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DYNAMIC CAPABILITIES AND PERFORMANCE OF SELECTED COMMERCIAL BANKS IN AWKA, ANAMBRA STATE, NIGERIA

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ABSTRACT

Sequel to the apparent changes in the environment of the Nigerian Banking Industry, characterized by seemingly intense competition for customers, uncertainties in the economy, shifting customer demands, the need for corporate organizations to develop up teem capabilities is unarguable. This study examined the relationship between dynamic capabilities and the performance of selected commercial banks in Awka. The objective of the study was to determine the type of relationship between sensing capability and the performance of selected commercial banks in Awka. Descriptive survey research design was employed and data were collected through structured questionnaire. Product moment correlation coefficient was used to determine the correlation between the dependent and independent variables. Findings revealed a significant positive relationship between sensing capability and performance of First Bank Nigeria Plc and United Bank for Africa Plc in Awka. It was concluded that sensing capabilities enhance organizational performance. It was recommended that managers should not dwell on their core competences for competitive advantage, but continually adapt their competences to the changing business environment and establish capabilities to identify emerging opportunities and threats.

Key words: *Dynamic Capabilities, Performance, Commercial Banks, Sensing Capability*

INTRODUCTION

Businesses are faced with environmental turbulence stemming from technological advances, changes in consumer demand and new regulations (Helfat, Finkelstein, Mitchell, Petreraf, Singh, Teece, & Winter, 2007). The dynamism of business environments is at an accelerating rate, causing an increasing level of uncertainty to organizations. This growing uncertainty is the result of higher customer expectations, the dilution of borders between competitive environments and the move towards global competition. As the level of dynamics in business environments increases, the development of strategies that will differentiate the organization from its competitors becomes the key success factor (Feurer in Gathungu & Mwangi, 2012). Dynamic capabilities are expected to be valuable for organizations dealing with environmental turbulences, and early identification of threats or opportunities creates better opportunities for the organization. According to Rouse and Zietsma (2008), learning to respond to early signals of environmental changes constitutes the development of dynamic capabilities for environmental adaptation.

Lavie (2006) opines that dynamic capabilities are capacity to modify existing capabilities. They are used to build, integrate or reconfigure operational capabilities (Helfat & Peteraf, 2003), which can become core rigidities in the face of changing environments, in order to address rapidly changing environments.

There are various individual and group think biases that may cause managers to be taken unawares (Paul & George, 2009). The organisation's ability to sense environmental change and respond readily is an important determination of success (Overby, Bharadway, & Sambamurthy, 2006). The achievement and sustenance of competitive advantage is important as any organization that does not gain and sustain this may not survive .In order for an organization to remain relevant, it must be able to explore its dynamic capabilities well enough to adapt to early signals emerging from its environments.

Dynamic capabilities strategy explains how the Nigerian banking sector embark on mergers and acquisitions as a means of adapting to changes in their business environments and at the same time achieving sustainable competitive advantage. Also Banks are becoming increasingly aware of the threats and the opportunities that ICT presents(Safeena, Abdullah & Date 2010) and these are continually transforming the traditional way of banking business and providing competitive edge for banks that provide those electronic services. Schoemaker & Day (2009) therefore suggest that organisations should seek early signals to exploit these changes, by being sensitive to emerging changes (early signals) so that they are better able to manage the emergent opportunities or threats.Since changes will always abound, early signal perception should be anchored in a solid foresight perceptive (Mendonca, Gustero, & Joao, 2005).

Statement of the Problem

Changes emerging from business environments may cause an organization's capabilities to become less valuable or even redundant. Growing environmental dynamics such as competitive rivalry, unpredictable global events, and fast shifting customer demands make it increasingly difficult to establish sustained competitive advantage (Teece, 2007). The Nigerian banking industry is characterized by increased environmental dynamism brought about by rapid technological development, customer sophistication and regulations. Consequently, Nigerian banking industry is faced with the challenges of providing excellent services to customers who are sophisticated and will not accept less than above average service. In response to the demands for quick, efficient and reliable services, industry players are increasingly deploying technology (such as Automated Teller Machine networks, Cards processing, Software Development, On-

Line Banking, GSM Banking, Call centre operations and Network management) as a means of generating insights into customers' behavioural patterns and preferences (Quresh, Zafar & Khan, 2008). Regulators are also moving towards global best practices to which the management must comply. In addition to all these current challenges facing the banking industry, the scope and dimension of financial services in the foreseeable future will be different from the present, in terms of competitiveness, customers' expectations, the degree of internationalization, adjustment to technological trends and innovations. Hence, the business environment of the banking sector in Nigeria is expected to remain very dynamic (Adesina &Ayo, 2010).

Objective of the Study

The specific objective is to determine the type of relationship between sensing capability and the performance of selected Commercial Banks in Awka.

Research Hypothesis

H_a: Sensing capability has a significant positive relationship with the performance of selected Commercial Banks in Awka.

REVIEW OF RELATED LITERATURE

Conceptual Review

Dynamic Capabilities

Dynamic capabilities are those capabilities that operate to expand, modify, or create ordinary capabilities(Winter, 2003). This means that while dynamic capabilities help a firm to create capabilities to address threats, it also allows a firm to exploit opportunities to drive performance.

Helfat et al. (2007) conceptualize a dynamic capability as the capacity of an organization to purposefully create, extend, or modify its resource-base. Similarly, Teece (2007) recognizes that while operational capabilities help sustain an organization's technical fitness by ensuring its day-to-day operational efficiency, dynamic capabilities help sustain a firm's evolutionary fitness by enabling the creation, extension, and modification of its resource-base, thereby creating long-run competitive success. They are the abilities to integrate and build a firm's resources and routines to address a changing environment in the manner deemed appropriate by its managers (Helfat & Peteraf, 2003; Zahra, Sapienza & Davidson, 2006). Tashman & Marano (2010) consider dynamic capabilities in the context of dynamic or emerging markets, highlighting that there is volatility and change in these markets that justify the development of dynamic capabilities in order to be competitive. By their nature, dynamic capabilities are suited to dynamic markets, being able to cater for changes through adapting current resources and routines (Teece, 2007). The key principle behind them is continued competitiveness, as firms are not only competing in their ability to configure and exploit existing resources, but also in their ability to renew and develop these resources (Hou, 2008).

The dynamic capabilities view, builds on four central ideas (Koporen & Pohjola, 2007). (1) The ability to alter the resource base in relation to the changing environment. Hence, they are more valuable in unstable environments. (2) Dynamic capabilities may create market change and not only responds to it. Dynamic capabilities and the evolution of the market environment are not separate phenomena. (3) The resource base of the firm is path dependent and dynamic capabilities can alter these paths. Dynamic capabilities do not exist separately from the resource base of firms. (4) Dynamic capabilities are context dependent. It is not possible to generalize the performance or even existence of dynamic capabilities without taking to account; the institutional, environmental and market context. Teece (2007) & Danneels (2002) opined that the indices of dynamic capabilities include. (1) Capability of sensing opportunities, which is the organization's ability to direct operational changes and sense new opportunities. (2) Capability of seizing opportunities, which is the organization's ability to create and provide structures that improve creativity and innovation. (3) Capability of implementing innovations, which is the organization's ability to manage innovation and projects implementation. (4) Capability of reconfiguration, which is the organization's ability to readjust available resources.

Sensing Capability

Sensing describes a firm's capability to continuously identify and evaluate opportunities of relevant environmental changes for competitive action (Overby et al., 2006). Therefore, enhanced sensing capabilities should enable firms to perceive opportunities and threats by scanning, interpreting, and understanding their environment (Teece, 2007). To identify opportunities, firms must constantly search and explore across markets and competitors. Thus, sensing activities involve investing in exploring customer needs and assessing competitors' behaviour (Nonaka & Toyama, 2007; Teece, 2007). O'Reilly & Tushman (2008) note that sensing is a critical component of the dynamic capability classification and go on to specify that the sensing capability involves scanning, searching, and exploration in dynamic markets. The elements of sensing capability include external environment assessment, customer assessment, competitors' assessment, technological capacity assessment, and new technologies assessment (Ashraf & Maghsud, 2013). Day (2002) argues that this sensing ability of firms needs to involve open enquiry, rather than looking for information with a fixed mindset. He proceeds to define elements of sensing as the collection and distribution of information about customers, competitors and relationships in the market. Hou (2008) defines sensing capability as a firm's ability to sense the needs of its customers and the market dynamics better than that of its competitors. He disaggregates this into the ability to generate, disseminate and respond to market and customer insights. The sensing capability describes a firm's ability to continuously identify and evaluate opportunities of relevant environmental changes for competitive action (Overby, Bharadwaj, &Sambamurthy, 2006).

Organisational Performance

Organizational performance has been the most important issue for every organization, be it a profit or non-profit one (Ismael, Yusof & Davoud, 2010). However, defining, conceptualizing and measuring performance has not been an easy task (Ismael et al, 2010). Organizational performance has been taught with many conflicting definitions and it is not a new phenomenon to academics and industrialists (Olarewaju & Folarin, 2012). Organizational performance is a combination of productive assets made up of human, physical, and capital resources, for the major reason of fulfilling vision or shared purposes (Carton & Hofer, 2006). It is also defined as the measure of how a manager utilizes the resources of the organisation efficiently and effectively to accomplish the goals of the organisation as well as satisfy all its stakeholders (Jones & George, 2009).

Organizational performance is the real output measured against the expected or intended output (Richard, Devinney, George & Johnson, 2009). Organizational performance is made up of three areas which are: financial performance that is made up of profit, return on assets (ROA), return on investment (ROI); product market performance such as sales, and market share; and shareholders return such as total shareholder return

(TSR), and economic value added (EVA). Organizational performance involves the recurring activities to establish organizational goals, monitor projects towards the goals, and make adjustments to achieve these goals more effectively and efficiently (Richard, Devinney, George & Johnson, 2009).

Dynamic Capabilities and Organisational Performance

Dynamic capabilities and organizational performance have been examined mainly in terms of either the economic performance of the firm or changes in operational capabilities. However, the mechanisms through which they influence performance remain unclear. Some scholars posited a direct relationship between dynamic capabilities and performance. In accordance with this view, several empirical studies report a direct relationship between what the authors conceptualise as dynamic capabilities and performance (Garcı´a-Morales, et al., 2007; Kor & Mahoney, 2005; Wu, 2007; Zhang, 2007). With regard to the performance indicators, there is considerable variation in what constitutes performance. Many studies focus on economic performance (Morgan, Vorhies & Mason 2009; Wang, Klein, & Jian 2007; Zhang, 2007), whereas others consider innovative or technology performance, environmental performance, and international performance (Ellonen, Wikstro¨m, & Jan- tunen, 2009; Chen & Jaw, 2009; Russo, 2009).

Theoretical Framework

This study is anchored on Teece's *dynamic capability theory* which explains how firms adapt to environmental dynamism by modifying their underlying resources and capabilities. It is considered to have originated from Schumpeter's (1934) Innovation-based Competition where competitive advantage is based on the creative destruction of existing resources and novel recombination into new operational capabilities (Gathungu & Mwangi, 2012).

The aim of the theory is to understand how firms use dynamic capabilities to achieve and sustain a competitive advantage over other firms despite an ever changing environment by appropriately adapting, integrating, and reconfiguring organizational skills and operational capabilities towards a changing environment. (Gathungu & Mwangi, 2012, Helfat & Peteraf, 2003, Helfat et al, 2007, Porter, 1991). It explains the sources of enterprise-level competitive advantage over time and provide guidance for managers when renewing a firm's competences to match the requirements of a changing environment.

Empirical Review

A number of studies have been carried out by various researchers on Dynamic Capabilities and the Performance of Organizations. Some of them are reviewed below:

Li & Liu (2014), examined dynamic capability, environmental dynamism and competitive advantage in 217 enterprises in China. Using survey research design, they assessed the role of dynamic capability on gaining competitive advantage. Their findings revealed that dynamic capabilities have a significant positive impact on competitive advantage, and that environmental dynamism is an antecedent of dynamic capabilities and facilitates their development.

Wu(2010) appraised the role of environment dynamics, the applicability of the resource based and dynamic capabilities views in volatile markets. The study examined 253 Taiwanese firms. The main hypothesis in the study stated that a firms' dynamic capabilities relate positively to firm competitive advantages and that volatile markets do not weaken the positive relationship between them. The findings indicated that dynamic capabilities in highly volatile markets effectively enhance the firm's competitive advantage.

Lin & Wu (2014) applied the resource based view to study the mediating effect of dynamic capabilities on improved performance and found a positive correlation. They argue that valuable, rare, imperfectly imitable and non- substitutable resources positively affect the development of dynamic capabilities. The result of this study emphasizes that by accumulating resources and developing dynamic capability, firms can improve their competitive advantage and their performance.

Wilden, Gudergan, Nielsen, and Lings (2013) examined the role of the external environment on the effect of dynamic capabilities. It was found that dynamic capabilities have a positive effect on sales growth and financial solvency when firms are faced with increasing levels of competitive intensity. To test their hypothesis the authors used data and financial data from large Australian firms.

Makkonen et al. (2014) assessed the relationship of dynamic capabilities with internal processes. Survey research design was applied. They found that dynamic capabilities have a positive effect on organizational change, which in turn positively affects product innovativeness. Findings from the study showed that dynamic capabilities give firms competitive advantage and increase their evolutionary fitness.

Gathungu & Mwangi (2012) carried out a study on Dynamic Capabilities, Talent Development and Firm Performance in which they investigated the nature of sensing, seizing and transforming managerial dynamic capabilities and their interconnection influence firm performance. The study indicates that the dynamic capabilities influence firm performance positively towards ensuring their survival in the dynamic market place.

Aimilia, Yannis, & Spyros (2011), explored “Dynamic Capabilities and their Direct Impact on Firm Performance”. The study measured dynamic capabilities as a multi-dimensional construct with three underlying factors: Coordination, Learning and Strategic Competitive Response. They employed structural equation modeling to explore the relationships among dynamic capabilities, functional competences and firm’s performance. They found that dynamic capabilities have a positive impact on firm performance in both high and low levels of environmental change

Ambrosini, Bowman, & Collier (2009) extended the concept of dynamic capabilities by exploring how firms renew their resource base. They found out that regenerative dynamic capabilities may either come from inside the firm or enter the firm from outside, via changes in leadership or the intervention of external change agents.

Akwei, Peppard & Hughes (2012) examined how dynamic capabilities are created. The study adopted the grounded theory methodology with the aim of developing a substantive theory of dynamic capabilities creation. The constant comparison method was used to analyze the data collected. The findings from the study reveal that dynamic capabilities are developed and renewed through continuous internal activities and external activities.

Helfat & Peterat (2013) studied the dynamic resource-based view of capability lifecycles and introduced the concept of capability lifecycle. They argued that the capability lifecycle provides a structure for a more comprehensive approach to dynamic resource-based theory. The analysis incorporates the founding, development, and maturity of capabilities in a manner that helps to explain the sources of heterogeneity in organizational capabilities. The study concludes that the dynamic resource-based view must include, as one of its prime components, an understanding of the evolution of resources and capabilities.

Winter (2003) argues that the strategic substance of capabilities involves patterning of activity, and that costly investments are typically required to create and sustain such patterning. The study concludes that firms can achieve change without reliance on dynamic capability and that whether high-order capabilities are created or not depends on the costs and benefits of the investments relative to ad-hoc problem solving.

These studies however focus more on the general effects of dynamic capability, while this study concentrated on one aspect of dynamic capabilities -the sensing capability.

METHOD

Research Design

This study employed the descriptive survey design as it collected detailed and factual information that describes an existing phenomenon.

Population of the Study

The population of the study comprised the staff of two banks which were randomly selected- First Bank Nigeria Plc and United Bank for Africa, Awka, with staff strengths of 33 and 29 respectively, giving a total population size of 62. Complete enumeration method was adopted. The researcher therefore made use of the entire population.

Method of Data Collection

Data for the research was collected from primary source. Copies of a structured questionnaire were administered, and the participants were placed on objective response for each statement on a five point likert scale. The response scoring weights were Strongly agree- 5 points, Agree- 4 points, Undecided – 3 points, Disagree – 2 points, and Strongly disagree – 1 point.

Reliability of the Instrument

Reliability Test

This was done using the Cronbach Alpha at 5% level of significance. This is the most common measure of internal consistency (reliability). It is most commonly used to determine if the scale is reliable.

Reliability Statistics

Cronbach's Alpha	N of Items
0.781	10

Source: SPSS Ver. 22

From the reliability test, the measuring instrument measures what it is purported to measure at alpha value of 0.781

DATA PRESENTATION AND ANALYSIS

Data Presentation

Table 1 **Schedule of Questionnaire Administered and Returned**

Number of Questionnaire Administered	Number of Questionnaire Returned	Number of valid Questionnaire (Participants with work experience of 5 years and above)
62	59	30

Source: Field Survey (2014)

Data Analysis

Descriptive Statistics Of Questionnaire

The following descriptive statistics were computed, namely: Mean and Standard Deviation.

Table 2 **Descriptive Statistics of Questionnaire**

	N	Minimum	Maximum	Mean	Std. Deviation
Your organization is knowledgeable in sensing opportunities	30	4.00	5.00	4.5000	.50855
There is an adequate system mechanism in place that assists your organization in identifying opportunities	30	1.00	5.00	3.9667	1.21721
Organizational performance can be enhanced if your organization assesses its technological ability periodically	30	2.00	5.00	3.8667	.97320
Periodical customer assessment has facilitated your organisation's market share	30	3.00	5.00	4.1333	.62881
Consistent assessment of the adequacy of existing technologies in your organization has improved service delivery to your customers	30	2.00	5.00	3.8667	.93710
Assessing competitors' products has contributed to increasing your organisation's product output	30	2.00	5.00	4.3333	.75810
Technology trend analysis has played a great role in increasing product innovation in your organization	30	1.00	5.00	4.2333	1.10433
Monitoring the external business environment has not improved your organisation’s productivity	30	1.00	5.00	2.9333	1.33735
The current system for identifying opportunities seems problematic	30	1.00	4.00	2.2000	1.03057
Monitoring competitors’ moves has improved the value creation of your organization	30	2.00	5.00	4.3333	.84418

Source: SPSS Ver. 22

Test of Hypothesis

Interpreting Pearson result:
A positive correlation means that as one variable increases in value, the second variable also increase in value. Similarly, as one variable decreases in value, the second variable also decreases in value. Likewise, a negative correlation means that as one variable increases in value, the second variable decreases in value.

Decision Rule:

Reject the null and accept the alternate if p-value < .05; if otherwise, accept the null.

Hypothesis
H_1: Sensing Capability has a positive significant relationship with Organizational Performa

Correlation Result of Hypothesis

		ORGANISATIONAL PERFORMANCE FACTORS	SENSING CAPABILITY FACTORS
ORGANISATIONAL PERFORMANCE FACTORS	Pearson Correlation	1	.545**
	Sig. (2-tailed)		.002
	N	30	30
SENSING CAPABILITY FACTORS	Pearson Correlation	.545**	1
	Sig. (2-tailed)	.002	
	N	30	30
**. Correlation is significant at the 0.01 level (2-tailed).			

Source: SPSS Ver. 22

Result summary:
A Pearson product-moment correlation coefficient was computed to assess the relationship between sensing capability factors and organizational performance factors. There was a positive correlation between the two variables, $r = 0.545$, $n = 30$, $p = 0.002$. We therefore accept the alternate hypothesis that Sensing Capability has a positive significant relationship with Organizational Performance.

Findings/Management Implications

The finding which revealed that dynamic capabilities have a positive significant relationship with organisational performance, has some management implications. It suggests that the Management of the focused organizations need to deploy competent human and state of the art physical resources that enhance competitive advantage and distinctive competence. Perhaps, the Management could emphasize on sensing capabilities as a part of criteria for workers' appraisal. This finding corroborates the results of studies by Wilden et al (2013), Wu (2010), Li & Liu (2014), Gathungu & Mwangi (2012), and Aimilia et al (2011) which stated that sensing capabilities are useful in identification and assessment of opportunities within firms' environment.

Conclusion

Following the findings, it is concluded that dynamic capabilities facilitates and sustains competitive advantage through the deployment of sensing capabilities. Dynamic capabilities influence a firm's performance positively and thus any firm that fails to embrace them may not survive in the dynamic market environment because the possession of only unique resources is not sufficient anymore to gain competitive advantage

Recommendations

Sequel to the findings and conclusion, the following recommendations are made:

1. Managers should scan the business environment for opportunities and threats, translate these opportunities into business models and finally take actions that are necessary to reconfigure the current resources of the organisation.

2. Managers should establish capabilities to identify emerging opportunities or threats and effectively capitalize on opportunities by launching new products and services, entering new market segments, or forming strategic alliances.

3. Managers should not dwell on their core competences for competitive advantage but continually adapt the core competences and capabilities to the changing business environment.

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