that strategic management capabilities influence the performance of commercial banks in Kenya and four objectives were postulated to guide the study. Simple and multiple linear regression analysis were conducted at 95% confidence level (α = 0.05). The study also required regression analysis so as to establish the relationship between management capability, marketing capability, financial capability and technological capability and the commercial banks performance in Nairobi County. The results of linear regression shows that R = 0.366 and R^2 = 0.134 which indicates there is a weak relationship between managerial capability, marketing capability, financial capability and technological capability and are significant in performance of commercial banks in Nairobi county and accounts for 11.7% variance in performance.

Table 4: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.366[a]	.134	.117	2.08683

The findings indicate the correlation between managerial capabilities, marketing capability,

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financial and technological capability is significant in performance of commercial banks in Nairobi County and the model is highly significant. The value of R square is 0.134, the value of adjusted R square is 0.117 and the value of standard error of the estimate is 2.08683. The positivity and significance of all values shows that the model summary is also significant and therefore gives a logical support to the study model.

Optimal Model Summary

Based on the findings, the dependent variable (Performance of commercial banks) and the independent variables (management capability, marketing capability, financial capability and technological capability) is therefore connected by the equation:

$$\mathbf{Y=19.242-0.023X_1+0.090X_2 +0.027X_3 -0.296X_4 + \varepsilon}$$

Where:

Y= Represents financial performance X_1= managerial capability

X_2= marketing capability X_3= financial capability

X_4= technological capability

ε = the error variability (error term). Is assumed to be normally distributed with mean Zero and constant variance

Analysis of Variance (ANOVA)

An analysis of variance was carried out on the relationship between Managerial capability, financial capability, technological capability, marketing capability and banks performance. From Table 5 below, the model was significant (p-value = 0.000) at 0.05 level in explaining the linear relationship between the study variables. Additionally, the F-statistic is significantly greater than 1 thus indicating the appropriateness of the model in testing the relationship between the study variables. This means that the model is appropriate for use running a factor analysis.

Table 5: ANOVA

ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	138.375	4	34.594	7.944	.000[b]
Residual		892.749	205	4.355		
	Total	1031.124	209			

a. Dependent Variable: banks performance

b. Predictors: (Constant), Managerial capability, financial capability, technological capability, marketing capability

Table 6: Regression Analysis

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	19.242	1.486		12.951	.000
	Managerial capability	-.023	.048	-.033	-.474	.636
	Marketing capability	.090	.064	.106	1.408	.161
	Financial capability	.027	.015	.135	1.822	.070
	Technological capability	-.296	.057	-.362	-5.182	.000

From the regression equation above, when management capability is zero, marketing capability is zero, financial capability is zero and technological capability is zero, performance of commercial banks in Kenya would be 19.242. A unit increase of management capability will result to 0.023 decrease in performance of commercial banks in Nairobi County, a unit increase in marketing capability will result to 0.090 increase in performance of commercial banks in Nairobi county, a unit increase in financial capability will result to a 0.027 increase in performance of commercial banks in Nairobi County and a unit increase in technological capability will result to 0.296 decrease in performance of commercial banks in Nairobi county.

The test found that all the constructs in the study were reliable. The overall reliability test results of the questionnaire indicated that the research instrument is reliable and was used for the main study giving reliable results that can be used to show possible implication of data results. The overall test therefore concluded that the questionnaire tool is reliable and results are valid informing the research need.

CONCLUSION AND RECOMMENDATIONS

This study was exploratory and investigated the influence of organizational capabilities on commercial banks performance. Subsequently, we concluded that with appropriate and accurate strategies commercial banks in Nairobi County are likely to register better performances. In addition to the foregoing, the study established that commercial banks performances in Kenya were greatly enhanced where respective banks' management had provided necessary resources for monitoring programmes implementation. Therefore, the study concludes that appropriate application of strategic organizational capabilities and accurate response to market dynamics enhances the performance of commercial banks in Nairobi County.

Areas for Further Research

From the study findings, it was determined that commercial banks with superior management capabilities, marketing capabilities, financial and technological capabilities are likely to register better performance. However, it was not possible within the scope of this study to establish which aspects and type of ambiguities existed among commercial banks in Kenya. Subsequently, the study recommended that further research be done on the relationship between elements of strategic organizational capabilities (managerial, marketing, financial and technological) and individual performance indicators.

Additionally, the study recommended that a study be conducted to establish the relationship between quality of human resource and performance within the commercial banking sub-sector in Kenya. Such a study will help in determining whether it is the form or managerial strategies that are more important in the performance of commercial banks or the prevailing external environment.

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