

Moderating Effect of Dynamic Capabilities on the Relationship Between Porter's Generic Strategies and Performance of Commercial Banks

Nefa Chiteli Odwaro, Beatrice Abongo, and Jairo Kirwa Mise

ABSTRACT

The Kenyan banking industry contributes significantly to government revenues yet financial reports indicate that Kenya's listed banks recorded a negative EPS (earnings per share) growth of 0.8% in the financial year 2017, compared to average positive growth of 4.4% in the financial year 2016. Kenya's listed published their financial year 2018 performance, with an average growth share, of 13.8%, compared to 1.0% decrease the past year. All quoted banks in Kenya gave their financial year 2019 reports, realizing average core earnings per share growth of 9.9%, in comparison to 13.8% growth, in the past year. This trend indicates a decline in the growth of the core earnings per share. Previous studies on dynamic capability and performance dwelt on sensing capability, coordination, learning, sensing, seizing, transforming, and IC. However, this study focused on all dynamic capabilities. Past studies on the moderator influence focused on alliance management capability, resource planning capability, and environmental dynamism as moderators. However, this study focused on all the dynamic capabilities of the moderator. This demonstrates that dynamic capability is still a plausible moderator. This study focused on the listed banks currently 11 in number. This is because their operations and records were declared by law to the public. Objective one was regressed from the dependent and the independent variables. In objective two there was the introduction of the dynamic capabilities' variable to establish its effect on the outcome. Objective three combined the dependent, independent variables and the potential moderating variable. The study applied the resource base theory because it looks at the role of internal aspects, that is resources and capabilities- of the organization during change. Also, the configuration theory because it believes in organizational rejuvenation and restructuring of their core structures to achieve success. Cross-sectional survey design with a census done of the listed commercial banks in Kenya, was adopted. The respondents comprised 68 heads of departments, 11 CEOs, 29 regional heads, and 145 regional managers. Primary data collection was done vide a questionnaire. Reliability was ascertained using Cronbach's alpha test. The performance scale should indicate a Cronbach alpha of at least 0.7. Face validity was ensured by administering the questionnaire to two senior bank managers. Construct validity was established. Content validity was ascertained through the subjection of a pool of questions to experts. Data analysis was done using descriptive and inferential statistics. The results discovered that generic strategies by Porter, affected commercial banks' performance, ($\beta=0.645$, $p=0.000$) and accounted for 41.6% variance, dynamic capabilities positively affect performance ($\beta=0.364$, $p=0.000$) and account for 12.9% and dynamic capabilities are a positive moderator of the relationship between Porter's generic strategies and performance ($\beta=0.030$, $p=0.010$) with a percentage increase of 1.5%. It is concluded from the findings that Porter's generic strategies and dynamic capabilities have positive effects on the performance of commercial banks while dynamic capabilities moderate the relationship. It was recommended from the findings that companies improve more on the cost strategy and dynamic capabilities to realize better performance. The study would contribute to the existing literature by adding the moderating effect of dynamic capabilities. The study will help bankers to focus on dynamic capabilities while studying performance. The academia will benefit from this study as well.

Keywords: Capabilities, Dynamic, Performance, Porter's Generic Strategies.

Submitted : May 24, 2022

Published : July 31, 2022

ISSN: 2507-1076

DOI: 10.24018/ejbmr.2022.7.4.1465

N. C. Odwaro *

Department of Business Administration,
Maseno University, Kenya.

(e-mail: nefachiteli@gmail.com)

B. Abongo

Maseno University, Kisumu, Kenya.

(e-mail: abdaves@yahoo.com)

J. K. Mise

Department of Business Administration,
Maseno University, Kenya.

(e-mail: jmise@maseno.ac.ke)

*Corresponding Author

I. INTRODUCTION

Literature on DC-performance relationship has revealed knowledge gaps. Studies found that one aspect of DC enhances performance. Previous studies have tended to focus on qualitative research whose flaws could account for the inconsistent findings. In the existing literature, DC implementation has been approached rather narrowly. In addition, a significant gap existed in linking PGS and performance.

Studies by Mwangi (2016), Mandy Mok (2009), Oyewobi, Abimbola (2015), Parnell (2015), and Jifri (2016) introduced DC as a third variable. From the reviewed studies, none has comprehensively provided an account of the precise impact of DC on the firm output of commercial banks in Kenya. Minimal exertions to resolute the conflict through moderator investigation have been done. DC though a plausible moderator, has however not been considered. Consequently, its effect on the performance of commercial banks and porter's generic strategies relationship is unknown. This study purposed at analyzing the moderating effect of DC on PGS and the performance relationship of Kenya's commercial banks.

A. Objectives of the Study

- i. To establish the moderating effect of dynamic capabilities on the relationship between porter's generic strategies and the performance of commercial banks.

B. Research Hypothesis

H₀₃. Dynamic capabilities do not have a significant effect on the relationship between porter's generic strategies and the organizational performance of commercial banks in Kenya

II. THEORETICAL LITERATURE REVIEW

A. Resource-Based Theory

RBT recommends that competitive advantage and profitability in Strategic Management are a result of valuable and at times costly sources and capabilities (Barney 1991; Peteraf & Bergen, 2003). Company's resources are a combination of; properties, skills, organizational procedures, firm qualities, knowledge, and information within the firm that permits it to perceive and adopt policies that improve its proficiency and efficacy, Barney (1991). In this study, resources consisted of strategies, financial, physical, and human resources. This study focused on resource utilization and its effect on the performance of commercial banks. RBT emphasizes deliberate choice, with management taking responsibility, for enabling the firm's management to take up the responsibility of finding, advancing, and using major capital to increase profits (Fahy, 2000). RBT could be improved by recognizing that resources are active naturally, the ways through which firms make use of their resource is variant amongst firms.

RBTs main tenant is its characteristic resource influence on strategic options available to a firm (Wernerfelt, 1984; Teece *et al.*, 1997). RBT suggests primary determinants of performance are mainly a contribution of resources possessed by the firm that adds to a firm's competitive advantage sustainably, (Warnerfelt, 1984).

RBT elucidates, firms enjoy heterogeneity of resources and abilities that shapes a firm's growth and CA. Therefore, past literature has emphasized an understanding on how to come up with, sustain and develop the abilities. Amit and Schoemaker (1993); Teece *et al.* (1997) and other scholars have disambiguated between resources and abilities by defining resources as touchable and untouchable assets that a firms owns, including; physical, financial an organizational assets (Barney, 1996). These resources therefore, are the stock of available factors owned or controlled by an organization (Amit & Schoemaker, 1993).

A firm's resources include; factories, property, company routines, workers skills, reputation, the buildings, and the brand name. Capability is the employment and adaptation of resources depending on collective organizational expertise, to meet the firm's objectives, providing a CA. It is the capacity to use the resources of an organization (Amit & Schoemaker, 1993). Difficult to imitate, replicate, or substitute resources and capabilities enables a firm to get CA. Capabilities of a firm are not tradable because they are specific and unique to a firm, however, resources are tradable. Therefore, Mahoney and Pandian (1992) emphasizes that firm asymmetries are not determined by resource ownership, rather, the way those resources are put to use, also known as capabilities. Resources cannot be a source of sustainable CA because they do not persist over time, hence, 'zero order' element of the hierarchy (Wang & Ahmed, 2007). The "dynamic capabilities approach" (Teece *et al.*, 1990), is based on RBT.

According to Wang and Ahmed (2007), DC compliments the premise of RBT, and core capabilities, and has leveraged vigour into empirical research in the last decade, however, several issues surrounding its conceptualization remain ambivalent. Therefore, based on the subject's empirical advancement, they suggest that dynamic capabilities be analysed by their three main elements: adaptive, absorptive and IC.

Comparatively, RBT has been criticised by Fahy (2000), who noted that RBTs main contributions have been conceptual rather than empirical in nature, therefore, many of its core doctrines are yet to be authorized in the field. However, it has a prevalent distribution in academic literature and in management practices (Priem & Butler, 2001), because of its heterogeneity in perspectives (Barney, 2000; Mahoney 2001; Makadok, 2001). According to Priem and Butler (2001), RBT is a static theory because it does not explain how resources and capabilities evolve over time forming the basis of competitive advantage. Hence, a firm is not a bundle of resources, but also the mechanisms through which firms learn and accumulate new skills and capabilities (Teece *et al.*, 1990).

This research studied the influence of DC on PGS and performance relationships. RBT concentrates on how internal characteristics such as properties and competencies of an organization influence organizational behavior during change. Therefore, the justification of the use of RBT as one of the research theories is because it dwells on the internal resources of a company, still, the second objective gets anchorage from this theory.

B. Configuration Theory

According to Mintzberg and Miller (1970), there are ten schools of thought for strategy formulation also known as schools of thought in management. The ten schools of strategy formulation are as follows: configuration, design, power, planning, positioning, cognitive, learning, cultural, entrepreneurial, and environmental.

One of the most preferred among the ten schools of thought on strategy for this study is the configuration school. The configuration school of thought emphasizes the essence of configuring a need, as need configuration enables firms to progress step by step, graduating from one level to another through a simple set of values. With time, organizations are able to have various sets of values that need transformation if the organization aims at reaching the point it desires (Mintzberg & Miller, 1970).

CT postulates, that environment and organizational design determine the performance of an organization. Basically, CT assumes that the best output is achievable when organizational structures are in tandem with external contingency factors. Organizations aligning their operations to the prevailing environment reap maximum benefit. CT's general model presumes that to be effective, an appropriate match between structure, strategy, and environmental context must be there in organizations (Fincham & Rhodes, 2005).

CT school emphasizes the need for organizational rejuvenation and restructuring of basic structures for success in the business (Mintzberg & Ahlstrand, 2002). Nevertheless, CT faces limitations because not all organizational structures are appropriate and restructuring and rejuvenation concepts meaning majorly depend on managers' perceptions.

Going by the configuration school, a strategy must consider so many things that are likely to go wrong because they are not derivable from a simple set of values. Organizations develop different sets of values with time, and these values need transformation if the organization is to maximumly achieve its desires. Therefore, justification of the configuration theory as one of the research theories is because, over time application of PGS by banks, likely results in strategy configuration employed by the commercial banks, so that the strategies formulated are configured over and over to reach the desired outcome. The study's first objective, the effect of porter's generic strategies on performance is anchored on this theory.

C. Porter's Generic Strategies

PGS, describes the way companies pursue competitive advantage (CA) across their preferred market space. Porter's Generic Strategies include lower cost, differentiated or focus, and can be applied to any size or form of business, (Porter, 1980). PGSs highlighting cost leadership, differentiation, and focus dominated corporate competitive strategy for a long time now (Pretorius, 2008). Akan *et al.* (2006) argue that by using porter' model, an organization is able to choose how to contest, depending on the compatibility of the type of competitive advantage and the market target it pursues, as the key determining factors of choice. Pretorius (2008), collaborates this by concluding that, PGS typology is the most notable in strategic management literature

Basically, strategy is about making a decision about where one wants your business to go, and how to get there.

Additionally, CA offers a more comprehensive definition by looking at it as an object of corporate strategy. CA is realized from the values that a firm creates for its clients exceeding the cost of production. What price at which buyers are willing to buy, is what is referred to as value, and superior value is realized from selling at lower prices than competitors for equal benefits, or by providing unique benefits that offset a higher price. There exist two types of CA, that is, cost leadership and differentiation (Porter, 1985).

A company's comparative spot in commerce is guided by its choice of CA (cost leadership versus differentiation) and competitive scope. Competitive scope differentiates between firms targeting broad industry segments and firms focusing on a narrow segment. PGSs are important because they illustrate strategic positions at the simplest and broadest level. Porter maintains that realizing CA requires deciding about the kind and choice of CA desired. Different risks exist and are inherent in every generic strategy, (Porter, 1985).

TABLE I: PORTER'S GENERIC STRATEGIES LOWER COST DIFFERENTIATION

Cost Leadership	Differentiation
Cost Focus	Differentiation Focus

Source: Porter (1985).

PGS describes the way companies pursue CA across the preferred market opportunity. There are two main ways through which a company may wish to differentiate itself from competitors to gain CA including pricing services and goods at a relatively lower cost compared to competitors or, through differentiating itself from competitors vide aspects favored by its consumers to command high prices for its products without losing clients. Additionally, a firm may either take industry-wide focus or specific product focus as a way of differentiating itself from competitors. Generic strategy is about choices made about the two types of CA and the scope (Porter, 1980).

According to Michael Porter, SCA can be realized through; cost leadership, differentiation, and focus strategy. These generic strategies are defined along strategic scope and strategic strength dimensions. Strategic scope is determined by demand, and concentrates on size and target market composition, while strategic strength is dependent on the supply dimension, and focuses on the strength or central competency of the firm. According to Porter, there are two competencies he considers most important, including product differentiation and cost (Porter, 1985).

III. EMPIRICAL LITERATURE REVIEW

Mwangi (2016) in his study on drivers of competitive advantage and performance of commercial banks in Nairobi County, Kenya used exploratory research design and collected data using semi-structured questionnaire. The collected data were analysed using descriptive and inferential statistics. The findings of the study were: tdynamic capabilities positively influence the relationship between drivers of competitive advantage and performance as a moderator.

Mandy-Mok (2009) conducted a study to investigate the correlation between distinctive capabilities, strategy types, environment, and the export performance of SMES in the

Malaysian manufacturing sectors. This study was based on a sample survey consisting of 121 SMES in the manufacturing sector. The findings of the study indicated that there were no significant relationships between distinctive capabilities and the export performance of SMES. The findings also show that there is a significant relationship between differentiation strategy type and the export performance of SMES. The findings also show that there is a significant environment moderating effect on the relationship between the differentiation strategy type and export performance of SMES.

Oyewobi and Abimbola (2015) in their study on an empirical analysis of construction organizations' competitive strategies and performance, explored competitive strategies being used by large construction organizations in the South African context using financial and non-financial measures of performance. The research confirms that differentiation and cost leadership strategy contributes to organizational performance financially, whereas they do not support the non-financial objectives of large organizations. The research also identifies a list of strategic attributes that can assist organizations to define their strategy better and how they are linked to performance measures. These attributes were found to grow the businesses and improve their returns on investment.

Mwazumbo (2016) conceptualized the relationship between organizational resources, environmental dynamism, dynamic capabilities, and organizational performance of large manufacturing companies in Kenya. The study used a structured questionnaire to obtain data from managers of 56 large manufacturing companies listed in the Kenya Association of Manufacturers database of 2014, which were analyzed using descriptive and inferential statistics. It was observed that several factors influence performance, key among them being organizational resources. The study revealed that organizational resources have significant influence on organizational performance; organizational resources have a significant influence on dynamic capabilities; external dynamism has no significant moderating influence on the relationship between organization resources and dynamic capabilities. Dynamic capabilities have no significant intervening influence on the relationships between organizational resources and financial performance but have a significant intervening effect on the relationship between organizational resources and non-financial performance; the joint effect of organizational resources, dynamic capabilities and environmental dynamism on organizational performance is significantly different from the independent effect of each study variables.

Bii and Onyango (2018) reviewed published literature to establish trends in dynamic capabilities, entrepreneurial orientation (EO) and business performance of Small and Medium Enterprise's (SMEs). They established that relationship between dynamic capabilities, entrepreneurial orientation and business performance of SMEs is hinged on Schumpeter Theory of Innovations (Schumpeter, 1942) and Dynamic Capability Theory by Teece *et al.* (1997). According to scholars, EO and business performance association is too complex, hence moderated by variables, also, Dynamic Capabilities (DC), moderate between predictors of CA and business output.

Parnell (2015) assessed the influence of strategic capabilities on the business strategy, performance relationship among retail businesses in Argentina, Peru, and the USA. The researcher amended and utilized Zahra and Covin's self-reported scale while adopting Strategic Capability Scales from Desarbo and associates. A survey was conducted on attendees in USA, Peru, and Argentina. Links between strategic capabilities, generic business strategies and performance in retail businesses in Argentina, Peru and USA were assessed. The study established support for links between the focus strategy and both marketing and linking capabilities, between the differentiation strategy and technology capabilities, and between the cost leadership strategy and management capabilities.

Jifri (2016) evaluated dynamic capabilities, 'now the bank sees them', in the airline sector. The researcher realized a positive correlation between alliance management capability and resource planning capability and that, sustained performance is moderated by environmental dynamism. He used panel data on a sample of 132 firms in the airline industry, utilizing econometric estimators to perform the analysis. From the results, alliance management capability and resource planning capability positively influence sustained performance.

Adilson and Alberto (2016) examined IT-enabled DC on performance, using BSc model. Making use of data from 845 Brazilian companies, theirs was a quantitative empirical study of firms during a commercial hardship. They observed that operational and analytical IT-enabled DC positively affected the improvement of business processes and corporate profitability.

Tempelmayr *et al.* (2019), looked at the influence of dynamic capabilities in servitizing companies. The results from 206 industrial companies found that DC are core factors for profitability of a firm in terms of servitization. Sensing and reconfiguration on firm performance had a significant effect. However, the moderating effect of environmental turbulence was insignificant in influencing output, thus, concluding that dynamic capabilities are more crucial in a servitization context.

Rono *et al.* (2020), investigated the moderating role of organizational ambidexterity on the correlation between DC and the performance of beverages and food companies in Kenya. Their definite objectives were to evaluate the influence of sensing, seizing, and re-configuration capabilities on performance. They collected primary data through a census strategy on 98 food and beverages factories that were registered Kenya Association of Manufacturers. The outcome was that sensing, seizing, and reconfiguration capabilities positively and significantly influence the food and beverages output of firms in Kenya. They also found a moderation of organizational ambidexterity in the correlation between DC and output of food and beverage companies in Kenya.

Kahuthia (2010) carried out a study on the determiners of CA and output of all the 43 commercial banks in Nairobi County, Kenya, using explanatory and cross-sectional survey designs. The study assessed the moderating influence of DC on the correlation between determiners of CA and output. This research was premised on the Dynamic Capabilities Theory. DC was found to have a moderating role between

determiners of CA and profitability.

Singh *et al.* (2019), examined the direct effect of DC on organizational responsiveness together with the controlling effect of organizational edifices and environmental vitality abilities. Analysis was done on Indian service companies to get the hypotheses. They found out that, sensing, learning, integration and re-configuration dimensions of dynamic capabilities, significantly and positively impacted a firm's responsiveness. Moderation outcomes explained that a firm's responsiveness is expected to improve if the capabilities are well adopted.

Khaliq and Zafar (2015) looked at the impact of DC on organizational output, under the moderation of organizational proficiencies. The study focused on the paper industry in Lahore, Pakistan. Statistical research has found that dynamic capabilities directly impact organizational output of firms. Also, it has been established that organisational competency positively moderates the relationship between organisational performance and dynamic capabilities.

Studies by Mwangi (2016), Mandy Mok (2009), Oyewobi, Abimbola (2015), Parnell (2015), Jifri (2016) introduced DC as a third variable. Mwangi (2016) found out that, DC positively influences the correlation between CA drivers and profitability as a moderator. Mandy-Mok (2009) found a significant moderating influence on the correlation between the differentiation strategy type and export output of SMES. Oyewobi and Abimbola (2015) identified a number of deliberate characteristics that help organizations to outline their approach well in relation to performance measures. These strategic attributes perform a mediating role. Parnell (2015) assessed how strategic capabilities influence business strategy – output correlation amongst retail industries in Argentina, Peru, and the USA. Zahra and Coven's self-reported scale was modified and applied.

Strategic capabilities have been constructed as an independent variable. Jifri (2016) proposed a positive correlation between alliance management capability and resource planning capability and sustained performance is moderated by environmental dynamism. In this study, the researcher constructs various aspects of dynamic capabilities as dependent, independent, and moderator variables. All the above studies have constructed dynamic capabilities differently. Mandy-Mok (2009) uses environment capabilities as a moderator; Oyewobi and Abimbola (2015) construct strategic capabilities as an independent variable. Jifri (2016) constructs environmental dynamism as a moderator. Mwangi (2016) constructs performance as a moderator while dynamic capabilities were constructed as an independent variable. From the above-reviewed studies, it seems that no known studies have provided a comprehensive account of the precise impact of dynamic capabilities on firm performance both financial and non-financial of commercial banks in Kenya. Little energy to solve the conflict through moderator investigation has been established. Dynamic capabilities though a plausible moderator has however not been considered. Consequently, its effect on the performance of commercial banks and porter's generic strategies relationship is unknown. The study wanted to scrutinize the moderating effect of dynamic capability on the correlation between PGS and the profitability of the commercial banks in Kenya.

IV. RESEARCH METHODOLOGY

The study used a quantitative methodology and a positivist approach out of the conviction that, research is concerned with facts, inspects causality and essential laws simplifying elements (Armstrong, 2009). As phenomenology positivism addresses a variety of circumstances simultaneously and may be appropriate to policy choices when empirical data is gathered in voluminous examples, (Easterby-Smith *et al.*, 1991). Valentine (2006) observed that strategic decision making in research and theory has recently been dominated by positivist perspectives, assuming an extensive understanding of the visions and missions of management. Strategic Management is the central foundations and determiners of firms' CA and bigger output are largely linked to the characteristics of their sources and proficiencies that are treasured and expensive to duplicate (Barney, 1991; Peteraf & Bergen, 2003). Regarded as an ordinarily influential process, objective, neutral and concerned with approaches to guarantee regulation and productivity in companies accordingly backing-up positivism.

Positivism is an experimental logical theory that assumes, that all sincere data is either factual by classification or constructive (Armory & Fredric, 1999). Positivism is dependent on measurable explanations leading to statistical analyses. Philosophically, positivism relates to empiricist understanding that knowledge is human experiential. It bears an atomistic, and ontological understanding of the world as being distinct, evident rudiments and actions that relate in evident, resolute, and consistent manner (Collins, 2010).

The key positivism ideologies are summarized as: no variance exists in the judgment of investigation amongst sciences, research should aim at explaining and predicting, research should be statistically observable through human senses, and science is not common sense.

Both correlational and cross-sectional designs of banks in Kenya were employed to undertake this research. Cross-sectional design aided in acquiring statistics simultaneously. Cross-sectional studies can be carried out by means of any approach to collecting data, including mailed or self-administered questionnaires (Creswell, 2003).

A. Model 3

It combined dependent, and independent variables and the potential moderating variable in order to establish moderation.

The model for the regression analysis is as shown:

$$Y = \beta_0 + \beta_1 X + \beta_2 Z + \beta_3 (XZ) + \epsilon \quad (1)$$

where

Y = dependent variable (organizational performance);

X = theoretically defined independent variable (porter's generic strategies);

Z = theoretically defined moderator variable (dynamic capabilities);

XZ = interaction term (interaction of porter's generic and dynamic capabilities);

B₀ = y intercept in the equation;

B₁ = size and direction of causal effect of X the independent variable (porter's generic strategies) on Y the dependent variable (organizational performance);

B₂ = size and direction of causal effect of Z the moderator variable (dynamic capabilities) on Y the dependent variable (performance);

B₃ = size and direction of effect of interaction term XZ on Y the dependent variable (organizational performance);

E = residual in the equations;

i= number of firms under consideration (respondents).

Source: Adopted from Fairchild and MacKinnon (2009).

V. RESULTS AND DISCUSSION

The third objective of the study sought the moderating effects of DC on the correlation between porter’s generic strategies and output of commercial banks. The objective underlies under the null hypothesis that dynamic capabilities do not have a significant effect on the relationship between PGS and organizational profitability of commercial banks in Kenya. Moderating results entailed three assumptions that were tested to ensure the model was achieved effectively. First, the assumption of the existence of the relationship between porter’s generic strategies, which is the main independent variable and the performance of commercial banks was confirmed with a significant causal effect on the latter. The second step entailed the assessment of the influence of the moderator variable, which is DC on the performance of commercial banks (dependent variable). Finally, the moderating role is tested under this objective after clear confirmation of the first two steps. This objective, therefore, entailed employing multiple hierarchical regression models to regress performance sub-scale on porters’ generic strategies, dynamic capabilities, and the interaction term. The interaction term was obtained by centering and multiplying the individual mean scores of porters’ generic strategies and dynamic capabilities sub-scales. In modeling, the first step was introducing porter’s generic strategies in the model to find its main effect. The second step entailed adding the moderator variable (dynamic capability) and finally adding the interaction term to establish their moderating roles on the performance-generic strategies relationship. The model was adopted from Fairchild and Mackinnon (2009), as follows:

$$Y = \beta_0 + \beta_1 X + \beta_2 Z + \beta_3 (XZ) + \epsilon \quad (2)$$

where

Y =dependent variable (organizational performance);

X =theoretically defined independent variable (porter’s generic strategies);

Z = theoretically defined moderator variable (dynamic capabilities);

XZ = interaction of PGS and DC);

B₀ = y intercept in the equation, B₁ = size and direction of causal effect of X the independent variable (porter’s generic strategies) on Y the dependent variable (organizational performance);

B₂ = size and direction of causal effect of Z the moderator variable (dynamic capabilities) on Y the dependent variable (performance);

B₃ = size and direction of effect of interaction term XZ on Y the dependent variable (organizational performance);

E = residual in the equations;

i= number of firms under consideration (respondents).

The findings on the model coefficient are presented as shown in Table II.

TABLE II: MODERATING ROLE OF DYNAMIC CAPABILITIES MODEL COEFFICIENTS

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
1 (Constant)	0.642	0.197		3.268	0.001
Mean generic (Constant)	0.782	0.060	0.645	12.963	0.000
2 (Constant)	0.428	0.201		2.136	0.034
Mean generic (Constant)	0.656	0.068	0.541	9.598	0.000
Dynamic capabilities (Constant)	0.186	0.051	0.204	3.619	0.000
3 (Constant)	0.382	0.199		1.918	0.056
Mean generic (Constant)	0.585	0.073	0.482	8.018	0.000
Dynamic capabilities (Constant)	0.188	0.051	0.206	3.701	0.000
Interaction	0.078	0.030	0.137	2.591	0.010

a. Dependent Variable: performance.

Source: Study Data (2022).

The findings in Table II indicate the performance of commercial banks has a constant level at 0.642, implying that without the incorporation of the other variables or controlling for the other variables, commercial banks would still experience some significant performance contributed by other factors although not significant. However, after introducing mean generic strategies, the findings indicate that porter’s generic strategies have a strong unique contribution to the model and therefore a positive significant effect on the profitability of commercial banks (β=.645, t (1) =12.963, p=0.000). The second step in hierarchical regression entailed adding the moderator variable, which is DC. The findings indicate adding DC contributes positively and significantly to the model (β=0.204, p=0.000) although the contribution is low. This contribution reduces the effect of porter’s generic strategies to a lower value, although still very significant (β=0.541). Finally, the interaction term was included in the model. The findings show that the effect PGS on the performance of commercial banks remains positive and significant (β=0.482, p=0.000) although not as strong as the initial beta value. The model coefficient value for the interaction term was (β=0.137) which was significant, (p=0.01) implying that there is a positive significant moderation of dynamic capabilities on the correlation between PGS and commercial banks' profitability. Further findings on the model summary results of the effect of predictor terms in terms of percentages are shown in Table III.

The findings in Table III indicate that porter’s generic strategies accounted for a 41.6% change in the performance of commercial banks, which was significant, F (1,236) =168.04, p=0.000. After adding the dynamic capabilities subscale to the model, the total variance in performance of commercial banks explained by porters’ generic strategies and dynamic capabilities was 44.47% (R square =0.447). However, DC alone was found to explain a 3.1% change in the performance of commercial banks (R square change=.031) which was significant (p=0.000). Finally, the inclusion of the interaction terms in the model saw an upsurge in the percentage change in performance of commercial banks to 46.2% due to all the variables, which was significant.

TABLE III: SUMMARY MODEL FOR MODERATING ROLE OF DYNAMIC CAPABILITIES

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics					Durbin-Watson
					R Square Change	F Change	df1	df2	Sig. F Change	
1	0.645 ^a	0.416	0.413	0.578	0.416	168.043	1	236	0.000	
2	0.668 ^b	0.447	0.442	0.563	0.031	13.096	1	235	0.000	
3	0.680 ^c	0.462	0.455	0.557	0.015	6.711	1	234	0.010	1.826

- a. Predictors: (Constant), mean porters’ generic strategies.
 - b. Predictors: (Constant), mean generic, dynamic capabilities.
 - c. Predictors: (Constant), mean generic, dynamic capabilities, interaction.
 - d. Dependent Variable: performance.
- Source: Study Data, (2022).

However, the interaction term alone contributed a 1.5% (R square change=.15) change in the performance of commercial banks, which was significant, $F(1, 236) = 6.711, p = 0.010$. This finding shows that dynamic capabilities positively moderate the relationship between porter’s generic strategies and the performance of commercial banks in Kenya.

The model equation is presented as shown in the following equation.

$$Y = 0.382 + 0.585X + 0.188Z + 0.078XZ + \epsilon$$

The above equation implies that both dynamic capabilities and generic strategies contribute positively to the performance of commercial banks. In addition, the moderator term XZ implies a positive moderation whereby dynamic capabilities improve the effect of generic strategies on the performance of commercial banks. From these findings, the null hypothesis was thus rejected, and an alternative hypothesis was adopted which states that dynamic capabilities moderate the relationship between generic strategies and the performance of commercial banks.

The intercept and the XY slope in the model are influenced by Z (the moderator-dynamic capabilities) intercepts and slopes of line Y X. The unstandardized coefficient of X is 0.585 which is the change in Y due to PGS and therefore as it increases, bank performance increases. Likewise, 0.188 (unstandardized coefficient of dynamic capabilities) is the change in slope in bank performance due to dynamic capabilities which are also positive. The unstandardized coefficient of the moderator model b_3 is 0.078. Hence, for each unit increase in Z, the slope relating X to Y increases by 0.078 units. This implies that as DC levels increase by one unit, the effect of PGS on bank performance increases. The positive sign means that there is a positive moderation such that as DC levels increase, the effect of PGS on bank performance increases.

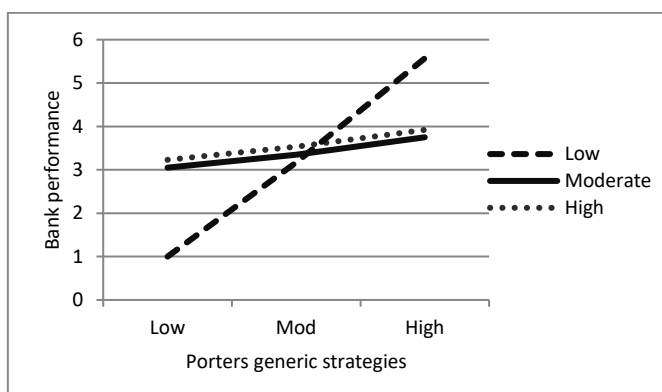


Fig. 1. Simple slope for moderating role of Dynamic capabilities.
Source: Study Data (2022).

The findings from the moderation regression model indicate a positive moderation of DC on the relationship between PGS and bank profitability. Therefore, an increase in bank performance is associated with both increases in PGS and DC. The slope shows that with a high rating on PGS, there is an improvement in bank performance due to high moderation. This implies DC improves PGS effects on bank performance.

These findings are in line with the theoretical literature on dynamic capabilities which emphasizes a firm’s constant pursuit of the renewal, reconfiguration, and re-creation of resources, capabilities, and core capabilities to address environmental change. Collis (1994) makes a particularly explicit point that dynamic capabilities govern the rate of change of capabilities.

Mwangi (2016) findings of the study were that DC positively influences the relationship between drivers of competitive advantage and performance as a moderator. Mandy Mok (2009) found a significant environment moderating effect on the relationship between the differentiation strategy type and export performance of SMES. Oyewobi and Abimbola (2015) identified a list of strategic attributes that can assist organizations to define their strategy better and how they are linked to performance measures. The strategic attributes perform a mediating role. Jifri (2016) proposed a positive relationship between alliance management capability and resource planning capability and sustained performance is moderated by environmental dynamism. In this study, the researcher constructs various aspects of dynamic capabilities as dependent, independent, and moderator variables. Adilson and Alberto (2016) IT-enabled DC on performance, an empirical study of BSc model. The study investigated the causal relationship between performance perspectives of the balanced scorecard using partial least squares path modeling. Using data on 845 Brazilian companies, they conducted a quantitative empirical study of firms during an economic crisis and observed the following interesting results. Operational and analytical IT-enabled dynamic capability had positive effects on business process improvement and corporate performance.

All the above studies have constructed dynamic capabilities differently. Mandy Mok (2009) uses environment capabilities as a moderator, Oyewobi, Abimbola (2015) constructs strategic capabilities as an independent variable. Jifri (2016) constructs environmental dynamism as a moderator. Mwangi (2016) constructs performance as a moderator while dynamic capabilities Were constructed as an independent variable.

Joan Bii and Robert Onyango (15 Aug 2018) reviewed past literature with the aim of establishing the trends in the

published literature on DC, entrepreneurial orientation (EO) and business performance of Small and Medium Enterprise's (SMEs). Based on this review the correlation between DC, entrepreneurial orientation, and business performance of SMEs is premised on Schumpeter theory of innovations (Schumpeter, 1942) and DCT by Teece *et al.* (1997). Scholars have a common view that the association between EO and business performance is too complex and hence moderated by variables. DCs have a moderating role between predictors of competitive advantage and business performance.

Mwangi (2016) used exploratory design and used semi-structured questionnaire to collect data. Mandy Mok (2009) in his study investigated distinctive capabilities, strategy types, environment, and the export performance of SMES in the Malaysian manufacturing sectors correlation, his study was based on a sample survey consisting of 121 SMES in the manufacturing sector. Parnell (2015) was interested in looking at competitive strategic capabilities, and performance among retailers in Argentina, Peru, and the United States. A survey was administered to attendees in USA, Peru, and Argentina. Jifri (2016) with a sample of 132 firms in the airline industry used DC, 'now the bank sees them' in the airline industry. Panel data on Adilson and Alberto (2016), IT-enabled dynamic capability on performance: an empirical study of BSc model. Designed a firm-level sample, using data on 845 Brazilian companies.

VI. SUMMARY OF FINDINGS

Final study's objective wanted to establish the moderating role of dynamic capabilities on the correlation between porter's generic strategies and the performance of commercial banks. This was achieved through the use of a hierarchical regression model with the adoption of the interaction term. In the model, dynamic capabilities Were centered and multiplied with porter's generic strategies to come up with the interaction term. The regression results revealed that through all the steps, there Were positive and significant results. Finally, a significant model coefficient for the interaction term as well as a positive coefficient for porter's generic strategies indicated a positive moderation.

VII. CONCLUSIONS

Lastly, moderating effect of dynamic capabilities on porter's generic strategies and performance of commercial banks correlation revealed that dynamic capabilities positively moderated porter's generic strategies and performance of commercial banks in Kenya. There is an implication that dynamic capabilities affect the performance of commercial banks positively, leading to the null hypothesis that, dynamic capabilities do not significantly affect the relationship between porter's generic strategies and organizational performance of commercial banks in Kenya rejection.

VIII. RECOMMENDATIONS

Finally, from the third objective, the commercial banks should incorporate more dynamic capabilities strategies since

dynamic capabilities will help to positively moderate the relationship between porter's generic strategies and the performance of commercial banks in Kenya.

REFERENCES

- Barney, J. B. (1991). Firm resources and sustained competitive advantage. *Journal of Management*, 17(1), 99–120.
- Fincham, R., & Rhodes, P. (2005). *Principles of organizational behaviour* (5th ed.). New York: Oxford University Press.
- Mintzberg, H. (1979). *The structuring of organizations*. Englewood Cliffs, NJ: Prentice-Hall.
- Mwangi J. K. (2010). Drivers of competitive advantage and performance of commercial banks in Nairobi County, Kenya. Unpublished PhD Thesis. Nairobi: Kenyatta University.
- Oyewobi O. L., Abimbola O. W. (2015). An empirical analysis of construction organisation's competitive strategies and performance. *Built environment project and asset management journal*, 5(4), 10–12.
- Parnell J.L. (2006). Generic strategies after two decades: a re- conceptualization of competitive strategy. *Management Decision*, 49(1), 130–195.
- Porter, M. (1980). *Competitive Strategy: Techniques for Analyzing industries and competitors*. New York: Free Press.
- Porter, M. (1985). *Competitive Advantage – Creating and Sustaining Superior Performance*. New York: Free Press.
- Porter, M. (1987). *From competitive advantage to corporate strategy*. Harvard Business Review, May/June.
- Porter, M. E. (1990). *The competitive advantage of nations*. London: Macmillan Press Ltd.
- Porter, M. E. (1996). *What is strategy?* Harvard Business Review.
- Teece D.J., Pisano G., Shuen A. (1997). Dynamic capabilities and strategic management. *Strategic Management Journal*, 18(7), 509–533.
- Wernerfelt, B. (1984). A resource-based view of the firm. *Strategic Management Journal*, 5(2), 99–197.