

**STRATEGIC CAPABILITIES AS A SOURCE OF COMPETITIVE
ADVANTAGE IN THE FIVE STAR HOTELS IN NAIROBI, KENYA**

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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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Date
7th NOVEMBER 2011

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

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DEDICATION

This research project is dedicated to my loving Papa Philip Osinde Makanga, Mama Elizabeth Osinde Makanga and my wife Linda Makanga for all the love, support encouragement and understanding which made this long journey possible.

I appreciate you all and may God bless.

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I must also appreciate and thank my dear parents, loving wife, my brothers and sisters, uncles and aunts for their moral and financial support during this challenging endeavor. May our good God richly bless you all.

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ABSTRACT

A rapidly changing environment requires an organization to rapidly adapt to keep its competitive advantage. Thus, a sustainable competitive advantage requires differentiating strategic capabilities – capabilities which are rare, highly valuable and are very difficult to copy. 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. Therefore, the development and effective configuration of unique capabilities within an organization enables them to perform processes better and in a different manner compared with other firms and this will be able to generate value to the individual firms.

The objective of the study was to establish the strategic capabilities as a source of competitive advantage in the five star hotels in Nairobi, Kenya. The research design was a survey of all five star hotels operating in Nairobi. The study used primary data which was collected using a questionnaire. The data was analyzed by the use of descriptive statistics to summarize and relate variables which were obtained from the administered questionnaires. The data was summarized using descriptive measures, percentages and frequency distribution tables while tables and graphs will be used for presentation of findings.

The study found out that adoption of strategic capabilities by the hotels lead to achievement of competitive advantage through being able to focus target clients much more effectively, customer satisfaction, customer retention and market share, products prices being competitive than other competitors due to cost leadership advantage, overall hotel financial performance improvement, been able to differentiate better products and thus retaining customers due to the strategic capabilities and effectively anticipating market performance. The challenges which were encountered includes financial constraint, instability in business due to politics, uncertainty in future business, mismanagement by previous managers, economic conditions prevailing in the country, employee turnover and reduced business volume.

The study recommended that the hotels should continue pursuing some other capabilities which they can utilize. The process of harnessing the organizations strategic capabilities should be backed by the support of the organizations top management and the staff.

TABLE CONTENTS

Declaration.....	ii
Dedication.....	iii
Acknowledgement.....	iv
Abstract.....	v
List of tables	vii
CHAPTER ONE: INTRODUCTION.....	1
1.1 Background to the Study	1
1.1.1 Strategic Capabilities.....	2
1.1.2 Competitive Advantage	3
1.1.3 The Hotel Industry in Kenya	4
1.1.4 Five Star Hotels in Nairobi	5
1.2 Research Problem	7
1.3 Research Objectives	8
1.4 Value of the Study	9
CHAPTER TWO: LITERATURE REVIEW	10
2.1 Introduction	10
2.2 Organizational Capabilities	10
2.2.1 Strategic Capabilities.....	12
2.3 Competitive Advantage	14
2.4 Strategic Capabilities as a Source of Competitive Advantage	16
CHAPTER THREE: RESEARCH METHODOLOGY	19
3.1 Introduction	19

3.2 Research Design 19

3.3 Population of the Study 19

3.4 Data Collection 20

3.5 Data Analysis and Presentation 20

CHAPTER FOUR: DATA ANALYSIS, RESULTS AND DISCUSSIONS 22

4.1 Introduction 22

4.2 Respondents' and Organizational Profile 22

 4.2.1 Highest level of education 23

 4.2.2 Length of Continuous Service 24

4.3 Strategic Capabilities in the hotels 25

 4.3.1 Concept of Strategic Capabilities 26

 4.3.2 Extent of agreement on the role of strategic capabilities..... 26

4.4 Strategic capabilities as a source of competitive advantage..... 28

 4.4.1 Strategic capabilities help in achievement of objectives 29

CHAPTER FIVE: SUMMARY, CONCLUSIONS AND RECOMMENDATIONS..... 31

5.1 Summary..... 31

5.2 Conclusions of the Research..... 32

5.3 Recommendations 34

 5.3.1 Recommendation with Policy Implications..... 34

 5.3.2 Recommendations for Further Research 35

REFERENCES 36

APPENDIX I: COVER LETTER..... 1

APPENDIX II:QUESTIONNAIRE 2

LIST OF TABLES

Table 4.1: Respondents Age Bracket	23
Table 4.2: Highest level of education attained	23
Table 4.3: Length of Continuous Service	24
Table 4.4: Size of the hotel	25
Table 4.5: Role of Strategic Capabilities in the Hotel	27
Table 4.6: Strategic capabilities help in achievement of objectives	29

CHAPTER ONE

INTRODUCTION

1.1 Background to the Study

Firms in a market economy are diverse in terms of their choice of business strategy. However, all firms aim to implement high-value strategies that produce profits as a normal aspiration of business owners. When a particular high-value strategy of a firm cannot be implemented, imitated or replicated successfully by a potential competitor, the strategy provides the firm with a source of sustainable competitive advantage (SCA). According to Porter (1991), the competitive strategy of a firm aims to seek an advantageous competitive position in a particular industrial environment or to build up a profitable, consistent market position by drawing on various factors that are decisive to being competitive in an industrial sector. Scholars who adhere to a resource-based view of the firm believe that resources contribute to SCA but only when a firm possesses valuable, scarce, inimitable and irreplaceable resources and thus Barney (1991) observes that particular combinations of these resources deliver a particular type of SCA.

A rapidly changing environment requires an organization to rapidly adapt to keep its competitive advantage. Thus, a sustainable competitive advantage requires 'differentiating strategic capabilities' – capabilities which are rare, highly valuable and are very difficult to copy. Teece *et al.*, (1997) argue that the capabilities that achieve competitive advantage in such changing conditions are strategic capabilities and claims that these strategic capabilities are those that operate to extend, modify or create extra ordinary capabilities. Further, Johnson *et al.*, (2008) state that strategic capabilities are an organization's abilities to renew and recreate its strategic capabilities to meet the needs of a changing environment.

1.1.1 Strategic Capabilities

According to Teece *et al.*, (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. Strategic capabilities are embedded in routine organizational processes that guide the evolution of a firm's resource configuration and operational routines.

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. Recent resource-based writings stress that the uniqueness of firm's resources and capabilities are not sufficient to sustain competitive advantage. Fiol (2001, p. 69) further agrees and remarks that "both the skills/resources and the way organizations use them must constantly change, leading to the creation of continuously changing temporary advantages".

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). In addition, other scholars from the organizational economics perspective – integrating perspectives such as agency theory, incentives, transaction costs theory, and even property rights theory – have utilized industrial organization-based tools to examine performance at the firm level of analysis (Boxall and Gilbert, 2007).

1.1.2 Competitive Advantage

According to Porter (1985), competitive advantage is the ability to earn returns on investment consistently above the average for the industry. This therefore means that competitive advantage can be achieved if the firm implements a value-creating strategy that is not simultaneously being implemented by any current or potential competitors. This can be interpreted to mean that sustained competitive advantage results from strategic assets; which Barney (1991) regards as those that are internally controlled and permit the firm to formulate and implement strategies that expand its efficiency and effectiveness. Competitive advantage is thus dependant not, as traditionally assumed, on such bases as natural resources, technology or economies of scale, since these are increasingly easy to imitate. Rather, competitive advantage is, according to the resource base view, dependant on the valuable, rare, and hard-to-imitate resources that reside within an organization (Stiles and Kulvisaechna, 2004). This group of assets can be said to be what Stewart (1997) to be “invisible assets” which in real sense is intellectual capital.

Porter (1991) notes that, the competition strategy of a firm is to seek an advantageous competitive position in a particular industrial environment or to build up a profitable, consistent market position by drawing on various factors that are decisive to being competitive in an

industrial sector. In other words, both industry type and competitive strategies are two central points to be considered by managers in a market economy. This therefore means that Porter's competition strategy explicitly relies on the pursuit of advantages, which are determined by a firm's exogenous variables that require analysis of the competitors and opportunities in the market. When a particular high-value strategy of a firm cannot be implemented, imitated or replicated successfully by a potential competitor, the strategy provides the firm with a source of Sustainable Competitive Advantage (SCA). On his part, Oliver (1997) argues that both resources and institutional capital are indispensable to creating an SCA. The capability-based view of the firm also moves a step closer to understanding how enterprises develop and maintain their sources of competitive advantage. Hence for a firm to be assured of a sustainable development, it must identify its competitive advantage variables and harness the same to a maximum benefit.

1.1.3 The Hotel Industry in Kenya

The Hotel Industry forms a big part of Kenya's Tourism sector. It is the second largest foreign exchange earner after Agriculture Sector. The enduring appeal of the country's scenery, wildlife, climate and tropical coastline has allowed the establishment of a large hotel industry and a sound tourism base. The umbrella body for the Kenyan hotel industry is the Kenya Association of Hotelkeepers and Caterers (KAHC) that brings together duly registered hotels, lodges and camps operating in Kenya. Through its affiliate partner the Pubs, Entertainment and Restaurants Association of Kenya (PERAK), the association is also representative of duly registered casinos, restaurants, pubs, theme parks and entertainment establishments. The KAHC dates back to 1944 when it was first formed with the mandate of not only being a representative body, but also propel the growth and development of the Kenyan hospitality industry to world-class status

through regular engagement with its membership as well as other stakeholders. The Regulation, rating and licensing of hotels in Kenya is done by the Kenya Hotels and Restaurants Authority (KHRA) established under the Hotels and Restaurants Act, Chapter 494 of the Kenyan laws.

According to the Ministry of Tourism annual report (2010), Kenya has some of the best developed hotels in sub-Saharan Africa, offering on an average of about 60,000 beds per night. There is a fairly pronounced seasonal pattern with a majority of tourists visiting during the northern hemisphere holiday period (July/August/September) and during the northern winter months (December/January/February). The rainy seasons in April/May and in November reduce the potential for visitors at these times. However, the country has developed and marketed these destinations/ hotels for domestic tourism. There is also an increase in the workshops, conferences and seminars, both locally and internationally, generating more revenues for the hotels.

According to the Kenya Government's statistics in the 2007 Economic Survey (Government of Kenya, 2007) real Gross Domestic Product expanded by 6.1 percent in 2006 compared to a revised growth of 5.7 percent in 2005 and the key sectors which contributed to the growth were hotels and restaurants (14.9 %), wholesale and retail trade (10.9%) and transport and communication (10.8%) among other sectors.

1.1.4 Five Star Hotels in Nairobi

The provision of basic accommodation, in the past, comprising only of a room with a bed, a cupboard, a small table and a wash-stand has largely been replaced by rooms with modern and state-of-the-art facilities, including en-suite bathrooms and air conditioning or climate control. Additional common features found in hotel rooms are a telephone, an alarm clock, a television, a

safe, a mini-bar with snack foods and drinks, and facilities for making tea and coffee. Luxury features include bathrobes and slippers, a pillow menu, twin-sink vanities, and Jacuzzi bathtubs. The evolution of hotels as above has led to the development of superior Hotels namely five star hotels in Kenya and even a higher star rating in foreign countries to as high as seven star depending on the rating body since, so far, there is no documented world hotel standards that can be a basis for rating.

Nairobi's five star hotels offer Superior amenities and are luxurious. These Hotels also offer a choice of bars, restaurants and state of the art gyms, steam & sauna facilities. The products and services in these hotels are rated as top notch and the cost is high. This is due to the quality of staff and their high pay scales. The nature of equipments, tools and operating tools are highly sophisticated to match the fineness anticipated by the patrons. The owners invest so much in value addition. The levels of maintenance of the facility are very high, partially due to the annual audit for star rating by the Hotels and Restaurants authority in Kenya. These are also referred to as exclusive hotels. Most of these Hotels are part of international hotel chains and employ international expatriates for top positions. This is a strategy employed in order to ensure that they apply their knowledge of international standards which gives a competitive advantage.

The Management of such five star hotels attaches very high value to exceeding customer expectations, which in turn becomes their competitive advantage. There is continuous monitoring of customer service satisfaction index through guest feedback. This will enable the Hotels gauge how their customers rate them and whether they would prefer to be their guests again. Customer service satisfaction involves internal and external capabilities.

1.2 Research Problem

An organization's resources, including its assets and skills, represent the source of its foundation for sustainable competitive advantage due to their fundamental units of value generation (Bowman and Ambrosini, 2003). These resources can be specialized and bundled together in highly distinctive configurations to lend firms special competitive advantages. Therefore, strategists should seek to shape, transform, and combine these resources into strategic capabilities, which in turn drive strategic success. 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 and effective configuration of unique capabilities within an organization enables them to perform processes better and in a different manner compared with other firms and this will be able to generate value to the individual firms.

The Hotel Industry in Kenya over the last ten years can be said to have experienced different set of competition than earlier existing in the sector. This can be attributed partly from the many hotels that have been developed in the same period. In addition, over the last few years customers have become increasingly informed and will always demand better services and accountability from the hotels in getting value for their money. In order for these hotels to remain competitive and relevant, it should be able to identify unique capabilities within the business-in terms of the resources it has-and configure them in such a manner that will create sustainable competitive advantage in the short and long term period. Therefore harnessing of the firms strategic capabilities to create competitive advantage should be target priority in the present day business world.

Some studies have been undertaken locally in the field of organizational strategic capabilities. Kimaru (2007) undertook a research on the utilization of organization's capabilities as an operation strategy in the banking industry in Kenya. The findings of the research were that the skills and resources of an organization must constantly change in tandem with the changes in the environment. 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 is in tandem with Mintzberg *et al.* (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 firms competitive advantage will be achieved. In view of the above, it is evident that there has not been adequate research in the field of strategic capabilities especially in the hotel industry. This study therefore sought to establish how the strategic capabilities have been applied as a source of competitive advantage by five star hotels in Kenya?

1.3 Research Objectives

The objectives of the study were;

- i) To establish how strategic capabilities has been utilized as a competitive advantage tool by five star Hotels in Nairobi.
- ii) To determine the challenges faced by the Hotels in identifying and harnessing the strategic capabilities for competitive advantage.

1.4 Value of the Study

This study will aid various stakeholders. Top on the list is the hospitality fraternity in the country who will obtain details on how they can be able to effectively identify and harness the internal strategic capabilities to create competitive advantage in the face of numerous challenges facing the industry both from within and outside the industry. Adaptability of firm's strategic capabilities in the face of unpredictable business environment and the details of responses to the challenges will help the firms in the hotel industry. In addition the study will be an invaluable source of material and information to the many other hotels operating in the country since the service industry has a great role to play in the country's quest to become a middle income country as envisioned in the Vision 2030. By identifying the strategic capabilities, industry will also be able to achieve their objective much faster and growth of the individual firms.

The management and staff of the hotels 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.

For academicians, this study will form the foundation upon which other related and replicated studies can be based on. Investors can also gain an insight on the business and its strategic position within the environment, which can assist them in determining their investment viability.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter provides 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 source of competitive advantage. The chapter is divided into three main areas: organizational capabilities and strategic capabilities, competitive advantage and finally the role of strategic capabilities as a source of competitive advantage.

2.2 Organizational 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, p. 42). 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 (Ghoshal and Bartlett, 1997). 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.

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 *et al.* (1997, p. 516) broaden the description by referring to resources, capabilities and competencies. They see resources as: “... the 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).

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-coordinating 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.

Resources are the fundamental units of value generation. It can be specialized and bundled together in highly distinctive configurations to lend firms special competitive advantages. 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, p. 35). However, all firms have more generic capabilities that enable them to compete. While unique capabilities are specific to firm 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.

2.2.1 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). In addition, other scholars from the organizational economics perspective – integrating perspectives such as agency theory,

incentives, transaction costs theory, and even property rights theory – have utilized industrial organization-based tools to examine performance at the firm level of analysis (Boxall and Gilbert, 2007).

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. Fiol (2001, p. 122) further agrees and remarks that "both the skills/resources and the way organizations use them must constantly change, leading to the creation of continuously changing temporary advantages". 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, p. 83) 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, p.1107), strategic capabilities are the antecedent organizational and strategic routines by which managers alter their resources base and to create new value-creating strategies, which are the drivers behind the creation, evolution and recombination of other resources into new sources of competitive advantage". This definition implies that the firm is better able than its competitors at learning from customers (Vargo and

Lusch, 2004), 'more adept at changing core business processes and routines and continually reconfigures, enhances and deploys (Rindova and Kotha, 2001) resources in a manner that creates superior customer value and hence superior performance in the marketplace.

However, according to Rouse and Daellenbach (1999), the very nature of these strategic capabilities means that they are very difficult to manage and develop. Scholars liken the challenge of identifying and managing them to "observing the unobservable" (Godfrey and Hill, 1995). Strategic capabilities arise from the everyday tasks of the firm's employees and are often the unquestioned "how we do things around here" activities that permit some firms to distinguish themselves, for example, by providing better customer service than their competitors. They are grounded in tacit knowledge (Polanyi, 1976) which ensures that they are not easily documented, transferred internally between business units and, more importantly, cannot readily be imitated by competitors. Further, Black and Boal (1994) observed that strategic capabilities exist in complex bundles with other capabilities and resources and it is therefore difficult for managers to identify, let alone assess the impact of any one dynamic capability on market performance. In certain circumstances, strategic capabilities can be linked to competitive advantage and ultimately to superior profitability but, because of the inherent difficulties of managing and measuring these internal drivers, casual ambiguity rather clouds the picture and can deter empirical research among marketing scholars.

2.3 Competitive Advantage

Competitive advantage is the ability of a firm to earn returns on investment consistently above the average for the industry (Porter, 1985). On his part, Barney (1991) observed that competitive advantage can be achieved if the firm implements a value-creating strategy that is not

simultaneously being implemented by any current or potential competitors. According to Meso and Smith (2000), sustained competitive advantage results from strategic assets; which Barney (1991) regards as those that are internally controlled and permit the firm to formulate and implement strategies that expand its efficiency and effectiveness. Competitive advantage is thus dependant not, as traditionally assumed, on such bases as natural resources, technology or economies of scale, since these are increasingly easy to imitate. Rather, competitive advantage is, according to the resource base view, dependant on the valuable, rare, and hard-to-imitate resources that reside within an organization (Stiles and Kulvisaechana, 2004). They are indeed the assets which Stewart (1997, p.56) referred to "invisible assets" which in real sense is intellectual capital.

Porter (1991) notes that, the competition strategy of a firm is to seek an advantageous competitive position in a particular industrial environment or to build up a profitable, consistent market position by drawing on various factors that are decisive to being competitive in an industrial sector. In other words, both industry type and competitive strategies are two central points to be considered by managers in a market economy. This therefore means that Porter's competition strategy explicitly relies on the pursuit of advantages, which are determined by a firm's exogenous variables that require analysis of the competitors and opportunities in the market. When a particular high-value strategy of a firm cannot be implemented, imitated or replicated successfully by a potential competitor, the strategy provides the firm with a source of Sustainable Competitive Advantage (SCA). On his part, Oliver (1997) argues that both resources and institutional capital are indispensable to creating an SCA. The capability-based view of the firm also moves a step closer to understanding how enterprises develop and maintain their

sources of competitive advantage. Hence for a firm to be assured of a sustainable development, it must identify its competitive advantage variables and harness the same to a maximum benefit.

Scholars who adhere to a resource-based view of the firm believe that resources contribute to competitive advantage but only when a firm possesses valuable, scarce, inimitable and irreplaceable resources. Barney (1991) observes that particular combinations of these resources deliver a particular type of competitive advantage. He suggested that not all of a firm's resources hold the potential to deliver an competitive advantage. Rather, the firm's resources must possess the attributes of rareness, value, the inability to be imitated and inability to be substituted if an SCA is to be realized. However, in the real world of business, it is unlikely that all firms will have the capacity to possess or access all the resources that satisfy Barney's (1991) conditions. In addition, firms may not have the capacity to utilize these resources in the right combination even if they were accessed in an appropriate manner. On his part, Oliver 1997), argues that both resources and institutional capital are indispensable to creating an SCA. The capability-based view of the firm also moves a step closer to understanding how enterprises develop and maintain their sources of competitive advantage. Hence for a firm to be assured of a sustainable development, it must identify its competitive advantage variables and harness the same to a maximum benefit.

2.4 Strategic Capabilities as a Source of Competitive Advantage

According to 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.

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 (Witcher and Chau, 2008), but also the ability to control them against top level targets (Chau and Witcher, 2005). This remains the case for both commercial and regulated public sector companies (Chau, 2009).

Luo and Park (2001) assessed the degree of satisfaction with a range of performance outcomes arising from individual factors used in the strategic process and identified a number of parameters that are considered to be important namely: financial (overall financial performance); customer orientation (customer satisfaction, customer retention and market share); organizational effectiveness (short-term performance, long-term performance, avoid problem areas); and innovation (introduction of new products). Andersen *et al.* (2001) suggest that linking strategic objectives with performance helps with the articulation of causality. They state that this approach has clear advantages such as helping small- and medium-sized organizations to gain a thorough understanding of strategy by raising the awareness of strategy throughout the entire organization and by providing a focus to enhance the achievement of the strategic objectives.

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. Stalk (1992), did note how Japanese firms have had a long history of collaborative forms of cross-functional management as part of hoshin kanri philosophy. Hoshin kanri is, in a resource-based view sense, a dynamic capability for the management (and configuration) of core competences over time. However, as was noted by stalk (1992), most of the commentary on the Prahalad and Hamel work misses the point that it is not the core products and core competencies that provide the strategic capability, but a higher order dynamic capability.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

The chapter describes the research design, the targeted population, sampling design, data collection instruments and procedures, and the techniques for data analysis that were used.

3.2 Research Design

The study adopted a survey research design. The survey was of five star hotels operating in Nairobi. According to Emory (1995), a survey is feasible when the population is small and variable and hence the researcher was able to cover all the elements of the population and thus a survey is considered to be more efficient and economical than observation. In addition, the researcher adopted this researcher design because the study was concerned about univariate questions in which the researcher asked questions about the size, form distribution and existence of factors in which strategic capabilities is a source of competitive advantage in the hotel industry. This method facilitated the drawing of inferences and help in maintaining the continuity of the research process.

3.3 Population of the Study

The population of the study consisted of five star hotels operating in Nairobi, Kenya. According to the Ministry of Tourism annual report (2010), there were 6 five star hotels in Nairobi as at December 2010. The selection of the industry players has been necessitated by presents level of competition being experienced in the sector as well as the increased demand in the hotel services

in Nairobi due to the increase that has involved price wars and counter promotions among the players. In addition all the hotels have their headquarters in Nairobi and thus it was easy to collect adequate data by the researcher. Because of the number of the population targeted in the study, the same target population formed the sample size of the study.

3.4 Data Collection

The study used primary data that was collected through a self-administered questionnaire that consisted of structured questions made up of both open and closed ended questions that was designed to elicit specific responses for qualitative and quantitative analysis respectively. The questionnaires were administered in the hotels offices whereby the researcher targeted respondents in the managerial level specifically in Executive, Marketing, Business Development and the Human Resource departments. The researcher with prior arrangement, visit the target firms offices and seek to administer the questionnaires to staff in the respective departments. The respondents were expected to give an insight into how the organizations utilize strategic capabilities as a competitive advantage tool. The questionnaire was made up of three sections namely: Introduction, strategic capabilities in the hotels and how the same strategic capabilities have been utilized as a source of competitive advantage in the hotels.

3.5 Data Analysis and Presentation

The data was analyzed by the use of descriptive statistics to summarize and relate variables which were attained from the administered questionnaires. The data was classified, tabulated and summarized using descriptive measures, percentages and frequency distribution tables while tables and graphs which were used for presentation of findings. However, before final analysis is

performed, data was cleaned to eliminate discrepancies and thereafter, classified on the basis of similarity and then tabulated. This method of analysis is most desirable as it enabled the researcher to have an insight on how strategic capabilities as been utilized as a source of competitive advantage by the five star hotels in Nairobi. In addition, cross tabulation was done to relate the various demographic variables of the hotel with their competitive advantage.

CHAPTER FOUR

DATA ANALYSIS, RESULTS AND DISCUSSIONS

4.1 Introduction

The research objectives were to establish the strategic capabilities as a source of competitive advantage in the Five Star Hotels in Nairobi and to determine the challenges faced by the Five Star Hotels in identifying and harnessing the strategic capabilities for competitive advantage. This chapter presents the analysis and findings with regard to the objectives and discussions of the same. The findings are presented in percentages and frequency distributions, mean and standard deviations.

4.2 Respondents' and Organizational Profile

The respondents and hotels information considered in this study included the respondents' gender, age bracket, highest level of education attained, length of continuous service with the hotel, duration of hotel existence and the size of the hotel in terms of the rooms. A total of 18 questionnaires were issued out to the 6 hotels. Each hotel was given 3 questionnaires. The completed questionnaires were edited for completeness and consistency. Of the 18 questionnaires used in the sample, only 15 were returned. The remaining 3 was not returned. The returned questionnaires' represented a response rate of 83%. Of all the respondents, 68.4% indicated that they were male while 31.6% indicated that they were female. The results indicate that there are more male managers in the hotels.

Further, the respondents were to indicate the age bracket in which they belong. The results are shown in table 4.1 below.

Table 4.1: Respondents Age Bracket

	Frequency	Percent	Cumulative Percent
Under 30	2	13.3	13.3
31-40	4	26.6	39.9
41-50	7	46.6	86.5
Over 50	2	13.3	100.0
Total	15	100.0	

The respondents' age bracket varied from under thirty years to over fifty years. 46.6% of the respondents were between 41 and 50 years, 26.6% of the respondents were between 31 and 40 years, 13.3% indicated that were less than 30 years while another 13.3% said they were over 50 years. The results indicate that the respondents were over thirty years.

4.2.1 Highest level of education

The respondents were required to indicate the highest level of education which they have attained as shown in table 4.2 below.

Table 4.2: Highest level of education attained

	Frequency	Percent	Cumulative Percent
Post graduate	4	26.7	26.7
University	9	60.0	86.7
Tertiary college	2	13.3	100.0
Total	15	100.0	

On the highest level of education attained, 60% of the respondents had university degree, 26.7% indicated that they hold post graduate degree while 13.3% had attained tertiary college qualification. The results indicate that most of the managers in the five star hotels in Nairobi are university graduates and this implies that the hotels require learned employees to be managers.

4.2.2 Length of Continuous Service

The respondents were to describe the length in which they have served the hotel as shown in table 4.3 below:

Table 4.3: Length of Continuous Service

	Frequency	Percent	Cumulative Percent
Less than 5	3	16.7	16.7
5-10	9	50.0	66.7
Over 10	6	33.3	100.0
Total	18	100.0	

As indicated in the table 4.3, 50% of the respondents have worked in the hotels for between 5 and 10 years, 33.3% had worked for over 10 years in their respective hotels while 16.7% indicated that they have worked for less than five years. The results indicate that the respondents have worked in the organization for a longer period thus they understand the use of the strategy as a source of competitive advantage.

The respondents were also to indicate how long the hotels have been in existence in Kenya. The results show that 93.3% of the respondents' indicated that the hotels they work for have been in

existence for over 16 years while 6.7% said theirs has been in operation for 6 to 10 years. The results revealed that the hotels have been in existence for a longer period of time and therefore they understand how the competition in the industry is and the need to gain competitive advantage.

In addition the respondents were to indicate the size of their hotel in terms of the rooms and bed capacity as shown in table 4.4 below.

Table 4.4: Size of the hotel

	Frequency	Percent	Cumulative Percent
201-250	4	26.7	26.7
Over 251	11	73.3	100.0
Total	15	100.0	

According to table 4.4 above, 73.3% of the hotels have over 251 rooms while 26.7% said that they have between 201 and 250 rooms. The results indicate that the hotels are big in size by virtue of having a bigger bed capacity. This therefore means that the big size of the five star hotels offers them a competitive advantage in capacity to handle large business volumes.

4.3 Strategic Capabilities in the hotels

Strategic capabilities arise from the everyday tasks of the firm's employees and are often the unquestioned “how we do things around here” activities that permit some firms to distinguish themselves than their competitors.

4.3.1 Concept of Strategic Capabilities

The respondents were required to indicate the extent in which they understand the concept of strategic capabilities.

The findings indicate that 57.9% of the respondents indicated that they understand the concept of strategic capabilities well while 42.1% said they understand the concept very well. The results indicate that all the respondents understand the concept and therefore they are in position to know how the organization applies the strategy in order to gain competitive advantage.

The strategic capabilities employed by the hotels were improving on service quality, customer care, increasing the volume of operations, improving on processes and systems, enhancing image and reputation, well trained human resource, market effectiveness, competitive prices, knowledge of the industry, marketing effectiveness, scheduled training program to increase knowledge, team building activities to draw out talents, project management teams, management trainee programs, embracing new technology, reduced cost of production, market research and benchmarking and the location.

The respondents indicated that what has hindered the hotels from having in place the strategic capabilities were; financial constraint, instability in business due to politics, uncertainty in future business, mismanagement by previous managers, economic conditions prevailing in the country, employee turnover and reduced business volume.

4.3.2 Extent of agreement on the role of strategic capabilities

The respondents were to indicate how the stakeholder involvement has helped the hotels to achieve their objectives. The range was 'Strongly agree (1)' to 'strongly disagree' (5). The scores of strongly agree/agree have been taken to present a variable which had mean score of 0 to 2.4

on the continuous Likert scale; ($0 \leq S.E. < 2.4$). The scores of 'moderate extent' have been taken to represent a variable with a mean score of 2.5 to 3.4 pm on the continuous Likert scale: $2.5 \leq M.E. < 3.4$) and the score of disagree/strongly disagree at all have been taken to represent a variable which had a mean score of 3.5 to 5.0 on a continuous Likert scale; $3.5 \leq L.E. < 5.0$). A standard deviation of >0.8 implies a significant difference on the impact of the variable among respondents. The results are shown in table 4.5 below.

Table 4.5: Role of Strategic Capabilities in the Hotel

	Mean	Std. Deviation
There has been a deliberate effort by the organization to nature and develop human resource capabilities	1.4211	.6924
The organizations strategic capabilities can easily be copied or transferred to competitors	4.3684	1.0116
There has been a deliberate effort by the organization to shape, transform these capabilities to increase organization value	2.0526	.5242
The organizations strategic capabilities has played an important role in mitigating its risk	2.0000	.8165
The organizations strategic capabilities has been changing enough to lead to temporal advantage	3.2105	1.1822
The hotels employees are cooperative enough and combine effectively their unique strategic capabilities	1.5263	.6117
The hotel is more adept at changing core business processes and routines as a result of strategic capabilities	2.6842	1.2932

The respondents agreed that the role of strategic capabilities in the hotels were; to nature and develop human resource capabilities (mean 1.4211), employees are cooperative enough and combine effectively their unique strategic capabilities (mean 1.5263), mitigating risk (mean 2.0000), existence of deliberate effort by the organization to shape, transform these capabilities to increase organization value (mean 2.0526), changing core business processes and routines as a result of strategic capabilities (mean 2.6842) and strategic capabilities changing enough to lead to temporal advantage (mean 3.2105). The respondents however indicated that easily copying or transfer of strategic capabilities to competitors was not the role of strategic capabilities in the hotels (mean 4.3684).

There was a high degree of variation among respondents, an indication that the respondents response regarding the role of strategic capabilities in the hotels differed. This is indicated by standard deviation of 1.2932, 1.1822 and 1.0116 for changing core business processes and routines as a result of strategic capabilities, capabilities changing enough to lead to temporal advantage and easily copying or transfer of strategic capabilities to competitors.

4.4 Strategic capabilities as a source of competitive advantage

Capabilities are nurtured and developed within a firm in order to enhance its performance and also react or anticipate market movements. 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. An organizations resource contributes to competitive advantage but only when a firm possesses valuable, scarce, inimitable and irreplaceable resources.

4.4.1 Strategic capabilities help in achievement of objectives

The respondents were to indicate the stakeholder involvement has helped school achieve objectives. The range was 'Strongly agree (1)' to 'strongly disagree' (5). The scores of strongly agree/agree have been taken to present a variable which had mean score of 0 to 2.4 on the continuous Likert scale; ($0 \leq S.E. < 2.4$). The scores of 'moderate extent' have been taken to represent a variable with a mean score of 2.5 to 3.4 pm on the continuous Likert scale: $2.5 \leq M.E. < 3.4$) and the score of disagree/strongly disagree at all have been taken to represent a variable which had a mean score of 3.5 to 5.0 on a continuous Likert scale; $3.5 \leq L.E. < 5.0$). A standard deviation of >0.8 implies a significant difference on the impact of the variable among respondents. The results are shown in table 4.6 below.

Table 4.6: Strategic capabilities help in achievement of objectives

	Mean	Std. Deviation
The hotel has been able to focus to target clients much more effectively	1.4211	.6924
The hotel has been able make its products prices competitive than other competitors due to cost leadership advantage	1.7895	.7873
We have been able to differentiate better our products and thus retain our customers due to the strategic capabilities	2.0000	.8165
We are able to effectively anticipate market performance	2.4737	.6117
Our overall financial performance has improved due to the harnessing of strategic capabilities	1.9474	.9112
Customer satisfaction, customer retention and market share has improved since the hotel started to harness its strategic capabilities	1.5000	.7071

According to the results in table 4.6 above, the strategic capabilities have resulted in the achievement of all the objectives. However, the extent of the achievement of the objectives varied. The focus to target clients much more effectively (mean 1.4211) was indicated as the objective which was achieved mostly by the hotels then customer satisfaction, customer retention and market share (mean 1.5000), products prices being competitive than other competitors due to cost leadership advantage (mean 1.7895), overall hotel financial performance improvement (mean 1.9474), been able to differentiate better products and thus retaining customers due to the strategic capabilities (mean 2.0000) and effectively anticipating market performance (mean 2.4737). There was slight variation among the respondents on the help which the strategic capabilities have achieved. Based on these results, it is evident that most of the strategic capabilities of the five star hotels have a strong inclination to customer service and satisfaction.

CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

Summary

The study established that there were more men who managers the five star hotels operating in Nairobi and they are more than thirty years of age. The respondents have university degree with some of them having attained the post graduate level and these indicate that the hotels need experienced individuals to be the managers. The respondents have worked in their current hotel for more than five years thus they have sufficient knowledge regarding the industry and the need for adoption of strategies which will differentiate the hotel from the rest thus gaining competitive advantage and also due to the fact that the respondents are engaged in day to day running of the hotels. The study also revealed that the hotels have been in existence for over sixteen years and thus they have witnessed both the high and low times in the industry. The size of the hotels based on the number of rooms which the hotel has varies, however majority of the rooms have over two hundred and fifty rooms with some indicating that they have eight hundred rooms indicating that the hotels are big in size.

The respondents understands the concept of strategic capability well and the need to be practiced by an organization in order to gain competitive advantage over other competitors. The strategic capabilities been practiced by the hotels were improving on service quality, customer care, increasing the volume of operations, improving on processes and systems, enhancing image and reputation, well trained human resource, market effectiveness, competitive prices, knowledge of the industry, marketing effectiveness, scheduled training program to increase knowledge, team building activities to draw out talents, project management teams, management trainee programs,

embracing new technology, reduced cost of production, market research and benchmarking and the location.

The adoption of strategy by an institution comes with accompanying challenges. The challenges which were encountered by the hotels in the employment of strategic capabilities were financial constraint, instability in business due to politics, uncertainty in future business, mismanagement by previous managers, economic conditions prevailing in the country, employee turnover and reduced business volume. The role been played by strategic capabilities in the hotels were to nature and develop human resource capabilities, employees are cooperative enough and combine effectively their unique strategic capabilities, mitigating risk, existence of deliberate effort by the organization to shape, transform these capabilities to increase organization value, changing core business processes and routines as a result of strategic capabilities and strategic capabilities changing enough to lead to temporal advantage

The strategic capabilities which have been adopted by the five star hotels have lead them to achieve objectives such as being able to focus target clients much more effectively, lead to customer satisfaction, customer retention and market share, products prices being competitive than other competitors due to cost leadership advantage, overall hotel financial performance improvement, been able to differentiate better products and thus retaining customers due to the strategic capabilities and effectively anticipating market performance. The achievement of organizational objectives by adoption of strategic capabilities gives the hotel a source of competitive advantage over its competitors.

5.2 Conclusions of the Research

From the research findings, some conclusions can be made about the study:

Foremost, strategic capabilities are vital for the functioning of any organization. The development and effective configuration of unique capabilities within an organization enables them to perform processes better and in a different manner compared with other firms and this will be able to generate value to the individual firms. From the findings, it was established that the hotels understand the importance of strategic capabilities as they have gone ahead to adopt some capabilities which they hoped to propel the hotel to greater heights. Although the hotels have adopted some of the strategic capabilities, they have however encountered challenges which they need to overcome quickly if they have to gain from the adoption of the strategies.

Secondly, the study revealed that strategic capabilities plays a key role in the running of the hotels as it has enabled the hotels achieve some desired objectives which will enable the hotel to be self reliant in different perspectives and at the same time improve their performance. Despite the great strides that have been achieved by the hotels, there is still room for improvement and growth considering that the country's economy is still growing.

Finally 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 and the catalytic effect on the others and it is this cumulative catalytic impact that makes an organization develop sustainable competitive advantage.

3 Recommendations

The environment in which the media firms currently operates in is turbulent with constant changes in the industry and it is recommended that the firms adopt strategies which can withstand the continuous changes and at the same time those which can be changed to suit the prevailing conditions at a given period of time. The adoption of strategic capabilities by the hotels should not be the end to organizational performance improvement but a means to pull all the organization resources together so that they can achieve long term objectives thus gaining competitively.

5.3.1 Recommendation with Policy Implications

Foremost, the study found that most of the hotels managers had worked for over ten years in the organization. It is therefore recommended that hotels embrace employee retention strategies since it has been established that the long serving employees understand the organization and organizational policy better than new employees.

Secondly, the research established that there is a great deal of competitive advantage that can be harnessed from strategic capabilities in an organization. Towards the achievement of this, it is recommended that an organization should implement appropriate process of identifying and harnessing the core capabilities in the organization in order to face the challenges from the uncertain business environment. As part of the organization 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. It is also recommended that 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 organization.

Finally, it was found out that financial constraints, political instability, uncertainties of future business sustainability, mismanagement by previous managers and employee turnover were the major challenges faced by the Hotels in identifying and harnessing the strategic capabilities for competitive advantage. It is therefore recommended that hotels establish a proper financial reserve necessary for harnessing of the strategic capabilities. In addition it is also recommended that hotels develop proper policies and procedures for management of staff and staff matters in order to reduce staff turn over and maintain a highly motivated team.

5.3.2 Recommendations for Further Research

The study confined itself to the five star hotels operating in Nairobi. It is therefore recommended that similar studies to be undertaken on other five star hotels operating in Kenya so as to establish whether there is consistency on the use of strategic capabilities as a source of competitive advantage. Other studies can also be done on the middle class hotels of three and four star rating to establish how they utilize strategic capabilities as a source of competitive advantage.

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APPENDIX I:
COVER LETTER

Job B. Makanga

School of Business, University of Nairobi

P.O BOX 30197, Nairobi

August, 2011

Dear Respondent,

I am a postgraduate student at the University of Nairobi, School of Business. I am carrying out research on "strategic capabilities as a source of competitive advantage in the five Star Hotels in Nairobi, Kenya." This is in partial fulfillment of the requirement for the degree of Masters in Business Administration (Strategic Management) Degree program at the University of Nairobi.

This study uses five star Hotels as the case study from which you have been selected as one of the respondents. The success of this research substantially depends on your help and co-operation.

I hereby request you to respond to the questioner as honestly as possible and the best of your knowledge. The information provided will exclusively be treated with utmost confidence; neither your name nor any other details shall appear in my report.

Thank you in advance,

Yours sincerely,

Job B. Makanga
(Student)

Dr J.M Munyoki
(Supervisor)

APPENDIX II

QUESTIONNAIRE

Please give answers in the spaces provided and tick (✓) in the box that matches your response to the questions where applicable.

PART A: DEMOGRAPHIC AND RESPONDENTS PROFILE

1) Name of the hotel:

2. What is your designation at the hotel.....

3. Gender: male () Female ()

4. What is your age bracket? (Tick as applicable)

a) Under 30 years ()

b) 31 – 40 years ()

c) 41 – 50 years ()

d) Over 50 years ()

5. What is your highest level of education qualification?

a) Post graduate level ()

b) University ()

c) Tertiary.College ()

d) Secondary ()

6. Length of continuous service with the Hotel?

a) Less than five years ()

b) 5-10 years ()

c) Over 10 years ()

7. For how long has your Hotel been in existence?

a) Under 5 years ()

b) 6 – 10 years ()

c) 11 – 15 years ()

d) Over 16 years ()

8. What is the size of your Hotel?

a) 100 – 150 Rooms ()

b) 151 – 200 Rooms ()

c) 201 – 250 Rooms ()

d) Over 251 Rooms ()

9. What is the bed capacity of your Hotel?

PART B: Strategic Capabilities in the Hotels

10. To what extend do you understand the concept of strategic capabilities

Not at all () Well () Very well ()

11. What are some of the hotels strategic capabilities

.....

.....

12. Please indicate the extent to which you agree with the following statement on the role of strategic capabilities in the hotel

Key

1) Strongly Agree 2) Agree 3) Moderate extent 4) Disagree 5) Strongly
Disagree

FACTORS	1	2	3	4	5
There has been a deliberate effort by the organization to nature and develop human resource capabilities					
The organizations strategic capabilities can easily be copied or transferred to competitors					
There has been a deliberate effort by the organization to shape, transform these capabilities to increase organization value					
The organizations strategic capabilities has played an important role in mitigating its risk					

The organizations strategic capabilities has been changing enough to lead to temporal advantage					
The hotels employees are cooperative enough and combine effectively their unique strategic capabilities					
The hotel is more adept at changing core business processes and routines as a result of strategic capabilities					

PART C: STRATEGIC CAPABILITIES AS A SOURCE OF COMPETITIVE ADVANTAGE

13. Please indicate the extent to which strategic capabilities has helped your organization in achieving the following objectives;

Key

1) Strongly Agree 2) Agree 3) Moderate extent 4) Disagree 5) Strongly Disagree

FACTORS	1	2	3	4	5
The hotel has been able to focus to target clients much more effectively					
The hotel has been able make its products' prices competitive than other competitors due to cost leadership advantage					
We have been able to differentiate better our products and thus retain our customers due to the strategic capabilities					
We are able to effectively anticipate market					

performance and prepare accordingly					
Our overall financial performance has improved over the years due to the harnessing of strategic capabilities					
Customer satisfaction, customer retention and market share has improved since the hotel started to harness its strategic capabilities					