STRATEGIC RESOURCES AND PERFORMANCE OF COMMERCIAL BANKS IN KENYA: CASE OF EQUITY BANK LIMITED

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ABSTRACT

Firms always strive to gain competitive advantage over their rivals in the industry. Banks have faced a decline in their performance over the last 10 years in Kenya and globally due to immense competition of other lenders, unfavorable government policies like the interest cap policy in Kenya, unregulated market, political interference and poor risk management. The general objective of this study was to establish the effect of strategic resources on firm performance among commercial banks in Kenya. The study was guided by the following specific objectives; to determine the influence of management capability on firm performance, to establish the effect of organizational systems and processes on firm performance of Equity Bank Limited, Kenya, to establish the influence of product innovation on performance of Equity Bank Limited, to examine the relationship between capital outlay and performance of Equity Bank Limited. The study was guided by the following theories: resource-based theory, 7's Theory, and other performance theories. A descriptive research design was used to gather the information needed to achieve the objectives. The target population was 261 management employees at Equity Bank Limited, Kenya in the Central, Eastern and Nairobi regions. Qualitative and quantitative techniques was used. A self-administered questionnaire was used to collect the data. The data was analysed using descriptive and inferential statistics and presented in tables, charts, means and percentages. The study found out that management capability significantly influenced organizational performance of Equity bank. System processes significantly influenced organizational performance of Equity bank. Product innovation significantly influenced organizational performance of Equity bank. Capital outlay significantly influenced organizational performance of Equity bank. The study concludes that the banks management staff had full control of the running of the firm. The company embraced continuous learning culture for all the management staff to be equipped with more knowledge. The organization had efficient systems and processes and the company systems were valuable. The systems in place were rich in managerial value and the company systems were historically bound. The company had improved on existing products to increase performance. The bank had advanced transaction technology systems and had a high expenditure on product innovation. The capital outlay had increased firm stock prices, the bank had a high capital expenditure and capital outlay had improved shareholders' wealth. The study further concludes that the bank intended to increase capital outlay. The study recommends that the banks management staff ought to have full control of the running of the firm. The company ought to embrace continuous learning culture for all the management staff to be equipped with more knowledge. The company's processes ought to be hard to copy. The organization ought to have efficient systems and processes, the company systems ought to be valuable. The bank ought to came up with new products to remain competitive in the market. The company ought to improve on existing products to increase performance. The company capital outlay ought to lead to high stock returns and the company capital expenditure ought to increase corporate earnings. The capital outlay ought to increase firm stock prices, the bank ought to have a high capital expenditure.

Key Words: *strategic resources, performance, commercial banks, Kenya, Equity Bank Limited*

INTRODUCTION

Organizations operate in an ever-changing external environment and have to continuously change if they have to maintain their competitive advantage and positioning in the industry. To understand how competitive advantage emerges, it is imperative to know what competitive advantage is. When two or more organizations compete within the same market, one organization possesses a competitive advantage over its rivals when it earns (or has the potential to earn) a persistently higher rate of profit than its rivals. However, competitive advantage may not be revealed in higher profitability as an organization may forgo current profit in favour of investment in market share, technology, customer loyalty, or executive perks as it pursues future strategies. Competitive advantage emerges when change occurs within either the organization or industry environment (Mecagni, 2015)

For an external change to create competitive advantage, the change must have differential effects on organizations because of the different resources and capabilities that they own, or their different strategic positioning. Turbulence in the industry environment may lead to a greater number of sources of change, while the difference in the organizations resources and capabilities have an impact on the dispersion of profitability within the industry. The ability to identify and respond to opportunity lies in the core entrepreneurial management capability. Organizations should identify which particular resources they own that would enable them to gain competitive advantage in the industry (Britt, 2006).

Responsiveness to the opportunities provided by external change requires one key resource- information- and one key capability- flexibility-. Information is necessary to identify and anticipate external changes. As the pace of change accelerates, organizations become less dependent on conventional analysis of economic and market research data and more dependent on ‘early warning systems’ through direct relationships with customers, suppliers, and competitors. The changes that create competitive advantage may be internal as well as external. Internal change could be generated by innovation. Innovation not only creates competitive advantage, but it also provides a basis for overturning the competitive advantage of other organizations. In a business, however, innovation includes new approaches to carrying out business, which may include new models. Strategic innovation involves creating value for customers from novel experiences, products, or product delivery (Parmar, 2014).

Once competitive advantage has been established, it is subject to erosion by competition. The speed with which it is undermined depends on the ability of competitors to challenge the organization either by imitation or innovation. Imitation is the most direct form of competition, thus, for competitive advantage to be sustained over time, barriers to imitation must exist. The more effective these isolating mechanisms are, the longer competitive advantage can be sustained against the onslaught of rivals. It is not easy to imitate the capabilities of an organization, as they are mostly dependent on the internal mechanisms of the organization and are developed over a period of time. Hence, developing capabilities within the firm may lead to a sustained competitive advantage (Alderfer, 2013).

The issue of firm performance has been central in strategy research for decades and encompasses most other questions that have been raised in the field, as for instance, why firms differ, how they behave, how they choose strategies and how they are managed (Porter, 1991). A central premise of the resource-based view is that firms compete on the basis of their resources or strategic assets and capabilities (Peteraf and Bergen, 2013). Most resource-based view researchers choose to look within the enterprise and down to the factor market conditions that the enterprise must contend with to search for some possible cause of sustainable competitive advantages holding constant all external environmental factors Peteraf& Barney, 2013). Firm's strategic resources are seen as the fundamental determinants of firm performance. Firms within an industry or within a strategic group may be heterogeneous with respect to the bundle of resources that they control.

Firm Performance

Performance is the outcome of all of the organization's operations and strategies (Wheelen & Hunger, 2002). Firm's performance is the appraisal of prescribed indicators or standards of effectiveness, efficiency, and environmental accountability such as productivity, cycle time, regulatory compliance and waste reduction. Performance also refers to the metrics regarding how a certain request is handled, or the act of doing something effectively; of performing; using knowledge as notable from just possessing it. It is the result of all of the organisation's operations and strategies (Venkatraman & Ramanujam, 2011). It is also the level to which an individual fulfils the expectations concerning how he should behave or function in a certain situation, context, circumstance or job. Oakland (1999) posited that performance is what individuals do relate to institutional roles.

Performance measurement systems offer the foundation to extend strategic plans, remunerate mangers and review an institution's completion of objectives (Alderfer, 2013). Although evaluation of performance in the marketing literature is still very vital, it is also complicated (Andersen & Segars, 2011). Whilst consensual dimension of performance promotes scholarly assessments and can elucidate managerial decisions, those in marketing have not been able to find apparent, present and consistent measures of performance on which marketing merit could be establish (Manogran, 2011). Two methods have been adopted in the literature to determine financial performance. Longer term performance has been preferred for two reasons: firstly, since that is what the customers of "retail" products for instance unit trusts might be likely to be examining particularly considering the charging arrangements which make shorter term investment imprudent. Secondly, one of the reasons of looking at "real" products rather than theoretical studies is how administrative costs give the results. In principle, such costs might appear in either front-end or regular annual management charges.

Using five-year offer-to-bid figures should arrest such effects in spite of the choices of individual institutions as to how to split costs among the two types of charges.

The financial performance of companies is usually measured using a blend of financial ratios analysis, measuring performance alongside budget, benchmarking or a combination of these methodologies. The common postulation, which explains most of the financial performance discussion and research, is that increasing financial performance would result in improved functions and actions of the firms. The topic of financial performance and investigation into its measurement is well advanced in management and finance fields. It can be argued that there are three principal factors to advance financial performance for financial firms; the institution size, the institution asset management, and the institution operational efficiency (Fitzgerald, Johnston, Brignall, Silvestro & Voss, 2010).

Strategic Resources

Strategic resources are the building blocks of competitive advantage in business. Three standard company resources that combine to create competitive advantage are a company's financial strength, its enterprise knowledge and its workforce. If financial resources are weak, the company is not able to produce enough to grow. Without enterprise knowledge such as proprietary processes or patents, the company cannot differentiate itself from its competition. Without a skilled workforce, the operations and management of the company is inefficient (Bownman, 2011).

An organization can acquire resources and capabilities in two ways. It can either buy or build them. The period over which a competitive advantage can be sustained depends critically on the time it takes to acquire and mobilize the resources and capabilities needed to mount a competitive challenge. The ability to buy resources and capabilities from outside factor markets depends on their transferability between organizations. The alternative to buying a resource or capability is to create it through internal investment. Where capabilities are based on organizational routines, accumulating the coordination and learning required for their efficient operation can take considerable time (Britt, 2006). Making profits from competitive advantage requires that the organization first establishes a competitive advantage, and then sustains its advantage long enough to reap the rewards. To identify opportunities for establishing and sustaining competitive advantage, the organization should understand the competitive process in the specific market (Elizondo, 2002).

Production activities require complex combinations of resources and capabilities, which in turn are highly differentiated. Each organization possesses a unique combination of resources and capabilities. Differences in resource endowments among organizations also have an impact on the process by which competitive advantage is eroded. Where organizations possess very similar bundles of resources and capabilities, imitation of the competitive advantage of the incumbent organization is easy. Where resource bundles are highly differentiated, competition is likely to be less direct. Using different resources and capabilities, an organization may substitute a rival’s competitive advantage. Since substitute competition can come from many directions- alternative resources, technological innovations, and new business models- it is difficult to counter.

Strategy is concerned with matching an organization’s resources and capabilities to the opportunities that arise in the external environment. Increasing emphasis on the role of resources and capabilities as the basis for strategy is the result of two factors. First, as the organization's industry environment has become more unstable, internal resources and capabilities rather than external market focus has been viewed as a more secure base for formulating strategy. Second, it has become increasingly apparent that competitive advantage rather than industry attractiveness is the primary source of superior profitability. During the 1990's, ideas concerning the role of resources and capabilities as the principal basis for organization strategy and the primary source of profitability coalesced into what have become to be known as the resource-based view of the firm. In general, the greater the rate of change in an organization’s external environment, the more likely it is that internal resources and capabilities would provide a secure foundation for long-term strategy (Parmar, 2014).

Equity Bank of Kenya

Equity Bank Limited (EBL) was founded in 1984 as a Building Society with the purpose to pool resources of members for onward provision of mortgage facilities. With time, the growth in business volume and outreach necessitated the conversion to a fully-fledged commercial bank, which was registered on 30th December 2014. Its establishment was motivated by the desire to create a financial service provider which would touch base with majority of the unbanked Kenyan population.

The growth in business volume and outreach necessitated the conversion to a fully-fledged commercial bank which was dully registered on December 31, 2014 as Equity Bank Limited (EBL). Equity Building Society comprehensively implemented the change management process according to international standards with the support of Stepwise international, a team of consultants from Germany - putting emphasis on quality customer service (customer centrism) and customer focused products. It is at this time that they came up with the Equity Bank’s alignment model emphasizing on the need to balance out between the strategy, customers and markets, systems and processes, People (staff), Leadership and governance in addition to the environment they are operating in.

In 2010 Equity bank launched computerized management information system. This change contributed to improved productivity, efficiency and an expansion of the portfolio. Equity Bank is focused on provision of banking services to the microfinance sector of the economy. These services include salary processing, financial intermediation between savers and borrowers, customer accounts, insurance, custodial services and financial advisory. The target market is the lower income individuals in formal wage-earning employment and small to medium sized enterprises. Recently, the bank has started venturing into corporate banking with the acquisition of Renaissance capital in May 2009, as one of its subsidiaries focusing mainly on investment banking. The bank had, as at December 2009, an asset base of KSh.100 billion up from Ksh. 78 billion as at December 2008. Shareholders’ funds stood at Ksh. 21

billion, the rest of the financing is mainly from customer deposits which stood at Ksh.69.8 billion.

The directors and management of the bank were drawn from different professions and had vast experience in the financial services sector in Kenya. The CEO, who controlled a 5.32%, was a career banker with over 18 years of experience in the Kenyan banking sector. By the time of going public, the bank had over 2,400 shareholders. Those had since grown to about 30,000 by 31st December, 2009. Equity Bank Employees Share Ownership plan controlled 5.52%. The rest of the stake was widely held, the highest individual shareholding being at 8.34% (www.equitybank.co.ke). The shares of Equity bank were floated in the Nairobi Stock Exchange (NSE) on the 7th of August 2006, through a method called introduction. This meant that upon listing, no new shares were available to the market and only the existing shares were introduced for trading in the NSE (www.nse.go.ke).

Nine principle shareholders holding about 55% in the bank were barred from disposing their shares until twenty-four months after listing. This arrangement arrived between the top management of Equity Bank and Capital Markets Authority (CMA) was aimed at boosting investor confidence in the bank (www.equitybank.co.ke). The bank had been on a rapid growth phase considering that its target market is the largely ‘unbanked’ sector of the economy that the main stream banks would consider high risk customers. One of Equity bank’s key area of focus was to develop and provide affordable services relevant to its target market.

It forecasted a 66% growth in customer base through 2009 by provision of quality and customer focused services, increased branch network and heavy investment in automation of its systems and processes (www.equitybank.co.ke). Equity Bank has received both local and global accolades for its unique and transformational financial model. The bank is credited for taking banking services to the people through its accessible, affordable and flexible service provision. The bank has been on a rapid growth phase considering that its target market is the largely ‘unbanked’ sector of the economy that the main stream banks would consider high risk customers. One of Equity bank’s key areas of focus is to develop and provide affordable services relevant to its target market through acquisition of strategic resources.

STATEMENT OF THE PROBLEM

Banks have faced a downward trend in performance over time due to a myriad of reasons both locally and globally. High competition, unfavorable government policy, increased cost of doing business, poor strategic management and implementation. Strategic resources aim at establishing a profitable and sustainable position for a firm against the forces that determine industry competition. This means that organization needs to know what causes the competition and work towards developing strategies that agree with the competencies of the organization so as to be in a position to deal with the environmental changes. Successful competitive strategies results in greater performance and maintainable competitive advantage (Porter, 2044). Banking is very old and date back to 2010 BC as demonstrated in prehistoric Roman (Davies, 2002). Mecagni (2015) points out that financial liberalisation, reforms and upgrades in regulatory and supervising capacity have historically set the scene for the transformation of the African banking. Chen and Miller (1994) consider firm resources as one determinant of the firm capacity to respond; Gimeno and Woo (2016) study the impact of strategic similarity for example the similarity in the general pattern of resource deployments and competitive orientations on rivalry; Chen (2016) compare firms along two dimensions, market commonality and resource similarity; Jayachandran, Gimeno and Varadarajan (1999) identify resource similarity and organization structure of competing firms as factors moderating the relationship between market contact and the intensity of competition; Gimeno (1999) finds support the operationalization of the strategic importance of market to firms with the dimension of resource centrality; linking multimarket competition and resource allocation. McGradt, Chen and MacMillan (1998) suggest that a firm can strategically use its corporate level resources allocation to reconfigure its competitive context by influencing other firms' resource allocations. To compete successfully in this environment, organizations need to continually improve their performance. In this regard, strategic resource management has been viewed as a strategy towards enhancing performance in order to acquire competitiveness, (Arliskan (2010). Organizational performance is concerned with establishing congruency between organizational goals and societal aspirations through input-output relationships. Further, performance is the culminating result of interactions of the organizational management systems with both the internal and external environmental factors. In the recent past, an extraordinarily predominant socio-economic-political phenomenon has changed the structural configuration of the business world, and operational paradigms of the manufacturing industries. Prahalad and Hamel (1990) viewed and conceptualized the firm as a bundle of resources. These resources, and the way they are combined, are what differentiates one firm from another. While it might seem somewhat obvious that firms are different because they tire comprised of different resources, this perspective is a significant departure from the long dominant market-based view held by Porter. Firm resources are generally quite loosely defined, tending to include everything internal to the firm. Barney (1986) lists all assets, capabilities, organizational processes, firm attributes, information, knowledge, among others, as resources internal to the firm, it is prudent to determine the ones which are more strategically important and use them to gain competitive advantage. Barney (1991) has put forward a popular checklist to help in determining the resources that are strategic to an organization. Within a firm, there are tangible strategic resources which are mainly human capital and physical capital, and intangible strategic resources which include the firm's organizational capital. This provides a knowledge gap that the current study sought to fill which focused on establishing the influence of strategic resources on firm performance in the banking industry in Kenya with Equity Bank as the case.

GENERAL OBJECTIVE

The general objective of this study was to establish the influence of strategic resources on firm performance among commercial banks in Kenya; case of Equity Bank Limited.

SPECIFIC OBJECTIVES

1. To determine the influence of management capability on firm performance of Equity Bank Limited
2. To establish how systems and processes affect performance of Equity bank Limited.
3. To find out the relationship between product innovation and performance of Equity Bank Limited.
4. To determine the extent to which capital outlay influences the performance of Equity Bank Limited.

THEORETICAL FRAMEWORK

Resource-Based View Theory

The resource-based view (RBV) of Wernerfelt (1984) suggests that competitiveness can be achieved by innovatively delivering superior value to customers. The extant literature focuses on the strategic identification and use of resources by a firm for developing a sustained competitive advantage (Barney, 1991). International business theorists also explain the success and failures of firms across boundaries by considering the competitiveness of their subsidiaries or local alliances in emerging markets (Luo, 2013). Local knowledge provided by a subsidiary or local alliance becomes an important resource for conceptualizing value as per the local requirements (Gupta *et al.*, 2011).

In strategic management research, RBV theory has emerged as one of the theoretical perspectives used to explain persistency in inter-firm performance differences (Barney and Griffin, 2012). According to RBV theory, firms have collections of unique resources and capabilities that are valuable, rare, inimitable and non-substitutable and which are able to provide them with a sustainable competitive advantage. Hence, resources are tangible and intangible assets that are either owned or controlled by a firm, whereas capabilities refer to its ability to exploit and combine resources through organizational routines in order to achieve its objectives (Amabile et al, 2016). For this study, by applying RBV theory, it is important to investigate how internal and external resources can be influenced by competitive strategy and enable an organization’s capabilities to enhance innovation performance (Galbreath 2015).

According to Nahapiet and Ghoshal (1998), the term "intellectual capital" refers to the knowledge and knowing capability of a social collectivity, such as an organization, intellectual community, or professional practice” , while social capital is defined as ”the sum of the actual and potential resources embedded within, available through, and derived from the network of relationships possessed by an individual or social unit”. Intellectual capital is a valuable resource in the form of accumulated knowledge which is embedded within an organisation, while social capital resides in the relationship’s firms have with their network partners. Nahapiet and Ghoshal (1998) argued that innovation is the ultimate outcome of the creation of new knowledge which results from the combination and interaction between intellectual capital and social capital of firms. Commercial banks also are endowed with these two sets of capital or resource that require effective and efficient management to ensure the enterprises competitive favorably and perform.

The study is relevant to the study since every firm has unique resources that are key in gaining competitive advantage. The theory indicates that firms can turn around their performance by capitalizing on the strategic resources which in this case include management capacity and competence, systems and processes available, product innovation and capital outlay.

Mckinsey's 7S Theory

The McKinsey 7S theory is a management tool that was developed by Robert and Peters (1984). The 7s model is an assessment and monitoring tool an organization can use with significant relevance to strategy implementation. It is a holistic framework that continually analyses and improves the effectiveness of an organization, Tomas, Robert and Julien (2011). The seven fundamental elements referred to as 7S of this framework comprises of skills, structure, systems, strategy, shared values, style and staff. These elements can be categorized as the simple elements such as staff, shared values, skills and style while the difficult elements are strategy, structure and systems.

The framework is a vital tool in strategy implementation since a firm with the right skill set and staff numbers, shared values aligned properly with the good structure, strategy and operational or monitoring systems can operationalize its' implementation objectives well. Thus, a firm's management looks to which degree a firm has these elements that it can count on as internal strengths and plan for future strategic changes. According to (Arthur, et al.2010), lack of shared values and systems is a liability which makes a firm vulnerably weak during strategy implementation. Shared values are central to all the elements, they represent the company's culture, vision, beliefs that define the organizations future orientation and what it stands for. The elements that are difficult are easier to change while the soft elements are more difficult to change since they have humanistic elements, values, competencies, corporate culture and values acquired over time. All the elements are mutually reinforcing and a change in one causes effect on the functions of the others.

This theory indicates that a firm can succeed in strategic management if there is a proper monitoring and evaluation system. The seven fundamental elements are actually strategic resources which include skills, structure, systems, strategy, shared values, style and staff. These if well used can improve performance of a firm.

Other Performance Theories

Performance management is a concept in the field of human resource management. Performance management is a continuous process of identifying, measuring and developing the performance of individuals and aligning performance with the strategic goals of the organization (Aguinis, 2009). Performance management is many times mistaken as performance appraisal but the latter is just a part of the former.

There is no single universally accepted model of performance management. Various experts have explained the concept in their own ways. Mabey has prescribed the model of performance management system in the form of 'performance management cycle'. This cycle has 5 elements which suggest how performance management system should be implemented in an organization. The elements of performance management system cycle include: Setting of objectives, Measuring the performance, Feedback of performance results, Reward system based on performance outcomes and amendments to objectives and activities (Mabey et al, 1999).

Salaman says there are two theories underlying the concept of performance management: the goal-setting theory and the expectancy theory. Goal-setting theory had been proposed by Edwin Locke in the year 1968. This theory suggests that the individual goals established by an employee play an important role in motivating him for superior performance. This is because the employees keep following their goals. If these goals are not achieved, they either improve their performance or modify the goals and make them more realistic. In case the performance improves it would result in achievement of the performance management system aims (Salaman et al, 2015).

Expectancy theory had been proposed by Victor Vroom in 1964. This theory is based on the hypothesis that individuals adjust their behaviour in the organization on the basis of anticipated satisfaction of valued goals set by them. The individuals modify their behaviour in such a way which is most likely to lead them to attain these goals. This theory underlies the concept of performance management as it is believed that performance is influenced by the expectations concerning future events (Salaman et al, 2015).

EMPIRICAL REVIEW

Management Capability and Firm Performance

There is a relationship between managerial capabilities, managerial performance and organizational performance. Earlier research work has determined that managerial capabilities depend on managerial knowledge and managerial skills. (Abraham et al., (2010); Adner & Helfat, (2013); Caldeira & Ward, (2013). Bailey & Helfat, (2013); Carmel & Tishler, (2014); Henderson, (2013); Holley et al., (2015); Winter, (2013) Suggested the co-relation between managerial capabilities and managerial performance. However, there was a need to deeply examine the impact of development on managerial capabilities and performance to test the validity of value chain relationship.

Penrose (1959: 46) argued that the managerial skills and managerial knowledge of the individuals are integrated to achieve the managerial capabilities of the company. When the individual capabilities are combined and pooled up, they can deliver better results as a team and provide additional services. He further stated that every individual as a member of the team, can capitalize upon each other's strengths, skills and knowledge, take the advantage of the environment and the system and achieve enhanced productivity.

Sanchez and Heene (2016) said that the managers as a group, when they continue working together and capitalizing on each other's knowledge and skills, their collective wisdom, and capabilities available to the organization, become permanent and together with the communication, learning culture, and development, determine the personality of the organization, In the study conducted by Boeker & Karichalil (2012), they stated that developing managerial capabilities is necessary for growth.

Lado, Boyd, and Wright (2012) further argued that organizations by attaining superior managerial capabilities create the capacity: to create vision, formulate strategies, and make them work by communicating to the workforce Dner & Helfat, 2013; Caldeira & Ward, 2013; Helfat & Peteraf, 2013). Their prior research indicates that the manager's knowledge & skills are the bases of managerial capabilities. The organizations are required to continue investing on developing the knowledge and skills to attain superior managerial capabilities that can be used by the organizations to improve performance (Mahoney, (2015). In "The Management of Resources and Resource of Management", Mahoney, 2015) discussed that the effectiveness of the management team depends on their managerial capabilities, skills and personal attributes that are critical, and are required to have sustainable competitive advantage in the market.

Systems and Process and Firm Performance

William and Thomas (2009) in their study argued that although some organizational systems may appear to be specific to a given firm, sometimes there are traces of similarity in the systems of different firms, hence they might not be rare. The study used systems as a competitive advantage, and it is also adopted by the current study.

Agawal, Barney, Foss and Klein (2009) in their study on the role of organizational systems on performance claim that in spite of the findings, systems can be duplicated in some situations, and it must be admitted that some organizational systems should exist in a relatively few numbers of firms for a it to generate superior performance. The study indicates a positive relationship between firm systems and performance.

Grahovac and Miller (2009) in a research that used multiple regression indicated that if one firm copies a valuable system of a competing firm, then the success in modifying that valuable systems would only enable the copying firm to do things that the imitated firm has already done, hence it would only get normal returns rather than superior returns. The findings of the study indicated that young and small firms have more flexible organizational systems than older and large firms. Nonetheless, this study used descriptive survey method which was not adequate for the current study.

Hotstede, Fritz, Canavan, Oosterkamp and Van (2010) identified norms, values, beliefs, procedures and regulations as components of organizational systems. The findings of the study indicated that there is no significant relationship between systems and performance. Barney and Hesterly (2010) maintained that the firm should attempt to understand its organizational systems that would generate higher performance than its rivals. In a research employing Resource Based View of a firm by Kraaijenbrink, Spender and Green (2010) advanced that for a system to generate superior performance, then it ought to be valuable, rare and hard to copy. Valuable systems should enable the firm to do things and behave in a way that leads to high sales, low costs and high profit margin. However, the study used RBV, which was not enough for the current study, hence the decision to also apply organizational learning.

Organizational systems should possess attributes which are not common to other firms' systems. This would give rise to a system that cannot be easily duplicated by competitors, and any time they try to copy the systems, they suffer disadvantages (Barney &Hesterly, 2010). Hoq and Chauhan (2011) in an SMEs study found out that firms with superior performances are typically characterized by a strong set of core managerial values resulting from the specific systems of the organization and that define the way the firm conducts its business activities. In addition, firms are historically bound, reflecting a unique system due to a unique history. However, Hoq and Chauhan (2011) tested a direct relationship, whereas the current study tested a mediated relationship.

Product Innovation and Firm Performance

Dew (2017) in his study on product innovation and firm performance among commercial banks in India, established that in financial services, the lifeblood of a bank is determined by how well it can gather funds from the customers at the lowest cost; buy money, do something with the money, and then sell it to their profit (Dew, 2017). Financial innovations enable firms from all sectors to raise money in larger amounts and at a cheaper cost than they could elsewhere (Lerner, 2006). It becomes obvious that there is a tendency for a bank to minimize costs and expenditures. The other major benefit from e-banking innovation is fee-based income (Dew, 2017). If a bank joins in an ATM network, it can generate income from other banks' customers that use its ATM machines or from third parties that cooperate with it. The more transactions with a third party, the more fee-based income acquired, enforcing the bank to enrich the features of e-banking transactions, such as mobile telephone top-ups, ticketing, paying telephone or electricity bills, house taxes, etc. Joining a certain ATM network would also create customer awareness of that bank and influence the market share (Iftekhar, Schmiedel and Song, 2009).

The relationship between IT expenditures and bank's financial performance or market share is conditional upon the extent of network effect. If the network effect is too low, IT expenditures are likely to (1) reduce payroll expenses, (2) increase market share, and (3) increase revenue and profit (Nadia, Anthony and Scholnick, 2013). The evidence however suggests that the network effect is relatively high in the US banking industry, implying that although banks use IT to improve competitive advantage, the net effect is not as positive as normally expected. In a broader context, the innovation in information technology, deregulation and globalization in the banking industry could reduce the income streams of banks, and thus the strategic responses of the banks, particularly the trend towards mega-mergers and internal cost cutting, are likely to change the dynamics of the banking industry.

Given these negative results due to possible network effect, the changing banking environment could still make it insufficient to offset any reduction in income (Nadia, Anthony and Scholnick, 2013).

After developing some innovations, and succeeding, a bank would find new opportunities that could be exploited further and that, in the end, would provide more income for the bank (Nofie, 2011). Based on the country level retail payment service data from across EU markets, evidence confirms that banks perform better in countries with more developed retail payment services, as measured by accounting ratios and profit and cost efficiency scores (Iftekhar, Schmiedel and Song, 2009).

The EU provides a very good testing ground for the link between retail payments and bank performance because the current retail payment infrastructure in the European Union is still fragmented and largely based on traditional national payment habits and characteristics (Kemppainen, 2013 and 2008). This relationship is stronger in countries with more retail payment transaction equipment, like ATMs and POS terminals. Retail payment transaction technology itself can also improve bank performance and heterogeneity among retail payment instruments is associated with enhanced bank performance. Likewise, a higher usage of electronic retail payment instruments seems to stimulate banking business. Additionally, findings reveal that impact of retail services on bank performance is dominated by fee income (Nofie, 2011).

Kozak (2015) investigates the influence of the evolution in Information Technology on the profit and cost effectiveness of the US banking sector during the period of 2012-2013. The study indicates optimistic relationship among the executed Information Technology and together productivity and cost savings. Brynjolfsson and Hitt (2010) indicates that Information Technology contribute significantly to firm level output. This study sought to establish the significance of strategic resources on performance of Equity Bank Limited as a representative of all commercial banks in Kenya.

Capital Outlay and Firm Performance

A capital outlay is a financial payment for a large or long-term business asset. Recording expenses as capital outlays helps businesses track how their operations affect their revenues and profits. Paying for non-capital outlays, such as office supplies or advertising, or bartering for goods or services, affect a company’s short-term income and profit margins, while buying a capital asset, such as land or a building, have long-term impacts on a business (Ashe-Edmunds, 2017).

Capital expenditure is an investment that entails an outlay in the present, in exchange for a payoff in the future. The future payoff is expected to exceed the value of investment hence providing a return that increases firm value and maximizes shareholders wealth. The foregoing forms the basis of the financial theory that the effect of capital expenditure should have a positively correlated relationship with firm’s financial performance. Al Farouque, Tony, Dunstan and Karim (2015), found that capital expenditure had a positive influence on corporate performance as measured using Return on Assets (ROA).

Lev and Thiagrajan (2013) stated that capital investments represent a fundamental signal claimed by analysts to be useful in predicting future profitability and stock returns. A large number of studies relating to capital expenditure and financial performance make use of stock returns as the measure of financial performance understandably because any measure of an organisation's performance must be linked to the goal of shareholders wealth maximization as evidenced by the firm's stock price. Few studies utilize accounting-based measures of financial performance ostensibly because of the ability of these measures to be manipulated through creative accounting and/or revenue/cost recognition. The foregoing review of empirical studies presents findings of studies that evaluated financial performance using both accounting measures and stock return measures of financial performance.

RESEARCH METHODOLOGY

Research Design

This study adopted a descriptive research design to make assertions on how strategic resources influence performance of commercial banks in Kenya. Descriptive survey research design was used in preliminary and exploratory studies to allow researchers to gather information and summarize, present and interpret data for the purpose of clarification (Orodho, 2013). According to Mugenda and Mugenda (1999) the purpose of descriptive research was to determine and report the way things are and it helps in establishing the current status of the population under study and was useful for describing, explaining or exploring the existing status of two or more variables.

Target Population

The target was the 261 management employees at the Equity Bank Limited, Kenya. The target population consisted of management employees working in the human resources department in the three main regions in Kenya which include Central, Nairobi and Eastern Region who made a total of 261 respondents.

Sample Size Selection and Sampling Procedure

The study covered all employees in Equity Bank Limited but sampled the respondents using the stratified random sampling technique. Kothari (2014) argued that if well-chosen a sample of 30% of a population can often give good reliability findings. Mugenda and Mugenda (2013) stated that in stratified random sampling where population within each stratum is known, a sample of 30% was adequate representation for data collection which forms 79 respondents.

Data Collection Instrument

Data was collected using a questionnaire. According to Mugenda and Mugenda (1999) questionnaires give a detailed answer to complex problems. Additionally, questionnaires are also a popular method for data collection in deduction because of the relative ease and cost-effectiveness with which they are constructed and administered. Questionnaires gave a relatively objective data and therefore, are most effective. In this study, questionnaire was used as the main instrument of data collection.

Data Collection Procedure

The project was signed by the research project supervisor and a letter of authorization was acquired from school of Business. The letter of authorization was used to apply for a research permit from NACOSTI. Both played introductory functions to the research project exercise. Upon approval data was collected from the banks identified by sending the self-administered questionnaires to the respondents via email and others through hand delivery as situations may require. A deadline was also issued for submitting the filled questionnaire. Further, the questionnaires were collected from the respondents for data analysis and presentation.

Data Analysis Techniques and Presentation

Before processing the responses, the completed questionnaires were edited for completeness and consistency. Descriptive analysis was used; this includes the use of weighted means, standard deviation, relative frequencies and percentages. The Statistical Package for Social Sciences (SPSS) computer software was used for analysis to generate data array that was used for subsequent analysis of the data. SPSS had descriptive statistical features that assisted in variable response comparison and gave clear indications of response frequencies. The data was coded to enable the responses to be grouped into various categories. Descriptive statistics was used to summarize the data. This included percentages and frequencies. Tables and other graphical presentations were appropriately used to present the data that was collected for ease of understanding and analysis. The study was guided by the following regression model to establish the relationship between the study variables:

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

Where: Y = Performance; α = Constant; β = Coefficients; X_1= Management capability; X_2= Systems and Processes; X_3= product innovation; X_4= capital outlay; ε = Error Term

RESEARCH RESULTS

The purpose of the study was to establish the influence of strategic resources on firm performance among commercial banks in Kenya; case of Equity Bank Limited. The study was guided by the following specific objectives; to determine the influence of management capability on firm performance of Equity Bank Limited. To establish how systems and processes affect performance of Equity bank Limited. To find out the relationship between product innovation and performance of Equity Bank Limited. To determine the extent to which capital outlay influences the performance of Equity Bank Limited. The study used descriptive research design, used primary data that was collected by structured questionnaires. Descriptive statistics and inferential statistics were carried out and the findings were presented inform of figures and tables.

On management capabilities, the study pointed out that majority of the respondents agreed that the management staff had full control of the running of the firm. Majority of the respondents agrees that the company embraced continuous learning culture for all the management staff. Majority of the respondents agreed that the company management had prerequisite knowledge and skills. Majority of the respondents agreed that the company rewarded and promoted management staff based on merit. Majority of the respondents agreed that the company management had promoted organizational personality. Majority of the respondents agreed that the company had affected management communication channels and frequency. Majority of the respondents agreed that the management interrelated with other organizations to improve service delivery.

On systems and processes, the study pointed out that majority of the respondents agreed that the company had solid and sound systems. Majority of the respondents agreed that the organization had rare and unique systems and processes. Majority of the respondents agreed that the company systems and processes were hard to copy. Majority of the respondents agreed that the organization had efficient systems and processes. Majority of the respondents agreed that the company systems were valuable. Majority of the respondents agreed that the systems in place were rich in managerial value. Majority of the respondents moderately agreed that the company systems were historically bound.

In regard to product innovation, the study found out that majority of the respondents moderately agreed that the company had competitive products. Majority of the respondents agreed that the bank had a solid IT infrastructure for efficient service delivery. Majority of the respondents agreed that the bank had come up with new products to remain competitive. Majority of the respondents agreed that company had improved on existing products to increase performance. Majority of the respondents agreed that the bank had advanced transaction technology systems. Majority of the respondents moderately agreed that the bank had a high expenditure on product innovation.

In view to capital outlay, the study established that majority of the respondents agreed that capital expenditure by the company had maximized firm value. Majority of the respondents agreed that the company capital outlay had led to high stock returns. Majority of the respondents agreed that the company capital expenditure had increased corporate earnings. Majority of the respondents agreed that the capital outlay had increased firm stock prices. Majority of the respondents moderately agreed that the bank had a high capital expenditure. Majority of the respondents moderately agreed that capital outlay had improved shareholders' wealth. Majority of the respondents moderately agreed that the bank intended to increase capital outlay.

INFERENTIAL STATISTICS

The study carried out regression analysis to establish the influence of strategic resources on firm performance among commercial banks in Kenya; case of Equity Bank Limited. The findings of coefficient of correlation R and coefficient of adjusted determination R2 was established. The Findings are as shown in Table 1.

Table 1: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.826[a]	.682	.663	.51754

a. Predictors: (Constant), Management Capacity, Systems, Product Innovation, Capital Outlay

Table 1 indicates that coefficient of correlation R was 0.826 an indication of strong positive correlation between study variables. Coefficient of adjusted determination R2 was 0.682, this translates to 68.2%, an indication that change in organizational performance can be attribute to the independent variables; management capacity, systems, product innovation and capital outlay. Therefore, the residual of 31.8% can be explained by other factors beyond the scope of the current study affecting organizational performance.

An ANOVA was carried out at 5% level of significance. A comparison of $F_{\text{Calculated}}$ and F_{Critical} is as shown in Table 2.

Table 2: ANOVA

Model	Sum of Squares	df	Mean Square	F	Sig.
Regression	341.314	4	85.329	64.109	.000[b]
Residual	71.899	54	1.331		
Total	413.213	58			

a. Dependent Variable: Organizational Performance
b. Predictors: (Constant), Management Capacity, Systems, Product Innovation, Capital Outlay

The findings show that, $F_{\text{Calculated}}$ was 64.109 and F_{Critical} was 2.5306, therefore, $F_{\text{Calculated}} > F_{\text{Critical}}$ (64.109 > 2.5306) an indication that the overall regression model was significant. The study established that the p value was $p=0.00< 0.05$, indicating that at least one variable was significant in establishing influence of strategic resources on firm performance among commercial banks in Kenya.

The researcher sought to establish the individual factor influencing strategic resources on firm performance among commercial banks in Kenya. The following coefficients of regressions were generated.

Table 3: Coefficients

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	23.574	1.219		19.343	.000
Management capability	1.002	.202	.646	4.960	.000
Systems and processes	.433	.124	.284	3.489	.001
Product innovation	.512	.223	.169	2.297	.000
Capital Outlay	.192	.054	.546	3.549	.000

a. Dependent Variable: Organizational Performance

The resultant equation from Table 4.9 becomes,

$$\mathbf{Y = 23.574 + 1.002\ X_1 + 0.433\ X_2 + 0.512X_3 + 0.192\ X_4}$$

Where: Y= Performance, X_1= Management capability, X_2= Systems and Processes, X_3= product innovation and X_4= capital outlay

The findings in Table 3 show that while holding all the variables constant, organizational performance would be at 23.574. A unit increase in management capability while holding all the variables constant, organizational performance would be at 1.002. A unit increase in systems and processes while holding all the variables constants, organizational performance would be at 0.433. A unit increase in product innovation when holding all the variables constant, organizational performance would be at 0.512. A unit increases in capital outlay while holding all the variables constant, organizational performance would be at 0.192.

In view to the p values and t values; the study established that management capability had a p value of $0.00<0.05$ and a t value of $4.960>1.96$. System processes had a p value of $0.001<0.05$ and a t value of $3.489>1.96$. Product innovation had a p value of $0.00<0.05$ and a t value of $2.297>1.96$ and capital outlay had a p value of $0.000<0.05$ and a t value of $3.549>1.96$. The study established that all of the respondents had a p value of less than 0.05 and a t value greater than 1.96, this shows that the variables significantly influenced organizational performance of Equity bank.

CONCLUSIONS

The study concludes that the banks management staff had full control of the running of the firm. The company embraced continuous learning culture for all the management staff to be equipped with more knowledge. The company management had prerequisite knowledge and skills, rewarded and promoted management staff based on merit. The company management had promoted organizational personality, affected management communication channels and frequency and had interrelated with other organizations to improve service delivery.

The study concludes that the company had solid and sound systems, had rare and unique systems and processes and the company's processes were hard to copy. The organization had efficient systems and processes and the company systems were valuable. The systems in place were rich in managerial value and the company systems were historically bound.

The study further concludes that the company had competitive products, the bank had a solid IT infrastructure for efficient service delivery and came up with new products to remain competitive in the market. The company had improved on existing products to increase performance. The bank had advanced transaction technology systems and had a high expenditure on product innovation.

The study concludes that capital expenditure by the company had maximized firm value, the company capital outlay had led to high stock returns and the company capital expenditure had increased corporate earnings. The capital outlay had increased firm stock prices, the bank had a high capital expenditure and capital outlay had improved shareholders' wealth. The study further concludes that the bank intended to increase capital outlay.

RECOMMENDATIONS

The study recommends that the banks management staff ought to have full control of the running of the firm. The company ought to embrace continuous learning culture for all the management staff to be equipped with more knowledge. The company management ought to have prerequisite knowledge and skills. The company ought to reward and promote management staff based on merit. The company management ought to promote organizational personality, affect management communication channels and frequency and interact with other organizations to improve service delivery.

The study recommends that the company ought to have solid and sound systems. The company ought to have rare and unique systems and processes. The company's processes ought to be hard to copy. The organization ought to have efficient systems and processes, the company systems ought to be valuable. The systems in place in the bank ought to be rich in managerial value and the company systems ought to be historically bound.

The study recommends that the company ought to have competitive products and have a solid IT infrastructure for efficient service delivery. The bank ought to came up with new products to remain competitive in the market. The company ought to improve on existing products to increase performance. The bank ought to advanced transaction technology systems and have a high expenditure on product innovation.

The study further concludes that capital expenditure by the company ought to maximize firm value. The company capital outlay ought to lead to high stock returns and the company capital expenditure ought to increase corporate earnings. The capital outlay ought to increase firm stock prices, the bank ought to have a high capital expenditure. The capital outlay ought to improve shareholders' wealth and the bank ought to increase capital outlay.

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