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Strategic Management Capabilities and Performance of Commercial Banks in Kenya

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Abstract: **The study sought to determine the influence of strategic management capabilities on the performance of commercial banks in the Nairobi County. The specific objectives of the study involved ; to establish the influence of management capability on performance of commercial banks in Nairobi county; the influence of marketing capability, financial capability on performance of commercial banks in Nairobi county; and finally to determine the influence of technological capability on performance of commercial banks in Nairobi count. 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 appropriate application of each of the four strategic management capabilities positively and significantly influence the performance of commercial banks in Kenya. Of the four strategic organizational capabilities, it was established that managerial capability 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.**

Keywords: **strategic management capabilities, strategic managerial capability, financial capability, marketing capability, technological capability, performance.**

1. INTRODUCTION

1.1 Background of the Study

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 banking industry is under pressure in today's business climate. Banks have had various changes that have created opportunities but there is also increasing competition. For banks to compete successfully in this environment, banks continually scanning of the environment is necessary to purposely identify opportunities and threats posed by the state of the industry so as to match strategy to industry conditions, within a fit with the organization's internal capability. According to (Akoth O. 2018), Bank performance can be affected by the level of competition, Stakeholders management, Political landscape, Business legal regime and emerging technologies. Banks need to have a clear understanding of both the external economic trends that directly or indirectly affect their industry because ultimately they will affect consumption patterns (Johnson and Scholes, 2002). As the environment changes firms must change their strategies so as to survive. In turbulent environment, strategic thinking enables organizations to be flexible enough to change accordingly.

According to Lamb 2004, strategic management is a contionous exercise that is used for evaluation and directing the business and its industry, to assess the competitors and set goals and strategies to meet all existing and potential competitors, and then reassess each strategy to determine how it has been implemented and whether it has succeeded or needs replacement by a new strategy Proper strategic management practices (SMP) enable the organization to avoid a mismatch with the environment, it provides a link between an organization and its environment and must be consistent with the goals, values, the external environment, resources, organizational structures and systems (Ansoff and McDonnell, 1990).

Porter (2008) urges that competitive advantage facilitates a company to make products that provide more value to the customers than the competitor's rival products and this leads to higher profits for the company. Generally, therefore, the major purpose of a strategy adaptation is to enable a company gain a sustainable edge over its competitors. Scholars such as Armstrong (2010); Mondy (2009); Pearce & Robinson (2011) argue that businesses that create competitive advantage usually experience higher profitability and are more successful.

1.2 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

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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 attempts to analyze 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.

1.3 General Objective

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.

1.3.1 Research Objectives

The study was guided by the following objectives

1. To establish the influence of managerial capability on the performance of commercial banks Nairobi CBD.

2. To examine the influence of marketing capability on the performance of commercial banks in Nairobi CBD.

3. To evaluate the influence of technological capability on the performance of commercial banks in Nairobi CBD.

4. To explore the influence of financial capability on performance of commercial banks in Nairobi CBD.

1.4 Research Questions

1. What is the influence of managerial capability on the performance of commercial banks in Nairobi CBD?

2. How do marketing capability influence the performance of commercial banks in Nairobi CBD?

3. To what extent does technological capability influence the performance of commercial banks in Nairobi CBD?

4. What is the influence of financial capability on the performance of commercial banks in Nairobi CBD?

1.5 Justification of the Study

The study was useful to the following groups Managers and Management Consultants, Researchers and Academicians.

1.6 Scope of the Study

The study focused on the influence of strategic management capabilities on the profitability of commercial banks. It was carried out in Nairobi county where it examined the 41 commercial banks operating in Nairobi. The headquarters of these banks are located in Nairobi and therefore they formed the target population of this study. Nearly all banks operating in Nairobi have branches across the whole country. This study specifically explored four strategic management capabilities which include strategic managerial capability, financial capability, marketing capability and technological capability. The study was anchored on on four theories which are; generic strategy theory, dynamic capability theory, competitive advantage theory and resource based view theory.

2. LITERATURE REVIEW

2.1 Theoretical Review

The factors that determine the level of performance of commercial banks can best be understood through key theories in strategic management within organizations. These theories include the resource based view theory, competitive advantage theory and dynamic capability theory.

2.1.1 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 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.

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).

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.

2.1.2 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).

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.

2.1.3 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.

2.2 Conceptual Framework

According to Ketchen and Bergh (2006), a conceptual framework is a schematic representation of the relation between the dependent and independent variable. The conceptual framework of this study is developed from the research objectives and the literature review (Mwasaa, 2018). The independent variables, include management capability, financial capability, marketing capability and technological capability.

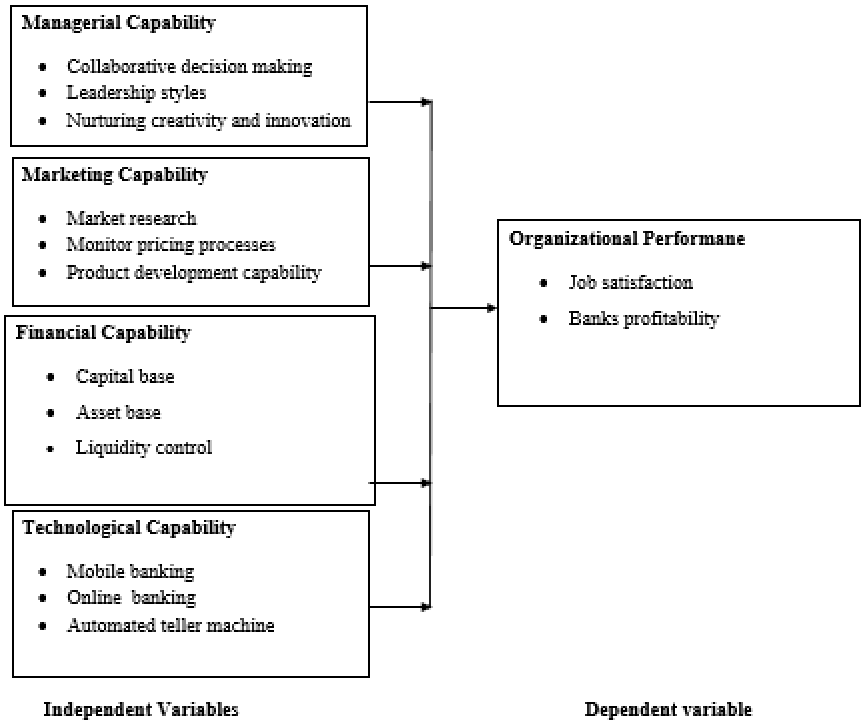

Figure 2. 1 Conceptual Framework

2.2.1 Managerial capability

Mark A. Wilson (2003), found out that there is need for constant decision making in organisations team managers must have the ability to make quick decisions. This makes it easier to solve issues as they arise. The study recommended skillifu managers and experienced to be employed to steer ahead the organization. When a firm engages in the design, production and marketing of a product more effectively compared to its competitors, the firm has adopted cost leadership strategy, Allen (2010). Attempts made to ensure reduction of costs will be transmitted throughout the whole organization right from product manufacture through to the sale of the product. Processes that do not contribute to cost minimization process should be handed over to others in the banking industry so as to maintain low costs.

Attainment of a successful cost leadership strategy is influenced by several features and activities within a firm (Evans, Stonehouse and Campbell, 2006). The main target of a cost leader is to serve a bigger portion of the total market. Companies undergoing a low-cost strategy basically utilize the mention factors to cut down on costs of production (Porter, 1985). High capacity utilization; accurate demand forecasting; economies of scale; outsourcing, experience effects and technological advantages.

Zahra & George (2002) perceive dynamic capabilities as neither the abilities of a firm nor as processes but as capabilities which concur with the demands of the customers and strategies of the competitor (Zott, 2003). Raubitschek & Helfat (2000) concur that the dynamic capabilities of a firm are included in the firms' processes. Eisenhardt & Martin (2000) mentioned that the processes of dynamic capability consists of "identifiable and specific routines" that have been deeply researched. They particularly give examples of dynamic capabilities such as strategic decision making (functional and personal expertise, pooling of diverse business), product development (combining various skills in cross-functional teams), acquisitions and alliance routines (pre-and post-acquisition routines and new resources) among others.

2.2.2 Marketing capability

According to Ngigi and Njeru (2014) marketing capability is the ability to produce commodities which distinguish a firm from its rivals through value addition or improvement of product mix. Differentiation could enable a firm to attain a position of low costs based on the following factors; the degree to which significant reductions in unit costs arise from increasing volume and the degree to which expenditure on differentiation significantly increases demand which shifts the demand curve to the right . These two factors are dependent on situations and they form the contingency framework basis.

Marketing is noted as one of the main elements to ensure an organization's success. It is much more than the sale and advertising of products and services contrary to what people think. Kotler & Armstrong (2014) argue that marketing is the most fundamental concept of modern marketing. They also described marketing mix as: the entire set of tactical marketing tools utilized by a firm to achieve the desired response within target market (Armstrong & Kotler, 2014). Furthermore, marketing mix consists of those controllable variables used by a firm to impact responses from buyers. Essentially, marketing mix enables firms to make proper decisions in influencing demands of the customer for the products of the firm and to overcome various obstacles in the market.

A firm that seeks to achieve differentiation strategy seeks to make customers believe that their products or services exhibit unique characteristics from those of its rivals in terms of reputation and image, design, reliability, quality and features (Baroto et al., 2012). The literature shows that firms in most developing nations seeking to implement the differentiation strategy do not only concentrate on one dimension but dwell on many dimensions such as gaining customer loyalty, image, innovation , level of service and quality (Kim, Nam & Stimpert, 2005). For example, in the microfinance sector, the services offered in comparison to the commercial banks have provided the firms with competitive advantage. Microfinance institutions in the Kenyan market and also in developing countries offer financial literacy services to their consumers. This financial literacy service is assumed to empower their consumers in order to plan, organize and increase their investments (Muteru, 2013).

2.2.3 Financial capability

Financial capability is the ability to produce goods and services at a lesser cost compared to that of competitors. Cost leadership strategy is demonstrated by low differentiation levels, application of information gained from previous experience together with the addition of new products only after there is market demand for them Porter (1980). In financial inclusion, the cost leadership strategy can be expressed through non-bank or low-cost financial institutions as is the case in microfinance institutions (Onaolapo and Odetayo, 2012). Studies (Hilman, 2009; Nandakumar, 2011) noted a tangible relationship between cost leadership and the level of firm competitiveness. The competitor orientation concept affects the performance of the business and further insight into the matter needs to be done and the relationship needs to be well stated. Literature review illustrates that the cost leadership strategy seeks to attain good returns on investment compared to its competitors and to maximize on economies of scale. The banking industry should shift attention to cutting costs by all means so as to achieve cost leadership.

A firm that seeks to achieve this differentiation strategy seeks to make customers believe that their products or services exhibit unique characteristics from those of its rivals in terms of reputation and image, design, reliability, quality and features (Baroto, 2012). The literature shows that firms in most developing nations seeking to implement the differentiation strategy do not only concentrate on one dimension but dwell on many dimensions such as gaining customer loyalty, image, innovation , level of service and quality (Kim, Nam & Stimpert, 2005). For example, in the microfinance sector, the services offered in comparison to the commercial banks have provided the firms with competitive advantage. Microfinance institutions in the Kenyan market and also in developing countries offer financial literacy services to their consumers. This financial literacy service is assumed to empower their consumers in order to plan, organize and increase their investments (Muteru, 2013).

According to Stuart (2007), financial institutions employ different criteria to distinguish their customers such as size of transaction, payment of high interest rates on large savings, but differentiation involves large customer categories, with adequate variation to bring about cross subsidization. In their study of marketing financial institutions in Ghana, Brafu-Insaidoo & Ahiakpor (2011), found that the financial institutions had introduced a range of products for their consumers which included import financing, varying terms of loan and group financial schemes and sale of insurance products, as practiced by banks in the rural setup. Their findings showed that the demand for deposit facilities is influenced by a number of determinants and can therefore be achieved with various savings products offering varying return and liquidity levels.

2.2.4 Technological capability

Technological capability is the set or part of knowledge which includes methods, knowhow, procedures, physical device, equipment and experience which display the heterogeneous and superior firm's technical and concern assets to design technologies, product technologies, information technologies and process technologies (Wang, Zhang, Po Lo and Xue, 2006). Technological capability is among the components of the capability of an organization (Zehir, Tanriverdi & Ascar, 2006) long-term and competitive a dvantagefirm's. Prior studies propose that the development of new products depend on the technological capability.

Technological capability provides to an organization technological strength and gives opportunity to create competitive advantage. New product development refers to the process whereby new products are thought of and created and the outcome of that process so as to attain the objectives of the firm in development of new products. Moreover, development of new products has been referred to as the extent to which a new product is unique and how it has changed marketing practices and thinking in the launching of new products (Liu & Yang, 2006). Also an emphasis on strategies of innovation positively affects new products' performance (Zhou, 2006) have also implemented Firms in innovativeness to attain performance of exports (Ussahawanitchakit, 2007). Then, firms with a large extent of development of new products seem to attain potentially higher export performance. Some of the new products in the Technological capability are, Mobile Banking, Internet Banking and Automated Teller Machines (Muo, C., & Omwenga, J. 2018).

The mobile banking app gives the bank access to a customizable, user-friendly suite of features. It is compatible with various devices, and simplifies banking for customers by allowing them to transfer funds between accounts in real time or transfer to friends or family instantly, access bank statements and view all account and transaction histories, (Wilson, 2003)

Almost all banks across the globe offer online banking with different capabilities and the competition is intense. With ever-increasing competition, banks have devised new ways to maintain their revenue streams. The core of the idea, however, still remains to offer more value and convenience to the customer. Technology-enabled online banking has opened possibilities for the banks to vie for that special place in the wallet of the customer, and online banking now does not stop at basic html pages showing limited information and as a privilege to "high end" customers (Omwenga, Mukulu, & Kanali, 2013).

Online Banking platforms have been in existence for more than a decade now and offering online banking is now as good as a commodity. Hence the present focus is not on getting the customers to adopt online banking, but, instead, having the customer adopt the latest technology in online banking. With more and more customers enrolling for online services, the banks are under constant pressure to provide distinctive and unique features catering to niche segments. Technology is an enabler that banks cannot afford to neglect (Muo, C., & Omwenga, 2018).

Kireru, J. N., Ombui, K., and Omwenga, (2016) stated that Customers, both corporate and consumer, are driving the technology needs of banks channel. Shorter transaction time, account details and bill payments is now considered standard for online channel. Imaging solutions are deployed in trade finance, as it is becoming increasingly important to store all transaction-related data in electronic format, including paper-based information. This reduces the reliance on paper-based files and allows the bank to have a comprehensive electronic overview of each trade finance transaction.

In the beginning according to (Daniel Theriaut, 2015), ATMs were very limited devices aimed at a select group of customers and offering a limited amount of cash. Over the years, new features such as envelope deposit, followed by envelope-less deposits, member-set preferences, and network capabilities, have brought the machines a long way. Newest features include alternate ways to verify ID, thumbprints and fingerprints, retinal scans, challenge questions and advanced transactions where credit union members can connect to the teller platform to perform functions such as wire transfers. The ATM walks them though the process with clear, explicit instructions.

Product development focuses on developing new products for exports and incorporating fresh ideas and methods in the process of production. Furthermore, Fujimoto & Clarks (1991) made a proposition that new product development is essential since new products bring about competition. Firms that exhibit higher levels of new product development show higher competitive advantages and show good response to changing environmental factors as well as achieving superior performance.

2.2.5 Organisational performance

According to Howorth and Westhead (2003), the literature on working capital management practices identifies efficiency in management of cash, management of receivables and management of inventories as determinants of financial performance. Financial performance therefore could be improved by increasing efficiency levels of receivables, cash, and inventory management practices, (Weinraub & Visscher, 1998). The study also established that proper management of current liabilities and current assets is vital in creating value for shareholders. According to Charitou *et al.* (2010), the firm can minimize its investment tied up in current assets, the realized funds can be invested in value-adding projects, which will increase the return on shareholders' investment and the firm's opportunity for growth. Also, if capital invested in cash, trade receivables, or inventories is not enough, the firm may have difficulty in doing its daily business operations.

These studies generally focus on accounting measures of profitability, such as return on assets and operating margins, (Financial performance can be described as a measurement of how well a firm uses its assets from its primary mode of business to generate revenue. It is also used as general measure of a firms overall financial health over a given period of time and can be used to compare industries as sectors in aggregation.

Cash flow analysis is the evaluation of how a company is obtaining and deploying its funds. This analysis provides insights into a company's future financing implications. A company which funds new projects from internally generated cash (profits) is likely to achieve better future performance than a company that either borrows heavily to finance its projects or, worse, borrows to meet current losses.) A cash flow statement is as a statement of changes in financial position on cash basis of a firm. It summarizes the causes of changes in cash position between dates of two financial periods. It indicates the sources and uses of cash within the firm. (Pandey (2005). Cash flow analysis supplements ratio analysis in examining a firm's operating activities, investment management and financial risks. It is used to evaluate on the strength of the firms internal cash flow generation; the ability of the firm to meet its short term financial obligations such as interests rates from its operation; the amount of cash used by the firm in investment and finding out the consistency in investments with regard to the business strategy; how the dividends have been paid, if from internal cash flow or for external financing; types of external financing used by the firm and finally to evaluate the excess cash flow after making capital investment

2.3 Empirical Review

According to Stuart (2007), financial institutions employ different criteria to distinguish their customers such as size of transaction, payment of high interest rates on large savings, but differentiation involves large customer categories, with adequate variation to bring about cross subsidization. In their study of marketing financial institutions in Ghana, Brafu-Insaidoo & Ahiakpor (2011), found that the financial institutions had introduced a range of products for their consumers which included import financing, varying terms of loan and group financial schemes and sale of insurance products, as practiced by banks in the rural setup. Their findings showed that the demand for deposit facilities is influenced by a number of determinants and can therefore be achieved with various savings products offering varying return and liquidity levels.

Service differentiation strategy focuses on the services offered to consumers by an enterprise. Differentiator firms particularly generate customer value through offering products of high-quality and good services at fair prices (Baroto et al., 2012). A firm that seeks to achieve this differentiation strategy seeks to make customers believe that their products or services exhibit unique characteristics from those of its rivals in terms of reputation and image, design, reliability, quality and features (Baroto et al., 2012). The literature shows that firms in most developing nations seeking to implement the differentiation strategy do not only concentrate on one dimension but dwell on many dimensions such as gaining customer loyalty, image, innovation , level of service and quality (Kim, Nam & Stimpert, 2005). For example, in the microfinance sector, the services offered in comparison to the commercial banks have provided the firms with competitive advantage. Microfinance institutions in the Kenyan market and also in developing countries offer financial literacy services to their consumers. This financial literacy service is assumed to empower their consumers in order to plan, organize and increase their investments (Muteru, 2013).

Kenyan borders (Kungu, Desta, & Ngui, 2014), studied 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 by 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.

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.

Subramanyam and John (2009) found out that financial performance of a company is measured through financial analysis in the context of the goals and strategy of the company. This can be achieved through usage of two principal tools of the financial analysis that are usually used are the ratio analysis and cash flow analysis. Ratio analysis of a company's present and past performance provides the foundation of making forecast of future performance. The objective of ratio analysis is to evaluate the effectiveness of the firm's policies in the four levels of management also referred to as the drivers of a firms' profitability and growth that the managers use in order to achieve the growth and profit targets of the company.

2.4 Critique of existing literature

Kenyan borders (Kungu, Desta, & Ngui, 2014), studied 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 this studied failed to look at the influence of management capability on this performance. 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 by 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.

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2.5 Research gap

The 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. This studied failed to look at the influence of management capability on this performance. 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.

In their study of marketing financial institutions in Ghana, Brafu-Insaidoo & Ahiakpor (2011), found that the financial institutions had introduced a range of products for their consumers which included import financing, varying terms of loan and group financial schemes and sale of insurance products, as practiced by banks in the rural setup. Their findings showed that the demand for deposit facilities is influenced by a number of determinants and can therefore be achieved with various savings products offering varying return and liquidity levels. There is need to check whether this can be applicable in Kenyan context (Wanjohi,& Omwenga,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

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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

3. RESEARCH METHODOLOGY

3.1 Research Design

The study used descriptive research design. According to (Muruga, 2017) the major purpose of descriptive research design was to describe the state of affairs as it is at present. It is the process of collecting data to answer questions concerning the status of the subjects in the study. Kothari (2011) describes descriptive research as concerned with characteristics of a particular individual.

3.2 Target Population

This is the total population from which the survey sample was drawn. 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. This was purposely done to identify respondents who were crucial in the implementation of strategic programs within the banking industry.

3.3 Sampling Size.

The sample size was 30% of the total population. According to (Mugenda, A. & Mugenda, M. (2013) 30% was a representative sample.

3.4 Sampling techniques

This is a method of selecting an appropriate sample size from which observations about the target population is drawn. It is a portion of the target population from which data is collected, summarized, analyzed and inferences about the target population from the sample is made (Cooper & Schindler, 2014).

A stratified random sampling was used in the study and would involve a random selection of respondents from each stratum to select various categories of line managers across the locally and foreign owned banks. According to Mugenda and Mugenda (2003), random sampling ensured that the sample was evenly distributed and thus reducing biases in the target population a true representation of the target population. It was to select respondents based on their roles in strategic decision making that affected the performance of individual department of the bank. The study focus for this project were the 41 Commercial Banks in Kenya and the unit of analysis was the four departments respectively.

Table 3.1: Sampling procedure and Sample Size

Strategic Departments	Population	Proportion	Sample Size
Operations Management Department	287	32%	86
Marketing Department	246	27%	73
Finance Department	164	18%	49
Information Technology Department	205	23%	62
Total	902	100%	270

Source: CBK (2017)

3.5 Data Collection Instruments

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 to be 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. The tool enables the researcher to explore the opinion and perception of respondents on the influence of various strategic management capabilities on the performance of their banks.

Secondary data was also used in this research, drawn from annual reports of the CBK and commercial banks.

3.6 Pilot Testing

A pilot test is a test research project as it authenticates the research tools to be used and it increases the level of accuracy of the data collected. It provides the research with an opportunity to rectify questions that might be misinterpreted or may not be necessary or those that maybe contradictory with the objectives of the research being undertaken. The pilot group was based on 10% of the target population. The pilot data was not to be included in the actual study (Mugo, 2016).

3.7 Data Analysis and Presentation

Data analysis is the process of bringing order, structure and meaning to the mass of information collected (Mugenda and Mugenda, 2008). Data is edited to ensure errors are inspected and corrected. Qualitative data is coded transcribed and presented as reports. The information is also analyzed and evaluated to determine its usefulness, credibility, consistency and adequacy. The study will use linear regression analysis model with the aid of Statistical Package for the Social Science version 26.0 (SPSS) analytical software. The data will be analyzed and presented using means, percentages, frequency tables as well as charts.

Data and information obtained through the questionnaire will first be checked for completeness. Data then will be summarized, coded and tabulated. Simple regression and correlation analysis will also be conducted to establish the influence of strategic management capabilities on the performance of commercial banks in Nairobi CBD.

3.7.1 Regression Analysis Model

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) will be used to determine the strength of the relationship between the dependent and independent variables. Coefficient of determination (R^2) will be also used to show the percentage for which each independent variable and all independent variables combined explained the change in the dependent variable. In this study, the response (criterion) variable (Y) is the performance while the independent (predictor) variable s are management capability, marketing capability, financial capability and technological capability. The following model will be used.

$$Y=\beta_o+\beta_1X_1+\beta_2X_2+\beta_3X_3+\beta_4X_4+\varepsilon$$

Where:

Y= Represents Organizational performance

B_0............β_4=Regression coefficients to be estimated

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

β_1, β_2, β_3, and β_4, are model parameters which describes the direction and strength of relationship between the dependent and the independent variables.

β_o is a constant (intercept)

4. RESEARCH FINDINGS AND DISCUSSION

4.1 Response Rate

The response rate of the respondents is expressed and as indicated, the number was sufficient enough to support requisite analysis of data and could be relied upon to make accurate findings and conclusions. As shown in Table 4.1, out of the 270 questionnaires administered, only 210 were completed and returned and therefore used in the analysis representing 77% response rate

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Table 4.1 Response Rate

Strategic department	sample	**actual response**	**% response**
Operations Management Department	86	70	81
Marketing Department	73	60	82
Finance Department	49	38	78
Information Technology Department	62	42	68
Total	270	210	77

4.2 Validity and Reliability Test Results

To test for the reliability of the data collection instrument, both reliability and validity tests were performed.

4.2.1 Reliability Test

Cronbach's coefficient alpha which is one of the most common methods in gauging reliability (Bryman, 2011) for each variable was done. The test found out that overall Cronbach's alpha for managerial capability was (0.773), marketing capability was (0.793), financial capability was (0.712) and technological capability was 0.754 as indicated in table 4.2 indicating an acceptable reliability coefficient. According to Saunders, Lewis and Thornhill (2009) and Bryman (2011) a reliability coefficient of 0.7 is acceptable indicating acceptable internal consistence of the constructs.

Table 4.2: Reliability test

Test Constructs	**Composite Reliability**
Managerial capability	0.773
Marketing capability	0.793
Financial capability	0.754
Technological capability	0.712

4.2.2 Validity Test Results

Validity is a characteristic of measurement concerned with the extent that the test measures what the researcher actually wishes to measure, and that the difference found with a measurement tool reflect the true differences among participants drawn from a population (Cooper & Schindler, 2014). The study used face validity to ascertain the validity of the questionnaires. To confirm face validity, survey items were sent to 5 respondents to obtain suggestions for modification. In addition, the expert review comments including supervisors review comments were used to ensure that content validity was enhanced

4.3 Demographic Characteristics of Respondents

Demographic characteristic of the respondents such as gender; levels of education; work experience, and work department were captured. This information for this study was collected from participants within the administration and management departments of all the 42 commercial banks in Nairobi CBD.

4.3.1 Gender of Respondents

Information on the gender composition of the respondents was sought. The results are shown in Table 4.3 below

Table 4.3: Gender of respondents

	Frequency	Percent	Valid Percent	Cumulative Percent
male	117	55.7	55.7	55.7
female	93	44.3	44.3	100.0
Total	210	100.0	100.0	

Majority of the respondents who represented 55.7% of the sample were male while 44.3% were female. This implies that management level positions in the banking industry in Kenya is male dominated. This supports the findings of Mathenge (2013) who stated that female middle level managers in Kenyan organizations face a glass ceiling and other professional impediments in their working environment which inhibit their promotion.

4.3.2 Age bracket

Information on the age brackets of respondents was asked for and the results were as in the 4.4 below

Table 4.4: age of respondents

age in years	Frequency	Percent	Valid Percent	Cumulative Percent
18-30	36	17.1	17.1	17.1
31-40	169	80.5	80.5	97.6
41-50	5	2.4	2.4	100.0
Total	210	100.0	100.0	

4.3.3 Level of education

Information on the respondent's level of education was sought. The results are indicated in Table 4.5 below

Table 4.5: level of education

	Frequency	Percent	Valid Percent	Cumulative Percent
Certificate	3	1.4	1.4	1.4
diploma	22	10.5	10.5	11.9
degree	110	52.4	52.4	64.3
Master/PhD	75	35.7	35.7	100.0
Total	210	100.0	100.0	

4.3.4 Working experience

The respondents were asked to provide information on the work experience in the banking industry as shown in Table 4.6

Table 4.6: Work experience

	Frequency	Percent	Valid Percent	Cumulative Percent
less than a year	28	13.3	13.3	13.3
1-5 years	92	43.8	43.8	57.1
5-10 years	85	40.5	40.5	97.6
more than ten years	5	2.4	2.4	100.0
Total	210	100.0	100.0	

4.3.5 Respondent's department

Information on the respondent's department was sought. The results are indicated in Table 4.7 below

Table 4.7: department of respondents

name of department					
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	operations management	70	33.3	33.3	33.3
	Marketing	60	28.6	28.6	61.9
	Finance	38	18.1	18.1	80.0
	information technology	42	20.0	20.0	100.0
	Total	210	100.0	100.0	

Majority of respondents which were 33.3% were from operations department, 28.6% were from marketing department, 20% from information technology and 18.1% from finance department. This shows that operations department has most activities in the bank so for them to operate effectively they must put more staff on that department.

4.4 Tests for Assumptions of the Variables

Before regression analysis was done, the assumptions of multivariate analysis were tested to ensure that there was no violation of multivariate analysis assumptions. The data was checked for Multicollinearity.

4.4.1 Multicollinearity Test

The study computed tolerance to test if there was Multicollinearity as indicated below

Table 4.8: Colliearity test

Coefficients[a]								
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	19.242	1.486		12.951	.000		
	Managerial capability	-.023	.048	-.033	-.474	.636	.884	1.131
	Marketing capability	.090	.064	.106	1.408	.161	.743	1.346
	Financial capability	.027	.015	.135	1.822	.070	.770	1.299
	Technological capability	-.296	.057	-.362	-5.182	.000	.866	1.155
a. Dependent Variable: banks performance								

4.5 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.

4.5.1 Managerial capabilities

Table 4.9 statements relating to the influence of managerial capabilities on the performance of commercial banks.

Table 4.9: 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

4.5.2 Marketing capability

Table 4.10: influence of marketing capability

Statement	1	2	3	4	5
Market research has helped in increased sales output	2.4%	3.3%	37.3%	47.8%	9.1%
Market research has led to better target audience and consumer management	4.8%	12.1%	8.2%	59.9%	15%
Monitoring pricing processes has led to customers become loyal to the online brand	2.4%	28.1%	30.5%	25.2%	13.8%
Effective pricing methods has facilitated increase in profits in banks	5.7%	19.5%	42.9%	25.2%	6.7%
Aim to be responsive to customer’s needs and demands will ensure one develops the right products at the right time	22.9%	35.2%	35.7%	6.2%	0%

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

4.5.3 Financial capability

Table 4.11: influence of financial capability on banks performance

Statement	1	2	3	4	5
Proper capital management help the organization to monitor and match financial resources and expenses	21.0%	23.8%	18.6%	34.3%	2.4%
Financial statements helps analyze the level of assets business and its effect on performance	32.9%	18.1%	4.8%	5.7%	31.0%
Cash management helps to face unexpected cash drains incase the bank is getting losses	23.8%	20.0%	24.3%	25.2%	6.7%
Cash management satisfy day-to-day business requirements and provide for scheduled major payments	10.5%	11.0%	23.8%	49.0%	5.7%
A good credit control system ensure only paying customers are given certain privileges	25.7%	12.4%	22.4%	39.5%	0%

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

4.5.4 Technological capability

Table 4.12: Influence of technological capability

Statement	1	2	3	4	5
Mobile banking is used for performing account transactions, payments and credit applications	9.5%	6.7%	49.0%	20.0%	14.8%
Banking transactions are made through a mobile device such as a mobile phone	6.7%	21.0%	31.4%	29.5%	11.4%
The internet enable financial interaction of banks with their customers	20.5%	12.4%	29.0%	25.7%	12.4%
There is growth of large electronic networks in the financial industry through technology	0.0%	7.1%	31.0%	35.2%	26.7%
Automated teller machines are readily available improving banks performance through business development	4.8%	6.7%	52.9%	21.4%	14.3%

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

4.5.5 Organizational performance

Table 4.13: organisational 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

4.6 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.

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4.7 Correlation Analysis Findings

Table 4.14: correlation analysis

		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).						

4.7.1 Correlation between managerial capability and banks financial performance.

As indicated in Table 4.14, 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.

4.7.2 Correlation between marketing capability and banks performance

There was a weak positive correlation between marketing capability and banks performance (.124, p<.01). This implied that there was a positive correlation among these two variables. The organization therefore adopted the use of market research, price monitoring, effective pricing and meeting customer needs as a way of boosting sales and hence profitability.

4.7.3 Correlation between financial capability and banks Performance

Also there was a significant inverse relationship between financial capabilities and banks performance (-.29, p<.01). This implies there was a negative influence on capital management, cash management and credit control on the overall performance of commercial banks. Commercial banks decided to adopt different measures in order to improve the performance.

4.7.4 Correlation between technological capability and commercial banks performance.

There was also a weak negative correlation between technological capability and banks performance (-.343, p<.01). This implies that mobile banking, use of internet in transactions and ATMs had and inverse relationship with banks performance. The banks therefore had to improve on the use of technology to improve the performance.

4.8 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 ($\alpha = 0.05$). 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 4.15: Model Summary

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

The findings indicates the correlation between managerial capability, marketing capability, financial and technological capability are 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.

4.8.1 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

4.8.2 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 4.16 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 4.16: 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: banksperfomance						
b. Predictors: (Constant), Managerial capability, financial capability, technological capability, marketingcapability						

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Table 4.17: 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.

4.9 Conclusion

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 concludes that the questionnaire tool is reliable and results are valid informing the research need.

5. SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Summary of the Study

This study assessed the influence of strategic management capabilities on the performance of commercial banks in Kenya. The specific objectives of the study were to establish the influence of management capabilities, marketing capabilities, financial capabilities and technological capabilities on the performance of commercial banks in Nairobi County. The study adopted a descriptive design where both quantitative and qualitative data were collected. The target population was 42 banks and 902 middle and senior managers out of which 270 respondents were selected for interviews. Sampling involved use of stratified random sampling.

5.1.1 Managerial capabilities

Several statements were made to explore more truth and reactions were observed differently from the respondents, and in the statement relating to collaboration in decision making to find solutions to issues in the organization was positively responded to where majority of the respondents were in agreement, while minority were in disagreement with the statement claiming that there was no involvement of employees in decision making.

On the statement relating to collaborative decision making to understand the direction and perspectives of issues at hand majority were in agreement with the statement, minority were in disagreement. The few that disagreed claimed that most employees did not understand issues in the organization since few were involved in decision making. On the statements relating to creation of confidence in leadership and that of nurturing creativity majority were in agreement and minority disagreed.

5.1.2 Marketing capability

On the statement relating to market research increasing sales, the majority of respondents were in agreement citing vigorous market research has improved sales while minority disagreed with the statement. On the statement relating to market research has led better consumer audience and management majority agreed with the statement while minority disagreed. On the statements; monitoring pricing processing increasing loyalty to brands and effective pricing leads to high profits, most respondents seemed to be undecided while a few were in agreement with the statements. While on the statement relating to responsiveness to customer needs and demands to ensure production of right products majority of respondents disagreed claiming that organizations are not keen on customer demands when launching new products in the market.

5.1.3 Financial capability

To explore more on the statement relating to financial capability several statement were made and different reactions were observed as discussed herein. On the statement relating to proper capital management leading to proper monitoring of financial resources, the minority were in agreement while majority disagreed with the statement claiming that capital management was poor citing inadequate funds to carry out daily activities.

On the statement relating to financial statements analysis help in checking the level of assets in an organization, majority of the respondents were not in agreement claiming that the assets in financial statements do not reflect the actual assets on the ground, while minority were in different opinion with the statement.

On the statement of cash management helps face unexpected cash drains in case banks are getting losses, majority of the respondents were not in agreement with the statement claiming that information given should be of high quality while minority were in agreement. Cash management satisfy day to day business requirements and provide for scheduled major payments as majority of the respondents were in agreement citing prompt payment of salaries and creditors. On the statement relating to good credit control system ensures only paying customers are given privileges, majority of the respondents were in the agreement stressing that discounts were given to prompt paying customers. Minority of respondents were undecided and a good number were not in agreement with statement.

5.1.4 Technological capability

To explore more on technological capability, several statement were issued and on the statement of mobile banking is used in performing account transactions majority of the respondents were undecided but a good number were in agreement citing that many clients use mobile banking, minority of the respondents were in differing opinion stressing that most clients prefer manual transactions to mobile banking citing insecurity. On the statement of internet enable financial interaction of banks with their customers, majority of the respondents were in agreement stating that most customers have embraced internet in doing their transactions. On the statement that there is growth in large electronic networks in financial industry through technology, most of the respondents were undecided citing they didn’t have accurate statistics on the same. However a good number were in agreement with the statement. On the statement of ATMs are readily available improving bank majority of the respondents were in agreement while minority disagreed with the statement citing long down time of ATM machines.

5.1.5 Performance of commercial banks.

On the statement relating to the banks performance based on latest CBK report the majority of respondents rated the banks performance as good claiming upward trend as compared to similar period in the previous year. On the statement on general profitability of commercial banks, majority of respondents gave impressive ratings with the minority not impressed with the performance citing increase in expenses.

Majority of the respondents rated the banks general performance as good. On the statement on job satisfaction, most respondents were satisfied citing motivation and prompt payments. However, minority of respondents rated it as poor. Lastly on the statement total revenue collection maturity of respondents rated it as generally good.

5.2 Conclusion

This study was exploratory and investigated the influence of organizational capabilities on commercial banks performance. The focus was on elements of strategic management capabilities which include: managerial capabilities, marketing capabilities, financial capabilities and technological capabilities and how they influence the performance of commercial banks in Nairobi County. Each organizational capability was isolated and weighed against known bank performance indicators such as profitability, market share and growth.

The study revealed positive correlations between marketing capability and performance of commercial banks and a negative correlation between managerial capability, financial capability and technological capabilities and commercial banks performance. It was determined that a unit increase in managerial capability, financial capability and technological capability resulted into a decrease in performance level while a unit increase in marketing capability resulted into increase in banks performance. Subsequently, we conclude 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.

5.3 Recommendations

The study has made the following recommendations:

5.3.1 Managerial Policy

At the policy front, the study recommends the realignment of commercial banks' vision and mission statements with the performances goals and makes them adaptable to technological and market dynamics. Therefore, it is equally suggested that commercial banks should continuously engage in updating their systems to remain relevant in the market. Vision and mission statements that spell out their strategic focus in the future and deploy sufficient systems and resources in terms of funding, skilled personnel and appropriate technology that foster their attainment. The envisioning of strategies should always be inclusive and guided by the views of all the stakeholders. In addition, the management of commercial banks should adapt collaborative decision strategy involving all employees in decision making.

5.3.2 Market Adaptation

Due to changing market structures and fast evolving technologies, the study recommends that commercial banks should adapt and regularly review their marketing capabilities and implement monitoring and evaluation options to ensure programmes are successfully implemented or adjusted as the prevailing situation demands. It was determined that certain banks tended to be conservative in their operational approaches and failed to change with the changing industry environment thereby registering poor performance. In this regard, the study recommends a market policy framework which sensitive to the action of rival banks and activities in the financial market.

5.4 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 recommends 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 recommends 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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