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INFLUENCE OF DYNAMIC CAPABILITIES ON PERFORMANCE OF COMMERCIAL BANKS IN KENYA

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ABSTRACT

Dynamic capabilities are vital for a business enterprise to earn sustained competitive advantage and ensure superior firm performance. These are the unique capabilities that are of value to customers, rare and which competitors find difficult to imitate. The general objective of the study was to establish the influence of DC on performance of commercial banks in Kenya. The theoretical foundation of this study was dynamic capability's theory, resource-based theory, knowledge-based theory and organizational learning theory. Descriptive cross-sectional survey was used. Targeted population was 40 banks having a population of 422 employees at management level. The study applied the use of Fisher, Laing and Stoeckel formula in determining the sample size of 202 respondents. The study selected the sample to be used in the study using Stratified random sampling. Data collection was done with the use of questionnaires. Descriptive statistics were analysed quantitative data using SPSS (version, 23). The results were presented using percentages SD, means and frequencies. In order to establish how the response and the predictor variables relate, the study used multiple regression analysis i.e. the influence of dynamic capabilities on performance of commercial banks in Kenya. Correlation analysis was used in establishing the relationship between response and predictor variables. The study found that Innovations capability; technical knowledge capability; quality service capability and learning culture capability significantly and positively relate with performance of commercial banks in Kenya. The study recommended that Management of banking institutions increase their innovativeness and proactively think regarding strategic management and ensure that their strategies are effective and differentiated. Banks' management should ensure that it has the ability of creating new knowledge since it will enable them to attain competitive advantage. The bank should also create an environment that encourages knowledge sharing which will lead to creation of knowledge. In order for the banks to ensure they offer their clients quality services, it's the responsibility of the bank's management to conduct in-depth research and establish what their customers consider to be quality service.

Key Words; *Dynamic capabilities, Innovations capability, Learning culture capability, Performance, Quality service capability, Technical knowledge capability*

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INTRODUCTION

The dynamic capabilities construct has distinguished itself as a profound and reliable concept in explaining performance variations amongst different sectors, regions and business organizations in the increasingly competitive market. Majority companies have basic DC (Lebens & Euske, 2016). DCs are what enable the company to perform their daily operations. DCs of a company, beyond and above basic capabilities, possess three different characteristic; valuable to clients; are better compared to those of the rival company; and are not easy to copy (Makadok, 2011). The dynamic capabilities framework, Teece (2009) explained the reason for some of the companies to create competitive advantage based on rapid change regime. Therefore, it aimed to fill the gap in research on other frameworks explaining the way certain competitive advantage can be safeguarded or maintained stable business environment but did not explain how to attain competitive advantage and how to sustain it in conditions that are changing (Ozturk & Coskun, 2014).

Dynamic firm capabilities are vital for a business enterprise to earn sustained competitive advantage and ensure superior firm performance. These are the unique capabilities that are of value to customers, rare and which competitors find difficult to imitate. Companies ability build competencies that are distinct and unique in order to provide customers with superior products and services which is the source of attaining sustainable competitive advantage (Pearce II & Robinson, 2011). Key competencies are collective learning in a company, more so ways of coordinating diverse skills of production and integrating multiple streams of technology (Barney & Hesterlt, 2015).

The modern-day realities of banking business demand for application of creative approaches that guarantee competitive advantage for sustained profitability as opposed to through increase in prices (Diop & Topping, 2016). Writings on boundless sustainable competitive advantage aver that companies have the ability of attaining competitive advantage through strategies of creating value that are not implemented by the competitors. With new market and government policy needs in the Kenyan Banking sector, it necessitated for employment of non-ordinary measures to assume and sustain superior performance, hence the requirement for the building of core competences in the sector. Based on this backdrop, the researcher sought to determine the influence of dynamic capabilities on performance of Kenya's commercial banks.

Dynamic Capabilities most of the time are specific to the company and they are created over time by complicated interactions between the resources of the company. Organization and employee dynamic capabilities include; capabilities of learning fast and building dynamic assets. Capability, technology, and client feedback being dynamic assets should be integrated within the organization. Capacity of sensing and shaping opportunities and threats, reconfigure the intangible and tangible assets of the organization (Douma & Schreuder, 2013). The study will investigate the influence of innovations capability, technical knowledge capability, quality service capability and learning culture capability on performance of Kenya's commercial banks, as they were found to be more applicable in the banking sector in Kenya.

Statement of the Problem

Dynamic Capabilities are vital for a business enterprise to earn superior firm performance in terms of increased profit margins and market share which gives them a competitive advantage. These are the unique capabilities that are of value to customers, rare and which competitors find difficult to imitate. It is the ability of an organization to build these unique and distinctive competences in order to provide their clients with products and services that are superior to what the rivals are providing and therefore attain improved performance through increased profit margins and market share (Pearce II & Robinson, 2011).

The banking sector recorded a Ksh.38.4billion pre-tax profits in the quarter ended March 2016. This was an increase of 2.9% from Ksh.37.3billion registered in the quarter ending March 2015. This increase in profitability is attributed to a 15% (Ksh. 16.5 billion) increase in total income from Ksh. 110 billion in Q1 of 2015 to Ksh. 126.5billionin Q1 of 2016.However, the increase in income was neutralized by an increase of total expenses by 21.2% (Ksh. 15.4 billion) from Ksh.72.7 billion in Q1 of 2015 to Ksh.88.1billion in Q1 of 2016 (Central Bank Of Kenya, 2016). There was a reduction of 9.6% in pre-tax profits in December of 2017 to Ksh.133.2 billion. Decline in profits could be as a result of high decrease in income while expenses decreased marginally. The income in the banking industry declined by 3.12% while marginal expenses decreased by 0.5% between the year 2016 and 2017. In 2018 the National Bank of Kenya (NBK) posted Sh282 million losses in the first half of 2018, compared to Sh179 million profits made same period the previous year.

Wanyanga (2017) researched on utilization of DC as a strategy of operations in Kenyan hospitality industry. Ngugi (2011) studied DC at BBC Africa. Muhura (2012) undertook a research on firm DC as a strategy to attain competitive advantage at Airtel Kenya. Wanyanga, (2017) focused on dynamic capabilities as an operation strategy while (Muhura, 2017) focused on DC as a source of competitive advantage and yet another (Ngugi, 2011) focused on s dynamic capabilities. Competitive advantage is a multidisciplinary concept that has been defined differently by different authors in different constructs. The most common among these schools of thought is the utilization of dynamic capabilities to develop an operational or competitive advantage, but the organizational difference in all these schools of thought allows for an examination of the effects of dynamic capability in the banking industry.

There is a very huge difference in the performance of commercial banks in the Kenyan banking industry which is usually seen in their reported financial performance each year in terms of their profitability and market share where some banks are seen to report growth in profits as others issue profit warnings while still operating within the same market dynamics; therefore, banks need to utilize their dynamic capabilities to remain competitive. Further, there is minimal literature on dynamic capabilities in commercial banks in Kenya. This study sought to establish the influence of dynamic capabilities on performance of commercial banks in Kenya.

Objective of the Study

The general objective of the study was to establish the influence of dynamic capabilities on performance of commercial banks in Kenya. The specific objectives were:-

- To establish the influence of innovations capability on performance of commercial banks in Kenya
- To determine the influence of technical knowledge capability on performance of commercial banks in Kenya
- To investigate the influence of quality service capability on performance of commercial banks in Kenya
- To establish the influence of learning culture capability on performance of commercial banks in Kenya

THEORETICAL REVIEW

Dynamic Capabilities Theory

This theory DCT was first formulated by Teece (1990). Later Ambrosini and Bowman (2009) indicated that the paper provided the first contribution that brought distinctive idea of dynamic capabilities. DCT indicate that RBV theory does not bring a clear demonstration of the criteria that is applied in some of the companies that are successful in undertaking rapid and flexible innovation of products and timely responsiveness alongside capabilities of management to coordinate properly and redeploying external and internal competencies. It was further argued that there is need for considerations to be made on the situations of the external changing environment and therefore contributing to strategic management whose main concern is adaptation, reconfiguration and integration of internal as well as external resources of the organization, skills and practical competency for dynamic environment.

The main aim of the process to look at procedures of performing tasks routine practice and pattern. It determines techniques of developing capabilities in an organization with the aim of capitalizing on current opportunities by analyzing both internal and external capabilities. The position of the company is determined by endowment of resources such as intellectual property, technology and relationship with suppliers and clients. The theory of evolution highlights the path of evolution for capabilities whereby distinctive capabilities arise from evolution of previous capabilities (Ambrosini & Bowman, 2009). Thus, the focus of path dependencies is on improving company's strategic options by modifying current capabilities. The study will apply this theory in establishing the influence of innovations capability on performance of commercial banks in Kenya.

Resource Based Theory

Resource based theory was developed by Barney's (1991). RBT states that heterogeneity of a company is as a result of them possessing resources that are heterogeneous, which means that the company has varied strategies since they possess varied resources. The main focus of this theory is attention of the management on the internal resources of the company while trying to establish those resources, capabilities and competencies that have the ability of delivering sustainable competitive advantage. Pearce II & Robinson (2011) noted that the technique of identifying the strategic advantage of a company through the examination of various asset combination, capabilities, skills and other resources that are not tangible in an organization is what's referred to as resource base. The resource-based theory came up in the 80s and 90s as a result of various influential works of different individuals such as Wernerfelt, Prahalad and Hamel, Barney and others. Dynamic capabilities refer to the ability for an organization to renew and recreate its DC to meet the needs of changing environment and sustain superior performance (Johnson, Whittington & Scholes, 2011). The RBV embraces a firm level of analysis (Levitas & Ndofor, 2016). The terms 'dynamic is the capacity of renewing competences in order to achieve congruence with the business environment that is constantly changing; there are a times when responses needed should be innovative especially in cases where marketing time is critical, technology changes rapidly, it's not possible to determine the nature of the market in the future. 'Capabilities' insists on the importance of the role played by management of strategies in adaptation, integration, and reconfiguration of internal and external skills in the organization, resources and functional competencies in an environment that constantly changes.

Knowledge-Based Theory

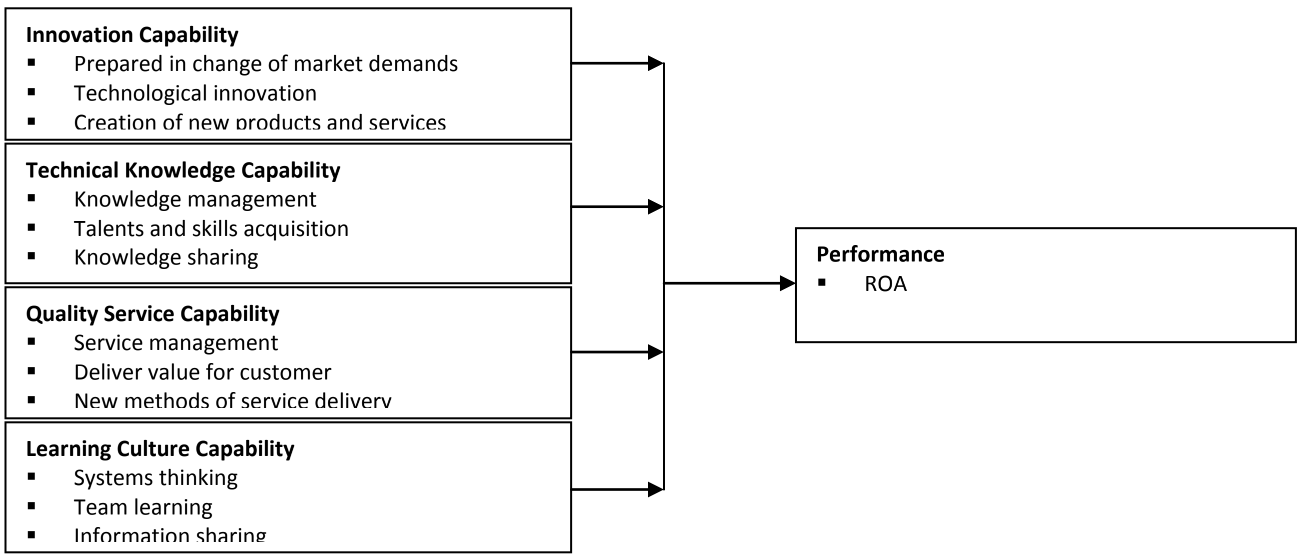
Knowledge based theory was first proposed by Penrose (1959) and Wernerfelt, 1984, Barney, 1991, Conner, 1991 expounded on it. This theory considers knowledge to be the most significant resource of a company. The proponents of this theory argue that resources that are based on knowledge are not easy to imitate and they are socially complicated, based on heterogeneous knowledge and capabilities among companies are the main aspects determining sustainable competitive advantage and superior performance in the organization.Knowledge-based view indicates that companies have the ability of differentiating themselves through their strategies of managing knowledge. Each knowledge asset is complicated and not easy to imitate, and therefore, companies attain competitive advantage through systems of managing knowledge and also by combining in an effective way the assets of knowledge in order to create general capacity of KM. The main aim of this study will be to establish ways in which knowledge-based view of a company explains heterogeneity nature of performance of commercial banks. This view that is based on knowledge considers a company to be a system distributed with knowledge comprising of workers holding knowledge; the focus of the study will thus be how strategic knowledge assets results to sustainable competitive advantage, survival of a company and performance. This theory helps in determining the influence of technical knowledge capability on performance of Kenya's commercial banks.

Organizational Learning Theory

Organization learning theory was developed by Argyris and Schon (1995), who suggested that learning takes place through the process of detecting and correcting errors. A company facilitating the learning of its employees and changes itself continuously is referred to as a learning company. Structuring of a learning company is done around the idea that its structure should enable learning, sharing of knowledge, seeking of knowledge and creating opportunities with the aim of generating new knowledge. It needs to venture into new markets and learn about them and not just bring a brand to it or find resources for exploiting it (Pearce 11 *et al.,* 2011).

Companies that are learning should always change themselves to areas where people can continue to learn and therefore promoting responsible risk taking, openness to new processes and approaches and view mistakes made by workers as source of new idea and methods of accomplishing tasks (Marquardt, 2011). Employees in organization that are learning are responsible for both their own learning as well as the learning of others. In organization that are learning, infusion of new information and idea is constantly done by scanning the outside environment, hire new talent and experts when they are required, and devote resources in training and developing employees (Kinicki & Kreitner, 2009). Modes of learning are the different ways in which a company tries to maximize and create learning. This theory helps in establishing the influence of learning culture capability on Kenya's commercial banks performance.

Conceptual Framework



Independent Variable **Dependent Variable**

Figure 1: Conceptual Framework

Source: Author (2019)

Literature Review

According to Davila and Robert (2016) innovation capability is the ability of creating and revitalizing a business idea and the concept of the organization through changing company's market and the competency of the business system of the organization. The main concern of innovation capability is to develop the entire organization. It is

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evident that companies need to increase their innovativeness and proactively think regarding strategic management. This has become important for academicians and managers especially in this decade. The famous work of management of technology and innovation management have become increasingly respectable and have started influencing ways of thinking regarding strategic management as a discipline (Davila & Robert, 2016). Introduction of new ideas is referred to as innovation and its main aim is to improve value of goods and services and enable organization to have sustainable competitive advantage (Bouillon, Doran & Orazem, 2018).

Wellman (2009) indicated that the ability of creating new knowledge is most of the time, the key to an organization attaining competitive advantage. There are a times when the issue is not considered as part of KM because it borders and overlaps management of innovation. Botha, Kourie and Snyman (2008) insisted on the advantage of sharing experience in the process of creating knowledge when dealing with knowledge that is tacit, and need of having an environment enabling its formation.

The difference between the service expected and what is received is referred to as service quality (Pai & Chary, 2012). Service quality can be said to be how well service delivered matches with what the customer expected. The quality of service capability needs to correspond with the expectations of the client and meet their requirements and needs (Shaw & Haynes, 2014).

Nabong, (2015) defined the learning culture as collection of conventions of an organization, practices, values and processes enabling employees and institutions to develop competencies and knowledge. Nabong (2015) indicated that the advantage of culture of organizational learning are inclusive of; an increase in efficiency and productivity, increased level of employee satisfaction, creation of knowledge inquiry and sharing culture, improved ability of employees adapting to changes. Acquisition of knowledge and skills is facilitated by a suitable learning culture, facilitating innovativeness which could lead to long term profitability and performance (Hussan, Mohamad & Ishak, 2014).

Performance has been the most important issue for profit and non-profit organization. Barney (2001) asserts that researchers have different beliefs and thoughts about organizational performance, but it still remains a controversial issue. Performance means quality, condition or function. Ekawati (2014) indicated that the common measures that are used in measuring performance of financial institutions are: Profitability, Return on Assets, and Customer satisfaction. Performance can be said to be the level of achievement of work mission at work building the job of the employee. Most of the time, researchers make use of performance in expressing measurement range on efficiency of transaction and efficiency of results (Stannack, 2016).

METHODOLOGY

Descriptive cross-sectional research design was used. This research design assists the researcher to establish whether there exists a significant link between the study variables (Mugenda & Mugenda, 2008). Stratification of commercial banks can be done in three; large, medium and small based on their share in the market as indicated in Table 1. In this study, the population targeted was managerial level employees. Population study was management level employees in head offices of commercial banks in Nairobi. Population studied comprised of 422 employees in management positions and currently work in the bank’s head office.

Table 1: Distribution of Target Population

Category	Population	Percent
Top Management	80	19.0
Middle Level Management	148	35.1
Low Level Management	194	46.0
Total	422	100

Source: HRM Records (2019)

In this study, the sampling frame was managerial level employees in Kenya's commercial banks head offices. The sampling frame was a list of 422 employees. Questionnaire was selected in gathering information to be used in the study. Questionnaires were administered to the selected sample. The study used a total of 20 individuals in the pilot test which represent 10% of target population. Findings of pilot test were not be excluded in the final research study.

Descriptive statistics was applied in analyzing quantitative data collected and SPSS version, 23 was used; the results was presented using percentages, SD, mean and frequencies. Displaying of the information was done with the use of table, graphs, pie chart and in prose form. To facilitate this, the responses were tallied, percentages of variation computed, and data described and interpreted in line with assumptions and study's objectives. Research findings were communicated with the use of SPSS (version 23). Qualitative data was analyzed using content analysis which was performed in SPSS. Before the data is analyzed, it was first coded, cleaned, and grouped as per their variables. The regression equation model was:

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \varepsilon$$

Where Y is the dependent variable (Performance), β_0 is the regression constant, β_1, β_2, β_3 and β_4 are the coefficients of independent variables, X_1 is Innovation Capability, X_2 is Technical Knowledge Capability, X_3 is Quality Service Capability and X_4 is Learning Culture Capability. In order to establish whether the model is significant, the study computed analysis of variance.

FINDINGS

Innovation Capability

Respondents indicated the level to which they agreed or disagreed with various statements on influence of innovation capability on performance of commercial banks in Kenya. The results were as presented in Table 2.

Table 2: Innovation Capability on Performance

	1	2	3	4	5	Mean	Std. Dev.
The bank can easily adapt to market changes	5	5	5	146	18	3.955	1.406
New products and services are created from time to time	0	9	14	139	16	3.910	1.320
New technologies are easily adopted in the organization	5	5	11	148	9	3.848	1.432
The bank easily adjusts to meet new customer needs	2	5	0	137	34	4.101	1.326
The bank is involved in creating new markets	5	2	9	119	43	4.084	1.151
Employees help in improving the existing bank products	5	5	11	137	21	3.938	1.300
Services are improved to serve customers better	5	5	16	137	16	3.882	1.298
Average						**3.960**	**1.319**

From the findings, the respondents were in strong agreement that the bank easily adjusted to meet new customer needed (M=4.101) and that the bank had evolved in creating new markets (M= 4.084). The findings also showed that the respondents agreed that the bank can easily adapt to market changes (M=3.955), employees help in improving the existing bank products (M=3.938), new products and services are created from time to time (M=3.910), services are improved to serve customers better (M=3.882) and that new technologies are easily adopted in the organization (M=3.848). These findings and those of Dalvand, Moshabaki, and Karampour (2015) who did a research study on the effects of innovation capabilities on performance of exports companies and found that allocation of resources, learning, organizational and cultural capabilities from capabilities of effective innovation and manufacturing, capabilities of marketing from capabilities of operational innovation positively affect performance of exports are in agreement.

Technical Knowledge Capability

Respondents indicated their level of agreement or disagreement on the influence of technical knowledge capability on performance of commercial banks in Kenya. The results were as shown in Table 3.

Table 3: Technical Knowledge Capability on Performance

	1	2	3	4	5	Mean	Std. Dev.
Employees work under minimum supervision	9	2	18	135	14	3.803	1.281
Employees understand their roles	5	9	5	144	16	3.899	1.383
Employees share their knowledge with their team members	2	5	5	151	16	3.994	1.461
Skills are acquired through training	5	9	2	137	25	3.944	1.311
Employees are supported to grow their talents	2	5	5	155	11	3.944	1.511
Employees possess skills in financial reporting	5	2	5	137	30	4.056	1.314
Employees are able to solve problems	7	7	9	137	18	3.854	1.303
Average						**3.928**	**1.366**

The findings showed that the respondents were in strong agreement that employees possess skills in financial reporting (M=4.056). The study further established that employees share their knowledge with their team members as shown by a mean of 3.994, skills are acquired through training (M=3.944), employees are supported to grow their talents (M=3.944), employees are able to solve any problems that arise (M=3.854), employees understand their roles (M=3.899), and employees work under minimum supervision (M=3.803). These findings agree with those of Solomon (2015) who did a research study on the impacts of organizational capabilities on success of a company and revealed that innovativeness of the managers/owners and interpersonal relations significantly influenced the success of the company. Despite the fact that technical skills of the employees had a positive relationship with success of the company, their association was not significant, because the participation of the employees in design and development of products was limited.

Quality Service Capability

Respondents indicated the level to which they agreed or disagreed with statements on the influence of quality service capability on performance of commercial banks in Kenya. The results were as shown in Table 4.

Table 4: Quality Service Capability on Performance

	1	2	3	4	5	Mean	Std. Dev.
The bank works to make sure new customer needs are met	5	5	7	144	18	3.944	1.382
Customer opinions are analyzed to improve service delivery	7	5	11	137	21	3.949	1.299
Customers complaints are resolved at the right time	2	2	7	155	11	3.944	1.511
New methods of service delivery are implemented	2	0	5	148	23	4.067	1.430
New services are created so as to deliver value to customers	7	5	7	132	27	3.938	1.254
Employees give opinions on how customer services can be enhanced	7	9	16	128	18	3.792	1.198
The bank has an integral of supply chain management that connects actual company sales and the customer.	7	7	11	135	18	3.843	1.279
Average						**3.925**	**1.336**

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From the findings it was found that the respondents strongly agreed that new methods of service delivery are implemented (M=4.067). The study further found that customer opinions are analyzed to improve service delivery (M=3.949), the bank works to make sure new customer needs are met (M=3.944), customers complaints are resolved at the right time (M=3.944), new services are created so as to deliver value to customers (M=3.938), the bank has an integral of supply chain management that connects actual company sales and the customer (M=3.843) and employees gave opinions on how customer services co be enhanced (M=3.792). These findings agree with those of Njoroge (2016) who studied the impacts of quality of service on sustainable competitive advantage in mobile telecommunications industry in Nairobi County and established that quality of service and sustainable competitive advantage were strongly and positively related; also lowered costs, multiple products, high customer support levels were used to attain satisfaction in services offered to customers.

Learning Culture Capability

Respondents provided their level of agreement or disagreement with statements on the influence of learning culture capability on performance of commercial banks in Kenya. The results were as presented in Table 5.

Table 5: Learning Culture Capability on Performance

Statements	1	2	3	4	5	Mean	Std. Dev.
The bank provide training for its employees	9	7	18	130	14	3.747	1.223
Employees share the knowledge on area of specialization with their colleagues	9	5	9	146	9	3.792	1.413
Employees help each other in case they face difficulties in their tasks	7	7	11	135	18	3.843	1.279
The bank holds seminar for employees to interact and share knowledge	7	7	16	139	9	3.764	1.329
Employee learn from their team members	9	5	18	130	16	3.781	1.222
Supervisor guide employees in areas where they face challenges	7	9	5	125	32	3.933	1.186
The bank works as a large system which depend on each other to achieve set goals	7	9	7	119	36	3.944	1.128
Average						**3.829**	**1.254**

The findings showed that the respondents were in agreement that the bank works as a large system which depend on each other to achieve set goals (M=3.944), supervisor guide employees in areas where they face challenges as shown by a mean of 3.933, employees help each other in case they face difficulties in their tasks (M=3.843), employees shared the knowledge on area of specialization with their colleagues (M=3.792), employee learn from their team members (M=3.781), the bank holds seminar for employees to interact and share knowledge (M=3.764) and the bank provide training for its employees (M=3.747). These findings agreed with Lesser and Rivera, (2006) who found in their study that mentoring is very effective in learning while doing scenarios whereby mentors provide learners with guidance in real situations that they might be facing and therefore, one-on-one association between the mentor and the mentee assists in facilitating transferring of tacit and experimental knowledge.

Correlation Analysis

The computed correlation analysis to establish the relationship between the predictor variables and the response variable and also to establish whether there is interdependency between the response variables. The study used Pearson Product Moment Correlation and the results were as presented in Table 6.

Table 6: Correlation Analysis

		Performance	Innovations capability	Technical knowledge capability	Quality service capability	Learning culture capability
Performance	Pearson Correlation	1				
	Sig. (2-tailed)					
	N	178				
Innovations capability	Pearson Correlation	.788**	1			
	Sig. (2-tailed)	.001				
	N	178	178			
Technical knowledge capability	Pearson Correlation	.813**	.359	1		
	Sig. (2-tailed)	.000	.062			
	N	178	178	178		
Quality service capability	Pearson Correlation	.775**	.516	.538	1	
	Sig. (2-tailed)	.001	.058	.079		
	N	178	178	178	178	
Learning culture capability	Pearson Correlation	.807**	.293	.454	.264	1
	Sig. (2-tailed)	.000	.083	.064	.179	
	N	178	178	178	178	178

The results revealed that innovations capability and performance of commercial banks in Kenya were positively associated (r=0.788, p-value=0.001). Technical knowledge capability and performance of commercial banks in Kenya were also found to be positively associated (r=0.813, p-value=0.000). The findings also established that quality service capability and performance of commercial banks in Kenya were positively associated (r=0.775, p-value=0.001) and that learning culture capability and performance of commercial banks in Kenya were positively associated (r=0.807, p-value=0.000). These results showed that the independent variables (innovations capability, technical knowledge capability, quality service capability and learning culture capability) influence performance of commercial banks in Kenya.

Multiple Regression Analysis

The study computed multiple regression models to determine how the predictor/independent variables affect the response/dependent variable that is to establish the influence of dynamic capabilities on performance of commercial banks in Kenya. The results were presented in three tables as shown in below.

Model Summary

Model summary was used to show the variation in performance of commercial banks in Kenya as a result of change in dynamic capabilities (innovations capability, technical knowledge capability, quality service capability and learning culture capability). The results were as presented in Table 7.

Table 7: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.890[a]	.792	.781	.16286

The association between the variables under study was shown by R which is correlation coefficient. From the findings, results of correlation coefficient indicated a strong positive relationship between the dynamic capabilities and performance of commercial banks (r= 0.890). The r-square indicated that there was 79.2% variation of performance of commercial banks as a result of change in innovations capability, technical knowledge capability, quality service capability and learning culture capability. The remaining 20.8% implies that there are other factors that affect performance of commercial banks in Kenya which were not discussed in the study.

Analysis of Variance

In order to establish whether the data used in the study was significant, the study computed ANOVA. Significance level selected was 5%.

Table 8: Analysis of variance

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	28.129	4	7.032	103.600	.001[b]
	Residual	11.743	173	0.068		
	Total	39.872	177			

The results showed that the p-value for the processed data is 0.001 which implies that the data was ideal for making conclusion because the p-value was less than the selected level of significance i.e. 0.05. The F critical was less than F calculated (2.424 < 103.600). Therefore, innovations capability, technical knowledge capability, quality service capability and learning culture capability significantly influence performance of commercial banks in Kenya.

Beta Coefficients of the study Variables

The regression equation was

$Y = 1.133 + 0.399X_1 + 0.484\ X_2 + 0.505\ X_3 + 0.458X_4$

The equation above revealed that holding innovations capability, technical knowledge capability, quality service capability and learning culture capability constant, the variables will significantly influence performance of commercial banks in Kenya as shown by constant = 1.133 as shown in Table 9.

Table 9: Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	**(Constant)**	1.133	0.185		6.124	0.001
	Innovations capability	0.399	0.103	0.387	3.874	0.011
	Technical knowledge Capability	0.484	0.095	0.57	5.095	0.002
	Quality service capability	0.505	0.114	0.498	4.430	0.008
	Learning culture capability	0.458	0.097	0.449	4.722	0.004

Innovations capability is statistically significant to performance of commercial banks in Kenya as shown by (β = 0.399, P = 0.011). Innovations capability significantly and positively relate with performance of commercial banks in Kenya. Therefore increasing innovations capability by a single unit would lead to an increase in performance of commercial banks in Kenya.

Technical knowledge capability is statistically significant to performance of commercial banks in Kenya as shown by (β = 0.484, P = 0.002). Technical knowledge capability significantly and positively relate with performance of commercial banks in Kenya. Therefore, increasing technical knowledge capability by a single unit would lead to an increase in performance of commercial banks in Kenya.

Quality service capability are statistically significant to performance of commercial banks in Kenya as shown by (β = 0.505, P = 0.008). Quality service capability significantly and positively relate with performance of commercial banks in Kenya. Therefore, increasing service quality service capability by a single unit would lead to an increase in performance of commercial banks in Kenya.

Learning culture capability is statistically significant to performance of commercial banks in Kenya as shown by (β = 0.458, P = 0.004). Learning culture capability significantly and positively relate with performance of commercial banks in Kenya. Therefore, increasing learning culture capability by a single unit would lead to an increase in performance of commercial banks in Kenya.

CONCLUSIONS

The first objective of the study was to establish the influence of innovations capability on performance of commercial banks in Kenya. The study found that innovations capability is statistically significant to performance of commercial banks in Kenya. The study further established that Innovations capability significantly and positively relate with performance of commercial banks in Kenya. Therefore, the study concludes that increasing innovations capability by a single unit would lead to an increase in performance of commercial banks in Kenya.

The second objective of the study was to determine the influence of technical knowledge capability on performance of commercial banks in Kenya. The study established that technical knowledge capability is statistically significant to performance of commercial banks in Kenya. The study further established that technical knowledge capability significantly and positively relates with performance of commercial banks in Kenya. Therefore, the study concludes that increasing technical knowledge capability by a single unit would lead to an increase in performance of commercial banks in Kenya.

The third objective of the study was to investigate the influence of quality service capability on performance of commercial banks in Kenya. The study revealed that quality service capability is statistically significant to performance of commercial banks in Kenya. The study further found that quality service capability significantly and positively relates with performance of commercial banks in Kenya. Therefore, the study concludes that increasing quality service capability by a single unit would lead to an increase in performance of commercial banks in Kenya.

The final objective was to establish the influence of learning culture capability on performance of commercial banks in Kenya. The study found that learning culture capability is statistically significant to performance of commercial banks in Kenya. The study also found that learning culture capability significantly and positively relate with performance of commercial banks in Kenya. Therefore, the study concludes that increasing learning culture capability by a single unit would lead to an increase in performance of commercial banks in Kenya.

RECOMMENDATIONS

Management of banking institutions should increase their innovativeness and proactively think regarding strategic management and ensure that their strategies are effective and differentiated. The management of the banks can ensure innovation in different areas such as new products and services and new form of organizations. The bank will remain to be viable for a longer period of time if they put into consideration both the current and future strategies.

Banks' management should ensure that it has the ability of creating new knowledge since it will enable them to attain competitive advantage. The bank should also create an environment that encourages knowledge sharing which will lead to creation of knowledge. The bank should also have knowledge management since this can assist in

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creating knowledge, which in turn contributes to better performance in an organization. Knowledge is the main source of competition, especially tacit knowledge because of its uniqueness, mobility, inimitable nature and cannot be substituted.

In order for the banks to ensure they offer their clients quality services, it's the responsibility of the bank's management to conduct in-depth research and establish what their customers consider to be quality service. The bank can make use of various dimensions like Tangibles, communication, reliability, security responsiveness, understanding or knowing customers, credibility, access, competence, and courtesy in comparing what customers expect and what they receive. This will increase service quality and therefore increasing organizational performance.

The management of the bank should provide a suitable learning culture that will facilitate knowledge acquisition that in turn encourages innovativeness and result to long term profitability and improved performance. The advantages of having organizational learning culture are: an increase in efficiency and productivity, increased level of employee satisfaction, creation of knowledge inquiry and sharing culture, improved ability of employees adapting to changes.

Suggestions for Further Studies

The main objective of this study was to establish the influence of DC on performance of commercial banks in Kenya. The study recommends further studies to be conducted on factors influencing adoption of Dynamic Capabilities by commercial banks in Kenya. Further research should also be conducted on influence of dynamic capabilities in different sectors such as the health sector.

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