DYNAMIC CAPABILITIES AND PERFORMANCE OF SELECTED COMMERCIAL BANKS IN NAIROBI CITY COUNTY, KENYA

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ABSTRACT

Performance of an organization includes analysis of company performance in reference to its goals and objectives. The essential components of organizational performance are dependent on clear vision statement and how the management is able to charismatically involve all stakeholders in its application. Dynamic capabilities are significant for a business enterprises to attain competitive edge that is sustainable and make sure that the performance of the company is superior. The main purpose was1to ascertain the influence of dynamic capabilities and performance of commercial banks in Nairobi City County, Kenya. Specifically, the study sought to establish the influence of innovative capability, technical, and learning culture capability on performance of selected commercial banks. Theories used are; dynamic capability's theory, balanced score card theory, resource-based view theory and frim learning theory. To achieve this objective, descriptive survey was adopted. Targeted population was 3 commercial banks that are located in Nairobi County. Target population composed of 236 management level employees of the selected banks. Selected sample was 149 respondents. In order to get the required sample size, stratified random sampling technique was utilized. Data collection was use of questionnaires which was administered individually to each respondent. Pretesting of questionnaire was done to ensure reliability and validity. SPSS (version, 23) was utilized to analyse the collected data. Quantitative data collected was scrutinized by use of descriptive statistics and demonstration of findings was in tables and figures. Multiple regressions were computed to find out the influence of dynamic capabilities on performance. It was found that the association of innovations capability and performance commercial banks is significantly positive; Technical capability and performance is significantly positive; link between learning culture capability and performance is significantly positive. The study therefore suggests management of the bank to embrace various forms of innovations including, product, service, market, and process innovations. It is also suggested that banks take a more proactive approach to producing products and services that add value to their clients. Banks must also empower their frontline executives to become more customer-centric, as this provides an opportunity for customers to provide input into innovative decision-making. Bank should improve its technical knowledge capacity through knowledge management, talents and skills acquisition, knowledge creation, knowledge gathering, knowledge diffusion and knowledge use. The study also recommends the need for policy intervention to improve operators knowledge and skills. Bank should embrace practices that improve customer service and satisfaction such as reduced costs, multiple products provisions, high levels of customer support, and effective employees.

KeyWords: Innovative capability, Learning capability, Performance, Dynamic capabilities, Technical capability

INTRODUCTION

The essential components of organizational performance are dependent on clear vision statement and how the management is able to charismatically involve all stakeholders in its application (Lebens & Euske, 2016). Similar sentiments are expressed by Ozturk and Coskun (2014) who pointed out that organization performance is mostly influenced by a leadership with charisma to properly articulate the vision of the organizations. On the other hand, dynamic capabilities are focused on alignment and dynamic change.

Organizational performance involves conducting an analysis on performance of a company against the goals and objectives of the company. In organizational performance, the intended outputs are compared with the actual results. There are three main focus of the analysis; performance of shareholder value, market performance and financial performance (Upadhaya, Munir & Blount, 2014). When operations and policies of a company are measured monetary in terms it is said to be financial outcomes. The measure of a firm or product’s performance in the market is said to be market performance. The measure of level in which a company enriches its shareholders is said to be shareholder value performance. Nowadays organizations use the balanced scorecard methodology to measure organizational performance where multiple dimensions are used in tracking and measuring performance. Some of the measures used are social responsibility (e.g. community outreach, corporate citizenship), financial performance (shareholders return), employee stewardship and customer services (Upadhaya, Munir & Blount, 2014).

In South Africa, Dorsey, Cortina and Luchman (2010) explained that there are two wide categorization of performance as task performance and conceptual performance factors. Factors on task performance are the core technical activities in the organization, for instance (development of software, and manufacture of automobile). Performance components that support psychological, organizational and social environment are considered to be the contextual performance factors. These factors include show of conscientiousness, perseverance, extra efforts at work, volunteering to perform tasks that aren’t mention in ones tasks and help others and cooperate with them. In Kenya, Rwoti (2015) noted that most organizations use benchmarking, balanced scorecard and results framework to determine organizational performance.

Dynamic capabilities focus of strategic change and alignment of organization with its environment (Zahra *et al.*, 2016). It is possible to disaggregate them conceptually into company capabilities that enable sensing and shaping of opportunities; seizing of opportunities, redeploying and reconfiguring (creating, extending and modifying) resource base their resource base (Teece, 2009). The process of shaping and sensing opportunities as well as threats involves exploring and searching activities in the market and technology. Therefore, it is important that the company maintains a close contact with its customers, R&D partners and stick to the best practices of the industry. The company should reconfigure its resource base to make sure that it matches the expectation of it clients and the operating ability of the company as it grows, change in technology and the market (Teece, 2009).

There are several ways through which dynamic capabilities in a company can help the company attain improved performance levels; matching resource base transformation in the market brings change to the market (Eisenhardt & Martin, 2010); support capacity building and resource picking and techniques for ret generation and improved performance between companies (Gudergan *et al.,* 2012). The response of organization to turbulence in the environment can be more effective, efficient and prompt due to dynamic capabilities, which in return improves performance of a company. It also enables the company to take advantage of opportunities that can enhance revenue and make adjustments to its operations for the purpose of lowering costs. The company can improve its performance by adjusting its dynamic capabilities to match the opportunities they have sensed (Eisenhardt & Martin, 2010).

In Kenya, sensitization on importance of knowledge as a strategic source for competitive advantage has increased. The growth has been attributed to the fact that organization have established that dynamic capabilities can help them to outperform their competitors and therefore perform better than their competitors and therefore attain competitive advantage. In Africa, specifically Kenya there is no clear indication showing the level to which organizations have implemented KM for the purpose of improving their performance (Kinyua, Muathe & Kilika, 2015). Viewing knowledge as a source of competitive advantage incorporates KM with some aspects of strategies; it has been agreed that through KM, a company is able to remain viable in a business environment that is characterized by turbulence. The main challenge in KM is the aspect of capturing the knowledge and integrating it to be shared among all organizational members. Organizational success is considered to be the ability of collecting, storing and distributing special knowledge to develop sustainable competitive advantage.

Statement of the Problem

Performances of banking industry have been varying from one financial year to another. This is due to the changes in regulations of the industry, economic changes and also competition. In Kenya, there was an aggregate increase in bank's balance sheet fromKsh.4.2 7 trillion in June 2018 to Ksh.4.41 trillion in September 2018. There was growth in EPS of 13.8% in 2018 from a decline of 1% in 2017, indicating that the strategy of diversification used by banks with the introduction of interest-rate capping. However, the net interest margin (NIM) decreased to 7.9% in FY'2018 from 8.4% in the financial year 2017 showing the drop in average interest earnings assets yields. Further, the banks recorded a sluggish growth in net loans and advances which came in at 4.3%y/y to Kshs2.04tn in FY'2018 from Kshs2.0tn in FY'2017 (Cytonn report, 2018). This implies that banks performance on loans have not been impressive hence the need for the management to focus on their dynamic capabilities so as to enhance performance.

Wanyanga (2017) undertook a study on dynamic capability (DC) utilization on strategies of operations in Kenya's hotel industry. Muhura (2015) undertook a research on firm capabilities as a way of gaining competitive advantage Airtel Kenya. Wanyanga (2017) focused on DC as an operation strategy wheras Muhura (2017) evaluated DC as a source of competitive advantage. Parnella (2014) assessed the DC competitive strategy and performance of retailers in Argentina, Peru and the United States established a link between a low cost-differentiation combo techniques and excellent performance. Kipkoech (2018) reviewed the organizational capabilities and insurance companies performance located in the city of Nairobi, Kenya and established that organizational capabilities and performance have a significant association. Based on the studies, it is clear that there is no study which has been done on DCs and performance of selected commercial banks in Nairobi City County and therefore the need for this study.

Objectives of the Study

The general objective of the study was to establish the influence of dynamic capabilities on performance of selected commercial banks in Nairobi City County,Kenya.

Theoretical Review

Dynamic Capabilities Theory

Teece's (1990) work, according to Ambrosini and Bowman (2009), was the first to clearly express the concept of dynamic capacities. He demonstrated that RBV failed propelry indicate the method utilized by numerous successful businesses to assume innovation of products rapidly and ensuring flexibility and having proper management coordinating and redeploying competencies both external and internal. He went on to say that the constantly changing environment necessitates consideration of strategic management, that is primarily focused on 'adapting, reconfiguring, and incorporating resources of an organization, both internal and external, in order to match dynamic market conditions.

Teece (2007) noted that competitive advantage, other than conflict in the industry or competitive placing, is a dynamic capacities function in chaotic contexts. One's ability of renewing competencies to be in line with the dynamic environment is considered to be "dynamic". Teece (2007) emphasized the relevance of path dependencies and the need to restructure a firm's resources in order to accommodate change and evolution. Organizational positions, path dependencies, and processes all contribute to the development of dynamic capabilities (Teece et al., 1997).

The processes are concerned with how activities are carried out, as evidenced by patterns of practice and routines. They analyze internal and external capabilities to evaluate how capabilities may be developed within firms to capitalize on existing possibilities. Intellectual property, technology, and relationships with suppliers and consumers are examples of resource endowments that determine an organization's position (Teece et al., 1997). The evolutionary path of capacities is highlighted by evolutionary theory, in which distinct capacities develop from the evolution of previous capabilities (Ambrosini & Bowman, 2009). As a result, path dependencies concentrate on improving a firm's dynamic alternatives by modifying its current capabilities.

Resource Based View Theory

The resource based view is a method of analyzing and identifying a firm’s strategic advantage based on examining its distinct combination of assets, skills, capabilities and intangibles as an organization (Pearce & Robinson, 2011). The RBV theory emerged in the 1980s and 1990s as a result of influential publications by people like Wernerfelt, Prahalad, and Hamel, and Barney. Dynamic capabilities means to an organization’s ability to renew and regenerate its DCs in order to achieve the demands of an ever-changing surrounding while maintaining excellent performance. The RBV is characterized by a high degree of scrutiny (Levitas & Ndofor, 2016).
The process of developing capabilities with the aim of aligning business with the changing environment is said to be dynamic; this includes being innovative in marketing and timing is critical, it is difficult to predict the nature of business environment in the future and also there is fast rate of advancement in technology. The main focus of strategic management is integration, adaptation, and incorporation of skills, resources and competencies in an organization for the purpose of aligning them with the constantly changing business environment; this process is emphasized by capabilities.

RBV's argument is that a company's performance is determined by its specific resources and competencies (Baker & Sinkula, 2005). Durability levels, transparency, replicability, and transferability are some of the primary variables that determine RBV, according to Grant (2015). Appropriability, scarcity, durability, inimitability, complementarity, substitutability, low tradability and limited are among a company's primary resources, according to Amit and Schoemaker (1993). Intangible assets give a corporation the opportunity to strengthen its competitive advantage and hence raise its market performance levels; these assets comprise market orientation, knowledge management, and learning in the firm. This study will use RBV in examining the effects of innovation capability on the bank’s performance.

Organizational Learning Theory

An organization that allows its employees to learn and facilitates the process in order to facilitate its constant transformation is said to be a learning organization. An organization that is learning is said to be one that is structured in a manner that enables learning, knowledge sharing, seeking of knowledge and creation of opportunities for the purpose of generating new knowledge. Such organizations explore new markets to learn about them other than just introducing a brand (Pearce *et al.,* 2011).

According to OLT, an organization operating in a dynamic environment is capable of attaining competitive advantage if they make changes to their goals and the techniques they will apply in attaining those set goals (Prasarnphanich & Janz, 2003). For the purpose of facilitating learning, it is important for organizations to make conscious decisions regarding transformation of its actions when responding to changes in circumstances, must be linked consciously with the result expected.

A learning organization is characterized by constant change where individuals and groups take part in the process of earning and therefore encourage risk taking, openness to new approach and processes and consider mistakes made by workers as probable source of new ideas and accomplishing tasks. In a learning organization, employees are responsible for their learning as well as that of their fellow employees. Infusion of new ideas and information in a learning organization is done by continuously scanning external environments, employees' new talents and experts when need be and allocating sufficient resources for training and employee development purposes (Kinicki & Kreitner, 009).

Balance Score Card Model

This concept, advanced by Kaplan and Norton in the early 1990s, attempts to measure an organization's performance using a variety of financial and non-financial metrics. This model primarily focuses on aligning organizational operations with its vision and strategies in order to improve both external and internal communication and track organizational performance against strategic goals. In this model, there are four dimensions: consumer perspective, innovation and learning, internal company procedure, and financial. The first three measurements give leading performance measures, while the final measure provides trailing performance measures.

It is possible to establish how capable a company is in supplying high-quality goods and services, as well as how effective delivery are and overall customer happiness, by looking at it from the perspective of the consumer. As a result, the bulk of the organization is focused on its customers, and they have established a customer mission that tries to determine organizational performance from a consumer perspective (Kaplan & Norton, 1992). According to BSC, it is the role of managers to translate the overarching declaration of the mission of services to customers into essential measurements that reflect aspects that are essential to customers.

Financial performance measures aid in determining whether or not a company's strategy implementation and execution contribute to overall improvements. It also aids in determining the consequence of the chosen strategic options. Financial metrics will correct themselves as important improvements in operations are made (Kaplan & Norton, 1992). To perform well, an organization should have a variety of dynamic skills that guarantee customer needs are addressed and business operations run smoothly.

Innovative Capability and Organizational Performance

Zhang (2014) studied the effect innovation capability has on performance of companies: empirical research on industrial companies in transitional economy of China. The study obtained empirical data from the largest official technological survey covered six major industrial areas in 1996. A total of 3843 Chinese industrial companies in Beijing, Guangdong, Harbin City, Shanghai, Liaoning, and Jiangsu were reviewed. Using this data, the study reviewed the link that exists on performance of a company and innovation capabilities. The data allowed for comparison of data across the region and among different companies. Results showed that of the company’s performance has a significant impact on innovation capabilities. The relationship was also found to be complex. There is an independent and interactive influence of innovation capabilities on performance of a company. In addition, effects of innovation capabilities are moderated by a number of environmental as well as organizational factors.

Mensah, (2016) researched on innovative capabilities effects on banking sector’s performance; a case of Ghanaian UT Bank. Descriptive research design was used. Managers, employees and clients were targeted; this formed a target group of 201,039 from which the study selected a sample of 395 participants 150 being employees and 245 were customers. The results established that banks performance on some dimensions of innovative capacity was good. Some of the areas where banks performance was credible were innovations pertaining products, marketing, process and organizations. Performance of the banks was moderately related with process, product and marketing innovation. Nonetheless, the relationship between organizational performance and organizational innovations and collaborations was weak.

Oluwajoba, Oluwagbemiga, Kehinde and Akinade (2017) researched on Assessment of the capabilities for innovation by SMEs industry in Nigeria. Researcher’s focus was on the ability and competency of SMEs to be innovative. The study selected purposively a sample of 100 firms from Ibadan and Lagos cities. Findings showed that there is no single company attained major innovation which can be said to be unique and based on science. Less than half (43%) had an innovative index score between 0 and 2 which suggests that most of the companies have incremental form of innovation. Only (14%) had original forms of innovation which had significant relationship with some external aspects that were inclusive of high academic degree, science or engineering education, and relevant wok experience in large multinational corporations and university and institutional research of managers or founders. Level of investment in R&D and training had a significant relationship with innovative index. Additionally, external inputs needed by a company were achieved through association with external agents.

Muchemi and Moronge (2017) studied on impacts of strategic plan implementation on Kenya's commercial bank performance; the study was conducted within equity bank. Researcher's focus was establishing the impacts strategies of innovation have on Kenya's bank performance. Targeted population was employees of Equity bank at HQ and therefore the study population was 160 staff members. Strategies of market and product innovation together explain changes observed in performance of the bank. Conclusions reached were that strategic innovation determined by product and market innovation positively and significantly affected the way the selected commercial banks in Kenya performed.

Technical Capability and Organizational Performance

Pebrianto, Suhadak, Kertahadi and Djamhur (2013) did a study on ways through which performance of the organization can be influenced by information technological capacity, KM capacity and organizational learning. The study used a sample of 72 branch offices using saturated sampling technique. The study selected head employees of the bank who have been employed for not less than three years. Information Technology Capability (ITC) significantly influenced performance. The direction of IT's influence on organizational performance is positive, implying that the greater an organization's information technology capability is, the better it performs. KM Capability significantly influenced Organizational Performance the Organizational Learning.

Reichert and Zawislak (2014) researched on Technological Capability and performance of organizations. Researcher's focus was to determine the link that exists in investments in technological capacity and performance of Brazilian companies in the economy. The economic development theory and the history of country's development were used and the assumption of the researcher was positively related. The study analyzed a total of 133 companies from Brazil. Considering the economic situation of emerging economy, where most companies depend on low and medium technology, it is concluded that technological capacity and performance of organizations are positively linked. Other elements that help organizations attain such performance also exist. Companies whose technological intensity was low recorded average performance in their economic indicators and their adverse investment was below those whose technological capacity was average. The findings do not negatively affect merits of the company and success of the country. The findings support the tradition of a nation that focuses its efforts on basic industries.

Rabillo and Rotich (2018) did a study on impacts strategic knowledge capacity has on commercial banks performance. The focus was to establish the link existing between company performance and strategic knowledge capacity. To achieve this, the study made use of social survey methodology and data collected by use of questionnaires. All the 42 banks were surveyed. Performance of banks was found to have direct relationship with IT. It is therefore very important to have an organizational structure that is based on knowledge because it facilitates development of knowledge capacity and KM processes and therefore facilitate attainment of competitive advantage.

Learning Culture Capability and Organizational Performance

Based on a joint research that was done out by American Society of T&D and International Business Machines Corporation, it was established that 60% of study participants made use of mentoring in passing knowledge but still 50% of participants continued using documents repositories in capturing knowledge (Lesser & Rivera, 2006). Likewise, mentoring was effective when doe in real life where the students are mentored in real-life for the challenges they might be encountering. Therefore effectiveness of knowledge transfer depends on the nature of relationship existing between mentee and the mentor. Nonetheless, mentoring to ensure tacit knowledge transfer consumes a lot of time. Also another key concern is allocating a mentee to a mentor. The generational gap must be bridged by the relationship between mentor and mentee. It is important to develop mentorship relationship to facilitate knowledge transfer.

Ahmed (2016) studied impacts development has on performance and development of capabilities: Empirical Evidence from Pakistan. Researcher’s focus was to establish how performance of organizations is affected by creation of superior managerial capabilities. To test the value chain link in reference to organization’s ownership and size empirical evidence was used and was established that large size and multinational companies in Pakistan created learning culture and invested in development and enhanced their managerial capabilities and this led to improved performance despite the fact that there was no direct link established between organization’s size and ownership with performance and managerial capabilities.

Nyongesa, Namusonge and Ngeno (2016) focused on strategic learning culture capability impact on performance. To attain this goal descriptive survey was adopted. Target respondents were senior managers of the selected supermarkets. In Nairobi, there are 43 medium and 15 large supermarkets are described on the basis of the the license fee at USD 800 and USD 1200 respectively annually. To analyze the collected data, the study used regression analysis. Strategic learning culture capability was significant and positively impact on performance of retail supermarkets. It was resolved that strategic learning culture ability can result in improved performance levels of supermarkets. The results showed that strategic learning culture significantly and positively affected company performance. Future research should delve at the reasons for vendor-managed retail enterprises' low strategic adoption capacities, according to the report.

Dynamic Capabilities and Organizational Performance

According Teece (2017) performance can be significantly enhanced by having the ability to effectively build capabilities. A company develops and nurtures capabilities for the purpose of enhancing performance and also interacts and anticipates performance in the market. Effective systems for measuring performance has to cover all performance aspects that are crucial for organizational existence and through which the company can grow and enhance its performance (Scott & Davis, 2017). Therefore any system that is concerned with performance should incorporate more than just financial measures. Dynamic capabilities in an organization are intrinsic process of evolutionary and assist in solving problems, improving decision making process, stimulating creativity, and assist organizational members in effectively implementing objectives of the organization. Dynamic capabilities in an organization, for instance articulation of implicit knowledge and experience accumulation should transform using specific processes of distinct routine. Therefore, development of dynamic capabilities in organizations has the ability of being distinct.

Organization performance is viewed as the attainment of superior profit levels, larger market share and the level of growth registered by companies. This is similar to Lodato (2014) contention that organizational performance is a measure using actual results or organizational outcome determined using goals and objectives. Some of the goals are financial performance (profits, ROA, ROI); performance of products in the market (sales, market share), and returns of wealth of shareholders.

Commercial banks performance, as in any other business organization, is the level to which the bank can attain its corporate objectives. These objectives are financial and non-financial. Financial performance depends on level and sustainability of profits that the bank is able to make as a firm. The size of the market a firm controls, the efficiency and efficacy of cost-cutting measures used, and the price of the items sold are all factors that affect the company's profitability (Jones, 2015). Organizations mainly aspire to maximize on shareholders wealth, have stable share capital, and greatly expand into new markets. The non-financial performance goals include delivering sound environmental management programmes, having good corporate reputation, implementing popular corporate social responsibility programmes, and maintaining a loyal and highly skilled workforce. The attainment of these goals or its failure depends on the prevailing market and socio-economic circumstances upon which the banks operate (CBK, 2013).

Conceptual Framework

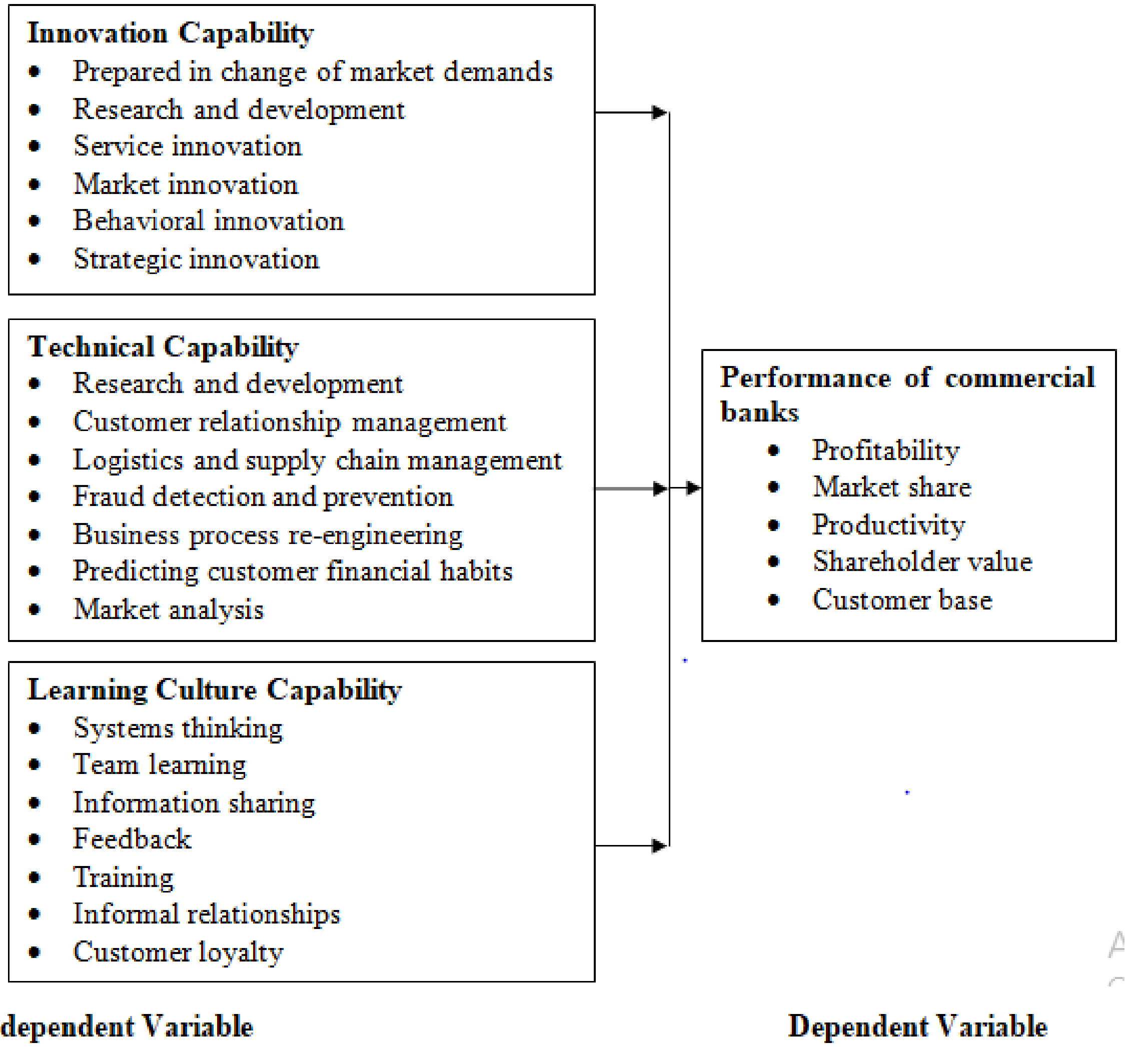

Figure 1: Conceptual Framework

RESEARCH METHODOLOGY

Research Design

Descriptive research design was adopted since it's considered suitable in determining the influence dynamic capabilities have on banks performance. For this design, data was obtained by administering questions to individuals who members of a selected representative sample; the questions are administered in a standardized procedure as it aims to establish the link existing between factors being investigated.

Target Population

The study targeted 3 commercial banks located in Nairobi City County. Comprising; the KCB, Equity Bank and Barclays bank. The unit of analysis was 3 commercial banks. Management level employees (senior employees) selected from headquarters of the three selected banks will be targeted.

Table 1: Distribution of Target Population

	Category	Population	Percent
KCB	Top level management	11	5
	Middle level management	24	10
	Low level management	46	19
Equity	Top level management	13	6
	Middle level management	26	11
	Low level management	57	24
Barclays	Top level management	8	3
	Middle level management	16	7
	Low level management	35	15
	Total	**236**	**100**

Source: HRMIS (2020)

Sampling Technique

In this study, the sampling frame was the list of all management level employees in head offices of the three selectedcommercial banks. Sample size to be used was ascertained by the use of Krejcie and Morgan formula formula is;

$$n = N / 1 + (N-1)\, e^2$$

Where n= the required sample size,
N = is the Target Population
e = accuracy level required. Standard error = 5%
= 236/ 1+ (236-1) 0.05^2 = 149 respondents
From the above formula, the study used a sample of 149 respondents which is a representation of 63.14% of the targeted population.

Table 2: Distribution of Sample

	Strata	Population	Sample Proportion	Sample size
KCB	Top level management	11	63.14%	7
	Middle level management	24	63.14%	15
	Low level management	46	63.14%	29
Equity	Top level management	13	63.14%	8
	Middle level management	26	63.14%	16
	Low level management	57	63.14%	36
Barclays	Top level management	8	63.14%	5
	Middle level management	16	63.14%	10
	Low level management	35	63.14%	22
	Total	**236**	**63.14%**	**149**

Data Collection Instruments

Semi-structures questionnaires was used. The study collected more structured responses using closed-ended questions and they therefore facilitate tangible recommendations. Also, using open ended questions, various attributed was examined and by doing so, the researcher was able to collect more varied responses. Information that won't be covered by closed-ended questions was captured using the open-ended questions.

Data Collection Procedure

The research tools were given to the participants by the researcher. To achieve high response rate, the researcher maintained care and control by having a register for tracking those questionnaires issued and the ones returned. Administration of questionnaires was done with the assistance of research assistants and used drop and pick approach.

Data Analysis and Presentation

SPSS (version, 23) is the selected tool for data analysis where descriptive statistics which include mean, SD, frequencies and percentages was used and findings displayed in tables and figures. To achieve this, tallying, computation of percentages of variation, description of the data and its interpretation in line with study specific objectives was done. Collection of qualitative data was by use of open ended questions; analysis ofthese data was by use of content analysis and presentation was done in prose form.

The influence dynamic capabilities have on performance of commercial banks was determined by computing multiple regressions. SPSS will be used to compute multiple regressions and tables will be used to present the findings. The model for regression equation will be:

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

Where Performance (Y) is the dependent variable, β_0 is the regression constant, β_1, β_2, $\beta_3$are the coefficients of independent variables, X_1=Innovative Capability, X_2 is TechnicalCapability, X_3 Learning Culture Capability.

RESULTS AND DISCUSSIONS

Response Rate

The sample was 149 members of staff in management level currently working at Kenya Commercial Bank, Equity Bank and Barclays bank head office in Nairobi City. All the staff selected were issued with questionnaires but only 121 were fully filled and returned. This represented a response rate of 81.2%. Mugenda and Mugenda (2008) indicted that, a 50% rate of response and more is considered good, 60% and above is adequate and 70% and above is excellent. So, this study's rate of response was seen as excellent of analysis and reporting as indicated in Table 3.

Table 3: Response Rate

Questionnaire	Frequency	Percent
Returned	121	81.2
Unreturned	28	18.8
Total	**149**	**100.0**

Descriptive Statistics

In this section the study presents characteristics of various variables based on respondents' responses. The responses of the respondents were interpreted using means and standard deviations.

Innovations Capability and Banks Performance.

Respondents expressed their level of agreement on innovation competence influence on commercial bank performance. The outcomes are indicated in Table 4.

Table 4: Innovations Capability

Statements	1	2	3	4	5	Mean (M)	Std. Dev. (SD)
The bank employees are innovative	3	2	3	103	9	3.922	1.472
The bank has the capacity of developing novel products to satisfy market needs	6	6	9	98	3	3.719	1.397
The bank has the ability to generate these new items using relevant process technologies.	3	3	7	104	3	3.819	1.496
To meet future needs, the bank has the ability to adopt new products and processing technologies.	7	3	1	100	10	3.856	1.426
The bank is prepared to take advantage of unforeseen chances presented by competitors..	2	6	18	90	5	3.741	1.255
The bank has adopted new systems to improve customer service	3	3	6	107	2	3.848	1.548
The bank has developed a set of abilities, knowledge and routines that aim at reducing its marketing cost	3	3	10	101	3	3.798	1.445

The findings agree with Zhang (2014) who studied the impact of innovation abilities on firm performance and found that innovation capabilities carry significant implications for enhancing firm performance. Product, marketing, and process innovations all had a moderate association with firm performance, Mensah (2016) discovered that commercial banks' profitability was influenced by their adoption of innovation strategies, and that, as a result, innovation methods are critical to a bank's growth and sustainability; banks with well established innovation plans increased their profitability.

Technical Capability and Banks Performance.

Respondents provided their agreement level with statements regarding the influence of technical capability on performance. The results were as presented in Table 5.

Table 5: Technical Capability

Statements	1	2	3	4	5	Mean (M)	Std. Dev. (SD)
The bank's research and development team help in identifying customer needs	6	2	12	95	7	3.800	1.337
The banks maintains good relationship with customers by responding to their needs	3	6	3	102	7	3.859	1.457

The bank's logistics and supply chain management get to the customers at the right time	2	3	3	110	3	3.905	1.597
The bank has adopted fraud detection and prevention to ensures smooth operations	3	6	2	102	9	3.902	1.456
Technical capability leads to business process improvement and re-engineering	2	2	2	110	5	3.955	1.592
The bank has an understanding of their customers hence they are able to provide products to suit their needs	2	2	2	114	1	3.915	1.669
The bank has an established market analysis procedures to identify new market needs	3	4	6	107	1	3.827	1.550

The study outcomes agree with Reichert and Zawislak (2014) who researched on Technological Capability and Firm Performance. From the economic realities of an emerging economy, where most of enterprises basis is low and medium-low-technology industries, a positive relationship on technological aptitude and firm performance cannot be established. There exists other factors that enable businesses to reach such outcomes. Firms in lower technological intensity industries outperformed the national average in economic performance indices, but they capitalized less in technological competence than the national average. It also agrees with Rabillo and Rotich (2018) studied the impact of dynamic knowledge capability on bank's peformance. The outcomes revealed a significant and positive link on IT and performance in banks. As a result, establishing a knowledge-based organizational structure is critical for knowledge management and the development of dynamic knowledge capability for long-term competitive advantage.

Learning Culture Capability and Banks Performance.

Respondents indicated how much they agreed with statements about the impact of learning culture capabilities on performance. The outcomes are shown in Table 6.

Table 6: Learning Culture Capability

Statements	1	2	3	4	5	Mean (M)	Std. Dev. (SD)
The bank supports employees career growth	6	2	5	100	8	3.846	1.423
Employees attend training programmes regularly	4	4	5	105	3	3.818	1.514
Employees attend seminars so that they can interact with their colleagues in other organizations and learn	4	4	10	99	4	3.793	1.408

new things							
There is a strictly followed training program in my bank	6	2	12	94	7	3.778	1.321
Employees help each other in performing their tasks	4	6	2	102	7	3.845	1.459
Employees receive feedback on their work performance	4	6	4	102	5	3.802	1.461
Employees are able to develop their own ideas and practices to improve their work	2	6	10	100	4	3.813	1.424

The outcomes support those of a joint study conducted by IBMC and ASTD, which nited that mentoring is most effective in learn-while-doing scenarios, in which mentors provide student's guidance in realistic circumstances they may face. Knowledge transmission will not occur unless a mentorship connection is created. Ahmed (2016) noted that though there is no direct relationship on firm size and ownership and managerial capabilities and performance, multinational and large-sized firms in Pakistani develop a culture of learning and investing in development to improve their managerial abilities, resulting in enhanced performance.

Performance of Selected Commercial Banks

Respondents indicated their level of agreement on the statements about performance of. The outcomes were as shown in Table 7.

Table 7: Performance of Commercial Banks

Statements	1	2	3	4	5	Mean (M)	Std. Dev. (SD)
The bank has increased its consumer base	6	5	9	95	7	3.776	1.337
The bank has witnessed an increase in its market share	6	6	8	96	6	3.757	1.356
The bank profitability has increased	4	4	10	100	3	3.765	1.429
Employee productivity has improved	6	0	10	101	4	3.798	1.445
There is an increase in shareholders' value	4	2	4	106	5	3.869	1.528
The bank has improved the customer services	6	6	5	100	5	3.788	1.426
There are more products from which customers can choose from	4	4	5	105	3	3.818	1.514

These findings concur with Lodato (2014) contentions that organizational performance is a metric of an firm's actual output as compared to its aims and objectives. Financial performance, product market performance and return on shareholder wealth are among the objectives.

Correlation Analysis

Correlation analysis is a statistical tool for determining the degree of relationship between two variables. It was used in the study to find the strength of the association of the predictor and response variables. The outcomes were as presented in Table 8

Table 8: Correlation

		Performance	Innovations Capability	Technical Capability	Learning Culture Capability
Performance	Pearson Correlation	1			
	Sig. (2-Tailed)				
	N	121			
Innovations Capability	Pearson Correlation	.725**	1		
	Sig. (2-Tailed)	.000			
	N	121	121		
Technical Capability	Pearson Correlation	.707**	.412	1	
	Sig. (2-Tailed)	.001	.043		
	N	121	121	121	
Learning Culture Capability	Pearson Correlation	.772**	.352	.245	1
	Sig. (2-Tailed)	.001	.071	.040	
	N	121	121	121	121

From the findings, innovations capability was seen to have a strong, positive significant link with performance ($r = 0.725$, $p = 0.000<0.01$). This concurs with the findings of Ngumi (2013) who evaluated how bank innovations affects commercial bank financial performance, and it was discovered that bank innovations have a favorable impact on financial performance. Technical capability had strong positive significant link with performance ($r = 0.707$, $p = 0.001<0.01$). The outcomes agree with Pebrianto, Suhadak, Kertahadi, and Djamhur (2013) evaluating the effect of firm learning, IT and knowledgement management capabilities on firm outcomes and discovered that knowledge management capability significantly impacted on organizational learning.

The study further revealed that learning culture capability had a great affirmative significant link with performance ($r = 0.772$, $p = 0.001<0.01$). The results concurs with Nyongesa, Namusonge, and Ngeno (2016) reviewed how dynamic learning culture abilities impact on the performance of supermarkets in Nairobi County, Kenya, and noted that dynamic learning culture capability helps supermarkets perform better.

Multiple Regression Analysis

Multiple regressions were used to find out the impact of dynamic capabilities on commercial bank performance in Kenya. The results were in form of three tables presented hereunder. Model Summary was done to see how the response variable changed due to the predictor variables changing. It showed the variation in ternms of percentage in performance of selected commercial banks as a result of changes in innovations capability, technical capability and learning culture capability.

Table 9: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.724[a]	0.524	0.511	0.142782

From the outcomes, the value of R^2 was 0.524 meaning that changes in innovations capability, technical capability, and learning culture capability can be qualified to 52.4% variation in performance. The remaining 47.6% suggest that there exists more elements that impact on commercial banks performance which were no art of this study model. The results also reveal that the objectives are substantially and definitely connected, as evidenced by the R value of 0.724.

Analysis of Variance was computed in order to find if the data utilized for this study is significant. The study selected a significance level of 0.05 and therefore the data was considered significant if p-value obtained is below the selected level of significance.

Table 10: Analysis of Variance

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	24.316	3	8.105	98.841	.001[b]
	Residual	9.628	117	0.082		
	Total	**33.944**	**120**			

Table 10 shows that the population parameters have a 0.001 significance level. The data was deemed adequate for scrutiny and conclusion of the populace being investigated because the P-score (0.001) was smaller than the chosen significance level (0.05). The value of F-critical, obtained from f-critical tables, was below f-calculated (98.841>2.682). This implies that innovations capability, technical capability and learning culture capability significantly influence performance of selected commercial banks in Nairobi City, Kenya.

The beta coefficients were fitted to the regression model to create a regression equation for predicting commercial bank performance.

Table 11: Regression Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	0.519	0.084		6.179	0.001
	Innovations Capability	0.327	0.058	0.425	5.638	0.002
	Technical Capability	0.287	0.052	0.383	5.519	0.005
	Learning Culture Capability	0.253	0.05	0.412	5.060	0.007

From the outcomes of beta coefficients, the equation for regression was as follows;

$$Y = 0.519 + 0.327\, X_1 + 0.287\, X_2 + 0.253\, X_3:$$

Where Y is Performance; X_1 is innovation capability, x_2 is technical capability, x_{30p} is learning culture capability.

From the above equation, holding innovations capability, technical knowledge capability, and learning culture capability constant, the variables would influence performance signifcantly (constant = 0.519).

Innovations capability is statistically significant to performance (β = 0.327, P = 0.002). It means that the connection of innovations capability and performance is significantly positive. So growing innovations capability by a single unit should lead to a rise in performance of selected commercial banks by 0.327 units.

Technical capability is statistically significant to performance (β = 0.287, P = 0.005). This means that the link between technical knowledge capability and performance is significantly positive. So rising technical knowledge capability by a single unit ought to rise in performance of selected commercial banks in Nairobi City, Kenya by 0.287 units.

Learning culture capability is statistically significant to performance (β = 0.253, P = 0.007). This means that the link of service quality capability and performance is significantly positive. So rising learning culture capability by a single unit ought to rise in performance of selected commercial banks in Nairobi City, Kenya by 0.253 units.

Conclusions

It was noted that innovations capability is significant to performance of commercial banks. It was also revealed that the relationship between innovations capability and performance is significantly positive. The study therefore concluded that increasing Innovations capability by a single unit would influence a rise in performance of selected commercial banks in Nairobi City, Kenya by 0.327 units.

The study revealed that technical knowledge capability is statistically significant to performance. It further established that the relationship between technical knowledge capability and performance is significantly positive. From the outcomes, the study resolves that technical knowledge capability by a single unit would influnce a rise in performance of selected commercial banks in Nairobi City, Kenya by 0.287 units.
It was found that learning culture capability is statistically significant to performance. It was further found that the link between service quality capability and performance is significantly positive. The study therefore concludes that, increasing learning culture capability by a single unit would influence the rise in performance of selected commercial banks in Nairobi City, Kenya by 0.253 units.

Recommendations

The study suggests management of the bank to embrace various forms of innovations including, product, service, market, and process innovations. Banks should also adopt a more proactive approach to developing products and services that offer value to their customers, according to the report. Banks must also empower their frontline executives to become more customer-centric, as this allows customers to have a say in how creative decisions are made.

The study recommends the bank to improve its technical knowledge capacity through Knowledge management, talents and skills acquisition, knowledge creation, knowledge gathering, knowledge diffusion and knowledge use. The study also recommends the need for policy intervention to enhance the knowledge and skills of the operators. The study also encourages management of the bank to have knowledge based organizational structure that will facilitate knowledge management process and development of dynamic knowledge capability for sustainable competitive advantage.

The study suggests that bank executives cultivate a learning culture and invest in development to strengthen their managerial talents, resulting in improved performance. The study also suggests knowledge transfer methodologies that are compatible with multi-generational workforce dynamics, taking into account the workplace's age variety.

Suggestions for Further Studies

The general objective of the study was to establish the link between dynamic capabilities and performance of selected commercial banks in Nairobi City, Kenya. The variables used in the study were able to explain only 52.4% variation in performance of commercial banks. The study suggested that further research should be done on other factors that may influence performance of commercial banks. The study was conducted in Nairobi city further research should be conducted targeting other cities in the country. The study further recommends that future studies should look into levels of dynamic adoption capabilities by commercial banks and the challenges they encounter.

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