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ABSTRACT

The Kenyan banking industry contributes significantly to the government revenues yet financial reports indicate that Kenya's listed banks recorded a negative EPS (earnings per share). This study assessed the role of Porter's dynamic capabilities on performance of commercial banks in Kenya. The study focused on the 11 listed commercial banks in Kenya with one being used for pilot. The findings revealed that Porter's dynamic capabilities have a positive effect on performance (ϐ=.364, p=.000) and accounts for 12.9% variance. It was concluded from the findings that dynamic capabilities have positive effects on performance of commercial banks. It was recommended from the findings that companies improve more implementing dynamic capabilities to realize better performance.

Key words: *Dynamic Capabilities, Performance, Commercial Banks*

INTRODUCTION

Dynamic capabilities is a firm's behavioral orientation to constantly integrate, reconfigure, renew and recreate its resources and capabilities, and most importantly, upgrade and reconstruct its core capabilities in response to the changing environment to attain and sustain competitive advantage, Eisenhardt, *et. al.* (2000) suggests the sustainability of competitive advantage will depend on the extent to which the firm is able to develop capabilities for innovation. Specifically in the case of sustainable innovations, according to Mok, (2009), firms face different challenges at each stage and must develop new capabilities to tackle them, to respond to external opportunities; to scan the market, monitor customers and competitors and allocate resources to marketing activities; and to respond to changing market conditions in a speedy manner.

Absorptive capability is the ability of a firm to recognize the value of new, external information, assimilate it, and apply it to commercial ends. The processes of coordination, learning strategic competitive response and absorption is to be important activities that facilitate change within an organization, Porter (1985).

Innovative capability refers to a firm's ability to develop new products and/or markets, through aligning strategic innovative orientation with innovative behaviors and processes. This capability can be conceptualized as the ability of the firm to scan the environment, identify new opportunities, asses its competitive position and respond to competitive strategic moves.

Organizational performance encompasses three specific areas of firm outcomes: financial performance (profits, return on assets, return on investment); product market performance (sales, market share,); and shareholder return (total shareholder return, economic value added,). Organizational performance is measured from three important dimensions namely market effectiveness, financial and strategic objectives. Deeds, *et, al.* (1999).

METHODOLOGY

The study adopted a cross- sectional research design and descriptive survey design. The research adopted a mixed methods approach for the research. Out of the 253 questionnaires presented to the respondents, 243 questionnaires were filled and returned completely filled. The resulted to a 96.04% response return, which is adequate for making conclusion from the study.

FINDINGS

The study sought to establish the extent of practice of Porter's dynamic capabilities among commercial banks under study. Questions consisting of aspects of dynamic capabilities were administered to the respondents on a five point likert scale. The findings are presented as shown in Table 1 below.

Table 1: Extent of practice of dynamic capabilities among commercial banks

Dynamic Capability	SD	D	N	A	SA	M	STD
There are new products launchedevery quarter of the year	45(18.9)	20(8.4)	73(30.7)	60(25.2)	40(16.8)	3.13	1.325
We experience launch of substitute products	63(26.5)	41(17.2)	58(24.4)	51(21.4)	25(10.5)	2.72	1.340
Our customers have access to awide range of products	22(9.2)	21(8.8)	49(20.6)	57(23.9)	89(37.4)	3.71	1.300
Existing products are being modifiedto be relevant to customers' demands	18(7.6)	47(19.7)	37(15.5)	62(26.1)	74(31.1)	3.48	1.333
There is competitive pricing for newand existing products	18(7.6)	43(18.1)	22(9.2)	69(29.0)	86(36.1)	3.68	1.328
There is wide useof technology to simplify banking processes for the clients	27(11.3)	55(23.1)	44(18.5)	56(23.5)	56(23.5)	3.25	1.344
There is wide use of technology to simplify working processes for bankstaff	34(14.3)	47(19.7)	18(7.6)	77(32.4)	62(26.1)	3.36	1.419

The analysis of means and standard deviation, an indicator of highest performance was based on the best dynamic capabilities that led to better performance of the commercial banks. Banks (M=3.13, STD=1.325) launched new products and substitute products (M=2.72, STD=1.340) every quarter of the year. In addition, that, they allowed their clients to get access to a wide range of products (M=3.71, STD=1.300) and modified the existing products to be relevant to customers' demands (M=3.48, STD= 1.333). Competitive pricing for new and existing products (M=3.68, STD=1.328) was employed. There was use of technology to simplify banking processes for the clients (M=3.25, STD=1.344) and working processes for bank staff (M=3.36, STD=1.419) so as to improve their performance.

Further findings on summary statistics on the means and standard deviations of dynamic capabilities and performance of commercial banks were carried out as shown in Table 2.

Table 2: Summary Descriptive for Dynamic Capabilities and Performance

	Mean	Std. Deviation	N
Performance	3.143	.754	238
dynamic capabilities	3.369	.847	238

The findings shows that dynamic capabilities were largely practiced by commercial banks (M=3.369) as compared to performance of commercial banks mean (M=3.143) with low standard deviations of .847 and .754 respectively. These means were used to explore the correlation between the two variables using Pearson product moment correlation in order to establish whether they were associated.

The findings on bivariate correlation between dynamic capabilities and commercial banks' performance are presented as shown in Table 3.

Table 3: Correlation between Dynamic Capabilities and Performance of CommercialBanks

		performance	Dynamic capabilities
Pearson Correlation	Performance	1.000	.364
	dynamic capabilities	.364	1.000
Sig. (1-tailed)	Performance	.	.000
	dynamic capabilities	.000	.

The findings in Table 3 indicates there is a positive and significant correlation between dynamic capabilities and performance of commercial banks in Kenya (r=.364, p=.000). This implies that performance of commercial banks is positively associated with the banks dynamic capabilities to a low level. These findings are supported by studies by Osisioma, Nzewi, and Mgbemena,(2016), who revealed a positive relationship between dynamic capability (sensing capability) and performance of two commercial banks in Awka, Nigeria

Effect of Porter's Dynamic Capabilities on Performance of Commercial Banks

Table 4: Summary Simple Effect of Porter's Dynamic Capabilities on Performance ofCommercial Banks

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics					Durbin-Watson
					R Square Change	F Change	df1	df2	Sig. F Change	
1	.364[a]	.133	.129	.70434	.133	36.121	1	236	.000	2.068

Predictors: (Constant), dynamic capabilities

Dependent Variable: performance

The findings indicate that there is a moderate multiple correlation between dynamic capabilities and performance of commercial banks (r=.364). The model further shows that 13.3% change in commercial banks' performance (R square =.133) is explained by dynamic capabilities. The findings are significant at 0.05, i.e $F(1, 236)=36.121$, p=.000, implying that dynamic capabilities accounts for 13% change in performance which supported by sufficient evidence.

The model equation on the findings is also presented as shown in the following equation. $Y = 2.051 + 0.324X$

The above equation implies that as there is some performance that is experienced without incorporating dynamic capabilities. However, dynamic capabilities improve performance.

DISCUSSIONS AND CONCLUSION

The objective of the study was to assess the role of Porter's dynamic capabilities on performance of commercial banks. Preliminary findings of the practice of dynamic capabilities by the banks revealed that the main factors that drove dynamic capabilities were launching of new products and substitute products every quarter of the year. Competitive pricing for new and existing products was also employed as well as use of technology to simplify banking processes for the clients and working processes for bank staff so as to improve their performance.

It was therefore recommended that commercial banks in Kenya to focus much on competitive pricing and adoption of technology to help them respond to the changing environment and attain sustainable competitive advantage in the market.

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