STRATEGIC CAPABILITIES AS A STRATEGIC TOOL IN COMMERCIAL BANK OF AFRICA

BY

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DECLARATION

This research project is my original work and has not been presented for the award of degree in any other university or institution for any other purpose.

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This research project has been submitted for examination with my approval as University supervisor.

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God bless you all.

DEDICATION

To my family members;

"Education is an ornament in prosperity and a refuge in adversity".

ABSTRACT

In today's fast-changing competitive environment, firms' competitive positions are constantly challenged by the emergence of new technologies, products, markets and competitors. As a result, organizations have to respond strategically to environmental factors in order to be sustainable. Quickness to accurate, relevant and precise information is crucial to the success of firms operating in such a competitive environment. Such competitive advantage emanates from resources unique to a firm such as key competencies, assets, capabilities, resources, information, and knowledge. An organizations strategic capability has been known to be such a great resource to a firm obtaining sustainability.

The study aimed at determining the how strategic capabilities is utilized as a strategic tool by the Commercial bank of Africa. In attempting to get the objective, a case study research design was adopted. Five respondents were interviewed and gave information that helped in arriving at the research objective and conclusion.

The study established that organisation gives attention to the identification, development and harnessing its strategic capabilities in its strategic process. Some of the banks strategic capabilities include advanced information technology, trained human resource base, adequate capital base, the banks brand name and customers who provide the bulk of the business. The increased performance of the bank has been attributed by with such core competencies that have enabled it to realise its strategic objectives in time. This study also found out that the harnessing of strategic capabilities structures by organizations may not necessarily be driven by the level of awareness of the concept, but

may also arise from the organisation efforts to create a proactive business environment and thus gain competitive advantage.

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LIST OF ABBREVIATIONS

CBA -Commercial Bank of Africa

CBK -Central Bank of Kenya

NPL -Non-Performing Loans.

CHAPTER ONE: INTRODUCTION

1.1 Background to the Study

The resource-based view of strategy according to Ghoshal and Barlett (1997), regards strategic rather than economic resources as firm specific and difficult for rivals to buy or copy and which have value to managers in influencing the direction and growth of a firm. This view understands strategic resources as tangible and intangible assets that when combined will help to constitute a firm's competitive advantage. According to Prahalad and Hamel (1990) risk is manageable if core competencies are used to develop core products, in the form of firm-specific expertise and resources that can serve unrelated markets. These core areas are managed through core competencies, which they define as the abilities of employees to learn how to develop and manage the integration of technologies through cross-functional management and collaborative working.

Indeed as observed by Teece (2007), the softer components of organizational resources, such as staff and skills in operational teamwork, are central to the management of strategic resources. From the aforesaid, strategic capabilities can be considered to be the building block for core competencies and are usually embedded in the firm and require both time and significant resources to change. Amit and Schoemaker (2003) defined organizational capabilities as a firm's capacity to deploy its assets, tangible or intangible, to perform a task or activity to improve performance and included the capacity of the firm to offer excellent customer service or to develop new products and innovate.

Teece et al. (1997) suggest that dynamic capabilities are the firm's ability to integrate, build, and reconfigure internal and external competencies to address rapidly changing environments. The notion of strategic capabilities is conceptually linked to the resource based view (RBV), as both perspectives emphasize the development of idiosyncratic aptitudes that cannot be readily mimicked by competitors. Scholars following the Strategic resource based view (SRBV) or dynamic capabilities approach (DCA) view resources as transitory.

1.1.1 Strategic Capabilities

An organization's resources – including its assets and skills – represent the source of its foundation for sustainable competitive advantage. Pandza and Thorpe (2009) suggest that strategists should seek to shape, transform, and combine these resources into strategic capabilities, which in turn drive strategic success. Winter (2003) suggests that a capability comprises a large chunk of activity that enables outputs that clearly matter to the organization's survival and prosperity.

According to Teece (1997) strategic capabilities are conceptualized as a firm's ability to build and/or extend basic capabilities to deal with changing environments. A shift in focus to strategic capabilities therefore reduces if not eliminates the applicability of the valuable, rare, inimitable and non-substitutable framework because the emphasis of the strategist shifts from trying to protect sources of current competitive advantages, to continuously creating resources and/or capabilities to yield future competitive advantages (Winter, 2003).

However, some scholars have noted that it is not the resources that generate the capabilities as such that are the source of competitive advantage but how the same resources are configured. Configuration is specific to each organization and will relate to their corporate strategic thinking. Accordingly, firms can achieve temporary advantage, which can achieve a longer time frame by constant resource reconfiguration to meet the changing markets demands. According to Mintzberg (1998) only a few key strategies as positions in the economic market place are desirable in any given industry, ones that can be defended against existing and future competitors. This means that strategy has a narrow focus in the positioning school and is seen as generic rather than having a unique perspective. This is because a firms competitive advantage is founded on a complex of competences, capabilities, skills and strategic assets possessed by an organization, or in other words from the astute management of physical and intellectual resources which form the core capability of the business.

1.1.2 Banking Industry In Kenya

The Banking industry in Kenya is governed by the Companies Act. The banking sector was liberalized in 1995 and exchange controls lifted. As at December 2010 there were forty six banking and non bank institutions, fifteen micro finance institutions and one hundred and nine foreign exchange bureaus. According to the Central bank of Kenya 2010 annual report, there are a total of 47 licensed commercial banks in the country and one mortgage finance company. Out of the 47 institutions, 33 are locally owned and 14 are foreign owned. The locally owned financial institution comprise 3 banks with significant shareholding by government and state corporations, 28 commercial banks and 1 mortgage finance institution.

The CBK annual supervision report of 2009 emphasizes that the banking institutions will need to cope continuously with changing business environment and a continuous flood of new requirement via a robust ICT platform, while staying sufficiently agile. Consumers will continue to demand individualized services, and to demand them faster than ever.

The main challenges facing the banking sector today include the Finance Act 2008, which took effect on 1 January 2009 that requires banks and mortgage firms to build a minimum core capital of Ksh 1 billion by December 2012. This requirement, it is hoped, will transform small banks into more stable organization. The other major challenge is declining interest margins.

1.1.3 Commercial Bank of Africa

CBA is the largest privately owned Kenyan bank. Commercial Bank of Africa Limited (CBA) was founded in 1962 in Dar-es-Salaam, Tanzania. CBA reincorporated itself in Kenya in 1967. In light of developments in Uganda in 1971, it subsequently sold the Kampala branch.

CBA originally commenced business as a subsidiary of SocieteFinanciere pour les pays D'OutreMer (SFOM), a Swiss-based consortium bank with interests in financial institutions throughout Africa. Original consortium members included Bank of America, Commerz Bank (later on sold to Dresdner Bank), Bank Bruxelles Lambert, and BanqueNational de Paris. In 1980, Bank of America acquired all the shares of the other SFOM partners, and CBA became a subsidiary of Bank of America, with 16% of shares held by Kenyan investors.

In late 1984 Bank of America agreed to sell the majority of its shares to local investors while retaining a minority interest and continuing to provide management to the bank via a management agreement. Bank of America eventually sold the remainder of its shares to local share holder. CBA has a branch network of 14 branches. NPLs have of late has become one of the major challenges to the bank. The annual report and financial statement (2010) indicates that approximately Kshs2.4 billion was non-performing loans in the period ending 2009, out of which the bank had made specific provisions of approximately Kshs 1.5 billion.

1.2 Research Problem

An organizational strategy is seen by many as the main driver of competitive advantage. However, the development and successful implementation of the same strategy will be based upon the organization having adequate strategic capabilities, which will be able to reconfigure the internal resources in such a way to bring about competitive advantage. An organizations strategic capabilities aims at the articulation of the means by which an organization endeavors to, convert its intentions into organizational capability in order to take advantage of its external opportunities and to minimize the threats that it faces (Winter, 2003).

This involves configuration of resources, as well as the development of an environment capable of supporting the intentions articulated in the strategic plan. Due to the different strategies, firms differ based on organizational capabilities it has and that such capabilities are used to create and exploit external opportunities and develop sustained advantages (Lengnick-Hall and Wolff, 1999). Therefore, the development of unique capabilities within an organization enables them to perform processes better and in a different manner compared with other firms.

The Kenyan banking industry has continued to grow both in terms of new local and foreign entrants, customer and deposit base, regionalization and increased scrutiny from the regulators specifically the Central Bank of Kenya. This new shift in the Kenyan banking industry can be attributed to the liberalization of the sector, increased adoption of information technology and improved business environment due to reforms being undertaken in the political, economic, social and cultural fields. With these changes, the level of competition in the banking industry has reached an all level high and coupled with an enlightened customers and increased scrutiny from the regulators.

Local banks have had to shift their attention to internal resources as a source of competitive advantage. Therefore, one of the ways that CBA can use to maintain its relevance in the ever changing banking business is to identify and harness its strategic capabilities that cannot be easily mimicked by competitors. It is upon the management to identify what their strategic capabilities are and which will give them the competitive advantage necessary to maintain their market share and at the same time expand to other regions.

A few studies have been undertaken locally in the field of organizational strategic capabilities. Wanyanga (2007) undertook a research on the utilization of organization's capabilities as an operation strategy in the hotel industry in Kenya. His findings noted that the skills and resources of an organization must constantly change in tandem with the changes in the environment.

On his part, Chahenyo (2008) carried out a study on the role of organizational dynamic capabilities in the achievement of its objectives. He found out that the way resources are configured to match the existing capabilities is the source of competitive advantage in an organization. This view will be in tandem with Mintzberg (1998) observation that only a few key strategies, as positions in the economic market place are desirable in any given industry, ones that can be defended against existing and future competitors; a firm's competitive advantage will be achieved.

Ombati (2010) carried out a survey on Technology and Servise quality in banking industry in Kenya, he recommends that a research study needs to be carried out to determine the customers zone of zero tolerance to poor service. He adds that managers need to understand the change in technology as a source of offering more convenient banking services.

In view of the above, it is evident that there has not been adequate research in the field of strategic capabilities in commercial banks and this therefore lends to the question. How has strategic capabilities been applied as a strategic tool by Commercial Bank of Africa?

1.3 Research Objectives

The objective of the study will be;

i) To establish how strategic capabilities has been utilized as strategic tool at Commercial bank of Africa.

ii) To determine the challenges faced by CBA in identification of strategic capabilities as a strategic tool.

1.4 Value of the Study

The study will contribute to theory by helping academicians form a foundation upon which other replicated studies can be based on. Various scholars have written widely in this field and this study will enrich their work and help firms identify their strategic capabilities in the face of unpredictable business and the details of responses to the challenges. The study will be used as a reference point in the future by other researchers in this field.

In practice, banking industry and CBA will find this study an invaluable source of material in developing and harnessing their strategic capabilities in the present day competitive business environment. This study will provide insight on some of the challenges that may be faced in the development and implementation of their strategic plans and how they can avoid them. The authorities will strive to avoid the pitfalls and capitalize on the strengths.

CHAPTER TWO: LITERATURE REVIEW

2.1Introduction

This chapter presents information from publications on topics related to the research problem. It examines what various scholars and authors have said about the role of strategic capabilities as a strategic tool. The chapter is divided into three main areas: concept of strategy, organizational capabilities and strategic capabilities, and finally the role of strategic capabilities as a strategic tool.

2.2 Concept of Strategy

Strategy is the direction of an organization over the long term, which achieves advantage in the changing environment through its configuration of resources and competences with the aim of fulfilling stakeholder expectations (Johnson and Scholes, 2003). This means that organizations should provide value to their customers better than their competitors. Strategic planning involves making decisions about the organizations' long term goals and strategies. It is an ongoing activity in which all managers are encouraged to think strategically and focus on the long term, have a strong external orientation as well be focused on short term-tactical and operational issues. In strategic planning senior management is responsible for the development of the strategic plan. The concept of strategic planning is concerned with where are we now, where do we want to be, how do we get there, who must do what and how are we doing (Bateman and Zeithaml, 1993).

The concept of strategy embraces the overall purpose of an organization. It is the determination of the basic long-term goals and objectives of an enterprise, adoption of courses of action and the allocation of resources necessary for carrying out those goals. Gole (2005) proposes that strategic management is a process, directed by top management to determine the fundamental aims or goals of the organization, and ensure a range of decisions which will allow for the achievement of those aims or goals in the long-term, while providing for adaptive responses in the short-term. The three core areas of corporate strategy as outlined by Gole (2005) encompasses: strategy analysis, strategy development and strategy implementation. Strategic analysis deals with examining the environment within which the organization operates.

Strategy is seen by many as the main driver of competitive advantage. A number of research studies indicate that small firms using strategic planning performed better than non-strategic planning firms (Naffziger and Mueller, 1999). Others found that strategic orientated smaller firms were likely to have significant capability to grow, expand, innovate and introduce new products to the market place (Joyce et al., 1996). Strategy is also considered as one of the most effective ways for firms, regardless of size or sector, to cope with the changes in the business environment. A strategy, in essence, is the articulation of the means by which an organization endeavors to convert its intentions into organizational capability in order to take advantage of its external opportunities and to minimize the threats that it faces. This involves configuration of resources as well as the development of an environment capable of supporting the intentions articulated in the strategic plan.

According to Hill and Jones (2001) a strategy consists of five separate but interdependent phases: establishment of organizational intent, strategic analysis, strategy formulation (the strategic planning process), strategy deployment and monitoring/evaluation. The contention that the development of strategy consists of several interrelated phases is well supported in the literature. The strategic planning phase, apart from the central role that it plays in the development and implementation of a robust strategic plan, lends itself more readily to the development of constructs suitable for use in questionnaires. Content, on the other hand, is organization dependent and more difficult to reduce to generic constructs of the type used in survey research.

The development of business strategy has its origins in the techniques and concepts of business policy and strategic planning. The associated literature is generally prescriptive in nature, suggesting that strategy is developed in a rational, two-dimensional process of formulation, deciding what to do and implementation taking the required action.

The production of a formal statement of business objectives, such as plans and mission statements is normally regarded as an essential feature of strategic planning (Hannon and Atherton, 1998; Hussey, 1998). Much of the emphasis underpinning many of the initiatives of the business support infrastructure shows that the business plan is popularly regarded and promoted as the preferred management instrument, enabling small firms to fashion their success (Beaver and Prince, 2003).

2.3 Organizational capabilities

Organization capability is a broad concept with many elements and attributes. An early generic description by Nelson and Winter (1982) categorizes capabilities as lower-order organizational knowledge and skills, and higher-order co-ordinating mechanisms. Madhok (1997) refers to capabilities as a combination of resources that creates higher-order competencies. Organisational capabilities are defined by Chandler (1990) as a firm's collective physical facilities and skills of employees, and in particular, the abilities and expertise of the top management layers.

Barney (2003) recognizes the existence of a wide variety of terms used in the literature to describe the drivers of competitive advantage, ranging from resources, capabilities, competencies and assets. As a result of this, Winter (2003) notes that it is not surprising that the proliferation of terms has led to a rather thick terminological haze over the landscape where capability lies. Teece (1997) broaden the description by referring to resources, capabilities and competencies. They see resources as firm specific assets that are difficult, if not impossible to imitate, whereas competencies result from the integration of firm specific assets. In integrated clusters spanning individuals and groups so that they enable distinctive abilities to be performed. Competencies are described as the local abilities and knowledge that are fundamental to day-to-day problem solving (Henderson and Cockburn, 1994).

The resources in a real economy are in a constant state of flux accounting for observed phenomena of competitive and evolutionary dynamics (Mathews, 2002). The resource-based approach sees firms with superior systems and structures, being profitable not because they engage in strategic investments that may deter entry and raise prices above long-run costs, but because they have markedly lower costs, or offer markedly higher quality of product performance (Teece et al, 1997). This approach assumes that firms' outstanding performance comes from the rents accruing to the owners of scarce firm-specific resources rather than the economic profits from product market positioning. Competitive advantage lies upstream of product markets and rests on the firm's idiosyncratic and difficult to imitate resources and capabilities.

The relationship between unique capabilities and performance is well established in the literature and has been researched in various perspectives such as the resource-based, organisational learning theories, knowledge-based and the dynamic capabilities perspectives (De Carolis, 2003). However, all firms have more generic capabilities that enable them to compete. While unique capabilities are specific to firm(s) in particular competitive positions, it is argued that generic capabilities are present in most firms and have a positive association with both strategy and overall organizational performance.

2.3.1 Strategic Capabilities

The notion of strategic capabilities is conceptually linked to the resource based view (RBV), as both perspectives emphasize the development of idiosyncratic aptitudes that cannot be readily mimicked by competitors. Scholars following the Strategic resource based view (SRBV) or dynamic capabilities approach (DCA) view resources as transitory, typically following a lifecycle behavior spanning emergence through various stages including growth, renewal, and eventual retirement (Helfat and Peteraf, 2003).

An organization's resources, including its assets and skills represent the source of its foundation for sustainable competitive advantage (Bowman and Ambrosini, 2003). According to Pandza and Thorpe (2009) strategists should seek to shape, transform, and combine these resources into strategic capabilities, which in turn drive strategic success.

Following the same conceptual foundation, the DCA extends strategic capabilities by emphasizing the transitory nature of both organizational resources and external influences. Capabilities are the building block for core competencies (Coulter, 2002) and are usually embedded in the firm and require both time and significant resources to change. Organisational capabilities are commonly defined as a firm's capacity to deploy its assets, tangible or intangible, to perform a task or activity to improve performance (Lorenzoni and Lipparini, 1999).

Winter (2003) suggests that a capability comprises a large chunk of activity that enables outputs that clearly matter to the organization's survival and prosperity. Recent resource-based writings stress that the uniqueness of firm's resources and capabilities are not sufficient to sustain competitive advantage. This suggests that it is the way resources are configured and not the capabilities as such that is the source of competitive advantage. Configuration is specific to each organization and will relate to their corporate strategic thinking. Accordingly, firms can achieve temporary advantage, which can achieve a longer time frame by constant resource reconfiguration to meet the changing markets demands. Mintzberg *et al.* (1998) state that only a few key strategies as positions in the economic market place are desirable in any given industry: ones that can be defended against existing and future competitors. This means that strategy has a narrow focus in the positioning school and is seen as generic rather than having a unique perspective.

According to Eisenhardt and Martin *(2000)* the environments of international businesses and the structures of industries are changing very rapidly, and previous research on organizational capability has been too general, calling for dynamic capabilities to handle all dynamic features of a firm's competition.

Dynamic capabilities provide an important interface for the evolution, creation, and recombination of resources, and may help renew organizational capabilities and improve competitive strength. Dynamic capabilities include organizational systems involving the specific processes of integrating; reconfiguring, gaining, and releasing resources may help lead to new resource configurations. (Eisenhardt and Martin, 2000)

DCC exists in special operating routines and arises from learning that such learning advantages generally offer the greatest sustainable value (Zollo and winter, 2002). On their part, Nelson and Winter (2002), argued that DCC should always be refined in a notion of organizational distinctive routines specific processes that frequently serve as the basis of unique value-creating systems, which adopt distinct methods to address specific markets and customers.

2.4 Resource-based view and strategic capabilities

Resources are defined as stocks of knowledge, physical assets, human capital, and other tangible and intangible factors that a business owns or controls, which enable a firm to produce, efficiently and/or effectively, market offerings that have value for some market segments (Capron and Hulland, 1999). A similar definition is given by Barney (2001) who among others noted that the use of resources has many potential advantages for firms such as the achievement of greater efficiency and therefore lower costs, increased quality and the possibility of greater market share and/or profitability (Collis, 1994).

The resource-based view of strategy regards strategic (rather than economic) resources as firm specific and difficult for rivals to buy or copy (Barney, 1986) and which have value to managers in influencing the direction and growth of a firm. This view understands strategic resources as tangible and intangible assets that when combined will help to constitute a firm's competitive advantage (Teece, 2007). The softer components of organizational resources, such as staff and skills, and how these are managed in operational teamwork against top-level targets and longer-term strategy, are central to the management of strategic resources.

The resource-based view regards the firm as a cognitive system, which is characterized by idiosyncratic and context-dependent competences that are core to strategic purpose. These are conditioned by hierarchical capabilities, or sets of routines, involved in the management of the firm's core business processes that help to create value. Competences typically involve the development of specialist expertise, and firms may become locked into a trajectory that is difficult to change effectively in the short to medium-term (Tushman and Anderson, 1986).The premises of the resource-based view is that successful firms develop distinctive capabilities on which their future competitiveness will be based; which capabilities are often idiosyncratic or unique to each firm, and may also be tacit and intangible in nature such as knowledge. (Teece*et al.*, 1991).

Competitive advantage is seen to be founded on a complex of competences, capabilities, skills and strategic assets possessed by an organization, or in other words from the astute management of physical and intellectual resources which form the core capability of the business. Teece *et al.* (1991) defines core capabilities as a set of differentiated skills, complementary assets, and routines that provide the basis for a firm's competitive capacities and sustainable advantage in a particular business. Such capabilities or core competences are not built on discrete independent skills but are the synthesis of a variety of skills, technologies and knowledge streams (Hamel and Prahalad, 1994).

The RBV embraces a firm level of analysis, but does not completely depart from industrial, organization assumptions (Barney and Ouchi, 1986). According to McGahan and Porter (1997), although the two approaches may be viewed as compatible in some respects, conflicts between IO and the RBV ultimately concern the relative influence of industry and firm factors on business performance. A study by McGahan and Porter (1997) showered that industry factors accounted for 19 percent of the variance in profitability within specific industry categories, and that the difference varied substantially across industries. Powell (1996) suggested that industry factors account for between 17 and 20 percent of variance in firm performance. Short et al., (2007),on the assessment of firms in 12 industries suggested that firm-level effects on performance are generally the strongest, but that strategic group and industry effects are also significant.

Henderson and Mitchell (1997) noted that resolving the firm-industry conflict might not be possible because organizational capabilities, competition, strategy, and performance are fundamentally endogenous. Any attempt to build on the merits of both the IO and resource-based perspectives must account for the varying degrees of influence of both industry factors and firm resources on performance (Claver-Cortes *et al.*, 2004).

2.5 Strategic Capabilities as a Strategic Tool

The environments of international businesses and the structures of industries are changing very rapidly and dynamic capabilities have been called in to handle all dynamic features of a firm's competition. A firm's strategic capability provides an important interface for the evolution, creation, and recombination of resources, and may help renew organizational capabilities and improve competitive strength (Teece, et al., 1997).

According Teece et al., (1997) the ability to build effective capabilities is a significant driver of performance. Capabilities are nurtured and developed within a firm in order to enhance its performance and also react or anticipate market movements. An effective performance measurement system ought to cover all aspects of performance that are relevant for the existence of an organization and the means by which it achieves success and growth (Kaplan and Norton, 1996). As a result any performance measurement system ought to include more than just financial measures. Organizational strategic capabilities are an intrinsic evolutionary process that can help facilitate problem solving, improve decision making, stimulate creative ideals, and help members of an organization effectively implement organizational objectives. In particular, organizational dynamic capabilities such as implicit knowledge articulation and the accumulation of experience must evolve by distinctive routines or specific processes. Thus, organizational dynamic capability development has the potential to be unique.

The rarity, imperfect immobility and non-substitutable criteria of a strategic resource may be independent of the firm, but when the notion of the heterogeneous distribution of resources is taken into consideration it is difficult to imagine that the value of a given resource is the same for all companies. For example, knowledge-based resources such as an innovation capability or different production capabilities have been identified as important strategic resources (Calantone et al., 2002). These resources are often systemic resources, and are thus highly dependent of other resources in order to function properly. Indeed as Teece (1997) observed for an organization to achieve its objectives, the firm should combine effectively these resources in such a manner that they can complement one another to achieve the said objectives.

Walker *et al.* (2002) state that to achieve desired performance levels, a firm's capabilities and the resources available to it must interact positively with the requirements of the firm's markets. Both capabilities and market requirements need to be clearly defined and explicit. Arguably, both need active consideration during the strategy formulation stage.A key concern in the emerging strategic performance management in the current business environment is the need for organizations to implement systems and frameworks that not only deliver performance improvements but also the ability to control them against top level targets (Chau and Witcher, 2005).

A competitive advantage will always be the result of a successful differentiation or low-cost strategy (Porter, 1985). These strategies are dependent of the firm's resources and managerial capabilities. Competitive advantage and performance are often treated as the same thing, and competitive advantage is often operationalized into different profitability measures. However, although a firm achieves a competitive advantage this does not always result in superior performance. According to Ray et al. (2004), firm performance is not always the ideal dependent variable due to the fact that firms can have other competitive disadvantages, which reduce the return.

CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Introduction

The chapter presents the proposed research design, the target population, sampling design, data collection instruments and procedures, and the techniques for data analysis.

3.2 Research Design

The research design will be a case study. A case study is an in-depth investigation of an individual, institution or phenomenon. The primary purpose of a case study is to determine factors and relationships among the factors that have resulted in the behavior under study.

3.2 Data Collection

The study will make use of primary data which will be collected through a face to face interview with the researcher. An interview guide will be used to collect data on strategic capabilities used by the bank during the development and implementation of its strategic process. An interview guide is a set of questions that the interviewer asks when interviewing. The respondents interviewed will be those involved with formulation and implementation of organization's strategies and will consist of six managers in charge of human resources, manager strategy and change, head of Business, finance manager, operations manager as well as the executive director. These are considered to be key informants for this research. In addition the departments in which the intended respondents work in are the key host of strategic capabilities in the organization.

3.3 Data Analysis

The data analysis in this case study will use qualitative analysis using content analysis. Qualitative data analysis makes general statements on how categories or themes of data are related. The qualitative analysis is adopted in this study because the researcher will be able to describe, interpret and at the same time criticize the subject matter of the research since it will be difficult to do so numerically. The technique to be used by the researcher will be face to face interview with the respondents at Commercial bank of Africa. Interview guide will be used to collect data. The themes (variables) that will be used in the analysis will broadly be classified into two: strategic capabilities in the firm and how the bank has utilized its strategic capabilities as a strategic tool.

CHAPTER FOUR: FINDINGS AND DISCUSSION

4.1: Introduction

The research objective was to establish how strategic capabilities is applied as strategic tool at the Commercial bank of Africa and also determine the challenges that the bank faces in applying strategic capabilities as a strategic tool. This chapter presents the analysis and findings with regard to the objective and discussion of the same.

4.2 Respondents Profile

This part of the interview guide was intended to assess the capacity of the respondents to answer the questions on the interview guide, and also whether they are versed with the subject matter of the study. The researcher aimed at interviewing six senior managers in the bank, but one of the respondents had travelled out of the country on official duties and was therefore unavailable for the interview. Therefore five respondents were finally interview and this represented 83% response rate. The respondents had different academic backgrounds and had worked in various departments both within and without the organization. In addition, the views of both genders were represented in the respondents interviewed because two of the respondents were female against three men. This meant that the views expressed by the respondents were not gender biased.

The specific respondents in the interview were the Finance Manager, Human resource manager, Manager Change and strategy, Operations manager, and Head of business departments. The respondent's academic and professional background varied from economics, administration, human resource and engineering. Further, they all had Masters in their respective fields and risen through the ranks in the organization by virtue of their competence and experience. Among them, there had all an accumulative working experience of 48 years. With their solid background in the affairs of the organisation, the respondents were found to be knowledgeable on the subject matter of the research and thus help in the realization of the research objective.

4.3 Strategic Process at the Commercial Bank of Africa

In this section, the respondents were to give their independent opinion on what they consider to be the organizations strategy development process. It was important to understand the process because a good strategy development process that is all inclusive will impact on the degree of its success.

The respondents in totality agreed that the strategy development of a firm, among others is concerned with carrying out business situation analysis that leads to setting of objectives. The organizations Vision and Mission statements will in most cases be the guiding factor in the development of the strategies.

The respondents noted that organizational strategy is very important to an organization as it assists the organization to know what they are supposed to do, at what time and thus helps in achieving its objectives. As a result, a policy guide towards the achievement of this will be important. In the case of CBA, the organisation made their strategies ones after every five years and the approach adopted is either top-down though in some cases it was pointed out that bottom –up approach was adopted depending on the circumstances. The respondents also pointed out that the strategic process in the bank is participative and different cadres of employees are involved individually or through their representatives in strategic planning process.

The implementation of any organisation strategy will only be successful if the employees who are the actual implementers participate fully in the process. This fact was reinforced by four of the respondents, representing 80% of the respondents, who did indicate that one of the ways in which to motivate the employees, to work to their best of ability in the strategy implementation process is offer an attractive pay package. The respondents observed that in the case of CBA, employee compensation and job security is documented in the Human Resource Policy Manual (HRPM).

In their view, the salary and benefit scheme of the bank was not among the best in the sector and that in consideration of the amount of work they undertake; they felt they still need much better remuneration. The bank had also earmarked adequate financial resources in the strategic process both in form of human resources as well as financial support. It was appreciated by the respondents that the strategic planning process requires support from the top management and they did appreciate the role of the senior managers in the bank in facilitating the development and implementation of the strategies. However, two of the respondents pointed out that in some cases the top management has been involved in the formulation of the strategies and the implementation part of the strategies has been seen to be delegated to the junior members of staff.

On the question of what challenges the bank faces in its strategic planning process, a number of challenges were identified. The respondents identified delays in implementation of set strategic actions, a low risk averseness of top management. As a result they limit themselves to the probabilities they can propose for the organization to pursue, on the basis of what has already been accomplished and no deliberate shift in strategy paradigm.

One respondent observed that it was more of the usual strategies that management is accustomed with but with different language and slightly different targets. There was a problem of resource misallocation in the strategic process of the organization. The allocation of staff to the appropriate departments and sections which their expertise will optimally be utilized was also identified.

They pointed out that if an employee is multi-skilled, and then it will be appropriate to assign such a member of staff to a position that his/her expertise will be used to generate maximum return in the same time allocation. It was also pointed out that market changes influences the bank's strategy and it may be difficult to change immediately, due to lack of a budget provision especially if the organization is midway in a budget implementation. Further, it was also highlighted that the bank has in some case taken long in making its decisions and with this delay, several opportunities have been lost.

4.4 Strategic Capabilities in Commercial Bank of Africa

The set of question under this area of the interview guide were tailored in establishing whether the organization has in place effective mechanism of identifying, developing and maintaining its strategic capabilities in a sustainable manner. This is in recognition of an organizations strategic capabilities changing and adapting to the changes in the operating business environment.

Four of the respondents representing 80%, did observe that CBA recognizes for it to develop and implement its strategies effectively and build future competitiveness, they will have to identify and utilize its strategic capabilities. These capabilities should be unique and not to be imitated easily by competitors, towards this CBA invests heavily in training of its personnel in order to gain the necessary expertise in the appropriate fields. Indeed one of the respondents pointed out that the bank has over the last five years budgeted 30M annually.

The respondents observed that Commercial Bank of Africa has several assets that have been known to give it a competitive advantage. These strategic capabilities in the bank were identified to include solid intellectual capital and institutional memory. The bank has an effective retainer capability, that makes it have qualified members who know where we got it right or wrong last time out and this helps in better roll out of revised or new strategic initiatives.

CBA has employees with a broad skill base, which is effectively tapped into, during formulation and implementation of strategy, thereby enriching the process and results further. The Commercial bank of Africa was also identified as a solid brand and from this, it has been able to leverage from this to create a sustainable advantage in the banking industry. The bank is considered as one of the reputable local financial institutions and from this goodwill it has been able to serve many corporate clients and facilitated multinational corporation dealings over past several years.

The backbone of the present day financial institutions is the state of information technology it is adopting. Information technology cuts costs, increases efficiency and interconnectivity with customers and partners as well. In cognizance of this important role that IT plays, the respondents pointed out that CBA has over the years invested in a state-of-the –art information system, that has given it ability to match the demands of the market and the challenges that come with it. In addition, the respondents noted that the pricing strategy of the bank over the period has been quite competitive and as a result, it has been able to attract small, medium and large earners as customers. This ability to attract and retain these customers has been due to aggressive marketing as well implemented by the bank over which it has become a source of its strategic advantage.

Other strategic capabilities that were identified by the respondents to exist in the bank include a solid capital base, skilled human resources, banks reputation in the market, innovative IT system and a wide range of banking products. Towards maintaining the same strategic capabilities, all staff are encouraged to have a development plan for their career aspirations. These findings are similar to the study of Teece et al (1991) in which they concluded that for core competencies to be useful to the organizations, they should be differentiated and continuously developed in order to provide the basis of the firms competitive capacities and sustainable advantage.

On the issue of whether CBA' strategic capabilities could be copied, the respondents' answers were varied. One of the respondents did observe that strategic capabilities within CBA are structures which have been developed over a long period. While they may be replicated elsewhere, they may not be easily copied. These structures have become part of the banks culture and perhaps the best way of passing such skills to other organizations competitors is to have transferrable skills. This view was shared by another respondent who noted that much of the strategic capabilities within CBA is within the culture of the organization.

The name Commercial Bank of Africa is a brand and its reputation for customer service and products has been recognised both internally and externally. Such virtues take time to inculcate and internalise and to test in different circumstances and therefore will ordinarily take time to be copied or imitated by other competitors. However, one of the respondents noted that some of the organizations capabilities can be copied, but could not tell with some degree of certainty how long the organization can keep on protecting its core competencies from imitation by the competitors. As a result of the possibility of the organizations strategic capabilities being imitated by competitors, the respondents were in agreement that both the skills and resources and the way the organization use them must constantly change, leading to the creation of continuously changing temporary advantages. This view is shared by Fiol (2001) when he observed that strategic capabilities should always adapt to the changing operating environment that an organization is in.

Effective management of strategic capabilities in an organization requires employee participation and willingness to participate in the all exercise. All the respondents that participated in the study noted that with CBA recognizes the importance of its staff in the enhancement of the organization's core competencies, the bank appreciates that with good communication between the management and staff there will be a common operational side resulting in a common side of the business which will impact on the core output and a heightened desire to maintain trust with customers.

However, two of the respondents observed that in some instances, the value placed by the organization on internal service providers has not been up to expectation and as a result, when staff is asked to contribute, their participation has been minimal in such points. The teamwork exhibited by the management and employees in CBA is in tandem with the observation by Teece (2007) who noted that softer components of organizational resources, such as staff and skills should be managed in operational team work, against top-level targets and a longer-term strategy are central to the management of strategic resources.

Commercial Bank of Africa has also made a deliberate move to shape, transform and combine these resources to achieve sustainable competitive advantage. This step was exhibited through a number of moves that were taken by the organization including documenting the organizations strategic capability. During this documentation, a lot of critical thinking is applied, that ensured, these resources were examined for their full potential. Management of talent has been made a priority in the bank whereby the bank has made a deliberative move to recruit, develop and retain all the staff through such exercises as recognition and rewarding them and feel appreciated for their input. There has been training programs and upgrading of core banking system to leverage on IT to drive/enhance customer service. In addition, pricing of products /services that is bench marked against other industry players has been has continuously been made.

Organizational risk management process will be able to achieve its objectives when there is in place an elaborate mechanism of carrying the same. All the respondents noted that banking business is risky and if not managed well it can lead to an unplanned closure. Thus it is important that the bank have staff with unique capabilities that will be able to identify and mitigate such risks before the same affects the firm. As a result two of the respondents pointed out that the organization offers a good working environment to the staff and has endeavored to keep staff informed of all key developments, plus seeking the input of staff where needed through encouraging the employees to present their views to aid the realization of key business objectives.

4.5 Strategic Capabilities as Strategic Tool

This section of questions in the interview guide wished to establish how the strategic capabilities identified by the respondents were used as a strategic tool. The researcher wished to determine specific strategic decisions and moves that come about from these core competencies.

From the results obtained, the respondents showed that they understood the concept of strategic capabilities and its role in the strategic planning process. One of the respondents noted that to maintain cutting edge advantage against the competition an organization had to ensure you it has the best trained manpower and remunerate staff adequately. He noted that it's the only way a business can stay afloat in an industry characterized by changing audience demands, fast-changing technology; declining revenues, and an unpredictable world in terms of politics. Three of the respondents pointed out those resources on their own do not create value for the firm. Rather, it is the ability to combine effectively these resources that is of importance to the organization.

A strong brand that the bank has enjoyed has been strategically used to maintain the competitiveness of the bank and to remain relevant in the face of fierce competition in the financial market. Hence the role of human resources in effectively combining these innate assets and create sustainable competitive advantage is important and more so to be able to achieve organizational strategic objectives.

In addition, with the financial sector business being risky through possibility of fraud and loss of customers funds, it is important that the bank the bank be able to develop prudent risk taking practices in accordance with the banks' established risk management guidelines. Thus strong capabilities that the risk managers, has played an important role in achievement of the strategic objective of eliminating loss of the banks funds. The banking sector in Kenya has also experienced stiff competition due to the many banks both local and foreign that have set their businesses in the country. With this competition, many challenges have come about and in order for the bank to realise its various objectives, the banks resources need to match the challenges and capitalize on the banks strengths, to optimize its opportunities and at the same time help in reducing the banks threats.

The banks strategic capabilities have kept on changing depending on the challenges that keep facing the organization. This adaptability of the banks strategic capabilities has come about from the need of adapting the banks changing challenges and risks. Several respondents identified these factors to include technology, changes in the customers' expectation, declining finances, stringent prudential guidelines and also changing stakeholder requirements. With this turbulent business environment, the banks strategic capabilities were identified to have the capacity to change and adapt to the needs of the day. The organization has kept in pace with the changes and with this adaptation, it has been able to stay ahead of competition, renew its staff by continually investing in new talent, investing significantly in news gathering as well as undertaking a massive expansion in infrastructure to meet its clients demands.

CHAPTER FIVE: SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Summary

The results centered on determining the role of strategic capabilities at Commercial bank of Africa as a strategic tool. The research therefore wished to determine unique strategic capabilities that CBA has established over time and how the same has been utilized as a source strategic tool.

The results of the finding showed that CBA had internal strategic capabilities that gave it a competitive advantage, over the other financial players in the financial market. These strategic capabilities ranged from strong human resource pool that is well trained, technologically advanced assets and adoption of modern skills. CBA has over time appreciated the key role that its employees play in making the organization has a competitive edge over other players in the market. Thus, the bank has endeavored to pursue the policy of recruiting staff from all backgrounds, developed an informative induction process and in addition remunerates the same staff competitively. It was also observed that strategic capabilities within CBA are structures which have been developed over a long period and while they may be replicated elsewhere, they may not be easily copied.

The organization strategy is clear and concise and can be understood by the employees though the organisation adopts a top-down approach in its strategy development. As a result the employees feel that they need to be involved more by the top managers especially in strategy policies that affect them. As a result of the non-involvement of the employees in the development of the strategies, implementation of these strategies has faced challenges such that the staff is hesitant to act. In addition, the organisation has recognized the importance of availing enough resources to the implementation process especially the human resource. Continuous training and development programs have been initiated to help in building capacity of these employees to face the different challenges coming from the business environment.

The Commercial Bank of Africa recognizes that for it to develop and implement its strategies effectively and builds future competitiveness, they will have to identify and utilize its strategic capabilities. These capabilities should be unique and not to be imitated easily by competitors. Towards this CBA invests heavily in training of its personnel in order to gain the necessary expertise in the appropriate fields. The bank has been budgeting 30M annually towards training and development programs. The respondents observed that Commercial Bank of Africa has several assets that have been known to give it a competitive advantage. These strategic capabilities in the bank were identified to include solid intellectual capital and institutional memory, advanced information technology platform, well trained human resource base, loyal customer base including both local and foreign corporate.

In addition strategic capabilities that currently exist in the organization need to change and adapt to the changing business environment. The operating business environment has continuously changed partly from the globalization effect and the changing financial market. As a result, there has been a need for CBA to be flexible enough and adjust to the changes. In addition towards the maintaining of the same strategic capabilities, the organization has maintained employee participation, encourages their willingness to participate in all the exercises of developing and maintain effective strategic capabilities that will provide necessary competitive advantage. Technological advancement has also been pointed out as an area of strategic capability that needs to be updated continuously.

The need of CBA to establish a competitive advantage was appreciated by the respondents, as a necessary strategy in the present day uncertain business environment characterized by changing audience demand, fast changing technology, declining revenues and unpredictable world of politics. As an avenue to the realization of the same, a well skilled and trained manpower was identified as necessary. Towards this end the manpower was found to need a continuous training and development programs to facilitate the provision of desired services.

5.2 Conclusion

The strategic process in a firm is very vital for the functioning and sustainability of any organization. The strategic process in the organization should be steered by an able group of employees and management who are committed to their work due to the motivation process in place. The organizations strategy follows a defined process and involves some organizations employees, management and other stakeholders. The organization has a team of qualified and experienced staff who are committed to their work but at the same time uncertain of their job security in some instances. However, the researcher felt that it is important for the organisation to have in place adequate mechanism of incorporating the views stakeholders especially the ones that will be affected by the implementation of some strategies.

An organizations competitive advantage is seen to be founded on a complex of competences, capabilities, skills and strategic assets possessed by an organization. As such, the management of the physical and intellectual resources which form the core capability of the business should be given importance by an organization in order to preserve the existing competitive advantage. Such capabilities or core competences are not built on discrete independent skills but are the synthesis of a variety of skills, technologies and knowledge streams existing in an organization. It is the interaction of these different types of resources that drives a firm's competitive advantage, the catalytic effect on the others and it is this cumulative catalytic impact that makes an organization develop sustainable competitive advantage.

The strategic capabilities of a company play an important strategic role of creating value and improve business performance. As such the competitive advantage of companies in today's economy stems not from market position, but from difficult to replicate strategic capabilities and the manner in which they are deployed. The generated value is the result of an organization's ability to manage its business processes and, on the other hand, the effectiveness and efficiency of performing organizational processes based on organizational competencies. Management of strategic capabilities enables an organization to grow and develop the appropriate organizational competencies. Therefore, the fact that organizational competencies are based on the effective and efficient management of strategic assets puts it at the heart of business performance and value creation. However, there is need to ensure that the core capabilities may not become core rigidities, hence the need for an organization to understand the processes of creation of capabilities and its development.

5.3 Recommendation

The study recommends the following:-

The strategy process in a firm should not be viewed as a one-off process; the management should inculcate a practice of regular review and reference making of the Strategic Plan throughout its lifespan. At the start of the Strategic Planning process, it is important for the strategy team to determine its core competencies, which will assist the organization towards the realization of its key objectives. The team should factor in the competencies within the organization that will help it in the achievement of its strategic objective within the timeframe set, and incase the same core competencies are not present, then it will be imperative that the same competencies should be developed within or sourced from the outside.

There is a great deal of competitive advantage that can be harnessed from strategic capabilities assets in an organization. Towards the achievement of this, an organization should implement appropriate process of identifying and harnessing the core capabilities in the organization in order to ably face the challenges from the uncertain business environment. As part of the organisation strategy, assessment of its core competencies should form an important exercise, and the targets set should bear in mind the capacity of the organization to achieve the targets with the available structures. At the same time, the process of harnessing the organizations strategic capabilities should be backed by the support of the organizations top management and the staff level of awareness of knowledge management is critical to the success of implementing the same core competencies in an organisation.

To improve on the core competencies emanating from the organizations human resources CBA need to institute performance management system and train key staff on administration of the system, review the job descriptions, personnel policies and reward system. All such steps are aimed at motivating the staff to get the best out of them in order to achieve the organizations objectives.

5.4 Suggestion for Further Research

Further research could be carried out in this area to determine the impact of organizations strategic capabilities on the organisation performance. Further, a research to measure the relationship between training and development with its impact on effective utilization of core competencies can also be undertaken.

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APPENDIX I

INTERVIEW GUIDE

Interview Questions

The following sections provide sample questions to be used in evaluating how Strategic Capabilities has been adopted by Commercial Bank of Africa as a Strategic Tool.

Background Information on the interviewees

i) What current position in the organisation do you hold?

ii) For how long have you been holding the current position?

iii) Would you change your current duties if given a chance?

PART A: Strategic Process in the Organization

i) What approach can you categorize the strategy development process of the organization to take?

ii) What duration does the organizations strategy cover?

iii) Has the organization earmarked enough resources to the strategy process of the organization?

iv) What level of involvement of employees does the strategy development take?

v) What sort of challenges does the organisation face in the development and implementation of its strategies?

vi) What form of strategic controls has the organization put in place to achieve its goals?

PART B: Strategic Capabilities

i) Does the organization recognize existence of organizational capabilities that facilitates it's the achievement of the organizations objective? Please enumerate some.

ii) What resources can you point out to give the organization capabilities in the current competitive world?

iii) Has there been a deliberate effort by the organization to nature and develop human resource capabilities? Please explain further.

iv) In your assessment, can the organizations strategic capabilities be easily copied or transferred to competitors?

v) Has there been a deliberate move by the organization to shape, transform and combine these resources to achieve sustainable competitive advantage? What are some of the steps taken?

vi) What role has the organizations' strategic capabilities had in the management of the risk in the organization?

vii) Has the organization strategic capabilities been changing enough, leading to the creation of continuously changing temporary advantages?

viii) What level of employee participation is in place in ensuring enhancing organizational performance?

PART C: Strategic Capabilities as a Strategic Tool

i) Has the firm's strategic capability provided an important interface for the evolution, creation, and recombination of resources? How has it achieved the same?

ii) Has the organizations performance changed as a result of innate capabilities?

iii) How has the organizations innovations capability changed with the firms strategic capabilities?

iv) Can the organizations strategic capabilities be easily imitated by other organizations?

v) What mechanism has the bank put in place to avoid its strategic capabilities being copied?

vi) What level of involvement does the senior management provide in the maintaining of the organization strategic capabilities?