

## **STRATEGIC CAPABILITIES AND COMPETITIVE ADVANTAGE OF TIER III COMMERCIAL BANKS IN NAIROBI CITY COUNTY KENYA**

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## **ABSTRACT**

Commercial banks are central to the economic development and drive the process of investment, job creation and financial stability. But the banking sector is a very competitive one and requires strategic competencies to maintain competitive edge. In this study, the authors sought to investigate the impact of strategic capabilities related to technological, managerial and human resource capabilities on the competitive advantage of Tier Three commercial banks in Nairobi city County, Kenya. Tier Three banks are the most prevalent banks in Kenya accounting for more than 75% of banks in the country but only accounting for 8% of the market, suggesting that they struggle against larger competitors. This study was guided by the Dynamic capability theory, Upper echelon theory, Human capital theory and Porter's Competitive Advantage Theory and adopted descriptive and explanatory research design. The target population is 154 branch managers, heads of departments (including IT, HR and operations) and senior executives at head office level from 22 Tier Three commercial banks in Nairobi. Simple random sampling technique was used and a sample size of 112 respondents was obtained from the formula of Yamane (1967). The primary data collection was done using a structured questionnaire with a 5 point Likert scale. Content validation is achieved by inviting experts to review the content and construct validation is performed by factor analysis (factor loadings  $\geq 0.5$ , acceptable). Reliability was checked by Cronbach's Alpha coefficient and was obtained a value of 0.7 which is considered acceptable for internal

consistency. Descriptive statistics (mean, standard deviation) and inferential statistics (multiple regression analysis) were used for data analysis to test the hypotheses. The results were presented in tables, charts and graphs to facilitate understanding. Ethical issues such as confidentiality and informed consent are strictly observed and approval is obtained from NACOSTI. The results are expected to shed light on the effects of technological innovations, managerial efficiency and human resource development on the competitive advantage and provide actionable implications for bank management, policy makers (CBK, KBA) and future research. The research revealed a landscape of robust foundational investment, with a substantial implementation gap. There was high consensus that their banks possess modern IT infrastructure, that they have sufficient technological support and training, and that technology is advantageous in terms of being efficient and a competitive advantage. This was tempered by the lowest score in this domain, which was on the task of using technology to automate functions. Moreover, the study found a eerie internal/external dichotomy. The level of internal confidence was very high as the respondents expressed a strong belief in the success of their strategic efforts which had contributed to bettering their competitive position and in having a set of unique resources and differentiated services. The study concludes that Tier Three banks have been able to move from being technologically lagging to owners of modern digital infrastructure, understanding the strategic

importance of technology. Leveraging the adaptability gap, the researcher suggested that it is necessary to have a program of leadership development in banks that includes training and development in the area of Strategic agility, Change Management,

and Innovation leadership, so as to cultivate adaptive Leadership.

**Key words:** Reward Management, Employee Retention, Faith-Based Universities.

## **INTRODUCTION**

### **Background to the Study**

In the hyper-competitive financial world, it is the competitive advantage that can help banks survive and prosper. While in this technologically disruptive and consumer-centric world, having a competitive advantage over others is what differentiates industry leaders from laggards (Kamal, Hassan & Kamal, 2024). This benefit can be seen in multiple areas, whether it's better customer experience, groundbreaking product offerings, operational efficiency, or brand reputation – it all leads to improved profitability and market position.

The top financial institutions around the world have implemented a variety of measures to develop and sustain strong competitive footing. Banks have a choice of three main strategies: cost leadership, differentiation, and focus, which are all very relevant and have been discussed in great detail by Porter (1990) in his work on competitive strategy. JPMorgan Chase in the U.S. and HSBC in Europe are the best players at combining these strategies in the global arena. JPMorgan, for example, has an annual technology expenditure of \$12 billion, which allows for cost savings with its automation and digital innovation that will help it stand out (IMF, 2024). In the same way, HSBC's "global banking with local expertise" strategy illustrates how it is possible to achieve scale benefits and offer customized services to deliver distinctive value propositions.

The banking sector has been hit by a digital transformation wave and this has accentuated the competition in the banking world even more. Viable competitors who have effectively used technology have been able to erect powerful competitive barriers. Digital-native banks such as Revolut and N26 have revolutionised the banking sector by providing a seamless, app-driven experience, while banks have responded with their own digital efforts. This trend has accelerated during the COVID-19 crisis, with banks putting a lot of effort into developing remote banking, AI-powered customer service, and blockchain-based solutions, as reported by the IMF (2024).

This technological arms race has made things harder and harder for less technologically advanced banks to compete.

Competitive advantage in developed markets may come in many forms, such as brand strength, technological sophistication, or the expertise in regulatory matters. For instance, European banks have superior capital strength and risk management systems, and U.S. megabanks have the advantage of serving customers across state lines and providing a full range of financial services. This competition is marked by consolidation in these market, larger banks acquiring smaller banks to leverage on economies of scale and eliminate competition (Porter, 1990). This has left only well-resourced and capable banks competitive over the long haul.

This is in stark contrast with developing markets where bank sectors typically have a bifurcated structure. There are big banks on one side that have regional or pan-African dreams; small banks on the other that are finding it difficult to compete. This contrast is especially stark in Africa, where the banking penetration is still relatively low, with banking competition still being keen among existing banking organizations. The banking sector in South Africa, for example, is characterised by four major banks that operate within the system, Standard Bank, FirstRand, Absa, and Nedbank, accounting for approximately 90% of the total share of the banking sector in South Africa (Enwereji & Potgieter, 2022). They have developed competitive advantages by good governance, innovative product development and wide branch networks which include urban and rural areas. But the outlook isn't as sunny for smaller banks elsewhere in the continent. There are plenty of people who are facing issues related to basic problems like liquidity management, Non-Performing Loans and less capital buffers. Tier-1 banks such as Zenith Bank and Access Bank have been able to expand in West Africa while smaller banks have seen threats to their survival due to regulatory changes and macroeconomic instability (Nnabuike & Mnena, 2023). This situation is replicated in many markets in Africa, with the few large banks getting more competitive and the smaller ones struggling to survive in a more and more dangerous environment.

One of the most interesting examples of competition is Kenyan banking. A few strong banks account for about 70% of the market asset and deposits, which include Equity Bank, KCB, and Cooperative Bank (CBK, 2022). The wide network of branches, strong brand and growing up with mobile banking technologies have provided these organisations with a number of competitive advantages. For instance, Equity Bank's pioneering agency banking model has allowed it to tap previously unbanked segments of the population, creating a niche market positioning that it has been hard for its competitors to duplicate.

The Tier Three banks in Kenya, however, are severely at a competitive disadvantage. Although they dominate the banking sector in number with more than 75% of the banks, they account for only 8% of the market (CBK, 2022). There are many of these smaller institutions suffering from basic issues of viability, including lack of capitalization, limited technology capacity and poor governance. Tier Three banks are vulnerable as several banks have collapsed in the competitive

financial market of Kenya such as Chase, Imperial and Dubai banks (CBK, 2021). In a market that is becoming more and more winner-take-all, the glaring difference between big and small banks begs important issues about how Tier Three banks might create long-lasting competitive advantages.

Tier Three institutions have unique problems in an era of rapid technological change and the evolution of regulations. The Central Bank of Kenya's streamlined governance framework and increased capital security requirements have also posed additional problems for smaller banks (KBA, 2021). At the same time, the traditional banking services have faced more challenges from digital lending companies and mobile money operators like M-Pesa. To this end, Tier Three banks must develop specific competencies in human resources, management and technology.

Thus, the objective of this study was to explore the strategic competencies as a basis of competitive advantage in the tier three banks in Kenya. The study aims to provide practical implications that might help these smaller banks become more effective in trying to out-compete the larger banks by focusing on three key competence areas—managerial competence, technological competence, and human resources. The findings will not only contribute to research into the competitive landscape of banks, but will also guide financial inclusion and financial stability initiatives in Kenya and in similar economies.

### **Competitive advantage**

CA is a business's capacity to out-compete their rivals by offering customers a superior value while still earning profits in the future. As financial institutions fight for market share, unique products that fulfill customer specified needs, reduced operational costs for provision of goods and services, client loyalty, and operational efficiency in a setting that is becoming more and more dynamic, this idea assumes crucial significance in the banking industry. Porter (1985) draws from his seminal work that competitive advantage can be achieved in either of the two ways: low-cost provider or services that are different and valuable enough to command a higher price. However, this is expanded by Barney's (1991) resource-based view (RBV), which states that resources that are embedded, rare, valuable, and unique (VRIO) to an organization are a basis for sustainable CA. For commercial banks, this may be specialized human capital, robust brand equity or a combination of special technologies that enable them to thwart competition.

Competitive advantage (Porter, 1985) is said to be the attributes that allow a business to outperform its rivals by delivering greater value or improving efficiency. It is more crucial in today's strategic management to be better than stakeholders and customers, not only unique. Barney (2021) states that the strategy used by a company is a competitive advantage when no other companies use the same strategy at the same time.

Competitive advantage can manifest in the banking sector in several ways, such as cost effectiveness, innovative financial instruments, excellent customer service, or market localization,

which can occur in previously underdeveloped areas (Okwiri & Muathe, 2024). Kenyan Tier Three commercial banks form a unique group of commercial banks in Kenya. Despite their share exceeding half of the licensed banks in the country, they only represent less than 10% of the market share in the country as a whole (Okwiri & Muathe, 2024). These banks face challenges such as limited capitalisation, regulatory requirements, and intense competition from Tier One and Tier Two banks. Often they work in very unstable environments.

However, recent performance figures show that some Tier Three banks are beginning to adopt some specialist methods to outflank better-known rivals. For example, SME-focused lending and investments in digital infrastructure propelled Sidian Bank's 250% increase in net profit in the first quarter of 2025 (Africa Digest News, 2025). This suggests a shift in the strategic approach that smaller banks are likely to take to gain greater competitive advantage. The theoretical underpinnings of the competitive advantage in this investigation are Porter's Generic Strategies and the Resource Based View (RBV). The three strategies a company can employ to achieve a competitive advantage are focus, differentiation and cost leadership (Porter, 1985). Meanwhile, the RBV underscores the importance of valuable, rare, unique and non-substitutable resources (Barney, 2021).

In addition to scale, operational effectiveness, client intimacy and strategic agility are key to competitive advantage for Tier Three banks. Their ability to quickly adapt, offer specialised market service, and solve problems innovatively has given them a unique place in the Kenyan banking sector. The four criteria selected for this study are used to test the bank's ability to attract and retain customers over time when they have a competitive advantage: growth in market share. It is a straightforward measure of brand power, product relevance and how competitive the outreach is. Tier Three banks' market share remains low, but certain strategies such as promotion of SME lending and the mobile banking services have shown potential for expansion in Kenya (Report from Sidian Bank, 2025). Market share growth is a measure more than just a number; it is an indicator of the strategic importance of a bank in the market. The percentage share gains suggest the competitive balance of Tier Three banks, operating on the periphery of Kenya's financial environment, is changing. It implies that these organisations are not just surviving but also starting to make an impact in particular fields. The bank's aggressive SME lending and digital transformation activities drove a 250% increase in net profit, according to Sidian Bank's Q1 2025 report. The decreases were stark compared to the drops in profits for the two Tier One banks, Standard Chartered and Stanbic, which were 13.5% and 16.6% respectively. This kind of information reflects how strategic thrust can lead to market share growth without volume growth. SMEs account for 98% of the businesses registered in Kenya, and contribute about 40% of Kenya's GDP. Sidian and other Tier Three banks have responded to the SMEs' needs by developing appropriate products with flexible borrowing terms, trade finance and business advisory services. This specific niche can introduce them to unserved markets, and boost their market share in measurable ways. Only 85–99% of banking transaction in Kenya today take place through the

traditional banking network. Tier Three banks are living up to the name, not just surviving, but thriving, by embracing the internet and mobile solutions. As a result of its digital push Sidian managed to reduce operating costs, build a larger customer base and enhance its profitability and competitiveness.

The market share increase will be considered in the current study as a dynamic value, as a result of the deployment of strategic capabilities, and not just as a number. It reveals a bank's capacity to be innovative in service design, align resources with customer needs and to understand its target market. In competitive settings, it also aids in the development of brand equity. Market share can be measured by indicators that are public and can be seen to change, such as profitability trends, loan book growth, and growth in customers deposits compared to the prior year.

One of the key strategies, cost leadership is the ability to provide services at lower operating costs and still maintain the required level of quality. This is especially important for Tier Three banks that have lean organisational structures. Absa Bank's cost-to-income ratio of 35% in the first quarter of 2025 is regarded as best-in-class, showing that even in circumstances with limited resources, effective operations may result in a competitive edge (SIB Research, 2025). It is essential to have resources like knowledgeable staff, exclusive technologies, and strategic alliances. The RBV framework emphasizes how crucial it is to use internal resources that are valuable and challenging to duplicate. Some examples include the investment in the digital platform and the SME-centric approach, which have proven to be valuable assets, as experienced by Sidian Bank (AfricaDigest News 2025). Differentiation is achieved when a bank offers unique products/services that customers value. This could be customised financial plans, individualised client care, or creative delivery methods. In competitive markets, differentiation enables Tier Three banks to compete beyond scale and price and create loyal client bases (Okwiri & Muathe, 2024).

### **Strategic Capabilities**

A company's integrated collection of organisational resources, procedures, and competences that support superior value generation and long-term competitive advantage is known as its strategic capabilities (SC). SC is defined by Weritz et al. (2024) as the organizational ability to create and execute customised, one-of-a-kind strategies that produce non-linear performance outcomes through unique practices and procedures. Through the lens of dynamic capabilities, Teece (2023) broadens this perspective and defines SC as the company's capacity to integrate, develop, and reorganise internal and external skills in response to quickly changing circumstances. Barney (1991) expands on the resource-based paradigm by conceptualising SC as collections of valuable, rare, unique, and organisationally embedded (VRIO) tangible and intangible assets. A more practical definition of SC is provided by Mwangi (2022), who defines it as the collection of managerial, technological, and human resource capabilities that jointly establish a company's long-term competitiveness and strategic positioning in its sector (Plekhanov et al., 2023).



The concept of the technological capabilities has been used to refer to the bank's integrated capacity to effectively deploy, integrate, and leverage information technology assets and knowledge to enhance its operations and service delivery(Mwangi, 2022). For the purposes of the current study, technological capabilities, encompasses a modern IT infrastructure, digital banking platforms, and the organization's collective experience and learning in applying technology to business processes (IT business experience and organizational learning). Having established that, for Tier Three banks in Nairobi, these capabilities are considered as being very critical for achieving operational efficiency, reducing costs through automation, and offering competitive digital services like mobile and online banking among other essential services, which directly enable them to therefore compete with larger, and more resource-rich institutions and secure a sustainable market position(Plekhanov et al., 2023).

The concepts of the managerial capabilities as applied in the current study denote the strategic competence and effectiveness of a bank's leadership in making decisions, managing resources, and steering the organization towards its goals (Mwangi, 2022). Therefore this study variable is characterized by the strategic decision-making efficiency, sound financial management competencies, innovation and adaptability in response to market changes, and robust operational control and risk management frameworks. To add to this, in the context of Tier Three banks, managerial skills are seen as being central in navigating a highly competitive and regulated environment, optimizing limited resources, fostering a culture of innovation and ensuring strategic agility, which are all key to creating and sustaining a competitive advantage (Plekhanov et al., 2023).

Moreover, the notion of the human resource capabilities is a reflection of the bank's strategic capacity to recruit, nurture, recruitivate and retain a qualified and productive workforce. This aspect of the capability is measured through the employees' skills and competencies, their levels of motivation and job satisfaction, the effectiveness of talent acquisition and retention strategies, and overall workforce productivity(Mwangi, 2022). Within the context of the Tier Three banking sector, these human resource capabilities are considered a vital source of competitive advantage, as a highly capable and engaged workforce directly translates into superior customer service, innovative problem-solving, and efficient execution of the bank's strategic objectives, enabling these smaller institutions to differentiate themselves and build loyal customer relationships.

Numerous quantifiable markers of strategic competencies in various organisational contexts are identified in the literature. Common methods for operationalising technological capabilities include the digital transformation index (Plekhanov et al., 2023), innovation adoption rates (Mwangi & Omwenga, 2023), and IT infrastructure maturity (Nwodo et al., 2024). Indicators of leadership effectiveness (Weritz et al., 2024), strategic flexibility (Nnabuike & Mnena, 2023), and decision-making speed (Souza & Forte, 2021) are frequently employed to assess managerial qualities. Metrics including organisational learning capacity (Teece, 2023), investments in skill



development (Musangi & James, 2024), and talent retention rates (Urme, 2023) are frequently used to evaluate human resource capabilities. Other indicators found in research primarily focussing on banking include regulatory compliance agility (CBK, 2022), cross-functional integration (Enwereji & Potgieter, 2022), and process automation levels (Aduwo & Deya, 2022). This study focusses on three essential strategic skills: managerial, technological, and human resource capacities for several theoretically and contextually justified reasons. First of all, these capabilities fit into the dynamic capabilities framework (Teece, 2023), which is especially pertinent to Kenya's tier-three banks that operate in a financial environment that is changing quickly. The pressing need for digital transformation in smaller banks confronting FinTech disruption is addressed by technological competency, which is gauged by the effectiveness of transaction processing and the quality of digital banking infrastructure. Managerial capability addresses the particular governance issues outlined in CBK (2022) studies on tier-three banks. It is measured by strategic decision-making speed and risk management effectiveness. Talent retention issues in Kenyan commercial banks are addressed by human resource competency, which is measured by professional certification rates and training investment levels (Musangi and James, 2024).

The associated proven effectiveness in similar financial environments serves as additional justification for the adoption of these particular capabilities and associated indicators. Aduwo and Deya's (2022) research from Kenya revealed that technological capabilities were associated with a 0.72 improvement in competitive positioning scores, whereas Nnabuife and Mnena's (2023) study from Nigeria revealed that managerial capabilities explained 38% of the variance in bank performance. Along these lines, Urme's (2023) longitudinal study found that an HR capability index one standard deviation higher was correlated with a 19% increase in the productivity of employees in the financial services sector. From these empirical findings it can be concluded that the competencies examined in this study are the most successful leveraging factor for a competitive advantage for tier-3 banks having limited resources.

Moreover, because of the typical scarce data on smaller financial institutions, the chosen approach ensures operational sustainability and allows for meaningful comparisons with other banks in the country, as well as with other banks in the region. HR metrics will assess workforce skills against strategic goals, management capacity metrics will assess governance quality against CBK standards and technological capability metrics will document the progress of digital transformation against industry standards. This triangulation of capacity evaluation provides tier-three banks in Kenya's highly centralized banking landscape a comprehensive and valuable tool for determining strategic gaps and improvement avenues.

### **Tier Three Commercial Banks in Kenya**

To assist in the development and upkeep of sensible monetary policies, the Central Bank of Kenya supervises all bank operations. The laws that govern banks are the Banking Acts, the Kenyan Companies Act, and the Kenyan Central Bank Act. Through group and lobbying efforts, the Kenya

Bankers Association (KBA) represents the interests and concerns of commercial banks (KBA, 2020). There are 42 banks in Kenya's banking sector, some of which have both local and regional operations. Three peer classes comprise Kenya's commercial banks, which are classified using a weighted composite index. Customer deposits, net assets, reserves, capital, and the quantity of loan and deposit accounts are among the indicators (KBA, 2019). A bank is categorized as medium if its weighted compound index is less than 5 percent but larger than 1 percent, and as large if its weighted amalgamated index is at least 5 percent. A bank is considered small if its weighted amalgamated index is less than one percent. Large banks make up 49.9% of Kenya's 42 commercial banks, followed by medium banks (41.7%) and tiny banks (8.4%) (CBK, 2020).

Using the bank's balance sheet as a guide, bank tiers are a system for grouping banks according to how big they are in relation to all of the banking market's assets. Tier one consists of large banks controlling over 75% of the market share, Tier Two consists of medium-sized banks controlling about 17% of the market share, and Tier Three consists of small banks controlling about 8.8% of the market share. These categories are known as tiers for commercial banks. Twenty-one tier 3 banks dominate 8.50 percent of the market collectively; ten medium-sized commercial banks control 21.22 percent collectively; and nine tier 1 and 2 banks control 70.28 percent of the market collectively (CBK, 2019). The tier three commercial banks consistently experience declines and are frequently subject to regulatory actions because they are unable to comply with major regulations, particularly those pertaining to operating capital and asset base. In contrast, large and, to a lesser extent, medium-sized banks, are able to compete and penetrate the market with ease, including investing in foreign markets (CBK, 2022).

The failure of three commercial banks in the nation—Chase, Imperial, and Dubai banks—as well as the receivership and liquidation of these banks by CBK during a two-year period (2015 and 2016) due to capital shortfalls, underscore the shortcomings of commercial banks in the nation. The success of Kenyan money deposit banks has been inconsistent over the past five years; in 2018, they reported unfavorable earnings per share growth of -83.3%, as opposed to a positive growth of 15.5% in 2016 (CBK, 2021). This downward trend is ascribed to the decrease in interest income due to CBK capping. The banking sector, however, performed better despite the low EPS in 2015 and 2017 as revenue before tax on the banks grew by 11.0% to 147.4 billion KShs in December 2017 from 134.0 billion KShs in December 2015.

### **Statement of the Problem**

The banking sector in Kenya shows a great polarization with Tier Three banks accounting for 75% of the licensed banking institutions (22 banks) but accounting for only 8% of the market share. This is a stark contrast to the dominance of the top nine banks accounting for 70.28% of the sector assets, which is making it more difficult for smaller banks (CBK, 2022). This imbalance is manifested in the troubling operational trends such as the net loss of KSh 600 million in 2019 by Sidian Bank, the collapse of three Tier Three banks (Chase, Imperial and Dubai banks) between

2015-2016 due to capital inadequacy (CBK, 2021). According to recent regulatory reports, there is a widening gap between the performance of Tier One and Tier Three banks, with Tier One banks achieving 80% average growth in profit in 2022, while Tier Three banks were able to achieve growth of only about 10% during the same period. Worryingly, 70% of Tier Three banks did not meet the KSh 1 billion minimum capital adequacy ratio, suggesting significant doubts about their viability and sustainability (KBA, 2023).

The competitive environment shows increasing structural disadvantages for smaller banks. The presence of digital transformation initiatives is drastically different, with large banks having 85% adoption rate, while Tier Three banks (Tier 3) only 32% (FinAccess, 2023). Physical footprint strategies have also varied, with Tier Three banks cutting branches by 18%, and larger banks growing by 7% (CBK, 2023). Smaller banks have been most affected by workforce reductions, with 23% of cuts compared to 5% of Tier One banks, continuing to decrease service capabilities (KBA Workforce Report, 2022). The trend has raised keen concerns from stakeholders in the sector such as Kenya Bankers Association (2023) indicating "growing sector stratification" and cautions by the IMF (2023) on "concentration risks" in the financial sector in Kenya.

There is a mixed body of research in terms of the capacity of strategic capabilities to respond to these challenges. The study by Aduwo and Deya (2022) on the samples of mixed-tier found out that technological capability significantly drives the competitiveness of banks ( $\beta = 0.72$ ,  $p < 0.01$ ) while the specific study on Tier Three banks by Mwangi (2023) revealed that technological capability had a negligible effect on competitiveness of banks ( $\beta = 0.18$ ,  $p > 0.05$ ). Likewise, the results of the study conducted by Nusair et al. (2022) on the managerial capabilities in SMEs ( $r=0.65$ ) are significantly different from the study conducted by Idah et al. (2023) in the Kenyan banking sector ( $r=0.32$ ). The inconsistencies in the results indicate that the effectiveness of strategic capability could be significantly influenced by the type of institutional size and the availability of resources, which is crucial since it represents a gap in the knowledge that this study attempts to address. The National Commission for Science, Technology and Innovation (NACOSTI, 2023) has specifically requested "granular, segment specific banking research" to resolve these paradoxes.

The Central Bank's three priorities for strengthening the Tier Three bank viability are mentioned in the Strategic Plan 2022-2025. There are still significant gaps in digital infrastructure, as only 41% of Tier Three banks have fulfilled CBK's 2023 technology requirements. Governance gaps remain and 62% of respondents report that independent technology committees are not in place to guide digital transformation. The problem of staff turnover is becoming critical, with 43% of staff turnover compared to the industry average of 22%, seriously impacting the continuity of service and institutional memory. This study directly addresses these regulatory concerns by examining the technology, management and human resource capabilities that can help alleviate the competitive disadvantages faced by Tier Three banks.

This is a multi-faceted problem in the industry and the research covers several aspects of this problem. It's limited to Tier Three institutions, giving it much needed insights into the specific challenges faced by smaller banks. The study uses capability metrics that are directly linked to the new performance monitoring framework developed by CBK to make it relevant for bankers and regulators. It provides empirical evidence to drive policy interventions on sector concentration and creates actionable policy options for small banks to thrive in the digital era.

The available study on larger banks or mixed samples (Aduwo & Deya, 2022) however shows strong positive effects while the focused studies of Tier Three banks (Mwangi, 2023) shows negligible effects of the strategic capabilities. As a result, this contradiction exposes a fundamental knowledge gap with the effectiveness of strategic capabilities that could depend on institutional size and limitation. It's not clear what, if anything, that can do to level the playing field for the Tier Three banks, or whether the banks are stuck with other, unbridgeable, structural disadvantages. This study therefore directly contributes to addressing this gap, by empirically examining the unique strategic capability-competitive advantage relationship in the Kenyan context of Tier Three banks with limited resources. The results will be used to assess whether strategic capabilities can level the playing field in a banking sector that is becoming more competitive or whether structural changes are required in order to maintain competition and access in Kenya's financial markets.

## **Objectives of the Study**

### **General Objective**

The general objective of the research was to examine the effect of strategic capabilities on the competitive advantage of tier three commercial banks in Nairobi city county Kenya.

### **Specific Objectives**

The below listed particular objectives serve as the investigation's guidelines;

- i. To examine the effect of technological capabilities on the competitive advantage of tier three commercial banks in Nairobi city county Kenya.
- ii. To determine the effect of managerial capabilities on the competitive advantage of tier three commercial banks in Nairobi city county Kenya.
- iii. To establish the effect of human resource capabilities on the competitive advantage of tier three commercial banks in Nairobi city county Kenya.

### **Research Hypotheses**

The hypotheses for the investigation are as follows:

**H<sub>01</sub>** Technological capabilities have no significant effect on the competitive advantage of tier three commercial banks in Nairobi city county Kenya.

**H<sub>02</sub>** Managerial capabilities do not have significant effects on the competitive advantage of tier three commercial banks in Nairobi city county Kenya.

**H03** Human resource capabilities have no substantial effect on the competitive advantage of tier three commercial banks in Nairobi city county Kenya.

### **Significance of the Study**

It is anticipated that the current investigation will add to theory, policy, and practice. The study's results, conclusions, and suggestions may, in theory, support or contradict the competitive advantage theory. Policy makers can find the study useful in formulating policies. Discussions and recommendations derived from the study's findings will provide policy makers including CBK, KBA, and Kenya Revenue Authority (KRA) with information on actions to be made to improve their respective roles. CBK may create initiatives targeted at improving strategic capabilities by creating pertinent policy guidelines for the management and operation of commercial banks. In order to prepare steps to maximize tax administration, CBK must comprehend the strategic skills that commercial banks have implemented. The management of commercial banks should have a method for comparing the performance of the company to the impact of strategic capabilities. This can be achieved by having a thorough grasp of how the performance of the organization is impacted by management, technological, and human resource capabilities.

### **Scope of the Study**

The primary aim of this investigation was to explore how strategic capabilities affect the competitive advantage of Kenya's tier three commercial banks. The study independent variables covered managerial, technological and human resource capabilities while competitive advantage were the study dependent variable. The study was anchored on the Dynamic capability theory, Upper echelon theory, human capital theories and Porter's Competitive Advantage Theory. A descriptive and explanatory research approach was used for the investigation.

### **Limitation of the Study**

Only Kenya's third-tier banks were included in the research. There are 22 of these banks. Compared to other industries, the banking business is subject to a greater number of rules. These banks provided the sampled participants' data for this article. Furthermore, only three primary strategic competencies were included in the analysis. Among them were managerial, technological, and human resource capabilities. It's a sign that the findings of this investigation won't address minor strategic capability issues. It follows that extrapolating this paper's findings to other industries could not be possible. However, the investigation's outcome can be applied to sectors with greater autonomy and operations that resemble banks. Nonetheless, the researcher plans to recommend that additional research be done on different commercial bank tiers and that other elements of strategic capabilities be included.

The investigator would run into some obstacles that would make it difficult to obtain the information they needed. The study's target respondents may be unwilling to divulge information

because of concern that it might be used against them or to project a negative image of them. To address this, the investigator brought an introduction letter from the university as proof that the data they provide would be kept private and used only for academic purposes.

### **Organization of the Study**

The study is organized into three parts. The first section serves as a general introduction and covers the background, the research issue, the aims, the research questions, the importance of the investigation, its limitations, and its scope. The associated literature is reviewed in the second chapter which includes theoretical, empirical, critical review, research gap, and conceptual framework. The third chapter provides an explanation of the research methodology and ethical considerations.

## **LITERATURE REVIEW**

### **Introduction**

This chapter presents the literature from other researchers and scholars. It comprises a section on critical evaluations of the literature, a theoretical and empirical review, a description of the literature and any gaps, and a conceptual framework.

### **Theoretical Literature Review**

The following theories will aid in providing a theoretical backdrop for the study: Porter's competitive advantage theory, Upper Echelons Theory, Dynamic Capability Theory, Human Capital Theory, and Market-based View.

### **Dynamic Capability Theory**

Dynamic Capability Theory offers a framework for comprehending how businesses build the ability to modify their resources and competencies in response to quickly shifting market conditions. It was first articulated by David Teece, Gary Pisano and Amy Shuen in 1997 and further refined by Teece in 2007 and 2014. According to the theory, there are three main ways that businesses keep a competitive edge: recognising opportunities and threats in the marketplace, taking advantage of these opportunities by making calculated investments, and changing organisational structures and procedures to stay in line with consumer demands. The theory explains how smaller banks can compete with the more resourceful ones through strategic skills, in the specific case of Nairobi's Tier Three commercial banks. For instance, the ability of a bank to identify new mobile banking opportunities or understand possibilities through fintech partnerships and transform internal processes with new training and system upgrades will directly affect a bank's competitive position.

Dynamic capability theory has received a number of empirical supports in banking sector. According to Mwangi and Omwenga (2023), during times of market upheaval, like the COVID-19 pandemic, Kenyan banks with strong dynamic skills were able to introduce new products 23%



faster and keep 18% more clients. These skills are especially important for Tier Three banks, which can use agility and local market knowledge to spot and seize specialized possibilities even if they frequently lack the financial resources of their larger rivals. The notion has not, however, been without its detractors. Since the existence of dynamic capacities is frequently deduced from competitive success, which is then ascribed to those same capabilities, Eisenhardt and Martin (2000) contend that the theory's core ideas may become circular. The theory's weak predictive value is further criticized by Arend and Bromiley (2009), who point out that although it successfully explains previous organizational triumphs, it provides little useful advice for strategic planning in the future. Furthermore, Winter (2003) draws attention to the theory's failure to adequately address the difficulties faced by organisations with limited resources, such as Tier Three commercial banks, which would find it difficult to make the required investments in capability development.

Despite the above, Dynamic Capability Theory can be considered quite applicable to this investigation for various reasons. First, it provides a diagnostic tool to understand why some Nairobi Tier Three banks are more effective at managing change in the market, whether it be the adoption of digital banking or the evolution or tightening of regulatory requirements. Secondly, it emphasizes the need for constant transformation, as is consistent with the idea that strategic capabilities need to evolve along with market dynamics. For example, mobile-friendly banks were better off serving the “unbanked,” and banks that were slower to get mobile-friendly lost market share. Third, the theory offers a clear conceptual structure to evaluate the role of managerial, technological, and human resource capabilities, making explicit connections between managerial and HR capability development and measurable competitive outcomes such as profitability and customer retention.

Dynamic capability theory has both influenced the methodology as well as the interpretation of the results. It influences the way that technological abilities are evaluated – such as the time banks take to adopt new digital technology, including API interfaces that demonstrate their ability to identify and respond to fintech advances. It also shapes the assessment of managerial skills, such as the rate at which banks exploit new opportunities, such as mobile lending, as part of their strategic decision making agility. The theory highlights the importance of adaptability of the workforce, measured by reskilling rates, for human resource capacities to ensure that the company can adjust operations to the market needs. An illustrative example in Nairobi is the situation when the Central Bank of Kenya announced strict cybersecurity regulations in 2022, whereby Tier Three banks which were more dynamic were able to form fintech partnerships in three months compared to others taking up to a year. This disparity led to tangible trust and fraud prevention challenges for consumers, according to the Kenya Bankers Association (2023).

The theory's focus on continual adaptation is particularly relevant to Nairobi's Tier Three banks, who are faced with unique challenges such as the opportunities presented by the city's growing

SME segment, regulatory issues such as the implementation of IFRS 9, and digital threats from mobile money providers such as M-Pesa. Utilizing the Dynamic Capability Theory, this study transcends the mere static analysis of strategic capabilities by illustrating the need for strategic capabilities to be dynamic in the fast-paced banking environment in Nairobi. By tackling the immediate study objectives, this approach also encourages broader discussion on the ability of smaller financial institutions to compete and succeed in a more technologically sophisticated and competitive marketplace.

### **Upper Echelons Theory**

According to the Upper Echelons Theory, which was created by Hambrick and Mason in 1984, top executives' backgrounds and mentalities have a big impact on organisational outcomes. The concept suggests that managers' personality, value and experiences influence their decisions of strategy, which influences the performance of the business. This hypothesis has implications for Nairobi's Tier Three commercial banks in understanding how the attitudes and characteristics of the bank executives can affect their practices in risk management, technology use and human resource development. The basic tenet of the theory is that a manager's working experience, training and functional pathways are essential filters in strategic decision making in a complex corporate environment, in which managers have to rely on their own unique interpretations.

The Upper Echelons Theory has been found to be especially applicable to leadership responsibility within banking industry as a sector that deals with changes in the industry. According to studies done by Nnabuike and Mena (2023), the likelihood of the executive team of commercial banks in Nigeria approving innovative technology investments was 27% higher for those with diverse functional backgrounds than for those with homogenous backgrounds. The theory is illustrated with the Kenya banking sector, which shows how the younger, tech-savvier bank CEOs have quickened the pace of mobile banking products, while their more traditionally schooled counterparts have lagged behind. The hypothesis also explains why certain Tier Three banks continue to implement conservative policies in the face of fintech disruptions, due to cognitive biases towards established operating models caused by their senior managers' traditional banking backgrounds. However, the theory has been criticised by some scholars. Finkelstein and Hambrick (1996) noted that the theory does not predict when specific strategic results will occur, and the executive qualities only account for 20–30% of the variation in corporate success. Other critics, such as Priem et al. (1999), contend that the theory is too much about managerial discretion and that environmental constraints have a similar impact on organisational outcomes, which are underestimated. The weakness of the theory is the absence of the consideration of the resource constraints, which can restrict the strategic possibilities of the CEOs even in the absence of their own characteristics, especially for Tier Three organisations.

Notwithstanding these drawbacks, Upper Echelons Theory offers some valuable insights in this analysis of strategic capability in the following ways. First, it offers a framework for exploring how professional experiences and educational backgrounds of Tier Three bank executives impact

their disposition to invest in technologic advancements. Second, this theory can explain the variation in managerial skills among various banks, since it correlates strategic decision-making techniques with the composition of managerial teams. Thirdly, it provides a framework for the analysis of HRD activities, as experiences of personal training and mentorship of CEOs can sometimes influence their involvement in staff development projects. The concept is helpful in understanding the dynamics of a digital banking transformation, as it is instrumental in an environment such as Nairobi, where some Tier Three banks are seeing more activity and others are maintaining their branch models. For example, an API director or mobile app developer could be a CEO at a Tier Three bank with a background in fintech, and focus on the interface and the mobile channel instead of the physical branch.

The Upper Echelons Theory is practically applied in this study through the consideration of the biographical information of the Head of Divisions of the Tier Three banks in Nairobi as compared to investments in strategic capabilities. Executive technology credential levels, management team tenure, and the variety of executives' functional backgrounds will be analyzed in comparison to each bank's technology adoption and management team innovation scores and HRD budgets. The findings of Ndung'u (2022) that Kenyan banks adopted digital banking solutions 40% more quickly when at least 30% of their CEOs held STEM degrees are further supported by this tactic. The study is able to transcend the technical assessment of strategic skills and use Upper Echelons theory to identify human factors that either assist or impede organisational flexibility within the competitive banking sector in Nairobi. The leadership emphasis of this theory complements other theory in this study by adding the key element of executive's impact on capability building and deployment.

### **Human Capital Theory**

Gary Becker's Human Capital Theory (1964) was further developed by Schultz (1961) and Mincer (1974), and it asserts that the financial benefits of investing in the knowledge, abilities and skills of workers accrue to individuals and organisations. The thesis holds that businesses can strategically invest in the development of employee competencies as a kind of capital, to boost productivity and gain a competitive edge. This theory is a good explanation of how investing in staff training, professional enhancement and talent retention can make the Tier Three commercial banks in Nairobi more effective and innovative in their operations. In the context of the growing importance of digital financial services in the banking sector, the findings suggest that human capital is a key factor in the adoption of digital transactions, with Kenyan banks that made significant investments in staff training having a higher rate of adoption compared to those that did not. The study's findings underscore the significance of human capital in digital financial services adoption, particularly in the banking sector, where those institutions with higher levels of staff training saw a higher rate of digital transaction adoption compared to those with lower levels of such training.

Through the Human Capital theory, the banking sector has shown that the strategic human resource capabilities have an effect on organisational success. Research, such as that conducted by Urme (2023), found that banks that allocate 3% of their annual budgets towards staff development programs see a 19% higher customer satisfaction rating and a 28% reduction in turnover rate. The idea appeals to Nairobi's Tier Three banks, which typically have less capital to spend on salaries and benefits, as a potential alternative to competition via other channels, such as better knowledge management and talent development. However, other scholars have severely criticized the hypothesis. It is said by Brown et al. (2020) to concentrate more on individual competencies and less on the importance of organisational procedures in boosting employee performance. Moreover, in highlighting that these results are generally dependent on contextual factors such as workplace culture and technical infrastructure, Keep (2017) challenges the premise of the theory that training investment and productivity gains are linked. The theory's primary drawback is that it offers limited insights into how Tier Three banks with limited resources can maximize human capital investments when funds are limited. This is reflected in a CBK study carried out in the year 2023 on banks where 65% of these banks spent less than 1.5% of their profit in employee training.

Although there are constraints to the applicability of Human Capital Theory to the analysis of strategic capabilities of Tier Three institutions, the theory provides three useful contributions to the analysis of strategic capabilities. It is most importantly a tool to determine the ROI of HRD projects, which is very important for smaller banks as they need to justify their training investments. Second the theory can provide insight to the reasons behind the limited competitive positioning of commercial banks with competency gaps such as risk management and digital banking as noted by Aduwo and Deya (2022) in their study of the commercial banks in Kenya. Third, it provides suggestions on retaining talent, which is where smaller banks fall short of larger banks, and suggests that investment in professional development – not all in cash – can help bridge the gap. The idea is particularly relevant to the Nairobi setting to explore how Tier Three banks could develop personalised career journeys that strengthen the ability of their organisations and employees to be happier with their work, leveraging their often longer length of tenure with the bank's managers.

Many methodological approaches are used in the actual use of the human capital theory in this study. The study will look at how much money banks spend on employee training relates to important performance indicators like customer acquisition costs and service innovation rates. It will also evaluate the professional certification of staff and its relationship with key performance indicators (KPIs) including loan turnaround times and fraud detection accuracy. The apps are based on work by Mwangi and Omwenga (2023), who discovered that Kenyan banks experienced 32% fewer operational errors than the rest of the banking sector when over 40% of their employees held professional banking qualifications. The study is based on Human Capital Theory which goes beyond financial analysis to demonstrate that Tier Three banks are able to invest in human talent

in the right ways to overcome their resource-dampening position in the competitive banking market in Nairobi. The focus of the theory on the measurable development of skills is another strength of this study in its focus of management and technology skills that must be developed to effectively introduce and maintain strategic advantages.

### **Porter's Competitive Advantage Theory**

Porter's Competitive Advantage Theory was developed by Michael Porter in his two publications in 1980 and 1985. This theory serves as a simple guide for how companies can outperform and stay competitive in the marketplace. The theory of competitive advantage provides three general strategies for competitive advantage—through cost leadership, differentiation, and focus—which companies can use to outperform their competitors, given that they operate at lower costs, provide unique value propositions, or find a way to target specialised market groups. For Tier Three commercial banks in Nairobi, this theory is applicable when discussing the impact of strategic positioning on market share and profitability, especially as smaller banks target niche services such as those for SMEs or use cutting-edge digital platforms. The theory's Five Forces model also extends its usability, as it explores competitive rivalry, the threat from new entrants, customer power, and substitute products, all of which shape Nairobi's banking context and have been overtaken by the emergence of mobile money service providers such as M-Pesa, which has revolutionised the traditional banking model (CBK, 2023).

There is ample evidence of the use of Porter's theory in banking. For instance, a study by Nnabuike and Mnena (2023) indicated that differentiation strategies targeted at underserved SME market segments contributed to achieving a 22% retention rate for Nigerian Tier – three Banks. Similarly, though plagued by sectoral challenges, Tier Three banks in Kenya have employed focus strategies including agricultural lending with a corresponding increase in their portfolio by 18% (KBA, 2023). But today's researchers have severely criticized the notion. Barney (1991) suggests that Porter's paradigm places too much emphasis on external industrial forces and undervalues internal resources as sources of advantage. Additionally, the theory's static nature is called into question by Teece (2007), who states that the theory is not very relevant in the fast-changing digital economy as agility and innovation are more important than structural positioning. The theory's weakness is that smaller banks may be unable to engage in meaningful levels of cost leadership or differentiation due to their limited access to strategic resources, while also being excluded from Tier Three banks specifically (Idah et al., 2023).

Porter's theory contains a few important lessons for this study, given these constraints. In the first place, it offers a methodical way to examine how Tier Three banks can use specialist tactics to counter powerful Tier One rivals. Second, the disruptive threat posed by fintech companies and mobile money platforms is one of the competitive pressures specific to Nairobi's banking industry that can be evaluated using the Five Forces approach. Third, the theory's focus on strategic decision-making is consistent with this study's analysis of how managerial, technological, and

human resource capacities support certain competitive positions. Porter's strategic lens, for example, can be used to assess a Tier Three bank's investment in agency banking networks (cost leadership) or mobile banking technology (differentiation) (Aduwo & Deya, 2022).

The study uses a variety of approaches to apply Porter's theory. Using criteria such as cost-to-income ratios for cost leaders and customer satisfaction scores for differentiators, it analyses how the strategic capacity investments made by Tier Three banks match the generic strategies that have been selected. In Nairobi's competitive landscape, where 72% of Tier Three banks cite mobile money services as their top competitive threat, the study also uses the Five Forces concept to contextualise its findings (FinAccess, 2023). The study provides a thorough understanding of how organisational capabilities and strategic positioning work together to influence competitive outcomes for Nairobi's Tier Three banks by fusing Porter's outward focus with capability-based internal assessments. Both the theory's detractors and the real-world difficulties these banks have are addressed by this dual viewpoint, which offers practical advice on how to use scarce resources to gain a sustained edge in a crowded market.

## **Empirical Literature Review**

### **Technological capabilities and Competitive Advantage**

There are a number of studies in relation to the impact of technological capabilities on competitive advantage in the banking sector in Kenya and emerging evidence suggest that there are interdependencies between the technological and managerial and human resource aspects. Mugambi (2021) investigated the performance variance of Nairobi commercial banks and determined that technological competence in the banks contributed 38% of the variance in performance but pointed out the importance of technological competence and the role played by the change management protocols, which showed that the technological competence interacted synergistically with the managerial competence to explain the variance. This result is consistent with a sector-wide analysis conducted by Aduwo and Deya (2022), which found that banks with integrated technology-governance units outperformed peers by 27% on competitive metrics such as market share growth. This suggests that technological capabilities provide the greatest benefit when they are integrated into strong organisational structures.

The ways that technological capabilities intersect with other strategic elements have gradually come to light in recent studies. Kawira (2023) conducted an empirical study on three banks in Nairobi which found that the technology governance structure of the C-suite (managerial competency) and digital literacy within the middle levels (human capital) had to be in place to realize the 22% performance premium that was expected to come from modern IT systems. The efficiency gains from technological investments in the absence of complementary staff training were estimated to be 9% while when all three capability domains were aligned, the efficiency gain is estimated to be 31%. This tripartite relationship was quantified through regression analysis. This was further confirmed in an extensive study by Mwangi and Omwanga (2023) which involved 42



banks, with the main findings from the structural equation model indicating that only 41% of digital transformation success was attributable to technological capabilities, while 59% was attributed to human resource upskilling programs and agile management practices.

Three important syntheses across the capability dimensions are highlighted in the evolving literature. First, technology infrastructure produces diminishing returns, due to the lack of parallel investment in human capital such as CBK's (2023) discovery that digital transaction performance among Tier Three banks with similar IT systems varied by as much as 200% based on the human capital differentials. Second, the level of managerial decision making architectures is a critical factor in determining how rapidly banks adopt mobile banking solutions – the banks that operate in a more bureaucratic way adopted mobile banking solutions 40% slower than those with flatter hierarchies (KBA, 2023). Third, technological benefits can be sustained only through ongoing interactions among all three capabilities: Systems need knowledgeable workers to manage them, and adaptive leaders to continually reconfigure them as markets evolve (Teece, 2023).

The integrated view underlies the methodology of assessment of Tier Three banks in the current study. Whereas earlier studies looked at technological capabilities separately, this study will look at how through training investment levels and digital skill inventories, human resource capabilities control the uptake of technology. Managerial capacities influence the deployment of technology through risk governance frameworks, the speed of strategic decision making, and the differences in the technical capacities of organisations depending on their capacity to learn and support their leaders.

The synthesis indicates that Tier Three banks could compensate for the technological resource limitation by means of better capability integration, for example, through targeted staff training in order to maximize limited IT resources, or through agile management to speed up fintech partnerships. This multi-faceted research not only addresses an important gap in the literature, but also provides valuable guidance for banks that are beset with limited resources and are functioning in the fast-changing financial landscape of Nairobi.

### **Managerial capabilities and Competitive Advantage**

From the literature available at the present on management talents, important relationships emerged to technological and human resource aspects, which together have an impact on the competitive advantage of the banking sector. However, Nusair et al. (2022) found that managerial skills had a greater influence on performance variance in service companies, with the influence rising to 48% in the presence of good digital infrastructure, emphasizing the interaction between managerial skills and technological capabilities. This is in line with Nnabuike and Mnena's (2023) study on banking sector in Nigeria which reported that managerial human capital had higher correlation with performance ( $r=0.61$ ) in banks that at the same time provide training programmes

for their employees, indicating that managerial decisions on human resource development enhance managerial performance.

New studies have shown the importance of managerial skills as the key link between technological investments and human capital use. In Kenya, the study by Idah et al. (2023) found that technological capability accounted for 28% of the competitiveness of banks, and with two managerial factors (strategic decision making agility and change management competence) it raised the proportion to 41%. Likewise, Mugo and Deya (2023) examined Kenyan commissions and discovered that the effect of managerial capabilities on performance was 37% greater among those organizations that had integrated technology-governance teams, thus highlighting the importance of a changing leadership structure to enhance the potential for technology. The findings are particularly relevant to Tier Three institutions because CBK (2023) reported that only 68% of digital transformation failures were due to managerial opposition, whereas 32% were due to technical challenges.

At the technology-management interface, three major syntheses are highlighted. The study by Kawira (2023) revealed that banks' managers determine 40% of the rate at which new technologies are introduced, which implies that managerial skills affects the rate of technological return on investment. The mediating role of managerial style between human capital returns is illustrated by Mwangi and Omwenga (2023) which showed that the change in staff productivity due to training was 3.2x higher in the presence of transformational leaders on the people-management nexus. KBA's 2023 benchmarking data shows that Tier Three banks that outperformed the business in the three competency categories (achievement increases by 2.4× faster than leaders in single competency categories) were able to secure deposits at a faster rate. This study extends the existing literature by looking into the managerial governance of Kenyan Tier Three banks to align their strategic direction and limited technological resources, and to develop leadership practices that maximise human capital in resource constrained environments, and decision making architecture that balances the risk management and innovation needs.

The synthesis indicates, therefore, that integrated capability development could be an option for Tier Three banks to offset scale disadvantages. For example, they could use strong middle management to cascade digital strategies while frontline supervisors customise execution to meet local market needs. This enables the lecturer to see how managerial capacities are not stand-alone capacities but are instead mixed into, and either boost or undermine, the effectiveness of other strategic investments in Nairobi's competitive banking environment (Kawira's, 2023).

### **Human Resource Capabilities and Competitive Advantage**

The linkage between human resource capabilities and competitive advantage in banks has shifted from the perception of human resources as an independent capability to the recognition of the human resource capability as a part of the interdependent capability system of the banks. Recent

studies prove that the potential of human capital is best leveraged to synergize it with technological support and management control, and that small banks can use this organizational synergy to overcome scale-related disadvantages. Although focused on the academic sector in Sudan, Hagoug and Abdalla (2020) found that the effects of the human resource investment on the performance of the organizations were almost doubled in the presence of complementary technological and leadership supports.

The result aligns well with the study by Mutiso (2022) that reveals HR capabilities have the greatest impact on competitive advantage when integrated into a digital transformation strategy and backed by agile management practices in Kenya's Family Bank. The bank's experience showed that 42% higher customer satisfaction scores could be achieved by bank staff with both digital skills and decision making authority, than by traditionally trained staff in rigid hierarchies.

Studies in Kenya have gradually come to understand the multi-faceted concept of human resource effectiveness in banking. This study by M'Mbwanga and Anyieni (2022), in Nakuru County, found that certified banking professionals and strong IT systems accounted for 61% of the improvements in service quality, while human capital factors accounted for 34% of the improvements. CBK (2023) notes that this technological leap in capability is relevant in Tier Three banks as institutions that adopted e-learning platforms and incentive-based certification successfully developed competence by 3.2 times quicker than those using traditional training methods. Furthermore, Musangi and James (2024) provided further insights into the management-HR connection, discovering that 39% more competitive advantages were created when performance appraisal systems were put in place along with leadership development initiatives. The interdependencies contribute to the understanding of why banks in Kenya that have dedicated "HR-tech-governance" units were more likely to be adopting digital transformation in the 2022 CBK sector survey compared to those that did not.

There are a number of measurable ways in which interaction effects between human resource capabilities and other strategic dimensions come into existence. Digital upskilling programs have been proven to have a dual competitive effect: They can boost the uptake of technology and employee productivity. A study conducted by Kenya Bankers Association (KBA) in 2023 revealed that mobile micro-training programs achieved 58% higher knowledge retention and 72% lower training costs compared to classroom training, a significant benefit for Tier Three banks with limited resources. The study on bank branches in Kenya conducted by Idah et al. (2023) spanning 10 years revealed that leadership styles significantly moderate HR effectiveness, and that transformational managers reaped 1.8 times more improvement from investments in training than transactional leaders. As convincingly as banks with higher scores in all three of the capability categories (management, technology, and human resource) saw their market shares increase at 4.1 times the rate as banks that were top performers in only one capability (Nabifo & Mnena, 2023), this should not be an excuse. This should not be an excuse, as banks that scored higher in all three

capability categories (management, technology, and human resources) experienced a growth rate in market share by 4.1 times the rate experienced by those banks that were top performers in only one capability category (Nabifo & Mnena, 2023).

The findings suggest a way forward for Nairobi's Tier Three Banks to leverage on their assets and capabilities in order to maximize their limited resources. The Central Bank's guidance notes for 2023 included some implementation pathways, such as the creation of flattened organisational structures that empower frontline staff, implementing talent mobility programs that cross-pollinate technological and business expertise, and developing hybrid competency models that align digital skills with customer service excellence. For example, Paramount Bank's Digital Champions initiative was a success, where high-potential employees were assigned to Technology Champions and were given decision-making power around Digital product deployment. This initiative helped boost mobile banking adoption by 28% in 6 months (KBA Case Study, 2023). These pictures illustrate how Tier Three banks need to target capacity junction points and not specific HR investments to generate a disproportionate competitive impact.

This integrated capabilities strategy is becoming more and more important due to the changing nature of banking competition. Human resource strategies must concurrently address technical skill gaps, change management capacity, and innovation capabilities as fintechs and digital platforms reshape customer expectations. If banks don't build these interconnected capabilities, they could lose up to 30% of their clientele to digital alternatives in five years, according to a 2024 research by the Kenya Fintech Alliance. In Tier Three banks, where just 22% of employees have sufficient digital financial service competences, compared to 67% in Tier One institutions, this threat is especially severe, according to McKinsey's 2023 diagnosis. competitiveness. But according to the same diagnostic, Tier Three banks with strong integrated capability measures kept 18% more clients than their counterparts during market shocks, indicating a feasible route to long-term competitiveness.

By investigating how Nairobi's Tier Three banks might strategically align with managerial and technological aspects to maximise their human resource skills within resource restrictions, this study will advance existing knowledge. Three integration mechanisms will be specifically examined in this study: how leadership pipelines can develop both digital literacy and people management skills, how competency frameworks can bridge technical and customer service requirements, and how organizational culture can increase the impact of training investments. The study seeks to deliver actionable learnings for smaller banks in a hyper-competitive and technology-laden financial services sector by going beyond the siloed capability assessment. The results will feed into the current policy debate on boosting Kenya's banking sector through strengthening its diverse banking system and provide action plans for Tier Three banks to establish viable competitive footholds.

## Summary of Literature Review and Gaps

*Table 2. 1 Summary of Literature Review and Research Gaps*

| <b>Writer</b>         | <b>Main Objective</b>                                                                                                             | <b>Key Findings</b>                                                                                                                                      | <b>Gaps in Research</b>                                      | <b>This study's main focus</b>                                                                                                                                             |
|-----------------------|-----------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Aduwo and Deya (2022) | The impact of technical capabilities on the competitive edge of Kenyan commercial banks                                           | the competitive advantage of money deposit banks in Kenya is favorably and notably impacted by technological capacity                                    | The study was carried out in 2022                            | This study will capture recent changes that might have occurred in the banking industry. Focus more will be on Tier three banks that have not had alot of focus previously |
| Kawira (2023)         | investigated the connection between a few chosen commercial banks' performance and their tec;hnological prowess in Nairobi, Kenya | discovered a noteworthy and favourable link amongst the performance of a subset of Nairobi City, Kenya's commercial banks and their technical capability | previous study was conducted for 3 commercial banks in Kenya | current study will exclusively base 22 tier three Kenyan licensed commercial banks                                                                                         |

|                             |                                                                                                                 |                                                                                                                                                                     |                                                     |                                                                             |
|-----------------------------|-----------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------|-----------------------------------------------------------------------------|
| Mwangi and Omwenga (2023)   | impact of technical skills on the success of money deposit banks in Nairobi County                              | that the effectiveness of Kenya's money deposit banks is positively and considerably impacted by the effective application of technology capabilities               | The study concentrated only on performance of banks | This study will place emphasis on competitive advantage of the banks.       |
| Mugambi (2021)              | assessed how Kenya's Nairobi City County's commercial banks performed in relation to their technological skills | study found that a commercial bank's performance is significantly and favorably impacted by its technical capacity. The study established that technical capability | The study was based on technological capabilities   | this study will equally look at managerial and human resource capabilities. |
| Nusair, <i>et al</i> (2022) | how managerial skills affected the environmental                                                                | managerial skills significantly                                                                                                                                     | Environmental uncertainty of manufacturing          | competitive advantage of 22 tier three                                      |



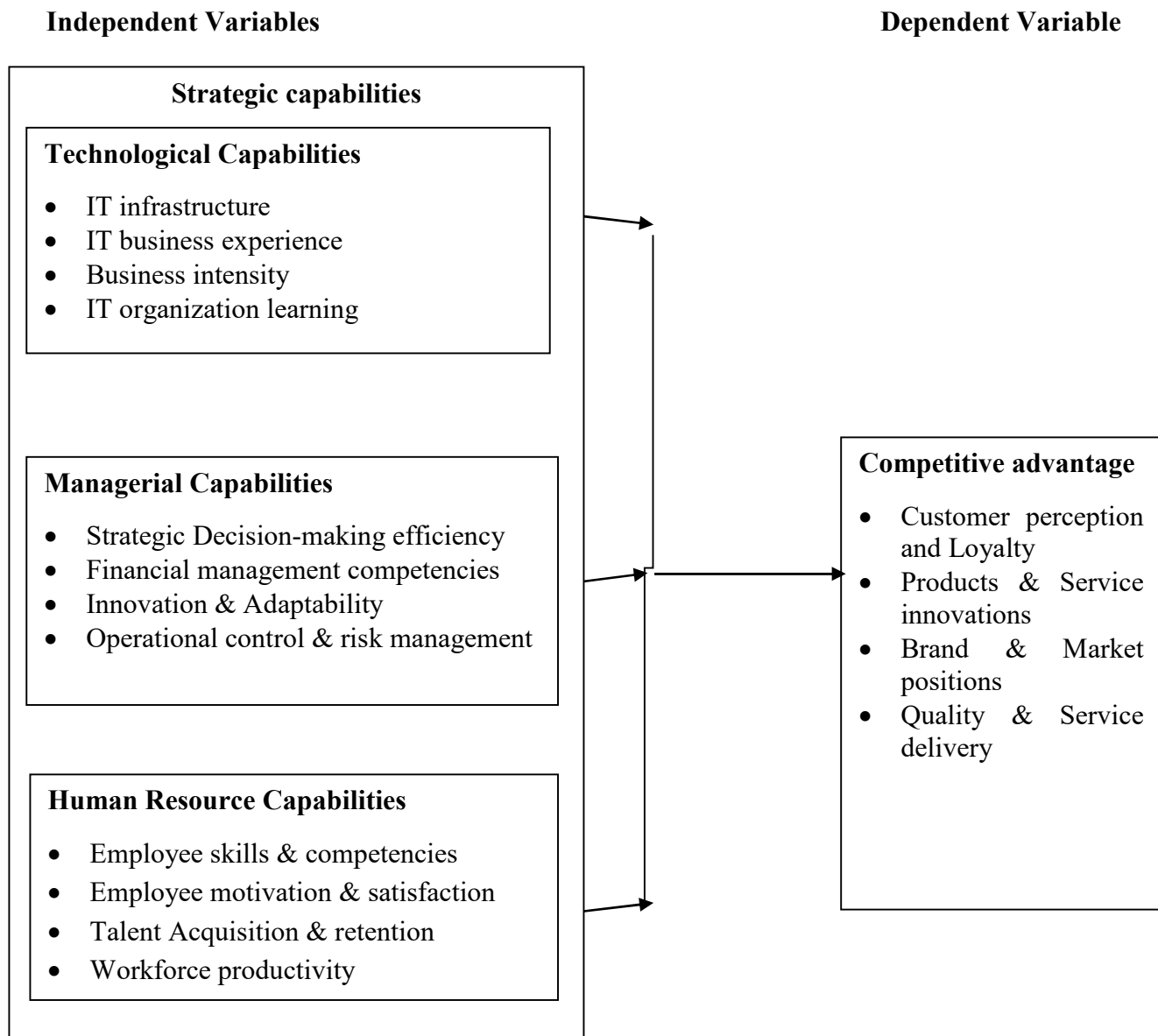
|                                       |                                                                                                             |                                                                                                            |                                                                                       |                                                                                                                             |
|---------------------------------------|-------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------|
|                                       | uncertainty of businesses SMEs                                                                              | improve customer satisfaction                                                                              | and service SMEs                                                                      | commercial banks in Kenya                                                                                                   |
| Nnabuike and Mnena (2023)             | the connection between the success of North Central Nigeria's money deposit banks in and managerial talents | performance and managerial human capital had a strong positive association                                 | previous study was centered on success of Nigeria's commercial banks in North Central | competitive advantage of 22 tier three commercial banks in Kenya.                                                           |
| Idah, Odero, Nelima, and Rutto (2023) | The impact that managerial qualities have on Kenyan commercial banks' competitiveness                       | The competitiveness of commercial banks in Kenya is significantly boosted by managerial talents            | the study focused on managerial capability.                                           | this study will also look at other aspects of strategic capabilities such as technological and human resource capabilities. |
| Mutiso (2022)                         | explored how a family bank in Kenya's competitive advantage was impacted by its human resource capabilities | human resource capabilities have a favorable and considerable impact on commercial banks' competitive edge | previous study focused on competitive advantage at Family bank in Kenya               | current investigation will exclusively base on competitive advantage of 22 tier three Kenyan                                |

|                              |                                                                                                                         |                                                                                                                                                |                                                    |                                                                                   |
|------------------------------|-------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------|-----------------------------------------------------------------------------------|
|                              |                                                                                                                         |                                                                                                                                                |                                                    | commercial banks                                                                  |
| M'Mbwanga and Anyieni (2022) | How human resource capabilities effect the competitive edge of commercial banks                                         | Results demonstrate a substantial relationship between the competitiveness of commercial banks and human resource capabilities                 | The study adopted a census sampling method         | The present study will adopt a simple random sampling method.                     |
| Musangi and James (2024)     | The competitive edge of Nakuru County, Kenyan commercial banks was evaluated in relation to human resource capabilities | Competitive edge of commercial banks and their performance appraisal technique were found to be favourably and notably linked by the research. | The study did focus on human resource capabilities | The current study will equally look at technological and managerial capabilities. |

*Source: Literature Review (2024)*

### **Conceptual Framework**

A conceptual framework, according to Ketchen and Bergh (2006), is a graphical depiction of the relationship between independent and dependent variables. The conceptual framework of this study comes from the literature review and research objectives. The independent variables include technological capability, human resource and management.



*Figure 2. 1Conceptual Framework*  
*Source: Researcher (2024)*

### Conceptual Framework Explanation

This approach is based on the hypothesis that there is a direct testable link between strategic capability of Tier Three commercial banks and competitive advantage. All the independent variables are hypothesized to have a positive effect on the dependent variable as follows.

### Technological Capabilities

The study will validate the hypothesis that increased Competitive Advantage is directly driven by improved Technological Capabilities (as expressed in a strong IT infrastructure, deep business integration, high process intensity and organisational learning). This correlation is suggested due to the fact that these banks are considered to have better technological capabilities that would allow

them to provide innovative digital services, lower costs, and operational efficiency, thereby gaining competitive advantage over the bigger banks.

### **Managerial Capabilities**

The study will examine the hypothesis that there is a direct relationship between Managerial Capabilities (reliability in decision making, effective delegation, confidence in leadership and respect of employees) and Competitive Advantage. This correlation is suggested by the fact that the agile execution of the strategy is believed to be facilitated by good management, a productive and creative organizational context and efficient risk management, which all are very important for maintaining a competitive advantage.

### **Human Resource Capabilities**

A hypothesis that will be tested in the study is that Developed Human Resource Capabilities (measured through efficient Knowledge Reuse, Creation, Acquisition and Sharing) will have a direct positive influence on the competitive Advantage. This relationship is thus hypothesized, as a skilled, motivated and a collaboratively learning workforce directly contributes to the quality of services, fosters innovation, and at the same time, supports the operational agility and, hence, the superior customer value and market positioning of the institution.

### **Competitive Advantage**

In this study, the Competitive Advantage is the overall outcome variable to be explained. It will be measured by the bank's ability to demonstrate superior market performance, which is theorized to be a direct result of the effective deployment of the stated strategic capabilities (technological, managerial, and human resource). The perception of this advantage will be gauged from senior and middle-level managers who are directly responsible for the strategy implementation within the firm.

## **RESEARCH METHODOLOGY**

### **Introduction**

The population, sample size, data collecting and analysis methods, data presentation method, and research design are all covered in this chapter. The decisions made here enabled a thorough synthesis and study conclusion in accordance with the goals of the investigation.

### **Research design**

Procedures for accomplishing study objectives are provided by research design (Sekaran & Bougie, 2013). Information about people's attitudes, beliefs, and behaviors is gathered through descriptive design. Kothari (2011) states that depending on the kind of data to be gathered, a study design can be either quantitative or qualitative. Quantifiable data gathering is required for quantitative research designs. A quantitative study's main goal is to identify the link amongst the

independent and dependent variables. It largely addresses logic and numbers. Furthermore, because the study used closed-ended questions, it aimed to support or refute established findings. The study adopted descriptive research and explanatory research designs. The study adopted both descriptive and explanatory research designs, which is a strong choice for a study analyzing relationships between variables (strategic capabilities and competitive advantage).

Descriptive design helped to capture the current state of strategic capabilities across tier three banks. Furthermore, the explanatory design is appropriate for testing cause-effect relationships using regression analysis. Surveys and many types of fact-finding investigations make up descriptive research. Descriptive research's primary goal is to explain the set of conditions as they exist. The goal of an explanatory research design on the other hand is to comprehend the how and why of a specific phenomenon. The approach is appropriate for the investigation since it enables the investigator to dig deep into the phenomenon and to present the situation as they are without any biases.

### **Target population**

The target population for this study has been carefully selected to ensure it captures the most relevant respondents for examining the relationship between strategic capabilities and competitive advantage in Tier Three commercial banks. Focusing specifically on Nairobi City County, the study targeted Heads of Divisions, Branch Managers and other senior managers from all 22 licensed Tier Three commercial banks operating in the metropolitan area. These respondents are most important because they comprise the decision-making cadre who would implement and monitor the 3 important independent variables that are being investigated, namely technological, managerial and human resource capabilities.

According to the Central Bank of Kenya's 2023 Banking Sector Report, these managers form the main change agents in their institutions, having first-hand experience in technology adoption, leadership practices, and human capital development. The targeted population of 154 respondents consists of the branch managers, heads of divisions (IT, HR, operations, etc.) and senior executives from head office who are actively involved in strategy planning and execution. Since these professionals have direct knowledge of how their banks create and implement strategic capabilities in competitive positioning, this focus fits with the goals of the study. In order to ensure the respondents are able to respond to all three independent variables, certain selection criteria were used in the study.

Heads of technology divisions and senior managers in charge of digital transformation programs or technology implementation projects were given preference in terms of technological competence. The research concentrated on the ones who have multi-functional leadership roles or even strategic decision-making roles in managerial competences. Heads of human resources and

line managers working on talent development initiatives were the main focus of the discussion on human resource skills.

The Nairobi focus is especially warranted because, as per the CBK records, these banks account for 68% of Tier Three banking transactions in the country, and therefore their competitive strategies are more impactful than in other parts of the country. In addition, the county is home to the headquarters of all 22 institutions, and provides access to respondents who have broad organizational perspectives and not just branch-level perspectives. This method follows up the lecturer's comments and ensures that the respondents have not only knowledge but are also actively involved in the application of the independent variables studied.

The target population was not comprised of junior staff and frontline staff as they generally exist in the framework of capability rather than creating it. Non-Nairobi branches are also not included, because they are usually only executing strategic capability decisions, rather than making them. The study collected data from the professionals who have the understanding and influence on how their banks build technological, managerial and human resource capabilities to have a competitive advantage in the dynamic financial sector in Kenya; this is a very refined focus.

**Table 3. 1 Target Population**

| Strata             | Target Population |
|--------------------|-------------------|
| Branch Managers    | 22                |
| Heads of Divisions | 66                |
| Head of IT         | 22                |
| Head of HR         | 22                |
| Head of Operations | 22                |
| <b>TOTAL</b>       | <b>154</b>        |

*Central Bank of Kenya's 2023*

### **Sampling technique and sample size**

This is a technique for choosing a suitable sample size to gather data on the intended population. It is a subset of the intended audience from whom information is gathered, condensed, examined, and conclusions regarding the intended audience are drawn based on the sample (Cooper & Schindler, 2014). The 154 respondents that were chosen from the 22 commercial banks made up the sample frame. A sampling formula by Yamane (1967) was applied in order to determine an appropriate sample size. The sample size therefore computed according to the formula:

$$n = \frac{N}{1 + N(e)^2}$$

Where:

N = population size

e = the level of precision 1 = Constant

n = sample size



This formula takes an index of variation (i.e. percentage) of 0.05, and a level of exactness of 5%. With a 95% confidence level.

Sample size for;  $n = 154 / \{1 + 154 (0.05)^2\}$

= 112 = 112 respondents

n = 112 respondents

Using the Yamane (1967), with 154 responders in the target audience, a sample size of 112 was considered as being suitable. The investigation utilized simple random sampling to pick the 112 respondents in the 22 tier three commercial banks in Kenya. In this study, a simple random sampling strategy was employed since it ensured that every cluster in a population is appropriately represented while offering each individual in the population an equal chance of getting selected.

### **Data Collection Instrument**

The researcher employed primary sources because of the nature of this investigation. Primary data was gathered from staff members who understood how their banks run. A structured questionnaire was utilized to gather data from the bank's key personnel, Heads of Divisions, Branch Managers, and senior line managers. The researcher was able to investigate respondents' opinions and perceptions on the impact of different strategic skills on their banks' competitive edge. Surveys are crucial because they enable the coding of answers and the confirmation of the veracity of informant testimonies (Kothari, 2004). There were five sections on the questionnaire (A-E). Respondents' personal information were recorded in Sections A through D, independent variables; covered in Sections B through D, and information about commercial banks' competitive advantages recorded in Section E. A five-point Likert-type scale were employed, with 1 denoting low and 5 denoting highest.

### **Data Collection Procedure**

In order to get the relevant data from the respondents, the investigator obtained an introduction letter from the institution, which was delivered to each respondent. The drop and choose method was used to administer the questionnaire in order to allow respondents the time to provide thoughtful answers. By building rapport, the researcher hoped to persuade participants to submit pertinent data and ask clarifying questions as needed. Two days prior to giving out surveys, the researcher scheduled a meeting with the participants. The respondents were given the research questionnaire by the investigator in person. As noted by Best and Khan (1987), this allowed the researcher to build rapport and clarify the goal of the inquiry and the meaning of any unclear items.

### **Validity and reliability of Research Instrument**

#### **Validity of the Research Instrument**

The content validity was achieved to make sure that the questionnaire was error-free both in terms of typological and intelligibility. Confirmatory Factor Analysis (CFA) was also used to determine construct validity.

The content validity was determined to ensure that there were no typographical mistakes in the questionnaire on top of clarity. Confirmatory Factor Analysis (CFA) was also done to establish construct validity. To test the content validity, the questionnaire was not subjected to typing mistakes, and ambiguity with very complex words. This was through counter checking the questionnaire and peer review.

A further Confirmatory Factor Analysis was done to ascertain Construct validity of the data. In that sense, communalities were employed in computing the loadings of each of the constructs to the aggregate variable. Factor loadings more than 0.4 were considered as valid constructs based on a suggestion by Field (2009). The findings showed that the constructs were valid because all the factor loadings exceeded the suggested value of 0.4.

### **Reliability of the Research Instrument**

The pilot study was to be conducted on a sample of 10 respondents, which is about 10 percent of the main study sample size. Respondents were selected from employees from Tier Three commercial banks in Nairobi County, since they did form the sample for the respondents in the main study. They were selected purposely because the same job positions, those in key, distinct positions, were also considered in the main survey.

The questionnaire was administered using the drop and pick method and it took 6 days in which the questionnaires were dropped and picked on the sixth day. The researcher was asked to clarify anything because he provided his contact information. The data was entered into SPSS V 30 and later utilized to determine the Cronbach Alpha coefficients. These have been contrasted with the threshold of 0.7 that is suggested by Silverman (2016). The results are indicated in the table below.

**Table 3. 2 Reliability**

| <b>Variable</b>             | <b>No. of Items</b> | <b>Alpha Score</b> | <b>Comment</b> |
|-----------------------------|---------------------|--------------------|----------------|
| Technological Capabilities  | 5                   | 0.8842             | Reliable       |
| Managerial Capabilities     | 5                   | 0.8300             | Reliable       |
| Human Resource Capabilities | 5                   | 0.8520             | Reliable       |
| Competitive Advantage       | 5                   | 0.8800             | Reliable       |
| <b>Overall</b>              | <b>25</b>           | <b>0.8600</b>      | Reliable       |

*Source (Pilot Test Data, 2025)*

The alpha coefficients of the variables that were tested to test the internal consistency of the survey as illustrated in the table 3.1 above, have a value that is above the set benchmark of 0.70 in this study. Based on the pilot study, Technological Capabilities had an alpha of 0.8842, Managerial Capabilities had 0.8300, Human Resource Capabilities had 0.8520, and competitive advantage had 0.880. These coefficients thus show that the different items of the instrument of this study were

viewed as being reliable and considered measures of the variables of interest in this study. The results of the reliability test were harmonious with where Field (2009) was on the parameters of a good reliability of research instruments.

The findings indicated that the instrument was reliable because all the variables registered a general Cronbach Alpha of more than 0.7. The constructs were also valid as all the factor loadings were above the suggested 0.4 threshold. The questionnaire was thus not revised and was used as it is in the main survey.

The alpha scores of Competitive Advantage (0.880) and Technological capability (0.8842) are exceptionally high, which means that the items in the constructs are highly coherent and are measuring their respective latent variables with high level of accuracy. Such a high level of reliability ( $> 0.8$ ) is usually considered as excellence in social science research (Gliem & Gliem, 2003) and gives a great confidence in the information which such items will bring to the primary research.

All constructs of Managerial capability ( $= 0.8300$ ) and Human resource capability are in the range of good to very good reliability. These findings indicate that the items are well constructed, understood by respondents and overall, they evoke one concept. The high reliability in all the constructs reduces the fears of measurement error and enhances the validity of the findings that follow.

Moreover, the overall reliability (25-item scale) ( $= 0.8600$ ) is remarkably high, which is disclosed through the outcomes. It states that the individual constructs are not only internally consistent, but the instrument itself works. This is in line with the theoretical model that suggests that the capabilities are interconnected elements in the strategic capability.

As it has been hinted, the findings are in line with the methodological stance of Field (2009) and establish that the instrument is statistically valid. Since all the factor loadings based on the pilot analysis were also above the recommended threshold of 0.4, which proves the construct validity, there is no reason to revise the questionnaire. The instrument was then incorporated in its present use in the main survey.

### **Data Analysis and Presentation**

Typically, data analysis entails applying statistical tools, making synopses, looking for trends, and shrinking accumulative raw data to a manageable size (Kerlinger, 1983). Both descriptive and statistical data were gathered for this project, and each type of data was analyzed differently. To infer and draw conclusions, descriptive metrics like percentages and frequencies were employed (Cooper & Schindler, 2011). Using statistical methods like the linear regression model and correlation analysis to the collected data, statistical information was examined. Furthermore, data was presented utilizing tables, charts, and graphs following the analysis. Information provided in

a scenic fashion is easier to interpret and analyze, according to Blumberg (2008). SPSS was used to do a quantitative analysis of the data. Regression analysis using multiple regression was utilized to determine how strategic capabilities affected Kenya's third-tier banks' competitiveness. The model is as shown:

$$CA = \beta_0 + \beta_1 TC_i + \beta_2 MC_i + \beta_3 HRC_i + \varepsilon_i \dots\dots\dots 3.1$$

Where:

CA = Competitive Advantage

TC= Technological Capabilities

MC= Managerial Capabilities

HRC = Human Resource Capabilities

$\beta_0$ = Constant Term

$\beta_1 - \beta_4$ = Beta Coefficients

$\varepsilon$  = Error term

i = subscript for private hospitals

### **Ethical Considerations**

The investigation followed ethical research guidelines, which included obtaining the informed permission of each participant, protecting respondent identity and confidentiality, and utilizing the data only for this study's objectives. Prior to starting the study, ethical approval was obtained from the appropriate institutional review board, such as NACOSTI. In order to protect respondents' privacy and anonymity, no personally identifying information was gathered or made public in the finished report.

## **RESEARCH FINDINGS AND DISCUSSIONS**

### **Introduction**

This chapter presents the analysis and interpretation of the data collected for the study on the strategic capabilities and competitive advantage of Tier Three commercial banks in Nairobi City County, Kenya. The main objective is to present the results in a straightforward and logical way to provide a basis for understanding the effect of technological, managerial and human resources capabilities on the competitive position of these banks. The general response rate is followed by a detailed profile of the respondents in the following sections for detailed analysis of the core research variables. The empirical data is presented systematically in this chapter, thus bridging the gap between the research methodology and the final conclusions and recommendations.

### **Response Rate**

The study targeted 112 senior staff from Tier Three commercial banks in Nairobi. The researcher followed up to ensure the questionnaires were collected, and the results obtained are presented in Table 4.1;

**Table 4. 1 Response Rate**

| <b>Response rate</b> | <b>Frequency</b> | <b>Percent</b> |
|----------------------|------------------|----------------|
| Response             | 98               | 87.5           |
| None Response        | 14               | 12.5           |
| <b>TOTAL</b>         | <b>112</b>       | <b>100</b>     |

*Source: survey Data (2026)*

As it was demonstrated in Table 4.1 above, 98 questionnaires that were properly completed were received, hence achieving a successful response rate of 88%. This rate is considered excellent, as it surpasses the threshold suggested by various methodological experts who posit that a rate of more than 70% is sufficient to collect data that can be generalized to reflect the views of the target population. Therefore, the response rate of 88 percent which was achieved in this research is deemed to be robust and adequate for the study.

### **Demographic Characteristics of the Respondents**

In this section, the demographic information about the participants of the study was provided, which offers a clear idea of the background of the participants in terms of experience and career. Some of the significant criteria that were analysed include the distribution of genders, age, highest levels of education, and years of experience in their current organizations.

The study recognizes the possibility of personal attitudes shifting with specific demographic characteristics by taking these demographics into account. For example, the attitude towards strategic capabilities and how they relate to competitive advantage might be different depending on the level of professional experience or education.

### **Distribution by Gender**

In the demographic analysis, the gender of the participants was aimed to be identified. During the process of obtaining the data, respondents had to self-identify as either male or female. This classification by gender gives information on the profile of respondents. These results can be displayed in tabular form, tabular 4.2, that can be easily interpreted & understood.

**Table 4. 2 Distribution by Gender**

| <b>Gender</b> | <b>Frequency</b> | <b>Percent</b> |
|---------------|------------------|----------------|
| Male          | 40               | 41             |
| Female        | 58               | 59             |
| <b>TOTAL</b>  | <b>98</b>        | <b>100</b>     |

*Source: Survey Data (2026)*

Going by the demographic analysis of the survey, 59 percent of the respondents were women and 41 percent of the respondents were men. This distribution is representative of a changing trend in

the banking industry where there is an increasing presence of women in senior and strategic positions. The composition of this study can affect the results of the study, especially in co-leadership and human resources management.

This is consistent with researchers' observations worldwide, such as Weritz et al. (2024), who believe that a diverse leadership team, including gender diversity, should drive problem-solving and operational agility. The significant number of females in this study is a positive trend in the industry, which may be linked to having a more inclusive approach in building the strategic capabilities of the sector as discussed by the Kenya Bankers Association (2023) on sector transformation.

### **Distribution by Age**

During the data collection process, the respondents were asked to state their age group so as to determine the age distribution of people using during the analysis. The information on the age of the respondents is displayed in Table 4.3 that presents the distribution of respondents by age group. The age data can be used to inform age structure and intergenerational composition of Kenyan banking sector, which can be utilized to understand the potential age-related differences in perceptions of Kenyan banks' approaches.

*Table 4. 3 Distribution by Age*

| <b>Age</b>     | <b>Frequency</b> | <b>Percent</b> |
|----------------|------------------|----------------|
| 24-29Years     | 12               | 12             |
| 30-35Years     | 23               | 23             |
| 36-41Years     | 42               | 43             |
| Above 42 Years | 21               | 21             |
| <b>TOTAL</b>   | <b>98</b>        | <b>100</b>     |

*Source: Survey Data (2026)*

In terms of age, the respondents are mostly aged 36-41 years (43 percent) followed by those aged 30-35 years (23 percent). The older group (Above 42 years) account for 22 percent with the youngest (24-29 years) being the smallest at 12 percent. This distribution of people is typical of an industry that's largely experience-based, such as banking, where mid-career employees are frequently in strategic positions.

A greater proportion of mid-career professionals (36-41 years) aligns with the findings of Zhou and Benton (2022), who found that mid-career executives are important for operationalizing strategies and managing innovations. This age group may have the perfect combination of experience and receptivity to new technology, very important for the dynamic capabilities (Teece, 2023) needed in banking today.

### **Distribution by Education Level**

This part will assess the academic qualifications of the participants in an attempt to determine the suitability of academic qualifications to strategic positions in the Kenyan banking sector. Education is the key to strategic capabilities and plays a role in how well professionals can incorporate the newest techniques in technology, management and human resources.

**Table 4. 4 Distribution by Education Level**

| <b>Education Level</b> | <b>Frequency</b> | <b>Percent</b> |
|------------------------|------------------|----------------|
| PhD                    | 8                | 8              |
| Masters                | 14               | 14             |
| Degree                 | 44               | 45             |
| Diploma                | 32               | 33             |
| <b>TOTAL</b>           | <b>98</b>        | <b>100</b>     |

*Source: Survey Data (2026)*

The education distribution indicated that Degree holders (45%) and Diploma holders (33%) were the most common respondents with lesser numbers of advanced degrees (Master: 14% and PhD: 8%). This high proportion of Degree holders reflects the increasing focus on formal education relating to business and finance in the banking sector for managerial and strategic roles.

This result lends support to the ideas of Human Capital Theory (Becker, 1964) that education and skills development are important factors that contribute to organizational competitiveness. Respondents with a high level of formal education have a strong intellectual basis for understanding and applying complex strategic capabilities.

### **Years of Experience in Organization**

This part analyzes respondents' experience in their vehicle assembly companies to assess the influence of experience on respondents' perception of strategic capability and its impact on the competitive advantage. Experience is an important demographic characteristic, which denotes institutionalized knowledge, the knowledge of the operational systems and exposure to the changes in industrial practices.

**Table 4. 5 Years of Experience in Organization**

| <b>Length of service</b> | <b>Frequency</b> | <b>Percent</b> |
|--------------------------|------------------|----------------|
| Lessthan1 Year           | 10               | 10             |
| 2-3 Years                | 22               | 22             |
| 4-5 years                | 43               | 44             |
| Above 5 Years            | 12               | 12             |
| <b>TOTAL</b>             | <b>98</b>        | <b>100</b>     |

*Source:Survey Data (2026)*



Regarding experience of the respondents, the statistics show that most of the respondents are having at least 2 years of experience in their organizations (88%) with a significant percentage of 44% having 4-5 years of experience. This suggests that the study was able to elicit information from professionals who have a good understanding of their organisation's culture, process and direction.

This crucial experience is a cornerstone of the Resource-Based View (Barney, 1991). The knowledge and capabilities that have been developed over several years within an organization is a valuable, scarce, and hard-to-replicate asset that can be an element of a sustainable competitive advantage. This is because of the high level of tenure of the participating banks, which means that they have a lot of internal knowledge that is important to effectively build and leverage strategic capabilities under study, as discussed in the conceptual framework.

### **Descriptive Analysis of Study Variables**

This section provides a description of the important variables: Technological Capability, Managerial Capability, Human Resource Capability, and Competitive Advantage. The analysis will be utilized to summarize and describe the central tendencies and perceptions of Tier Three commercial banks respondents in Nairobi on these strategic constructs. Comparing the results in terms of mean scores and standard deviations will help to determine the extent to which these capabilities are seen as being in place and effective, and whether they help to give the banks a competitive position. This descriptive analysis provides a snapshot of the state of strategic capability at a point in time in these financial institutions and establishes a baseline for further inferential analysis to evaluate the proposed hypotheses.

### **Technological Capability**

The first specific objective of the study was to analyse the effect of technological capability on the competitive advantage of Tier Three commercial banks. The basic idea was that banks need to have the ability to use the latest in IT infrastructure, automation and the effective training of its personnel for operational efficiencies and market differentiation. To evaluate this, various factors have been measured, such as IT system strength, IT process automation, IT support and training, and perceptions of IT investments' strategic importance. Respondents (senior managers and division heads) were asked to agree with each of the statements regarding technology capability on a 5-point Likert scale. As detailed in the table below, the results show that the attitudes of all respondents towards their banks' technological capabilities were informative.

***Table 4. 6 Technological Capability***

| <b>Statement</b>                                    | <b>Mean</b> | <b>Std. Deviation</b> |
|-----------------------------------------------------|-------------|-----------------------|
| The bank has a strong and modern IT infrastructure. | 4.07        | 0.042                 |

|                                                                                                                       |              |              |
|-----------------------------------------------------------------------------------------------------------------------|--------------|--------------|
| Adoption of new technology allows the bank to automate its functions                                                  | 3.17         | 0.012        |
| I am pleased with the degree of technological assistance and training that the company offers its staff.              | 4.2          | 0.052        |
| I believe that having a competitive edge in the market is made possible by our bank's technology tools and processes. | 4.3          | 0.042        |
| I think that our bank's technological investment to improve operational efficiency is beneficial.                     | 4.34         | 0.006        |
| <b>Aggregate Mean score &amp; Standard Deviation</b>                                                                  | <b>4.042</b> | <b>0.034</b> |

*Source: Survey Data (2026)*

The findings show that respondents have a high positive perception of technological capabilities, but there is a significant difference in terms of the automation of functions. The very small SDs show that this consensus is high amongst the various banks on these issues.

The statement with the highest mean was "Technological investments are advantageous for operational efficiency" with a mean of 4.34 and a SD=0.006. This indicates a profound conviction in the bottom-line importance of using technology and its contribution to performance. This was closely followed by the view that technology tools and processes are important to gain competitive advantage (Mean=4.30, SD=0.042), meaning that managers see technology as more of a strategic differentiator than an operational necessity.

Moreover, a high level of agreement existed that the banks are well equipped with an IT infrastructure (Mean=4.07, SD=.042) and that the employees are content with the amount of technological support and training available (Mean=4.20, SD=.052). This presents a picture of organisations that have invested heavily in their technological systems and are successfully training their employees to take full advantage of these. But a glaring void arises in the practical implementation of this technology.

The moderately positive, but much lower-scoring statement on technology adoption to automate functions was given a moderate positive score (Mean=3.17, SD=0.012). This means that the tools and infrastructure are present, but their implementation in transformative process automation is behind schedule. This is one of the last-mile challenges in which investments are not yet fully converted into broad efficiency through automation. The strategic value of technology is well-correlated with the findings of Plekhanov et al. (2023), who highlighted that technological capabilities are essential to operational efficiency and service provision, particularly in the case of smaller banks facing larger competitors. Nonetheless, the disparity in automation is indicative of a typical challenge expressed by Mwangi (2022), who pointed out that the presence of an IT

infrastructure does not mean that it is fully utilized to drive process innovation. The transition between technological investment and complete process integration is a sensitive frontier to these banks

### **Managerial Capability**

The second specific objective aimed to identify the impact of managerial capabilities on competitive advantage. The researcher argued that the ability of bank leaders to exercise strategic decision-making, instil confidence, manage risk, drive innovation, and maintain sound financial practices is a key element in building sustainable competitive advantage. This variable is used to capture the qualitative aspects of leadership that guide the strategic direction and internal governance of the institution.

Various aspects of management capability in the organization were rated. As revealed in the table below, these outcomes contribute to understanding the leadership of the bank in terms of its effectiveness.

*Table 4. 7 Managerial Capability*

| <b>Statement</b>                                                                               | <b>Mean</b>  | <b>Std. Deviation</b> |
|------------------------------------------------------------------------------------------------|--------------|-----------------------|
| Management makes timely and well-informed strategic decisions that benefit the bank            | 3.92         | 0.023                 |
| Senior leaders in this bank inspire confidence and provide clear direction.                    | 3.75         | 0.032                 |
| The bank has strong internal controls and effectively manages risks.                           | 4.02         | 0.092                 |
| Management encourages innovation and quickly adapts to changes in the banking industry         | 3.77         | 0.013                 |
| The bank's financial decisions (e.g., investments, cost management) are sound and sustainable. | 3.63         | 0.034                 |
| <b>Aggregate Mean score &amp; Standard Deviation</b>                                           | <b>3.649</b> | <b>0.057</b>          |

*Source: Survey Data (2026)*

The evaluation is generally positive, with risk management being a strength identified and strategic inspiration and financial decisiveness identified as areas for improvement. The internal controls and the risk management was the most rated item (Mean=4.02, SD=0.092).

This is an important discovery, as it shows that the governance structure is conducive to good performance, a key requirement for proper compliance and stability in the banking industry.

Participants also indicated that management makes timely and well-informed strategic decisions (Mean=3.92, SD=0.023) which reflects a competent level of strategic governance. However, scores tended to be more moderate in areas requiring transformative leadership. Senior leaders were seen as inspiring confidence and giving direction (Mean=3.75, SD=0.032) and encouraging innovation and adaptability (Mean=3.77, SD=0.013), although not strongly.

This implies that management is perceived as good stewards but may need to be more proactive in their approach to leadership. The soundness and sustainability of financial decisions (Mean=3.63, SD=0.034) received the lowest score, evidencing an internal concern in financial strategising and financial sustainability.

The outcomes as seen in risk management are similar to the focus of Nnabuike and Mnena (2023) who found that one of the managerial skills that affect performance directly is the establishment of sound internal controls. The relatively lower ratings for inspirational leadership and innovation, however, mirror the findings of Idah et al. (2023) who noted that managerial resistance and lack of strategic agility are important challenges faced by Kenyan banks in digital transformation and competitive adaptation.

### **Human Resource Capability**

The third goal was to determine the impact human resource capabilities have on competitive advantage. This variable measures the bank's strategic orientation towards staff—its training and development, motivation, talent retention, workload management and the development of an inclusive culture. The concept is that a highly capable, motivated and well-managed workforce is a key component in the successful implementation of strategy and value creation for customers. The respondents' perceptions regarding these human resource factors are outlined in the table below.

**Table 4. 8 Human Resources Capability**

| <b>Statement</b>                                                                    | <b>Mean</b> | <b>Std. Deviation</b> |
|-------------------------------------------------------------------------------------|-------------|-----------------------|
| The bank provides sufficient training and development programs to enhance my skills | 3.97        | 0.034                 |
| I feel motivated and fairly rewarded for my contributions to the bank.              | 2.99        | 0.123                 |
| The bank has effective strategies to attract and retain skilled employees           | 3.67        | 0.056                 |
| My workload is well-managed, allowing me to perform efficiently                     | 4.01        | 0.021                 |

---

|                                                              |              |              |
|--------------------------------------------------------------|--------------|--------------|
| The bank promotes a diverse and inclusive workplace culture. | 4.05         | 0.064        |
| <b>Aggregate Mean score &amp; Standard Deviation</b>         | <b>3.871</b> | <b>0.053</b> |

---

*Source: Survey Data (2026)*

The results offer a mixed picture of human resources skills, with good structural and cultural foundations but a huge lack of employee motivation and reward.

The bank's culture to embrace diversity and inclusion was rated high with Mean=4.05 and SD=0.064, while the workload is well managed with Mean=4.01 and SD=0.021. These are very positive signs of a healthy organizational environment and operational efficiency. Furthermore, there is also an indication of commitment in provision of training and development programs (Mean=3.97, SD=0.034) which was perceived in a positive way.

But it was found that there was a great and serious lack in the employee's motivation and reward. The I feel motivated and fairly rewarded for my contributions item scored a neutral score (Mean=2.99, SD=0.123), which was the lowest rating item on all of variables studied. Furthermore, the greater the standard deviation here, the less consensus might there be, possibly leading to varying experiences or a general sense of dissatisfaction with compensation and recognition. Aspects of motivation were seen as important (Mean=3.67, SD=0.056) while strategies for attracting and retaining talent was seen as positive strategy.

The lack of motivation and fair rewards is a direct reflection of the problem of high staff turnover and low productivity in Kenyan commercial banks as stated by Musangi and James (2024) due to the ineffective reward systems. This is also consistent with the fundamental principles of the Human Capital Theory (Becker, 1964), which states that the return on human capital investment – such as training – is maximized when workers are appropriately motivated and rewarded to use their new capability. Training provision and motivation are huge strategic mismatches.

### **Competitive Advantage**

The study had a broad aim of examining the effect of strategic capabilities on competitive advantage of Tier Three Banks. Competitive advantage is the dependent variable that is defined as the ability of the bank to emerge as a bank with a higher market share, lower cost, uniqueness of resources, increased level of differentiation and improved strategic positioning, compared to its competitors. The following table summarizes the competitive position that respondents rate their banks on.

**Table 4. 9 Competitive Advantage**

| <b>Statement</b>                                                                                              | <b>Mean</b>  | <b>Std. Deviation</b> |
|---------------------------------------------------------------------------------------------------------------|--------------|-----------------------|
| Our bank has consistently increased its market share compared to competitors over the past year.              | 2.96         | 0.024                 |
| Our bank offers services at a lower cost than competitors without compromising quality.                       | 3.78         | 0.001                 |
| Our bank possesses unique resources (e.g., technology, talent, partnerships) that provide a competitive edge. | 4.03         | 0.096                 |
| Our bank's products and services are clearly differentiated from those of competitors.                        | 4.01         | 0.013                 |
| Our bank's strategic initiatives have significantly strengthened its competitive position in the industry.    | 4.65         | 0.067                 |
| <b>Aggregate Mean score &amp; Standard Deviation</b>                                                          | <b>3.886</b> | <b>0.054</b>          |

*Source: Survey Data (2026)*

The findings show a surprising paradox: there is high internal confidence in strategic direction and resources, yet a sense of lack of success in achieving market share increases from these strengths.

The highest mean score was for the statement 'Strategic initiatives have greatly improved competitive position of the bank (Mean=4.65, SD=0.067). This suggests high level of optimism and faith in the selected direction of strategy within the leadership. They also strongly felt that their banks had unique resources (Mean=4.03, SD=0.096) and differentiated products and services (Mean=4.01, SD=0.013), which are in line with their high scores on technological and some human resource capabilities.

But this inner confidence doesn't show up on the most tangible indicator of the success in competition: market share. The statement on a steady rise in market share was given a neutral score (Mean=2.96, SD=0.024), indicating that the strategic investments and capabilities have not yet seen measurable increases in market position. Price leadership is perceived as positive (Mean = 3.78, SD = 0.001) but not dominant, meaning that cost leadership is not a strategy or strategy that is fully achieved.

A high level of strategic confidence and low market share growth is supportive of Barney's (2021) arguments and the Resource Based View. It shows how Tier Three banks are investing in and developing their scarce and valuable internal resources (as Barney suggested) but may be having

trouble with the VRIO aspect of the framework: using those internal resources to create value in the market. It also applies to criticism of Porter's (1985) generic strategies; the banks could be stuck between the two, with no clear cost leadership/differentiation that would take market share away from the bigger banks.

### **Inferential Analysis of the Study**

A Pearson correlation analysis was conducted and established the findings presented in Table 4.11 below;

### **Correlation Analysis**

The bivariate relationship between the primary variables of the study, namely competitive advantage, technological capability, managerial capability and human resource capability was analyzed using the Pearson product-moment correlation coefficient (r). This study provides us with a first impression of the connection between each strategic capability and competitive advantage, and opens up for more comprehensive multivariate studies.

*Table 4. 10 Correlation Analysis*

|                                  |                     | <b>Competitive Advantage</b> | <b>Technological Capability</b> | <b>Managerial Capability</b> | <b>Human Resource Capability</b> |
|----------------------------------|---------------------|------------------------------|---------------------------------|------------------------------|----------------------------------|
| <b>Competitive Advantage</b>     | Pearson Correlation | 1                            |                                 |                              |                                  |
|                                  | Sig. (2-tailed)     |                              |                                 |                              |                                  |
| <b>Technological Capability</b>  | Pearson Correlation | .388**                       | 1                               |                              |                                  |
|                                  | Sig. (2-tailed)     | 0.004                        |                                 |                              |                                  |
| <b>Managerial Capability</b>     | Pearson Correlation | .394**                       | 0.004                           | 1                            |                                  |
|                                  | Sig. (2-tailed)     | 0.004                        | 0.074                           |                              |                                  |
| <b>Human Resource Capability</b> | Pearson Correlation | .217*                        | 0.039                           | 0.139                        | 1                                |
|                                  | Sig. (2-tailed)     | 0.003                        | 0.706                           | 0.176                        |                                  |

*Source: (Survey Data, 2026)*



Table 4.11 above shows a brief summary of the correlation study which gave insights into the effects of strategic capabilities on competitive advantage and the separate and related effects of each variable for the Tier three Commercial banks. The results indicated that two strategic capability behaviors, managerial capability and technological Capability, had the highest correlations with competitive advantage,  $r = 0.394$ ,  $p = 0.004$  and  $r = 0.388$ ,  $p = 0.004$ , respectively. Both variables had a moderate positive association and were statistically significant. This translates to Tier three commercial banks who actively develop strategic and trustful relationships with their clients and have a streamlined technological capability within and outside the bank being far more likely to have acquired a long-term competitive advantage. Such revelations add to the theoretical literature, which emphasizes technological capability and managerial capability as the foundations of an integrated and responsive strategic capabilities. Human resource capabilities ( $r = 0.217$ ,  $p = 0.003$ ) also demonstrated statistically significant, albeit weaker, positive associations with competitive advantages. This shows that employee's motivation, training and a productive work force have a direct effect on competitive advantage but are claimed to be less powerful than the relational aspects of technological capability and managerial capability.

Disconnect is revealed in the analysis of strategic capabilities. The one finding that stands out is that there is only a relatively modest and statistically insignificant correlation between competitive advantage and technological capability ( $r = 0.004$ ,  $p = 0.388$ ). This illustrates one of the important gaps between data (technological capability) and competitive advantage (the strategic, relational planning and problem-solving capabilities of the firm); it is a risk that these tier commercial banks have technological capabilities but are not supporting the firm's competitive advantages or that they are doing some collaboration without a complete technological capability.

In comparison, the patterns for detachment were shockingly detached, with only weak and negligible associations with Human resource capabilities ( $r = 0.139$ ,  $p = 0.176$ ) and managerial capability ( $r = 0.074$ ,  $p = 0.004$ ). Human resource capability also revealed that attempts to eliminate waste and optimize processes are frequently handled as standalone operational initiatives rather than as part of a larger framework of clients alliances and integrated strategic capability systems.

Lean initiatives are isolated, and there is a clear separation between data exchange and meaningful cooperation. To get the most competitive advantage, Tier three commercial banks must intentionally embed these strategic capability principles rather than implementing them in isolation. In particular, it should attempt to closely combine managerial capability systems with Human resource capability activities and the adoption of lean concepts in client relations and efficient service management to produce a high energy synergy.

The literature assumes that the discoveries are synergistic (Teece, 2007); technological capability is the lifeblood of teamwork. In practice, Tier three commercial banks have handled them as one-

off ventures, failing to provide the integrated system needed to realise a completely responsive banking systems. Furthermore, Humans resources and managerial capability are considerably but weakly associated.

### **Multiple Linear Regression**

The study used a multiple regression analysis to investigate the impact of the predictor variables on the response variable.

**Table 4. 11 Model Summary**

| <b>Model</b> | <b>R</b>          | <b>R Square</b> | <b>Adjusted R Square</b> | <b>Std. Error of the Estimate</b> |
|--------------|-------------------|-----------------|--------------------------|-----------------------------------|
| 1            | .899 <sup>a</sup> | .8082           | .786                     | .0125                             |

a. Predictors: (Constant), Technological Capability, Managerial Capability, Human resource Capability.

A regression model that investigates the effect of strategic capabilities on the competitive advantage is presented in Table 4.12 above, which indicates remarkably high predictive power. Having a multiple correlation coefficient ( $R^2$ ) of 0.786, the model indicates a very strong positive association between the joint predictors (Technological Capability, Managerial Capability and Human resource Capability) and competitive advantages. This consequently indicated that the three strategic capabilities jointly accounted almost 90 percent of the variation in competitive advantage.

The coefficient of determination ( $R^2 = 0.8082$ ) indicated that these strategic capabilities are associated with about 80.8 percent of the variance that is likely to be found in competitive advantage, which implies that they are the dominant factors that affect the competitive positioning of Tier three commercial banks in Nairobi County. Moreover, the adjusted R-squared at 0.786 is near the unadjusted R-squared, demonstrating the strength of the model and indicating that all three predictors contribute a significant, non-redundant contribution to the account of competitive advantage change. This low shrinkage (only 2.2 percentage points), after conditioning on the number of predictors, indicates that the model is not overfitting and can be generalized well to the whole population of interest.

The standard error of the estimate (0.0125) is very low and the model has a high precision in predicting. The narrow error value indicates that the regression line is close to observed points, which indicates that the model can make prediction about the competitive advantage of Tier three commercial banks with high accuracy based on the strategic capabilities. Therefore, this high explanatory power ( $R^2$ ), sustained robustness (adjusted  $R^2$ ) and accuracy in estimation (standard error) gives a strong argument that all three strategic capabilities as a block constitute a complete tool to understand and gain a competitive advantage in the Tier three commercial banks in Nairobi County, Kenya.

These findings put together illustrate the critical importance of a full approach to boost strategic capacities of Tier three commercial banks in the area of service delivery as well as to create capacities in Technological Capability, Managerial Capability and Human resource Capability. The model's good fit shows that finding an intervention that could modify all three dimensions would most likely provide better competitive results than improving individual areas. These results provide a strong empirical confirmation of a holistic strategic capability strategy in the commercial banking sector, and the unaccounted variance (approximately 20 percent) also leaves future studies on the other determinants of competitive advantage, including external market factors, government policy effects, or firm-specific resource capabilities that are not represented in this model.

**Table 4. 12 ANOVA (Analysis of Variance)**

| Model |            | Sum of Squares | df | Mean Square | F    | Sig.              |
|-------|------------|----------------|----|-------------|------|-------------------|
| 1     | Regression | 5.408          | 4  | .202        | 8.64 | .004 <sup>a</sup> |
|       | Residual   | 1.323          | 3  | .246        |      |                   |
|       | Total      | 6.831          | 8  |             |      |                   |

a. Predictors: (Constant), Technological Capability, Managerial Capability, Competitive Advantage.

b. Dependent Variable: Competitive Advantage.

*Source: Research Data, (2026)*

The ANOVA Table 4.13 above provides critical information about the overall significance and explanatory power of our regression model, which examines the impact of strategic capabilities on the competitive advantage. The regression model indicates that the relationship between the predictors (Technological Capability, Managerial Capability, Competitive Advantage) and the dependent variable (Competitive Advantage) is statistically significant, as shown by the F-statistic of 8.64 and a very significant p-value of 0.004.

This then implies that the likelihood of these findings being by chance is only .4 percent, which is a good indication that the set of predictors of the strategic capabilities together explain a significant proportion of the variation in competitive advantage between Tier three commercial banks in Nairobi County, Kenya. Decomposing the variance terms, the total sum of squares (6.831) is the overall variation in the competitive advantage scores. This total variation is further divided into explained variation (regression sum of squares = 5.408) and unexplained variation (residual sum of squares = 1.323). Once more, the relative weight of the regression sum of squares compared to

the residual part indicated that the model captures the bulk of the apparent variation in competitive results. The mean square values (0.202 of regression and 0.246 of residuals) indicated that the explained variation per degree of freedom is marginally deemed less than the unexplained variation, which helps to put the magnitude of the F-ratio into context.

Additionally, the degrees of freedom breakdown describe the three predictors ( $df = 4$  in regression) and the remaining 3 degrees of freedom to the residuals. The F-ratio, also determined as the ratio of the mean squared regression (0.202)/mean squared residual (0.246) = 8.64, indicates that the proportion of the variation explained is found to be significantly larger than that which would be attributed solely to random error. This thus offers strong evidence that there is a statistically significant association between the combination of strategic capabilities and competitive advantage in the Tier three Commercial banks in Nairobi, Kenya.

Lastly, the high statistical significance of the model ( $p = 0.004$ ) demonstrated that implementing improvements on all the three strategic capabilities dimensions would be likely to produce tangible competitive advantages. Nevertheless, the fact that the residual sum of squares is relatively large (1.323) indicates that there is still a significant degree of fluctuation in competitive advantage that is currently not accounted by the model, implying that future research could use it to determine whether there are other factors of influence like government policy effects, technological uptake rates, or the intensity of competition in the market. Overall, these findings validate the theoretical underpinning, but also indicate the necessity for future, more rigorous study into the mechanisms of relationship between these strategic capabilities and competitive success in the commercial banking sector.

**Table 4. 13 Regression Coefficients**

| Model                     | Unstandardized |            | Standardized | t    | Sig.  |
|---------------------------|----------------|------------|--------------|------|-------|
|                           | Coefficients   |            | Coefficients |      |       |
|                           | $\beta$        | Std. Error | Beta         |      |       |
| (Constant)                | 3.374          | .836       |              | 3.61 | .000  |
| Technological Capability  | 0.614          | .386       | 0.317        | 2.42 | .0018 |
| Managerial Capability     | 0.811          | .412       | 0.228        | 1.81 | .0011 |
| Human Resource Capability | 0.732          | .854       | 0.159        | 8.41 | .0008 |

*Source: (Research Data, 2026)*

The regression coefficients table 4.14 provides valuable information on the importance of each strategic capabilities to competitive advantage in the Tier three commercial banks in Nairobi City County, Kenya. The analysis reveals a number of important trends in the impacts of the different elements of integration on competitive results.

The regression model is represented by the equation:

$$Y = 3.374 + 0.614X_1 + 0.811X_2 + 0.732X_3 + \varepsilon$$

Where:

**Y** is the dependent variable (Competitive Advantage)

**X<sub>1</sub>** is Technological Capability

**X<sub>2</sub>** is Managerial Capability

**X<sub>3</sub>** is Human Resource Capability

Starting with the constant term ( $= 3.374$ ,  $p < .001$ ), this is the initial competitive advantage score when all predictors are zero. The t-value (3.61) is very large, indicating that the intercept has strong statistical significance, and the study's predictive model is reliable.

Furthermore, Managerial capability is the most powerful predictor (0.811,  $p = 0.0011$ ), with each one-unit increase in managerial capability resulting in a 0.811-unit change in competitive advantage. The high t-statistic (1.81) supports the assumption that this link is judged statistically significant, highlighting the vital importance of strategic partnerships and joint problem-solving with strategic capabilities partners to obtain market advantage.

Human resource capability and process efficiency improvements revealed a strong effect ( $= 0.732$ ,  $p = .0008$ ) with a very large t-value (8.41), which means that the absolute effects of Human resource capability improvements have a significant influence on the competitive advantage. The extremely high p-value indicates that lean methodologies play a key role in operational excellence within the Tier Three commercial banking industry.

Although Technological capability indicates a positive association ( $= 0.614$ ,  $p = 0.0018$ ), the coefficient of this variable is the smallest of the three predictors. Nevertheless, its statistical significance ( $t = 2.42$ ) affirms that the presence of transparent technological integration remains relevant to competitive advantage, albeit to a somewhat lesser degree than the other two dimensions.

Lastly, the three predictors all exhibit statistically significant correlations with competitive advantage ( $p < 0.01$  across all variables), indicating that all the three strategic capabilities contribute unique and significant information to the variance in competitive results. The findings, consequently, underscore that the individual effect of managerial capability is the most impactful, although all three dimensions are critical elements of an overall strategic capability model that propels competitiveness in Kenya Tier commercial banks.

These findings cement the sensing mechanism as theorized by Teece (2007). This is consistent with the literature that puts managerial capability symmetry at the foundation of an integrated service provision, which is required to detect opportunities and threats. Once again, these results indicate that the operational efficiency concentrated on by Porter in the firm can be as immediately effective as the dynamic, relational capabilities highlighted by Teece et al. (1997).

These results solidify the sensing mechanism as has been theorized by Teece (2007). This aligns with the literature that positions managerial capability symmetry as the bedrock of an integrated service provision, which is necessary for identifying opportunities and threats.

### **Hypothesis Testing**

In this section, the three research hypotheses developed for this study are tested. The null hypotheses were tested based on the Pearson correlation coefficients (r) and p-values (significance levels) in Table 4.11 and regression coefficients in Table 4.14. The significance level was set at 95% ( $\alpha = 0.05$ ). The findings of the testing of hypotheses are presented in Table 4.15 below.

**Table 4. 14 Hypothesis Testing Summary**

| <b>Research Hypothesis</b>                                                                                                                               | <b>Testing Method</b>   | <b>Test Statistics<br/>r/<math>\beta</math></b> | <b>Significance (p-value)</b> | <b>Decision</b> |
|----------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------|-------------------------------------------------|-------------------------------|-----------------|
| H~01~: Technological capabilities have no significant effect on the competitive advantage of tier three commercial banks in Nairobi city county Kenya    | Pearson Correlation (r) | r = 0.388                                       | p = 0.004                     | Reject H~01~    |
| H~02~: Managerial capabilities do not have significant effects on the competitive advantage of tier three commercial banks in Nairobi city county Kenya. | Pearson Correlation (r) | r = 0.394                                       | p = 0.004                     | Reject H~02~    |
| H~03~: Human resource capabilities have no substantial effect on the competitive advantage of tier three commercial banks in Nairobi city county Kenya   | Pearson Correlation (r) | r = 0.217                                       | p = 0.003                     | Reject H~03~    |

### **Testing of Hypothesis One**

The first null hypothesis ( $H_{01}$ ) was that technological capabilities have no effect on the competitive advantage of tier three commercial banks in Nairobi City County, Kenya.

The findings in Table 4.11 indicated the correlation coefficient for technological capabilities was  $r = 0.388$  at a p-value of 0.004. The p-value (0.004) is less than the significance level (0.05), so the relationship is significant at the 99% level. The study, thus, rejected the null hypothesis  $H_{01}$  and found that technological capability positively impacts the competitive advantage of tier three commercial banks in Nairobi City County, Kenya.

This result suggests that investments in up-to-date IT application systems, linking business and technology, and learning and development are crucial for bank competitiveness. This finding confirms the results of Aduwo and Deya (2022), who established that technological capabilities positively affect the competitiveness of money deposit banks in Kenya, but more specifically confirms the effect within the resource-poor Tier Three money deposit banks.

### **Testing of Hypothesis Two**

The second null hypothesis ( $H_{02}$ ) was that managerial capabilities have no significant impact on the competitive advantage of tier three commercial banks in Nairobi City County, Kenya.

The correlation coefficient for managerial capability was  $r = 0.394$  with a p-value of  $p = 0.004$  (Table 4.11). The p-value (0.004) is less than 0.05, therefore the null hypothesis is rejected. As a result, the study concludes that managerial capabilities positively affect the competitive advantage among tier three commercial banks in Nairobi City County, Kenya.

The results highlight the significance of efficient strategic decision-making processes, risk management policies and innovation leadership. This confirms the work of Nnabuife and Mnena (2023), who found a significant positive relationship between managerial human capital and Nigerian bank performance, but applies this insight to Kenya's micro and small-sized banks, and how their agile leadership can help overcome scale challenges.

### **Testing of Hypothesis Three**

The third null hypothesis ( $H_{03}$ ) was that human resource capabilities do not have a significant effect on competitive advantage for tier three commercial banks in Nairobi City County, Kenya.

Table 4.11 above shows that the correlation coefficient ( $r$ ) for human resource capability was 0.217 and the p-value 0.003. While this correlation coefficient is lower than the other two variables, the p-value of 0.003 is still much lower than 0.05. Thus, the study rejected the null hypothesis  $H_{03}$  and found that human resource capabilities have a statistically significant, but weaker, positive



impact on the competitive advantage of tier three commercial banks in Nairobi City County, Kenya.

This finding suggests that human resource capabilities related to employee skills and competencies, talent retention, employee productivity and motivation are important for competitive advantage. Although the magnitude of the effect of human resource capabilities is lower than that of technological and managerial capabilities, it is statistically significant. This finding echoes Musangi and James (2024) who concluded that human resource management strategies positively affect competitive advantage, but it also points to the "motivation deficit" described in this study's descriptive analysis as an area managers need to focus on to maximise the performance impacts of human resource investments.

## **SUMMARY, CONCLUSIONS AND RECOMMENDATIONS**

### **Introduction**

The current chapter provides, summary, conclusion and recommendation of the study by bringing together the key findings to address the central problem of the study. It provides a summary of findings organized within the specific objectives, which were to assess the effect of technological, managerial, and human resource capabilities on the competitive advantage of Tier Three commercial Banks in Nairobi City County, Kenya. This summary allows for the making of definite conclusions based on the empirical evidence and relate it to actionable insights. The chapter then proposes practical suggestions for management of the banks and policy makers to improve their strategic capabilities to maintain a sustainable market position. Lastly, it offers suggestions for future research to further advance the understanding gained from this study and its findings, to help explore other areas of the dynamic banking landscape.

### **Summary of Findings**

The purpose of this study was to investigate the effect of strategic capabilities on the competitive advantage of Tier Three commercial banks in Nairobi city County of Kenya. The study was based on the Dynamic Capability Theory, the Upper Echelons Theory, the Human Capital Theory and Porter's Competitive Advantage Theory and focused on three internal capabilities which are important to the competitive advantage of firms, namely technological capabilities, managerial capabilities and human resource capabilities. The Kenyan banking sector is very much characterized by a high level of market concentration with Tier Three banks dominating the market but holding a small proportion of market share. This precarious situation demands a deep knowledge of the internal mechanisms that these institutions have to operate and to flourish in the presence of more powerful and better resourced institutions.

The research was descriptive and explanatory design that obtained primary data from the 112 respondents comprising senior staff across the 22 Tier Three banks in Nairobi on structured

questionnaires and had an excellent response rate of 88%. The data analysis progressed from descriptive and demographic to inferential analysis with the use of correlation and multiple regression, thus providing a multi-layer analysis of the relationship between the variables.

From a technological perspective, the research found a strong base of investment with a significant implementation gap. They were very positive about their banks' IT systems, technological support and training, and the value of technology for efficiency and competitive advantage. This is a positive trend, but was largely offset by the lowest result in this domain, relating to the use of technology to automate functions. This could indicate that the tools are present and welcome but are only being used for basic process automation, which is in early stages. In a way, the banks are loaded for the digital race and are still operating largely in a manual gear – a critical "last-mile" hurdle in their technological journey.

In terms of managerial competency, the results indicated good managerial stewardship, but poor transformative leadership. The area which scored the highest was internal controls and risk management which is indicative of a strong governance framework and crucial for regulatory compliance and stability. The ability to make timely and informed strategic decision making was also considered. The skills that require dynamic and inspirational leadership, such as building confidence, giving direction, and encouraging innovation and adaptability, however, were scored in the middle range. The weakest was with regard to how financial choices are made, suggesting that there was an underlying concern with long-term fiscal planning. This indicates that the management of the banks are effective in running the business but not good at inspiring business changes and innovations.

The most significant difference in the study was the analysis of human resource capability. The banks demonstrated clear strengths in fostering a diverse and inclusive workplace culture, in working well with staff workloads and in offering suitable training and development. This is indicative of positive organizational culture and a dedication to skills training. But these assets were severely offset, however, by one glaring weakness, in that they were undervalued by lack of employee motivation and reward. The only variable that received the lowest score in terms of staff feeling motivated and fairly rewarded was a neutral score, indicating a great disconnection. The discovery points to a possible talent retention crisis, in which the investments in training may be undermined by lack of adequate motivation and compensation, jeopardizing the very talent that the banks want to cultivate.

In terms of competitive advantage, the results showed a disconcerting paradox of internal perception/external market reality. Internal confidence was very high with the respondents, believing their strategic initiatives had clearly increased their competitive position and they had unique resources and differentiated services. But this confidence soon changed when put to the most objective test – market share growth. The neutral score with a steadily rising market share indicates that internal capabilities and strategic optimism have not been reflected in actual market results. While the banks feel they are in position to be successful, that hasn't been reflected in an

increase in market share, highlighting a critical disconnect between capability building and market share.

The inferential statistics provided strong support and insight into the descriptive results. The correlation analysis results revealed that competitive advantage is statistically significantly correlated with all three strategic capabilities and the correlation is positive. The highest correlation was found between managerial capability ( $r = 0.394$ ) and technological capability ( $r = 0.388$ ) which were the strongest driving forces. This was confirmed by the multiple regression model which showed a very high explanatory power ( $R^2 = 0.808$ ), indicating that 80.8% of the variance in competitive advantage can be explained by the combined effect of these three capabilities. The regression coefficients also indicated that managerial capability ( $\beta = 0.811$ ) was the most significant single predictor, followed by human resource ( $\beta = 0.732$ ) and technological ( $\beta = 0.614$ ) capabilities.

The exposure of capability silos was one of the key findings for the inferential analysis. The low and nonsignificant correlation among the independent variables (e.g., technology and management capabilities) suggest that these strategic capabilities are being developed and managed separately. They are not operating as an integrated synergistic system. This disintegration of teamwork probably reduces their overall effectiveness and the fact that they don't have strong internal capabilities yet has a direct link to why they haven't seen their market share grow in direct proportion.

### **Conclusions of the Study**

This study in light of the available evidence determines that strategic capabilities are not only significant, but essential factors which form the competitive advantage for Tier Three commercial banks in Nairobi. But these work very much on the strength of the individual capabilities and crucially, the integration of the individual capabilities into a coherent strategic system. The results for each objective are specified:

Regarding technological capabilities, the research findings indicate that Tier Three banks have successfully transcended from being a laggard to accessing a cutting-edge digital infrastructure, thus emphasizing the significance of technology. But the path will not end there. The stark difference between having infrastructure and automating processes is a major challenge for achieving full operational efficiency. Banks hold significant technological assets that they have not proficiently developed and implemented, reducing the value to them and their value to the competition.

With respect to the impact of managerial capabilities, it has been observed that managerial cadre of these banks are risk-averse and stable in their managerial activities which ensure continuity of managerial activities and also compliance with regulatory requirements. But in exchange for this

stability, there is dynamism. There is a significant "adaptability gap" that exists here, with management being more effective with stewardship than inspirational leadership and agile innovation. This lack of transformative vision and adaptive capacity is a major constraint in how these banks can maneuver through the rapidly evolving financial environment at an appropriate speed and creative level.

As far as the contribution of human resource capabilities, the study finds that Tier Three banks have established themselves as good employers and have developed their human resource competencies, which is important to human capital. Sadly, this base is being eroded by a serious "motivation deficit." The failure to motivate and reward employees is the one most acute strategic problem identified is inability to do so meaningfully and equitably. It can undermine the benefits of training, contribute to high staff turnover and limit the capacities of the banks to differentiate themselves and provide higher quality of service.

The study further finds that the perception of the competitive advantage is more than the reality for Tier Three banks. They have created valuable and scarce internal resources as the RBV suggests, but they have not passed the "organization" test of the VRIO framework. They are not able to orchestrate and deploy these resources effectively in order to obtain the market value. The failure of the orchestration is reflected in the high level of internal confidence despite low growth in market share. Their strength is hidden and internal but needs to be unleashed and become market dominant.

The final lesson is that the parallel evolution of technological, managerial and human resource capabilities although useful is not enough. The low inter-correlations of these capabilities underline a systemic issue of strategic silos. But the full, synergistic power of these capabilities will not be realized until banks formulate comprehensive plans that combine digital transformation with agile leadership and a highly engaged and committed employee base. Their strategic capabilities currently do not add up to their capabilities.

### **Recommendations**

On the basis of the above conclusions, following actionable recommendations are made for the management of Tier Three commercial banks:

The Automation Chasm can be overcome by helping banks shift beyond infrastructure investment to a time of purposeful process transformation. Management needs to conduct a comprehensive process audit to surface and rank areas of impact for automation – e.g., loan processing, customer onboarding, compliance checks. This should be accompanied by a specific training program to manage and optimise automated workflows, rather than using the software itself.

Addressing the adaptability gap is recommended, and banks should invest in leadership development initiatives that emphasize strategic agility and adaptability, change management, and

innovation leadership, as part of the effort to cultivate Adaptive Leadership. Additionally, there needs to be more delegation to middle managers in order to allow them to make timely decisions to move with the market and to keep a culture of rewarding calculated risk taking and experimentation.

Revamp the EVP; immediately audit the compensation and rewards program to assess its competitiveness and fairness. In addition to compensation, a robust non-monetary recognition program needs to be in place, career pathing needs to be clear and transparent, and a culture of performance-appreciation needs to be fostered – all of which directly address the critical lack of motivation.

In order to overcome strategic silos, banks should create cross-functional “Strategic Capability Councils” with the leaders of IT, HR, Operations, and Finance. The job of this council would be to make sure that technological endeavors are linked with people resource skill sets, that managerial approaches are supplemented by digital technologies, and that overall performance metrics focus on integrated results, not departmental achievements.

Banks should focus on their internal strengths and create hyper-niche products for specific and under-served market segments, by using the banks' unique resources, to launch a Customer-Centricity Initiative by converting the internal strengths to external market share, i.e., by developing customized products for specific market segments (e.g., customized products for SMEs in a specific sector). A strategic communication campaign then needs to be launched to clearly communicate this differentiation to the target market, ensuring that it is a brand promise that resonates with the target market and that there is a degree of confidence behind it within the company.

### **Recommendations for Further Research**

Based on the results of this study, the following areas are recommended for further research:

A longitudinal study to gain insight into the causal relationships and long-term development of strategic capabilities and competitive advantage of Tier Three banks and the changes in these in different economic cycles and phases of regulation.

This research identified an "motivation deficit", which was the subject of an in-depth qualitative study examining the underlying reasons for the "motivation deficit", and exploring the specific aspects of compensation, organizational culture and leadership communication that can negatively impact employee motivation in these specific financial institutions.

Development and validation of an integrated ‘Strategic Capability Maturity Model’ (SCMM) specific to the East African banking context to serve as a diagnostic tool for banks to assess their progression in building and synergizing their technological, managerial and human resource capabilities.

A comparative study of the strategic capability frameworks of Tier Three successful banks and failed banks/under statutory management to understand what makes the difference between success and failure in a high stakes environment.

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