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INFLUENCE OF ORGANIZATIONAL COMPETENCE ON PERFORMANCE OF FIRMS LISTED AT THE NAIROBI SECURITIES EXCHANGE

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Abstract: **The aim of this study was to establish the influence of organizational competence on the performance of firms listed at the Nairobi Securities Exchange (NSE). Organizational competence is the ability of an organization to cope with modern environmental dynamics and effectively perform its mandate to meet its goals and steer performance and continuity. While the firms listed at NSE have been at the forefront of steering economic growth and development in Kenya, most of the firms have unsustainable performance characterized by declining profit margins, losses and shrinking market capitalization which poses a threat to investors and shareholders. This study therefore sought to assess the role played by organizational competence in enhancing firm performance of the listed firms at NSE. Descriptive research design was employed and the target population was the listed firms at NSE. Purposive sampling and census were applied where all the listed firms were surveyed (census) while purposive sampling was used to pick four senior managers from each of the companies. A structured questionnaire was used to collect data which was analysed through descriptive and inferential statistics. The findings revealed that organizational competence was a key aspect in steering the performance of the listed firms. It was concluded that the listed firms with more competent management recorded better performance thus recommending that the listed firms ought to embrace organizational competence as a key driver to enhancing organizational performance.**

Keywords: **Organizational Competence, firm performance, listed firms, Nairobi Securities Exchange.**

1. INTRODUCTION

Background of the Study

In the modern business environment, organizations require to have the best combination of skills and competencies in order to effectively compete with their peers and cope with the ever dynamic operating environment. Organizational competence is the capability of a firm to combine resources in order to efficiently achieve a particular activity (Grant, 1991). It is the combination of idiosyncratic capabilities that define a firm's fundamental business. Core competences are derived across the range of a firm's (and its competitors) products and services (Teece, Pisano & Shuen, 2007). Generally, organizational competency is the underlying characteristic of persons in an organization that could be a motive, trait, skill, aspect of one's self-image, social role, or a body of knowledge which he or she uses. These characteristics are revealed in observable and identifiable patterns of behavior, related to job performance and usually include knowledge, skill and abilities (Syahrum, 2016).

Organizational competencies are specified as a mean of 'being able to perform a work role to a defined standard with reference to real working environments' (Yudi, 2015). The substantial idea of investing in the functional competencies is based on improving the performance of employees because they are the basis of cognitive and intellectual asset configuration, where individuals are the foundation upon which various organizations depend in achieving their objectives (Mieres, 2012). The competencies enable modern organizations to make effort and to spend time and money to choose the best efficient of them. Organizations ought to pay particular interest in terms of providing appropriate training opportunities to employees, and giving them more continuous and morale boosting incentives which contribute greatly to the different needs. According to Mappamiring (2015), organizations seek to make their employees more committed and sincere to the service by providing them with the right skills and competencies which are effective ingredients in creating innovation among employees.

Measuring the performance of a firm refers to the process of measuring a firm's efficiency and effectiveness in its operations (Neely, Gregory & Platts, 2005). Such measurement offers significant invaluable information that can empower management to monitor performance, evaluate progress, improve motivation and communication and identify emerging problems (Waggoner, Neely & Kennerley, 1999). A preview of attendant literature on the subject of firm performance reveal firm performance is a relevant construct in strategic management research and is frequently used as a dependent variable. This notwithstanding, strategic management thinkers have been criticized for not giving this topic a high priority that it duly deserves owing to its importance in the field of strategic management (Boyd, Gove & Hitt, 2005).

The definition of firm performance and its measurement continues to challenge scholars due to its complexity (Santos & Brito, 2012). In this study, firm performance was based on stakeholder theory which provides a conceptual structure to define performance indicators and dimensions. Multi-dimensional framework on firm performance by Santos and Brito (2012) is used in this study where seven constructs (profitability, growth, market value, customer satisfaction, employee satisfaction, environmental and social performance) representing multiple dimensions and facets of firm performance are used.

Herbling (2015) noted that at least 4 NSE-listed firms (Uchumi, Kenya Airways, Mumias Sugar and Express Kenya) were reported to either be insolvent, nearly insolvent or operating on negative working capital. Some of these firms have been experiencing turbulence leading to their exclusion from ratings such as the list of 20 blue-chip firms constituting the NSE 20 Share Index. Some of the listed firms have lost over Kes.1.1 billion in profits in a year (NSE 2014) while recording increased redundancies which are all signs of declining performance. In contrast, there are firms that continue to perform exceedingly well within the same environment. This study argues that the variance in performance is driven by how firms configure and recombine firm level factors to sustain their competiveness thereby delivering above average returns. This study proposes that the differences in performance can be attributed to organizational competencies which are more internal than external.

Statement of the Problem

Listed firms have been known to be among the major economic boosters of economic activity for decades. This is however not substantiated in the current times where most of the listed firms are facing huge performance issues. Between the year 2011 and 2017, more than 35% of the listed firms had issued profit warnings and majority ended up wither recording losses or recording declined profits. This is a subject of concern since these firms are the major pace-setters in the economy and their reputation is critical to the economy at large (GOK, 2016). While it can be assumed that the turbulence in the operating environment including competition, globalization, economic fluctuations and technology changes could be the bottlenecks behind the current situation of some of the listed firms, it stands unclear why some firms are performing very well while others are completely struggling despite operating in the same market with the same conditions. Empirical evidence has linked firm performance with organizational competencies (Afiah, 2018; Palan, 2007; & Arifin, 2015). However, there are no such studies locally especially on the relationship between organizational competencies and performance of the listed firms at NSE. This study therefore sought to address this by assessing the influence of organizational competence on the performance of firms listed at NSE.

Study Objective

This study sought to establish the influence of organizational competence on the performance of firms listed at Nairobi Securities Exchange.

2. LITERATURE REVIEW

Theoretical Review

Resource Based View Theory (RBV)

The resource based view (RBV) theory of the firm emphasizes firm specific resources and capabilities as a major determinant of firm performance and competitive behaviour (Penrose, 1959; Barney, 1986; Wernerfelt, 1984; Peteraf, 1993). The RBV model contends that firm specific resources enable the firm to earn abnormal returns/profits and assure a

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sustainable competitive advantage (Peteraf, 1993). Proponents of this view are of the opinion that organizations should look inside the company to find the sources of competitive advantage instead of looking at competitive environment for it.

According to RBV approach, organizations gain sustainable competitive advantage by exploiting external opportunities using existing resources in an innovative way instead of trying to acquire new competences for each different opportunity. In RBV model, resources are given a major role in facilitating companies to achieve higher organizational performance. There are two types of resources: tangible and intangible.

Tangible resources offer little competitive edge over rivals since they can easily be acquired.

Intangible assets on the other hand have no physical presence but still create competitive edge for an organization. Intangible assets include such things as brand, trademarks, intellectual property, knowledge capital and culture. For most organizations, intangible assets provide the main source of sustainable competitive advantage. The RBV concept is founded on two key assumptions: resources are heterogeneous and immobile. Resources are said to be heterogeneous in that they differ from one organization to another. Organizations achieve competitive advantage by employing different combination of resources. On the other hand, immobility of resources means that resources do not freely move from one organization to another in the short run.

Dynamic Capabilities Theory

The basic assumption of the dynamic capabilities framework is that core competencies should be used to modify short-term competitive positions that can be used to build longer-term competitive advantage (Eisenhardt & Martin, 2008). Dynamic capabilities theory attempts to deal with two key questions: (1) how can senior managers of successful companies change their existing mental models and paradigms to adapt to radical discontinuous change? And (2) how can companies maintain threshold capability standards and hence ensure competitive survival (Nonaka & Takeuchi, 1995). When senior managers are confronted with the task of building dynamic capabilities, they need to consider drastic fluctuations in the threshold capability and standards, making it more and more complex for companies to understand the minimum requirements needed to remain in the game as key industry player (Ludwig & Pemberton, 2011).

Conceptual Framework

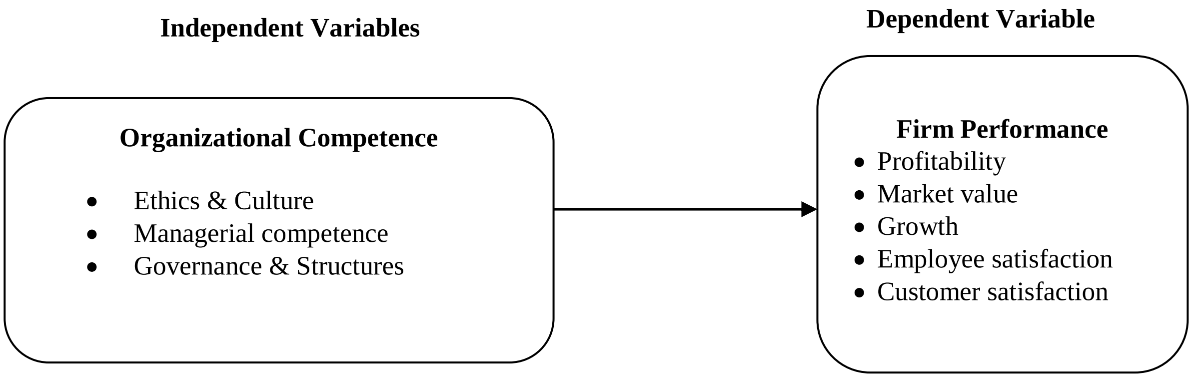

Figure 1: Conceptual Framework

Empirical Literature Review

Organizational competencies are of central concern for managers since they are recognized as the main source of competitive advantage for firms (Prahalad & Hamel, 1990). Actually, a firm's competence comes from its capability to combine resources in order to efficiently achieve a particular activity (Grant, 1991). Firm resources are the basic building blocks of firm competencies, but the competitiveness of firms comes from their specific competencies (Bounfour, 1999). Carine and Bruno (2003) assessed whether large firms' organizational competencies affect innovation performances of 148 large firms in Belgium through an original survey. The sub competencies were grouped into seven broad organizational competencies associated with the innovation process. For each broad competence a principal component analysis was run to illustrate whether the sub-competencies are related to three innovation performance indicators, including Research and Development (R&D) intensity, the number of patents and the share of sales accounted for by innovative products and processes. The empirical results showed that the output related to innovation performance indicators (innovative output and the number of patents) were closely related with most organizational competencies, whereas R&D intensity is only correlated with two competencies (developing an innovation culture and using internal funding for innovation). Innovation performance was not only a function of the investment devoted to the creation of new products, processes or services, but also a function of the organizational process underlying innovative activities (Carine & Bruno, 2003).

Empirical research has already postulated the link between learning routines and the creation of competencies, but it is less clear how competencies influence organizational performance. Murray's empirical investigation determining the relationship between the creation of competencies and the quality of learning (Murray, 2003), built on prior research that validated the usefulness of linking levels of learning with the evidence of competencies by illustrating how the creation of competencies is a socially constructed phenomenon. Socially constructed routines of themselves have little inimitable advantage to firms unless the routines are underpinned and harnessed by unique learning systems. Murray (2003) explored these concepts by showing how the creation of competencies depend on, and are predisposed to, the quality of learning interaction, the routines that are patterned from these, and the capacity of the organization to turn the new socially constructed routines into superior performance.

Hawawini, Subramanian, and Verdin (2003) carried out a study that revisited the question of whether firms' performance is driven primarily by industry or firm factors, extending past studies. They examined the findings of past research and whether the same could be generalized across all firms by using data covering a longer period. The sample set covered a 10-year period from 1987 to 1996, and contained 5,620 observations for 562 firms across 55 industry classifications. The study was purely focused on US companies. Results from their study indicated that a significant proportion of the absolute estimates of the variance of firm factors is due to the presence of a few exceptional firms in any given industry.

Hansen and Wernerfelt (1989) in a research titled *''Determinants of Firm Performance: The Relative Importance of Economic and Organizational Factors'',* decomposed the inter-firm variance in profit rates into economic and organizational components. Their study sample consisted of 60 Fortune 1000 US firms representing both dominant and lesser members of their respective industries. Firm performance was selected as the average 5-year return on asset. Using a representative model from each paradigm, they discovered that both sets are significant determinants of firm performance. Further findings indicated that the two effects were largely independent and that organizational factors explained twice as much variance in profit as economic factors. The current study focuses on a different geographical context (Kenyan firms), different timing (2009-2014) and proposes to use a different measure for firm performance.

3. RESEARCH METHODOLOGY

The study adopted a combination of descriptive and exploratory research designs to relate relationships between organizational competence and performance of listed firms at NSE. The target population for this study was firms listed at the NSE and were actively trading as at December 31st, 2017. A census was conducted where all the listed firms were involved in the study. Four managers were purposively picked from each company as the units of observation.

A structured questionnaire was used to obtain primary data for the study. A drop and pick method was used to administer the questionnaire. Descriptive statistical technique was used to analyze the collected data. This consisted of graphical and numerical techniques for summarizing data, thus reducing a large mass of data to simpler, more understandable terms. The multiple regression model in this study is derived from the conceptual frame work and is as shown below:

$Y = \beta_0 + \beta_1 X_1 + e$

Where:

Y= represents the dependent variable, Firm Performance

β_0 = Constant

X_1 = Organization Competence

$\beta_1 \ldots \beta_4$ are the regression coefficients

e = the residual in the equation

4. RESEARCH FINDINGS

The study obtained a response rate of 75% (180 respondents). This therefore made the study appropriate to make conclusions and recommendations since according to Kingslay (2012) a response rate of 30-60% in a study is adequate for making conclusions and recommendations.

Organizational Competencies

Corporate Governance Competencies

The study sought to find out the respondents' level of agreement on statements on the corporate governance as an aspect of organizational competencies. The respondents were requested to indicate whether they 'Strongly Disagreed (SD)', 'Disagree (D)', 'Neutral (N)', Ágree (A)', Strongly Agreed (SA)' to various statements The findings as shown in table 1 revealed that the board of directors considered interests of all stakeholders before making critical strategic decisions and that board of directors monitored the effectiveness of the company's governance practices. According to Tippins and Sohi (2003), the ability of the executives in an organization play a significant role in promoting firm performance through a better streamlined leadership and decision making. For a firm to therefore outperform, both the management and non-executive management must actively participate in strategy formulation, execution and review. All the interests must be aligned to create healthy harmony required for an organization to run smoothly.

Table 1: Agreement with statements on Corporate Governance

Statement	SD	D	N	A	SA	Mean	Std. Dev.
The board of directors considers interests of all stakeholder before making critical strategic decisions	2.2	8.3	16.1	50.6	22.2	3.82	0.94
Board of directors monitors the effectiveness of the company's governance practices	1.1	6.1	15.0	30.0	47.8	4.17	0.97
The board of directors actively monitors the performance of executives. elects and replaces when necessary	2.8	9.4	15.6	34.4	37.8	3.95	1.07
The board of directors monitor and manage potential conflicts of interests between executive management and all other stakeholders	1.7	10.0	15.6	35.6	37.2	3.96	1.04
The board of directors approve all strategic plans for the company and monitor corporate performance	1.7	13.9	12.8	42.8	28.9	3.83	1.04
The duality of the CEO and the chairman greatly contributes to organizational stability and performance	1.7	9.4	13.9	37.8	37.2	3.99	1.02

Managerial Competency

The respondents' views on managerial competence in their respective organizations were sought. The findings as shown in table 2 revealed that majority of the respondents agreed that development of competence decision making and problem solving strategies influence organisational performance better than its competitors and that for an organisation to succeed, ability to monitor and manage tasks, to influence others, to take calculated risks, make quick responses, accepting changes, move positively towards achievements, enhancing knowledge by teaching and motivating employees is an absolute necessity. The findings concur with those by Murray (2003) who established that strategies and firm competitiveness starts right at the competencies of the firm whereby the capability of the organization to deal with daily issues play a key role in determining how effective they come up with new and competitive ideas.

Table 2: Agreement with statements on Managerial Competencies

Statement	SD	D	N	A	SA	Mean	Std. Dev.
Development of competence decision making and problem solving strategies influence organisational performance better than its competitors	1.7	6.7	16.7	48.3	26.7	3.91	0.92
For an organisation to succeed, ability to monitor and manage tasks, to influence others, to take calculated risks, make quick responses, accepting changes, move positively towards achievements, enhancing	1.1	11.1	17.8	44.4	25.6	3.82	0.97

knowledge by teaching and motivating employees is an absolute necessity.							
To deliver results, a firm must possess skills to drive performance by ensuring the management make effort to pursue set vision and mission, create a favourable and dynamic environment to achieve corporate objectives.	1.1	6.7	11.7	33.9	46.7	4.18	0.95
To out-compete rivals a firm must cultivate the ability to understand customer needs and expectations provide extra efforts delivering extraordinary services to meet their expectations.	0.0	14.4	17.8	31.7	36.1	3.89	1.05

Ethical Competencies

The respondents' views on the ethical competencies in their respective organizations were sought in the study. The findings as shown in table 3 revealed that majority of the respondents agreed that the organization is truly conscious of ethical issues and has proper policy, procedures and organization routines for guiding ethical practices and that the organization truly believes maintaining ethical standards creates a favourable relationship between the organization and its environment which translates to better performance. A study by Smallman (2004) found that ethical competencies in an organization were key to its inability to meet satisfy customer demands while still enhancing its relation with the external environment. The results imply that firm performance is influenced by proper corporate governance practices, managerial competencies in running business operations and mediated by organizational ethical practices.

Table 3: Agreement with Statements on Ethical Competencies

Statement	SD	D	N	A	SA	Mean	Std. Dev.
Your organization is truly conscious of ethical issues and has proper policy, procedures and organization routines for guiding ethical practices	1.1	7.2	15.0	43.3	33.3	4.00	0.93
Your organization truly believes maintaining ethical standards creates a favourable relationship between your company and its environment which translates to better performance	1.7	7.8	20.0	36.7	33.9	3.93	1.00

Firm Performance

Firm Profitability

The study sought views from respondents on various metrics traditionally used to measure firm profitability. The views were gathered regarding opinion on average profit growth during the period under study, average return on assets and return on equity, average market growth and market capitalization. The findings are as enumerated in the next sub-sections

Average Return on Equity (ROE) and Return on Assets (ROA)

The study sought to establish the performance of the firms in terms of ROA and ROE. The study found that majority of the firms (43.3%) had more than 25% growth rate of the Return on Equity while 13.9% of the respondents had below 5% growth rate in the ROE. On the other hand, majority of the firms (56.7%) had between 5 and 10% growth rate in the Return on Assets while 7.2% of the firms had a growth rate on ROA below 5%.

Table 4: Average Return on Equity and Return on Assets

	ROE			ROA	
	Frequency	**Percentage**		**Frequency**	**Percentage**
Below 10%	16	8.9%	Below 5%	13	7.2%
10%-30%	139	77.2%	5-10%	102	56.7%
Above 30%	25	13.9%	Above 10%	65	36.1%
Total	**180**	**100%**	**Total**	**180**	**100%**

Firm Average Market Growth

The study sought to find out the Market share of the firms listed at the NSE. To address this, the respondents were asked to indicate the average growth in market share and number of times their respective companies carried out market research to ascertain the market share. The findings as shown in table 5 revealed that majority of the firms (62.2%) had a market share growth rate of between 3 and 10%. The findings showed that majority (52.8%) of the firms carried out market research to ascertain market share after every 5 years. The findings compare with those of Chong (2014) who found that market growth among modern organization is mainly below 10% especially in the already developed markets whereby aspects such as competition and increased costs of operation and new entrants make the market hard to capture.

Table 5: Market Share

Average Market Growth			Period of ascertaining Market Share Growth		
	Frequency	**Percentage**		**Frequency**	**Percentage**
Below 3%	11	6.1%	Every Year	24	13.3%
3%-10%	112	62.2%	After 3 Years	61	33.9%
Above 10%	57	31.7%	After 5 Years	95	52.8%
Total	**180**	**100%**	**Total**	**180**	**100%**

Market Capitalization

The respondents' views on market capitalization (market value) of their respective firms were sought. The findings revealed that majority (52.2%) of the firms had a growth rate in the market capitalization of between 3% and 10% while 42.8% had an average growth rate in the market capitalization above 10%. On the other hand, majority of the firms (79.4%) had dividend yield of between 3% and 10% as opposed to 8.9% who had a dividend yield of less than 3%. On the average growth of shareholders, the study revealed that majority of the firms (61.1%) had a growth rate above 5% of the shareholders while 8.3% had a shareholder growth rate below 3%.

Table 6: Market Capitalization

	Market Capitalization		Dividend Yield		Shareholder	
	Freq.	**Percent**	**Freq.**	**Percent**	**Freq.**	**Percent**
Below 3%	9	5.0%	16	8.9%	15	8.3%
3%-10(5)%	94	52.2%	143	79.4%	55	30.6%
Above 10(5)%	77	42.8%	21	11.7%	110	61.1%
Total	**180**	**100%**	**180**	**100%**	**180**	**100%**

Inferential Analysis

Structural Model

SEM analysis was carried out to evaluate the extent to which the individual predictors of organizational competence influence each other and how they were of influence to the performance of firms listed at the NSE. The findings as shown in figure 2 revealed that ethics and culture (EC) Managerial Competence (MC) and Governances Structure (GC) influenced each other by correlation coefficients of 0.83, 0.98 and 0.64 respectively. These findings imply that all the sub-constructs of organizational competence had a significant influence on organizational competence and therefore to firm performance.

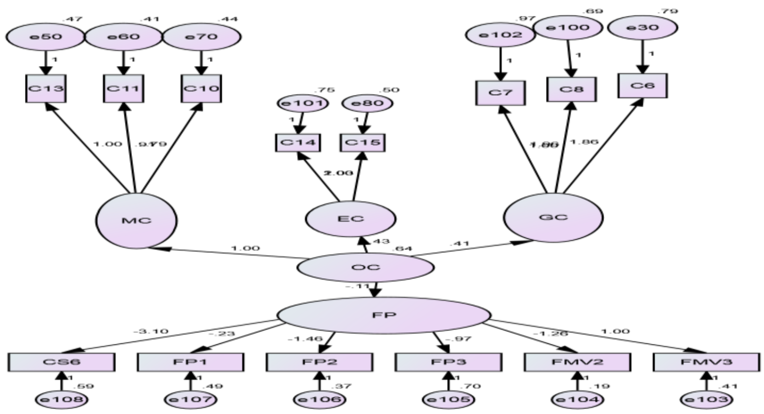

Figure 2: Structural Model on Organizational Competence and Firm Performance

Hypothesis Testing

H_0: There is no significant relationship between organizational competence and performance of firms listed at the NSE

The statistical relationship between organizational competencies (independent) and the performance of firms listed at the NSE (dependent) was sought in the study. This was done through ANOVA, regression coefficients and the Scatter plot diagram. This was in a bid to establish whether to reject the null hypothesis or not.

The model for the variable was $\mathbf{Y = \beta_0 + \beta_1 X_1}$ where Y was the dependent variable and X the independent variable while β was the coefficient/constant. The model summary shown on table 7 revealed that the R value was 0.534 while the R^2 value was 0.285. This indicated that the variability of the organizational competency and the performance of firms listed at the NSE could be explained by up to 28.5% of the model. This implies that the model was fit to establish the relationship between the two variables and make conclusions on the same.

Table 7: Model summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.534[a]	.285	.281	.28443

a. Predictors: (Constant), Organizational competency

b. Dependent Variable: Performance of firms listed at the NSE

ANOVA test was also done and the results were as indicated on table 8. The findings revealed that the F-calculated was 70.474 and the mean for the regression model was 5.701 at a significant level of 0.000. This indicates that the P-value for the variable was 0.000<0.05 an implication that the model was significant.

Table 8: ANOVA

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	5.701	1	5.701	70.474	.000[b]
	Residual	14.319	177	.081		
	Total	20.021	178			

a. Dependent Variable: Performance of firms listed at the NSE

b. Predictors: (Constant), Organizational competency

The coefficient of the variable was as shown in table 9. The results revealed that the β value for variable organizational competency was 0.344 and the model equation now becomes $\mathbf{Y = 1.723 + 0.344X_3}$. This implies that a unit change in the organizational competency, could lead to up to 34.4% increase in the performance of the firms listed at the NSE. The P-value for the variable was 0.000<0.05 again implying that the organizational competency significantly influenced the performance of the firms listed at the NSE.

Table 9: Regression Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	1.723	.152		11.305	.000
	Organizational Competency	.344	.041	.534	8.395	.000

a. Dependent Variable: Performance of firms listed at the NSE

The scatter plot was used to further bring out the relationship between the organizational competency and performance of firms listed at the NSE. The findings as shown in figure 3 revealed that the plots had a positive gradient. This implied that organizational competency had a positive influence on the performance of firms listed at the NSE. This justified the decision of the study to reject the null hypothesis that organizational competency has no significant influence on performance of firms listed at the NSE.

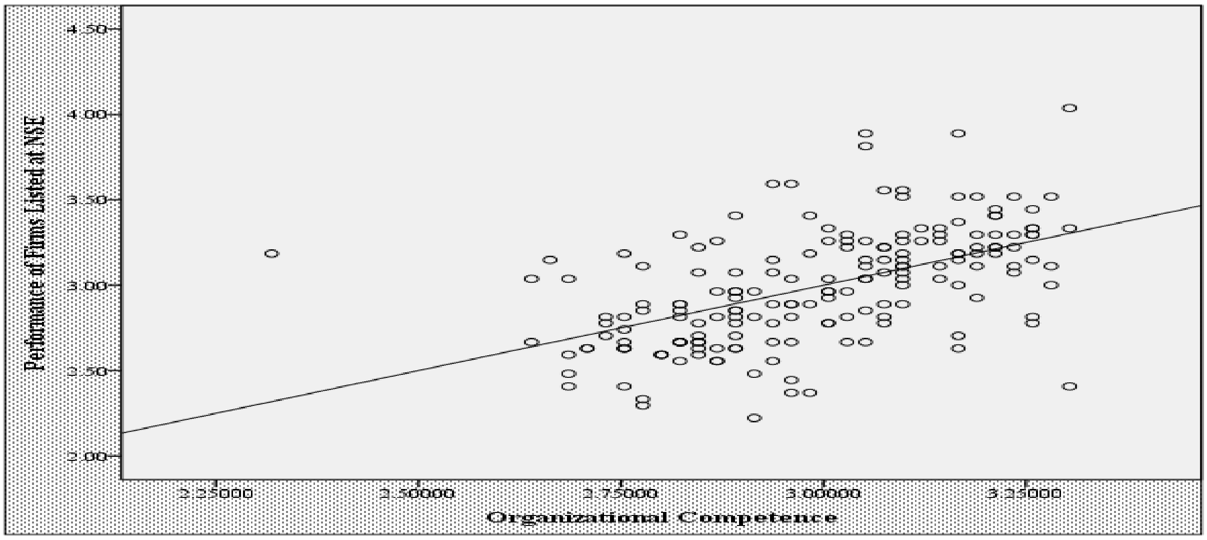

Figure 3: Scatter Plot

The findings agree with the findings of Hitt and Ireland (1985), who concluded that distinctive corporate competencies exist and that executives should be concerned with the continued development of such appropriate competencies for they determine the success of implementing a firm's grand strategy.

5. CONCLUSION AND RECOMMENDATIONS

Organizational competencies involve the capabilities possessed by the organization's operators including the managers and the employees through which they meet the customer demands while at the same time achieving the organizational goals. The competencies that an organization possesses play a key role in promoting its performance and competitiveness. The study concluded that the competencies in an organization form the basis of its capability to cope the external dynamics as well as enhance innovations to steer performance.

Organization competencies are essential in enhancing the problem solving and meeting the customer expectations in the firm. The firms at the NSE should therefore ensure that they enhance organizational competencies through involving more non-executive directors as well as promoting ethics and good corporate governance. The firms could enhance organizational competencies through involving employees in decision making and holding frequent board meetings to enhance problem solving and to minimize conflicts between various stakeholders.

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