DYNAMIC CAPABILITIES AS A STRATEGIC TOOL AT THE CO-OPERATIVE BANK OF KENYA LIMITED

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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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DEDICATION

I dedicate this project to my dear mother who at her age continues to inspire me to be the best I can be. God bless you mum.

ABSTRACT

The objective of the study was to establish what dynamic capabilities are utilized by the Co-operative Bank Kenya Limited as a strategic tool.

The case study was adopted in this particular research because not all the potential population of the study would be knowledgeable of such innate factors as a firm's dynamic capabilities. In light of this therefore, a case study design was deemed as the best design to fulfill the objective of the study. The study made use of primary data which was collected through face to face interviews by the researcer. The data obtained from the interview guide was analyzed using qualitative analysis. The qualitative analysis was adopted in this study because the researcher was able to describe, interpret and criticize the subject matter of the research since it would have been difficult to do so numerically. It enabled the researcher to make individualistic judgment on the research subject matter.

The findings were the Bank's vision and mission statements are the guiding factors in the development of the strategies. The strategic process that is commonly used by the Bank is top-down and despite of the structure being adopted, the process is still consultative and the inputs of the junior staff were incorporated in the strategies developed.

The study found that the Bank's dynamic capabilities include the ICT system, superior customer service, unique shareholding structure, unique core clientele – the co-operative movement, goodwill from the public, motivated human resource and an ever growing core capital that has enabled the Bank increase it's branch network and

product mix. These dynamic capabilities have changed over time thus enabling the Bank to adapt to the ever changing operating business environment.

The shortcomings of the study are that the repondents studied were from one firm and conclusions drawn from this study may not be representative and therefore can not be generalized to other firms. The study also only captured members of one focus group thus excluding other important stakeholders like junior staff, regulators and shareholders from giving their views.

Further research could be carried out in this area to determine the impact of organization's dynamic capabilities on the organization's competitive advantage. A research to assess whether the same dynamic capabilities in the organization could result in the same output in form of competitive advantage can also be undertaken. Studies can also be carried out to establish responses adopted by firms in other industries.

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CHAPTER ONE

INTRODUCTION

1.1 Background to the Study

Changes in technological resources, business modes, and strategy management continually raise new challenges to businesses in terms of competition. As a result Hunt (2007) advocated resource advantage as the basis for the dynamic-competition model (i.e. the resource-based view theory: RBV), which simply provided a preliminary explanation for competitive heterogeneity based mainly on the assumption that firms possess unique resources. However, unique resources always derive from specific capabilities or properties, including know-how, reputation, business secrets, learning, and certain specialized production facilities. These specific capabilities and properties cannot always be purchased or acquired via transactions (Coulter, 2002).

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, 1997). 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. On his part, Teece et al. (2007) observes that 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.

1.1.1 Dynamic Capabilities

The idea of the term "dynamic capability" was developed by Teece et al. (2007), to refer to a firm's capacity to renew competences over time, which an executive uses to achieve congruence with a changing business environment by integrating and reconfiguring internal and external organizational skills, resources, and functional competences, in ways that they strategically fit the requirements of change. Eisenhardt and Martin (2000) define these "ways" in terms of cross-functional routines, giving examples such as: strategic decision making, new product development, co-ordination processes for internal collaborations, knowledge creation, alliance and acquisition processes, and market exit routines.

According to Eisenhardt and Martin (2000, p.1107), dynamic 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.

Indeed as Prahalad and Hamel (1990) argue that, 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. The role of an executive team in influencing lower level capabilities and competences is especially important to strategic management: "because

capabilities are cross-functional, the change process can't be left to middle managers [so] it requires the hands-on guidance of the CEO and the active involvement of top line managers" (Stalk et al., 1992, p.65).

Helfat and Peteraf (2003) introduced a different angle to the concept dynamic capability by introducing capability life cycle (CLC), which articulates general patterns and paths in the evolution of organizational capabilities over time. This framework provides a structure for a more comprehensive approach to dynamic resource-based theory. On his part, Mathews (2006) developed the RARE framework which is posed in a general setting of disequilibrium in contrast to the equilibrium-based assumptions of neoclassical economics. The RARE model captures the three major insights of the current views and perspectives, namely, RBV (resource-based view), ABV (activity-based view) and SCP (strategic capability perspective), in both a comparative static setting as well as a dynamic setting. Therefore as was pointed out by 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.

1.1.2 Concept of Strategy and Strategic Tool

According to Grant (1996) a strategy is a long term plan of action designed to achieve a particular goal, as differentiated from tactics or immediate actions with resources at hand. The reason for strategic or long-range planning is to assist organizations in establishing priorities and to better serve the needs of the stakeholders.

Johnson and Scholes (2002) propose that corporate strategy constitutes three core areas of corporate strategy namely: strategy analysis, strategy development and strategy

implementation. Strategic analysis deals with examining the environment within the organization operates. Strategy formulation is concerned with determining where the organization is, where it wants to go and how to get there. Further, Barney (1986) observe that the strategy implementation process includes the various management activities that are necessary to put strategy in motion and institute strategic controls that monitor progress and ultimately achieve organizational goals. Strategy evaluation includes review of external and internal factors that are bases for strategies formulated, measuring performance and taking corrective action, if necessary. This is important as all strategies are subject to future modification depending on environmental turbulence.

According to Roper (1997), strategy formulation and implementation is an on-going, never-ending integrated process requiring continuous reassessment and reformation. Strategic management is dynamic and involves a complex pattern of actions and reactions. It is partially planned and partially unplanned. Strategy is planned, emergent, dynamic and interactive (Amit and Schoemaker, 1993). Pearce and Robinson (2007) states that to effectively direct and control the use of the firm's resources, mechanisms such as organizational structure, information systems, leadership styles, assignment of key managers, budgeting, rewards and control systems are essential strategy implementation ingredients.

1.1.3 The Banking Industry in Kenya

The Banking industry in Kenya is governed by the Companies Act, the Banking Act, the Central Bank of Kenya Act and the various prudential guidelines issued by the Central Bank of Kenya (CBK). The banking sector was liberalized in 1995 and exchange controls lifted. The CBK, which falls under the Minister for Finance docket, is responsible for

formulating and implementing monetary policy and fostering the liquidity, solvency and proper functioning of the financial system. 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. However out of all the banks only 10 of them are listed in the Nairobi stock exchange having met the conditions of listing and applied for the same.

The banking industry in Kenya is governed by the companies Act, the Banking Act, the Central Bank of Kenya Act and the various prudential guidelines issued by the Central Bank of Kenya (CBK). Over the last few years, the banking sector in Kenya has continued to grow in assets, deposits, profitability and products offering. The growth has been mainly underpinned by an industry wide branch network expansion strategy both in Kenya and in East Africa community region as well as automation of a large number of services and a move towards emphasis on the complex customer needs rather than traditional 'off-the-shelf' products. 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 Information and Communication Technology (ICT) platform, while staying sufficiently agile. Consumers will continue to demand individualized services, and to demand them faster than ever. Hence banks will continue aggressively design new products that leverage on ICT to remain competitive. Down streaming into the retail market segment

will also be expected to continue particularly with the anticipated licensing of deposit taking Microfinance Institutions.

1.14 The Co-operative Bank of Kenya Limited

The Co-operative Bank of Kenya Limited is incorporated in Kenya under the Company's Act and is also licensed to do the business of banking under the Banking Act. The Bank was initially registered under the Co-operative Societies Act at the point of founding in 1965. This status was retained up to and until June 27th 2008 when the Bank's Special General Meeting resolved to incorporate under the Companies Act with a view to complying with the requirements for listing on the Nairobi Stock Exchange (NSE). Shareholding has been held by the 3,805 co-operatives societies and unions were ring-fenced under Coop Holdings Co-operative Society Limited which became the strategic investor in the Bank with a 64.56% stake.

However by listing at the NSE, the Bank's shareholders grew to over 111,720 shareholders (as at 2010 close). Out of this, Coop Holdings Co-operative Society Limited owns 64.56%, with the rest held by other investors. The Bank runs three subsidiary companies, namely: Kingdom Securities Limited, a stock broking firm with the bank holding a controlling 60% stake; Co-opTrust Investment Services Limited, the fund management subsidiary wholly-owned by the bank; and Co-operative Consultancy Services (K) Limited, the corporate finance, financial advisory and capacity-building subsidiary wholly-owned by the Bank.

The Bank has a branch network of 89 branches spread across the country and in the current 2009-2013 strategic plan; the Bank has planned to open 20 more branches by the year 2012. A total of 401 Automated Teller Machines (ATMs) are also spread across the

country. In the meantime, the Bank is in the final stages of meeting legal requirements of venturing into Southern Sudan. Based on its mission of offering value-added financial services to chosen market segments with special emphasis on the co-operative movement, it is hoped that the Bank will be able to achieve more growth in the future. With the growth, the Bank has faced several challenges in its business set up including intense competition from the same co-operative societies which have set up Front Office Service Activities (FOSAs) to its members and thus cutting down on the Bank's customer base. In addition, the volatile political environment in the country over the last few years as also impacted on it operations as well as continued change of technology which has made the bank to continuously upgrade it's banking system.

1.2 Statement of the Problem

Dynamic capability provides an important interface for the evolution, creation, and recombination of resources, and may help renew organizational capabilities and improve competitive strength (Pisano et al., 1994). Dynamic capability includes organizational systems involving the specific processes of integrating, reconfiguring, gaining, and releasing resources and help in leading to new resource configurations (Eisenhardt and Martin, 2000). Dynamic capability is a high-order capability that influences lower-level strategic capabilities and competences. The role of an executive team in influencing lower level capabilities and competences is especially important to strategic management: "because capabilities are cross-functional, the change process can't be left to middle managers [so] it requires the hands-on guidance of the CEO and the active involvement of top line managers" (Stalk et al., 1992, p. 46).

The Co-operative Bank of Kenya Limited is one of the few indigenous banks operating in Kenya. With its origin and current mandate being financing the co-operative movement in Kenya, the Bank plays a critical role in enhancing growth of cooperative societies in the country. In addition, the role of the co-operative movement in harnessing economic growth in the rural areas has been identified as one of the important pillars towards the realization of Vision 2030 in the country. However, despite the important role that the Bank plays in the local banking sector, the level of competition from both local and foreign financial institutions has encroached to what has been up to now its territory. In addition, alternative ways of money transfer and banking services has increased access of banking services to what has been termed as the unbanked population with the consequence of reducing the margins of conventional banks including the Co-operative Bank of Kenya Limited. With all these challenges facing the Bank, it is imperative that the Bank identifies its dynamic capabilities, i.e. firm's ability to integrate, build, and reconfigure internal and external competencies to address rapidly changing environments.

A few studies have been conducted locally on the subject area 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. Among his findings is that that most hotels in the country had not fully identified there strategic capabilities and always scanned the external environment to identify the opportunities without identify their internal non- imitable capabilities that will give them competitive advantage. He also noted that the skills and resources must constantly change in tandem with the changes in the environment. He therefore concluded that the way resources are configured to match the existing capabilities is the source of competitive advantage. This view is in tandem with Mintzberg (1987) 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. However, Gichuki (2009) while researching on the turnaround strategy at the Co-operative Bank of Kenya Limited identified among others that the Bank had identified the nurturing and development of human resource capital as a critical factor to be considered in the Bank's strategy.

As can be evidenced from the above single study in the local set-up, extensive research on the area of organizational dynamic capabilities has not been done and more so in the banking sector. This therefore leads to the following research question. What dynamic capabilities does the Co-operative Bank Limited use as a strategic tool?

1.3 Objective of the Study

The objective of the study was to establish what dynamic capabilities are utilized by the Co-operative Bank Kenya Limited as a strategic tool.

1.4 Value of the Study

The management and staff of the Co-operative Bank of Kenya Limited will find this study an invaluable source of material in developing and harnessing their dynamic 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 identified within and without their organization.

Other commercial banks and financial institutions in the banking industry will also find use in developing their unique strategic capabilities that shall not be easily be imitable and thus create their own individual firm competitive advantages. It is through the identification of individual firm capabilities that a firm will be able to optimize its strategic capability and initiate measures to protect the same against being taken over or imitated by competitors.

The government and regulators of the banking industry will also find invaluable information in how strategic capabilities can be adopted and as a result put in place policies that will guide and encourage other organizations within and without the industry in implementing their strategies. 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 dynamic capabilities as a strategic tool. The chapter is divided into four main areas: concept of strategy, organizational capabilities and dynamic capabilities and finally the role of dynamic capabilities as strategic tool.

2.1 The Concept of Strategy

Grant (1996) stated that the strategy concept is about a "winning" game plan. It is the ability to recognize opportunities when they appeared and have the clarity of direction and flexibility necessary to exploit these opportunities. Ljumgquist (2008) defined strategy as a document or set of concepts that form the plan for the future of an organization. Every organization will need a different plan which has to be tailor made for its particular and unique history, circumstances and capacity. On his part, Pisano (1994) defined strategy as the determination of the basic long term goals and objectives of an enterprise and the adoption of action and the allocation of resources necessary for carrying out these goals.

According to Mintzberg (1987), strategy is a plan, ploy, a pattern of behaviour, a position in respect to others and a perspective. Strategy therefore specifies the intended course of action of an organization, develops ways to outwit a competitor, is emergent in a process of actions and it is a position in the market. The characteristic of strategy is that it is deliberate as well as emergent. It is a pattern of actions and

resource allocations designed to achieve the goals an organization (Bateman and Zeithaml, 1993). Quinn (2003) defined strategy as the pattern or plan that integrates an organizations major goal, policies and action sequences into a cohesive whole. Goals state what is to be achieved and when the results are to be accomplished and policies guide the limits within action should occur.

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, 2002). 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).

To many practitioners of management, strategy is seen as the main driver of competitive advantage (Larsen *et al.*, 1998). 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), and achieve greater profitability (Roper, 1997). 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.

According to Hussey (1998) 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 (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 (Fiol, 2001).

2.2 Organizational Capabilities and Resources

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 Fiol (2001) 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, 2006). 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., 2007). 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, organizational 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.

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, p.65).

2.2.1 Dynamic Capabilities

The resource based view (RBV) is the dominant theory in strategy literature (Quinn, 2003); it explains sustained, superior performance as a function of the heterogeneity of firm-specific resources such as brands, customer relationships and distribution partnerships (Barney, 1986). However, others feel that RBV has failed to make a major contribution to our understanding of competitiveness as the definition of resources is vague and tautological (Batemen and Zeithaml, 1993). The theory of dynamic capabilities side-steps this criticism by focusing less upon identifying the "static" advantage-creating resources, such as brands, to focus more upon exploring how these resources are created and used for competitive advantage.

Hunt (2007), advocated resource advantage as the basis for the dynamic-competition model but it simply provided a preliminary explanation for competitive heterogeneity based mainly on the assumption that firms possess unique resources. However, unique resources always derive from specific capabilities or properties, including know-how, reputation, business secrets, learning, and certain specialized production facilities. These specific capabilities and properties cannot always be purchased or acquired via transactions. According to Barney (1986), even if they could be, they generally have a relatively short useful lifetime, and thus any specific capability gained through the purchase would quickly be lost. Thus, specific capabilities must be produced by a distinctive organizational routine.

According to Eisenhardt and Martin (2000, p.1107), dynamic 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 Prahalad and Hamel (1990), the very nature of these dynamic capabilities means that they are very difficult to manage and develop. Scholars liken the challenge of identifying and managing them to "observing the unobservable" (Ghoshal, 1987). Dynamic 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 (Pisano, 1994) which ensures that they are not easily documented, transferred internally between business units and, more importantly, cannot readily be imitated by competitors. Further, De Carlolis (2003) observed that dynamic 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, dynamic 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.

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 (Eisenhardt and Martin, 2000) and may help lead to new resource configurations. Dynamic Capability Concept (DCC) exists in special operating routines and arises from learning that such learning advantages generally offer the

greatest sustainable value (Fiol, 2001). 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.

2.2.2 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" (Pearce and Robinson, 2007, p. 42). A similar definition is given by Barney (1986) 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 (Grant, 1996).

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 (Amit and Schoemaker, 1993). 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) (see Teece *et al.*, 2007).

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, 1987). This view understands strategic resources as tangible and intangible assets that when combined will help to constitute a firm's competitive advantage (Teece *et al*, 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. 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.* (2007) define 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" (Prahalad and Hamel, 1990).

2.3 Dynamic 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. DCC 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.*, 2007). Organizational dynamic 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.

Roper (1997) state that the presence of dynamic capabilities in an organization is not enough, instead to achieve a 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. This observation is line with that made by Nelson and Winter (1982), who noted that a key concern in the emerging strategic performance management literature 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 for both commercial and regulated public sector companies. According to Johnson and Scholes (2002), a number of auditing frameworks have been developed but they recognized that all seem to fall short in their ability to thoroughly and realistically give executives a view of competences at the operational level and to achieve their strategic goals. This strategy-operations disconnect is noted by Henry Mintzberg, that "many senior managers are removed from the ongoing daily activities

of their organization ... [so] we get grand and gloriously simple-minded strategies ... [and] we have more and more disconnect between senior management and the rest of the organization" (Mintzberg, 1987, p. 107-114).

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 (Hussey 1998). These resources are often systemic resources, and are thus highly dependent of other resources in order to function properly. Indeed as Teece *et al.* (2007) 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.

While much is said about the need to ensure that staff develop themselves and to align their capabilities with the organization's top-down policies, there is no allowance for top management to learn how these competency shortfalls should be adjusted for in their formation of strategy (back at the top level). This is a key component in the resource-based view of strategy, where human capital is seen as an important strategic resource of the organization in its achievement of competitive advantage (Barney, 1986). Further, Bateman and Zeithaml (1993) noted that the literature on general team management has equally overlooked the important relationship of internal dynamics to organizational performance and their effective use for team performance management. This point was noted by Fiol (2001) when he pointed out that if

measuring team performance is essential to team success, then equally important must be the identification of team performance gaps – that is, the strategy-operations disconnect – and how to close them.

A competitive advantage will always be the result of a successful differentiation or low-cost strategy (Mathews, 2006). 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 Hussey (1998), firm performance is not always the ideal dependent variable due to the fact that firms can have other competitive disadvantages, which reduce the return. On the contrary, strategic resources are generally knowledge-based and the trade-off often concerns non-monetary factors.

According to Eisenhardt and Martin (2000), dynamic capabilities may include specific strategic management processes that can be acquired by alliances to produce new competences. In addition, dynamic capability can derive from alliances that contribute new and useful resources to a firm's organization (Joyce and Woods, 1996). They further emphasized that a firm's dynamic capabilities may derive from the process of forming an alliance particularly when the external enterprise possesses knowledge resources, and that such alliances may improve that firm's ability to renew organizational capabilities.

Helfat and Peteraf (2003) pointed out that strategic alliances appear to be such an external event that they guide new resources into an organization's internal operations and produce new routines, which then evolve into new dynamic capabilities processes. On their part, Teece *et al.*, (2007) suggest that strategic alliances can drive capability evolution, innovation, and resource recombination to develop new advantages. This alliance process includes adapting to and changing certain routines and processes, which typically leads to better integration of valid resources to drive the development of dynamic capabilities and thereby creating more strategic value. Thus, strategic alliances provide a rapid way to further organizational capabilities, obtain new opportunities, and enhance the development of an organization.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Research Design

The research design adopted was 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.

The study was adopted in this particular research because not all the potential population of the study would be knowledgeable of such innate factors as a firm's dynamic capabilities. In light of this therefore, a case study design was deemed as the best design to fulfill the objective of the study as the results were expected to provide an insight in understanding how the organization uses its dynamic capabilities as a strategic tool. Only a few members of staff were deemed to be concerned with developing and utilizing dynamic capabilities in the organization and these were the respondents who were interviewed and this could only be realized by the use of content analysis design.

3.2 Data Collection

The study made use of primary data which was collected through face to face interviews by the researcher. An interview guide was used to collect data on dynamic capabilities used by the organization as a strategic tool. The interview guide consisted of questions that the interviewer asked the respondents.

The respondents interviewed were those involved with identification, development and harnessing the organizations dynamic capabilities in order to realize its strategies. The interview guide was made up of three sections. These are, respondents' profile, existence of dynamic capabilities within the organization and how dynamic capabilities had been harnessed as a strategic tool. The researcher believes the data obtained met the required specific objectives of the study.

The interviewees were top managers and functional heads in charge of human resources, business development and research, marketing and public affairs and finance departments. These were considered to be key informants for this research. The departments in which the intended respondents worked in are the key host of dynamic capabilities in the organization. The results were expected to provide an insight in understanding how the organization responds to the business challenges by employing internal dynamic capabilities within the organization.

3.3 Data Analysis

The data obtained from the interview guide was analyzed using qualitative analysis. The qualitative analysis was adopted in this study because the researcher was able to describe, interpret and criticize the subject matter of the research since it would have been difficult to do so numerically. It enabled the researcher to make individualistic judgment on the research subject matter.

The qualitative analysis was done using content analysis. Content analysis is the systematic qualitative description of the composition of the objects or materials of the study. It involves observation and detailed description of objects, items or things that comprise the object of study. The themes (variables) that were used in the analysis

were broadly classified into two. These are the dynamic capabilities in the firm and how the firm had utilized its dynamic capabilities as a strategic tool.

CHAPTER FOUR

DATA ANALYSIS, RESULTS AND DISCUSSION

4.1 Introduction

The research objective was to establish what dynamic capabilities were utilized as a strategic tool by the Co-operative Bank of Kenya Limited. 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 respondents comprised the top and middle level managers of the Bank. The researcher interviewed all the five respondents targeted. This represented 100% response rate. All the respondents interviewed had university degrees with 2 of them having a Masters in Business Administration degree as well and one of the respondents had a Masters in Economics degree. Their work experience span a total of 43 years in various departments ranging from retail banking, human resources, information technology, accounting, auditing and marketing within the Bank and other banks in the country. 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.

One observation made from the results of the interview was that two of the respondents, representing 40%, of the correspondents on been asked whether they would wish to change their current jobs answered in the affirmative. The reasons given were that they felt the amount of work they undertook in the organization did not commensurate with the level of compensation they get. However, the other three respondents, 60% of the correspondents, indicated their satisfaction with their current duties, highlighting various opportunities available within and without the organization such as career development, interaction and solving customer complaints, and the new challenges that come in the course of their duties helped in personal development of the respondents and thus creating a motivated workforce. With their solid background in the affairs of the organization, the respondents were found to be knowledgeable on the subject matter of the research and this helped in the realization of the research objective.

4.3 Organizational Strategy Process

In this section, the respondents were to give their independent opinion on what they considered to be the organizations strategic planning process and identify any challenges they faced in this process. It was important to understand the process because a good strategy development process that is all inclusive and one that recognizes the inherent dynamic capabilities and their role as a strategic tool will be able to guide the organization towards the realization of its objective and thus creating the necessary competitive advantage.

The respondents in totality agreed that the strategy development in the firm, among others is concerned with carrying out situation analysis that leads to setting of

objectives. The organizations vision and mission statements were in most cases the guiding factor in the development of the strategies. The respondents acknowledged the role that the organizational strategy played since it assisted the Bank in knowing what they are supposed to do, at what time and thus helps in achieving its objectives. In the case of the Co-operative Bank of Kenya Limited, its strategy covered a 10 years span. They supported this duration due to the unique market segment that the Bank covered in consideration of the amount of resources that were usually involved in the process. On the type of approach that is commonly used in the development of the same strategies, their responses were a little varied. Their answers mostly were that the Bank's strategic process was more of a top-down approach. However, the respondents did note that despite the process being a top-down, the process was still consultative and the input of the junior staff was incorporated in the strategies developed. They observed that since the employees are usually the implementers of the development strategies, they gave feedback during appraisals, formal and informal meetings and through the Bank's intra-net system. In addition, during the launch of the strategies, every staff member where the bank is represented was expected to attend a seminar on communicating the strategy and how it would be implemented. From this observation, it was found that it aligned actions to the plan and facilitated feedback which in some cases policies were changed for the good of the customer and the Bank.

4.3.1 Challenges Faced by the Organization in its Strategic Process

Formulating appropriate strategy is not enough. For effective strategy implementation, the strategy must be supported by decisions regarding the appropriate organization structure, reward system, organizational culture, resources and

leadership. Just as the strategy of the organization must be matched to the external environment, it must also fit the multiple factors responsible for its implementation.

The Co-operative Bank of Kenya Limited faced a number of challenges in implementing it's strategies. All the respondents identified different factors that had hindered effective implementation of the strategy. The challenges ranged from departmental conflicts between various lines of business – Retail/corporate, organizational culture, organizational structure, inadequate resources and unpredictable leadership decisions. In addition, they noted that with the use of different ICT platforms, there had been cases of fraud involving substantial amounts of money changes in the technological advancement that in some cases are quite frequent that the Bank had to continuously train it's staff on the new systems and therefore disrupting their operations and also increasing costs to the Bank. In some cases it was found that there had been unwillingness of staff to get involved in implementing some strategies especially those that affected the status quo.

In addition, the respondents identified delays in implementation of set strategic actions due to low risk averseness of top management that limited probabilities for the Bank to pursue policies on the basis of what has already been observed and experienced. There was no deliberate shift in strategy paradigm. One respondent observed that it was more of the usual strategies that management was accustomed that were put in a different language with only changes in targets of the Bank. There was a problem of resource misallocation in the strategic process of the Bank. The allocation of staff to the appropriate departments and sections where their expertise would optimally be utilized was also identified as a challenge. They pointed out that if an employee was multi-skilled, then it would be appropriate to assign such a member

of staff to a position that his/her expertise would be used to generate maximum return. It was also pointed out that market changes influenced the Bank's strategy and it would be difficult for the Bank to change immediately due to budget constraints provision especially if the Bank was midway in budget implementation. Further, it was highlighted that the Bank had in some cases taken long in decision making, losing opportunities in the process.

4.4 Organizational Dynamic Capabilities and Resources

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

The respondents were in agreement that the Co-operative Bank of Kenya Limited has organizational dynamic capabilities that were unique that aided in realization of it's strategic objectives. One of the respondent pointed out that the nature of these dynamic capabilities such that each organization has its own unique capacity and because of its heterogeneous, each organization will utilize them differently leading to difference in results. It was pointed out that the Bank's dynamic capabilities have facilitated evolutionary processes that help facilitate problem solving, improve decision making, stimulate creative ideals, and help members effectively implement organizational objectives. Another respondent observed that the Banks dynamic capabilities improve the staff implicit knowledge articulation and the accumulation of experience on distinctive routines or specific processes. The respondents appreciated

that dynamic capabilities in an organization provide an important interface for the evolution, creation and recombination of resources and help renew organizational capabilities and improve competitive strength.

On being asked what specific dynamic capabilities the Bank had the respondents were able to identify several of the capabilities which have been used to give it a competitive advantage. These strategic capabilities in the Bank were identified as solid intellectual capital and institutional memory. The Bank has an effective retainer capability that makes it have experienced and qualified members of staff who are able to identify the weak links in the chain that enables revision of strategies or creation of new ones. The Bank has employees with a broad skill base, which it effectively taps into, during formulation and implementation of strategy, thereby enriching the process and results. The Bank has also built a solid brand and from this, it has been able to leverage by creating a sustainable competitive advantage in the banking industry. The Bank is considered as one of the most reputable local financial institutions. The public goodwill has enabled it serve many corporate clients and facilitated multinational dealings. The Bank has also successfully banked the vibrant co-operative movement for longer than all banks in the industry in the country.

The Co-operative Bank of Kenya Limited by virtue of being founded by the co-operative movement currently serves over 12,000 co-operative societies in the country and with this clientele, it was pointed out that it's customer base had also become a source of organizational capability. The Bank has in turn served these societies through giving loans and providing necessary synergy between the two parties. As a result of this relationship, the Sacco's own 65% shareholding of the Bank and the Bank on the other hand provides financial services to at least 70% of the

Saccos in the country. The Bank's ICT platform was also appreciated as another source of competitive advantage. The Bank has been able to interconnect all its branches within the country. From this, additional services such as mobile banking and fast and efficient services have been provided to its customers. Two of the respondents noted that as a result of the inbuilt dynamic capabilities, the Bank has been able to increase the number of products offered as a result of the workforce competency, improved management practices, applying good management practices and also increasing the number of branches because of the financial muscle build by its ever improving core capital.

On the issue of whether the Bank's dynamic capabilities could be copied, the respondents' answers were varied. One of the respondents did observe that strategic capabilities within the Bank were 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 Bank's culture and perhaps the best way of passing such skills to other organizations (competitors) is to have transferable skills. This view was shared by another respondent who noted that much of the dynamic capabilities within the Bank is within the culture of the organization. The name of the bank was noted as a brand and it's reputation for customer service and products had been recognized both internally and externally. Such virtues take time to inculcate and internalize and test in different circumstances therefore will ordinarily take time to be copied or imitated by other competitors. However, one of the respondents noted that some of the Banks 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 Bank's strategic

capabilities being imitated by competitors, the respondents were in agreement that skill, resources and the way the Bank uses 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. To avoid the Bank's dynamic capabilities from being copied or imitated by competitors the respondents suggested staff training and development programs to be continuously undertaken by the organization, building in effective internal controls to avoid individual staff leaking the Bank's strategies, rewarding the staff adequately and adopting a leadership style that is all inclusive that could not be copied easily.

4.5 Role of Dynamic Capabilities as a Strategic Tool

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

From the findings, the respondents showed that they appreciated the concept of dynamic capabilities in the Bank and its role in the strategic planning process. As one form of the Bank's dynamic capabilities, the respondents noted that to maintain cutting edge advantage against the competition, an organization had to ensure it had the best trained manpower and remunerate the staff adequately. He noted that it was the only way a business can stay afloat in an industry characterized by changing customer demands, fast-changing technology, declining revenues, and an unpredictable political environment. 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. Thus the managers of the organization have an important role in configuring these assets

The Bank's dynamic capabilities were identified as having played an important role in the strategic process of the organization. One respondent noted that the Bank's dynamic capabilities have enabled the Bank to align its strategies to ensure that the Bank can always adapt to any changes in the operating environment. Strategies that are rigid and not adaptive can not withstand the changes and the challenges that come about in the operating business environment. In recognition of the position that the Bank operates in an ever changing environment, the Bank incorporates the level of dynamic capabilities existing as a part and parcel of the strategy development and implementation at all stages. In addition, the respondents pointed out that the existing ICT system has enabled the Bank meet it's obligations to the customers in terms of service delivery. As a result the Bank has cut down on the time spent in processing transactions like loan applications. Interlinking all the branches has enabled customers to be served at any of their branch network. In addition, the ICT platform has enabled the Bank to come together with mobile phone service providers to enable customers transact use their phones. Product marketing positioning skills was also identified as core competence in the organization. However, they pointed out that in the process of generating performance from resources, these dynamic capabilities on their own could not result in high performance. Instead, the Bank should be able to deploy its products and competencies in the most suitable manner to generate maximum benefits from the same.

The Bank's dynamic capabilities have been helpful in reducing the operating costs. Training of staff using in-house members who are versed with the subject matter has reduced hiring costs of new staff in cases where the level of existing competence is

not adequate. The time taken to process various documents has been reduced due to the simplification of the process as a result of the adoption of changes in the ICT system. The differentiation of the operating centres into cost centres has enabled the Bank to come up with ways of reducing the cost.

The Co-operative Bank of Kenya Limited has 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 Bank including documenting the organization's strategic capability. During this documentation, a lot of critical thinking was 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 staff through such exercises as recognizing and rewarding them. Members of staff therefore feel appreciated for their input. In addition, adapting to the changing business environment, the respondents pointed out that the Bank's dynamic capabilities have kept on changing depending on the challenges that keep facing the organization. This adaptability of the Bank's dynamic capabilities came about from the need of keeping up with the changes and challenges of the operating environment. Several respondents identified these factors to include the ever changing world of ICT, changes in the customers' expectation, increased risks, stringent prudential guidelines and changing stakeholder requirements

4.6 Discussion of the Findings

The process of formulating an appropriate strategy in most organizations has been found not to be a problem. Rather, the challenge in most of these firms is the implementation of the same strategies (De Carolis, 2003). The findings of this study

confirms this position as it was found out that the Cooperative Bank has indeed appreciated this observation and recognized that for effective strategy implementation, the strategy must be supported by decisions regarding the appropriate resources that should be matched with to the external environment.

The bank indeed appreciates that the dynamic capabilities within its disposal is the only long lasting factor that will give it the necessary competitive advantage and that it cannot be imitated easily by competitors in short and medium term period. As a result of this, the bank has instituted an elaborate mechanism for retaining and safeguarding the same capabilities from external imitation. This strategy is in tandem with that of Hunt (2007) who advocated resource advantage as the basis for the dynamic-competition model in addition to unique resources such as specific capabilities or properties, including know-how, reputation, business secrets, learning, and certain specialized production facilities. The findings also pointed out to the ability of the Bank to utilize effectively its internal resources to the growth it has registered despite the increased competition and uncertain business environment. Thus, it is the internal resources which Teece (2001) termed as dynamic capabilities that will be able to steer the organization in an increasingly uncertain business environment.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Summary

The results centered on determining the dynamic capabilities at the Co-operative Bank of Kenya Limited as a strategic tool. The research therefore wished to determine how the unique core competencies at the Co-operative Bank of Kenya Limited have been utilized as a strategic tool by the Bank.

The Bank's strategy cycle covers 10 years and it was found that the strategy development process in the firm, among others is concerned with carrying out situation analysis that leads to setting of objectives. The organizations vision and mission statements in most cases are the guiding factors in the development of the strategies. The organization's strategy plays a central role in knowing what they are supposed to do, at what time and thus help in achieving its objectives. The strategic process that is commonly used by the Bank is top-down and despite of the structure being adopted, the process is still consultative and the inputs of the junior staff were incorporated in the strategies developed. Since the employees are usually the implementers of the developed strategies, they are invited to give their feedback during appraisals, formal and informal meetings and through the Banks intra-net system.

A number of challenges were identified that face the Bank in the course of its strategy development and implementation process. These challenges included channel conflicts between various lines of business – retail vs. corporate, organizational

culture, organizational structure, inadequate resources and unpredictable leadership decisions. In addition, they noted that with the use of different ICT platforms, there have been cases of fraud involving substantial amount of cash, changes in the technological advancement that in some cases are quite frequent. With these changes, the Bank has had to continuously train its staff on the new systems and therefore disrupting their operations and this also increases costs to the Bank. In some cases it was found that there has been unwillingness of staff in implementing some strategies that may affect the status quo.

The results of the finding showed that the Co-operative Bank of Kenya Limited had internal strategic capabilities that gave it an advantage over other competitors and at the same time provide the Bank with a tool for its strategic process. These dynamic capabilities ranged from a strong human resource pool that is well trained, technologically advanced assets and adoption of modern skills. The leadership and management were also considered strategic tools. The Bank has over time appreciated the key role that its employees plays in making the organization have a competitive advantage 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 training remunerating and rewarding the staff competitively. It was also observed that dynamic capabilities within the Bank are structures which have been developed over a long period and while they may be replicated elsewhere, they may not be easily copied. The Bank by virtue of being founded by the co-operative movement currently serves over 12,000 societies in the country and with this clientele, it was pointed out that its customer base has also become a source of organizational capability. The Bank has in turn served these societies through giving

of loans and providing the necessary synergy between the two parties. As a result of this relationship, the Saccos own 65% shareholding of the Bank and the Bank on the other hand provides financial services to at least 70% of the Saccos in the country.

The role of the Bank's dynamic capabilities in the strategic process is appreciated by the Bank. These inherent core competencies have enabled the Bank to adapt to changes in the operating environment. This is in recognition that strategies that are rigid and not adaptive can not withstand the changes and challenges that come about by the in the operating business environment. In recognition of the position that Bank operates in an ever changing environment, the Bank incorporates the level of dynamic capabilities existing as a part and parcel of the strategy development and implementation at all stages. Employment of a dynamic ICT platform has enabled the Bank to meet its obligations to it's customers in terms of service delivery. In addition, the bank has cut down on the time spent in processing transactions like loan application, interlinking all the branches therefore enabling customers to be served at any of their branch network. The level of automation has also facilitated the transaction of customers using their mobile phones and thus hastening service delivery and quality. Product marketing positioning skills was also identified as core competency in the Bank. However, they also pointed out that in the process of generating performance from resources, these dynamic capabilities on their own can not result in high performance. Instead, the Bank should be able to deploy its products and competencies in the most suitable manner to generate maximum benefits from the same.

5.2 Conclusion

From the research findings and the answers to the research questions, some conclusions can be made about the study. Strategy development is very vital for the functioning of any organization as it determines where the organization is, where it wants to go and how to get there. Thus, a firm will need a strategic plan which will act as a road map of where the organization will need to be in the medium and long term period. The study showed that the Co-operative Bank of Kenya Limited valued the strategic development process In fact it reports to it's employees on the performance of its strategy quarterly thus giving room for adjustment in case of challenges in implementation. The study established that the Bank's strategies strive to eliminate/reduce goal conflicts between entities, maintain the same overall direction and focus, co-ordinate activities which span over several business entities and minimize strategy overlaps and redundant efforts.

The dynamic capabilities of a company play an important strategic role of creating value and improving business performance which leads to the competitive advantage. As such the competitive advantage of companies in today's economy stems not from market position, but from difficult to replicate dynamic 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, it is important for the Bank to ensure that the core capabilities do not become core rigidities. There is need for an organization to understand the processes of creation of capabilities and their development.

5.3 Recommendation

Strategy development should be an all inclusive process as some members of staff are involved in the formulation while others are tasked with the duty of implementation. All the employees of the Bank need to be involved in the process of developing the strategies. All the qualities of a good strategy should be considered when developing a strategy so that the strategies can withstand the test of time. Further, there is need for the leadership and management of the bank to ensure that they change tact on the development of the strategies since majority of the challenges like organizational culture, structure, employees, resources and capacity which affects the development of the strategies revolves around the management.

There is a great deal of competitive advantage and achievement of an organization strategic process that can be harnessed from its dynamic capabilities. Towards the achievement of this, 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 in the strategy development 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 organization's strategic capabilities should be backed by the support of the organization's top management and the staff's awareness and

knowledge of the core competencies in the implementation of organization's strategies. To improve on the core competencies emanating from the organization's human resources, an organization 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 organization's objectives.

5.4 Suggestions for Further Research

Further research could be carried out in this area to determine the impact of organization's dynamic capabilities on the organization's competitive advantage. A research to assess whether the same dynamic capabilities in the organization could result in the same output in form of competitive advantage can also be undertaken. Studies can also be carried out to establish responses adopted by firms in other industries.

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APPENDIX

INTERVIEW GUIDE

The interview guide will seek to establish the dynamic capabilities adopted as a strategic tool by the Co-operative Bank of Kenya Limited.

Interview Questions

The following sections provide sample questions to be used in evaluating the dynamic capabilities adopted as strategic tool by the Co-operative Bank Limited.

Background Information on the interviewees

- What current position in the Bank do you hold?
- For how long have you been holding the current position?
- Would you change your current duties if given a chance?

1). Organizational Strategy Process

- What duration does the Bank's strategy cover?
- What approach can you categorize the strategy development process of the Bank to take?
- What level of involvement of employees does the strategy development take?
- What sort of challenges does the Bank face in the development of its strategies?
- Do you believe that the Bank's strategy has continuously been aligned to its mission and vision?
- Has the Bank's strategy recognized the identification and development of individual employees' dynamic capabilities as an objective that need to harness?

- How has the Bank responded to this goal over time?
- Has the Bank's strategy identified internal resources required to meet its goals?
- What approach can you describe the Bank's strategy formulation to adopt? Top down or bottom up?
- How does this affect the process of strategy implementation?

2. Organizational capabilities and Resources

- Do you appreciate the concept of organizational capabilities? Please expound.
- Has the Bank identified its capabilities as a resource?
- How has the Bank utilized the organisational capability has a resource?
- With the diverse organisational capability present, has the Bank been able to bundle together the different attributes to achieve its organizational objectives?
- How has the above alignment been achieved?
- Can the Bank's dynamic capabilities be easily imitated by competitors?
- How has it been able to avoid or reduce it chances of being imitated by other players?

3. Role of dynamic capabilities as a strategic tool

- In your own opinion, has the internal dynamic capabilities had any effect on the Bank's strategy? Please expound.
- Having identified the various bundles of dynamic capabilities in the Bank, to what extent and level are they incorporated in the strategy development and implementation?

- What role has dynamic capabilities played in problem solving, decision making, stimulative creative ideals and effective implementation of organizational ideals?
- How has dynamic capability created competitive advantage in the Bank?
- How have the Bank's dynamic capabilities helped in the control of costs in the organization?
- How have the Bank's dynamic capabilities helped in the maintaining of quality in the organization?
- Has the Bank's market share and performance been affected either positively or negatively by the Bank's dynamic capabilities? Please expound.