

Dynamic Capabilities and Competitive Advantage of Companies Listed at Nairobi Securities Exchange

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Abstract

The purpose of this study was to examine the relationship between dynamic capabilities and competitive advantage of companies listed at Nairobi Securities Exchange. The specific objectives were to establish the influence of dynamic capabilities on competitive advantage of companies listed at Nairobi Securities Exchange. The study applied cross sectional descriptive survey as its research design and all the firms listed at the NSE formed the study population. The study established dynamic capabilities explain 44.8% of variation in competitive advantage. The hypothesis that dynamic capabilities construct has a significant influence on competitive advantage of companies listed at Nairobi Securities Exchange was therefore supported. The study recommends that all listed firms should encourage the development of dynamic capabilities as they are instrumental in combating environmental challenges and consequently ensure the attainment of a competitive advantage. The results contribute to theory development, policy and management practice with regard to the essentiality of dynamic capabilities in the realization of competitive advantage. The limitation of the study is that it used the top management individuals as the target respondents as opposed to including other employees in the organization. Nevertheless, this did not compromise the findings since top managers understand the workings of the firm and are able to discern the various aspects of the operations and strategy. Consequently, the study points out room for more research using a larger population, longitudinal studies and incorporating other companies that are not listed at Nairobi Securities Exchange.

Keywords: dynamic capabilities, competitive advantage, sensing, seizing, integration, Nairobi Securities Exchange

1. Introduction

The development of dynamic capabilities and their role in organizational profitability as well as competitiveness remains a major interest in management research. The primary role of dynamic capabilities is to help firms orderly, efficiently and systematically update their processes and routines in order to withstand the intensive environmental changes (Karman & Savaneviciene, 2021; Schilke, 2014). Dynamic capabilities include sensing, seizing and integration capabilities (Teece, 2007). Sensing capabilities indicate the company's capacity to scan its environment and identify favorable opportunities and potential threats that could impact its long-term competitive advantage (Li & Liu, 2014; Sivusuo, 2019). On the other hand, seizing capabilities enable a firm makes strategic choices and investment decisions on externally sensed opportunities (Teece, 2012) while integration capabilities help in the combination and synchronization of information, assets, routines, processes and operations in order to attain a competitive advantage (Pavlou & El Sawy, 2011). In this case, firms which are able to identify and exploit valuable opportunities from redefining, realigning, reconstructing, upgrading and rejuvenating their resource base will gain a competitive advantage (Bitencourt, Santini, Ladeira, Santos & Teixeira, 2020; Duan, 2013). Divergent conclusions on how dynamic capabilities relate with competitive advantage have been recorded where some scholars have found a direct relationship (Teece *et al.*, 1997) and an indirect relationship (Tseng & Lee, 2014).

This study employed dynamic capabilities theory (DCT) to emphasize the creation, modification, transformation and redeployment of resources in obtaining and sustaining competitive advantage (Teece (1990). Despite competitive advantage being identified as an important concept in Strategic management, Sigalas and Pekka-Economou (2013) concluded that many descriptions of this concept exist in literature and one clear, straightforward definition is lacking. Literature has either described competitive advantage as superior performance (Areias & Eiriz, 2013) or its sources and

determinants (Porter, 1991). However, Peteraf and Barney (2003) described competitive advantage as the capacity of a firm to create economic value from its efficient operations and is not being created by its rivals due to their inefficiencies. Firms that enjoy market superiority equally grow faster (Kajalo & Lindblom, 2015) as they are able to expand their market share, either from weakening their competitors' positions or from the growing industry (Purkayastha & Sharma, 2016). Competitive advantage is achieved by creating high value and quality goods through differentiation or producing each unit at the lowest possible cost as compared to other players in the industry (Areias & Eiriz, 2013).

The study focused on the companies listed at NSE as its population. Firms listed at NSE are extensive in scope of economic activities ranging from agricultural, automobiles, telecommunication, banking, construction, insurance, manufacturing, investment, energy and petroleum, real estate and traded fund. This implies that these companies met the listing requirements when they were being publicly quoted. Listed companies are blue chip companies and represent important aspect of the Kenyan economy (Nganga, 2013). The declining competitiveness of listed firms could be attributed to the turbulent environment which can be seen from the extensive and intense technological changes, shortening of the product lives, intense competition, changing customer preferences as well as industry structure (Karman & Savaneviciene, 2021).

2. Research Problem

Gaining and maintaining superior competitiveness amidst environmental dynamism is a key focus of an organization's goal. Competition is a threat to firm's survival. As competition intensifies, industry economic rents and returns from deployment of resources reduce (Areias & Eiriz, 2013). Therefore, creation of a competitive advantage is paramount to wither competition. Whilst competitive advantage comes from complex interaction of forces within a firm, dynamic capabilities is the beginning point of creating a position of advantage (Bitencourt *et al.* 2020; Teece, 2014). Kenyan listed companies are fundamental to the economic growth and development. The World Bank report on development indicators showed that these firms attained a market capitalization of 21.18% of GDP in 2020. Therefore, the listed firms in Kenya should find ways of gaining a competitive advantage amidst environmental dynamism which can be seen from intense competition, changing customer preferences as well as industry structure. Nganga (2013) pointed out that Kenyan listed firms that were once doing exemplary well have been losing their competitive advantage. Conversely, some firms that are relatively new at the Nairobi securities exchange have managed to dominate their respective industries. This revelation opens a door for further enquiry to explain this phenomenon and potentially ascertain the factors that could reverse the loss of competitive advantage amongst these firms. Despite the consensus that there is a link between dynamic capabilities and competitive advantage, differing conclusions have been arrived at on how the two constructs relate where some scholars have found a direct relationship (Teece *et al.*, 1997) and an indirect relationship (Tseng & Lee, 2014). Helfat *et al.* (2013) concluded that dynamic capabilities result in competitive parity or disadvantage. Therefore, the study sought to establish the influence of dynamic capabilities on competitive advantage of companies listed at Nairobi Securities Exchange.

3. Literature Review

3.1 Dynamic Capabilities Theory

This theory is relevant to this study as it recognizes the importance of management capabilities in coordinating and reconfiguring internal and newly externally sourced competences (Teece & Pisano, 1994). According to this theory, creation, modification, transformation and redeployment of resources that are of high value enable an organization obtain competitive advantage in the industry. These resources are tradable, not easily found and cannot be easily substituted (Augier & Teece, 2007; Acer & Polin, 2015).

Despite the fact that firms are continuously developing new combinations of competences, resources and capabilities, rivals in the market place are similarly improving their resources or imitating processes that are perceived as profitable by the market leaders. There is need, therefore to focus on internal processes like sensing, seizing and integration while improving the capabilities of management in coordinating routines and other processes (Teece, 2018).

This theory, as the anchor theory, describes how dynamic capabilities relate with competitive advantage. Firm's ability to thrive in an environment characterized by stiff competition can be estimated by looking at its resource reconfiguration strength. The dynamic capabilities theory vastly identifies, characterizes and analyses the rate of change of resources that enable organizations avoid the development of core rigidities and consequently organizational inertia (Augier & Teece, 2007)

3.2 Dynamic Capabilities and Competitive Advantage

Creation of competitive advantage from firm dynamic capabilities has generated an intense debate in the management

discipline. Nevertheless, researchers have pointed out the importance of dynamic capabilities for any firm's competitiveness (Bitencourt *et al.*, 2020 Karna *et al.*, 2015, Wilden *et al.*, 2016). Some studies have determined that dynamic capabilities positively and directly impact competitive advantage of an organization (Teece *et al.*, 2014). Conversely, some research outputs have showed that the link between these two variables is an indirect one (Peteraf *et al.*, 2013; Ren *et al.*, 2016). Tseng and Lee (2014) using multiple regression, found a positive correlation on DC with competitive advantage relationship of SMEs, specifically service, technology and manufacturing industries in Taiwan.

On the other hand, Čirjevskis, (2017), using illustrative case studies, concluded that dynamic capabilities indirectly impact competitive advantage in Asian-Pacific shipping companies. The other concern that scholars have raised is the effectiveness of dynamic capabilities in various environmental conditions. Whereas studies on dynamic capabilities have measured their effectiveness in very turbulent environments, some studies have established their importance in moderate or stable environmental conditions. For instance, Kalali and Heidari (2016) established that dynamic capabilities influence strongly competitive advantage during turbulent environmental conditions than during stable environmental changes. The study adopted a comparative longitudinal case analysis of 14 management consulting firms in Iran. Similar observations were put forth by Kareem and Alameer (2019) in their study of selected public universities in Iraq.

On the other hand, Jiao *et al.*, (2013) in their survey of 227 Chinese manufacturing firms concluded that dynamic capabilities strongly affect competitive advantage in both stable and high velocity market conditions. These high order capabilities have been seen to be helpful to firms that are in both stable and uncertain environmental conditions (Helfat & Peteraf, 2015). Other scholars have described dynamic capabilities framework as key in analyzing economic rent creation and performance differentials among firms in an environment characterized by extensive technological improvements and breakthroughs amongst firms in various industries. However, these capabilities only create competitive parity and not advantage (Peteraf *et al.*, 2013).

4. Research Methodology

This study was grounded on positivist philosophical approach as it is based on theory before research, hypotheses testing and conclusions from statistical justification (Cooper & Schindler, 2014). Positivism emphasizes on knowledge being based on real facts and not abstractions. This would enable predictions based on existing theory. The observer in this case is independent from the phenomenon/phenomena being observed (Cooper & Schindler, 2014). This study utilized a descriptive cross-sectional survey research design since the study sought to not only describe relationships among key study variables but also establish the extent of these relationships. The study's target population comprised all firms listed at the NSE which were sixty- three (63) in number at the time of the study. These firms were preferred for the study as they are diverse in nature, operations and by sector. This study employed the use of primary data which was obtained through a structured questionnaire. The study targeted the top management (Chief Executive Officers) as well as key managers in charge of departments (operations, marketing, manufacturing and finance) and they were the respondents. Research assistants were used to collect the data where they dropped the questionnaires at the respondents' offices and later picked them after they had been filled.

Kaiser- Meyer- Olkin (KMO) as well as Barlett's Test of Sphericity was used in establishing validity of results. Field (2000) points out that data having a KMO value greater than 0.5 and Barlett's Test of Sphericity statistically significant is good for statistical analysis. KMO statistic ranges from 0 to 1.

This study employed the use of Cronbach's alpha (α) that indicates a group of test items measuring one latent variable (Cronbach & Shavelson, 2004). Cronbach's coefficient alpha measures actual variance in respective variable. The coefficient alpha of 0.7 and above indicated an acceptable internal consistency as pointed out by Creswell and Clark (2017). The need to involve some respondents from the population of the study in the pre-testing of the questionnaire for validity purposes was essential. The aim was not only to ensure that the instrument was going to give valid results at the end of the survey but also ensure that the instructions for statements depicting variable phenomena were clear. For construct and criterion validity, five questionnaires filled by five managers of selected firms were used for pilot study. The firms that took part in this pilot tests did not take part in the main survey.

Dynamic capabilities construct was the independent variable in the study and was measured using its three dimensions, namely Sensing capabilities, Seizing Capabilities and Integration capabilities as put forth by Teece (2014). Competitive advantage as the dependent variable was measured in terms of the ability of the firms to have low costs of operation, differentiate their products, delivering value to the customer, efficient systems and structures and a higher market share as compared to their competitors as used by Fereira *et al.* (2019) and Purkayastha & Sharma (2016)

5. Data Results and Analysis

Table 1 shows reliability output of Cronbach's Alpha test.

Table 1. Reliability Test

Variable	Cronbach's Alpha	Comment
Dynamic capabilities	.913	Reliable
Competitive advantage	.877	Reliable

Source: Primary Data, (2021)

The results indicate that all constructs had high reliability coefficients scores which were above 0.7 and consequently ascertaining the reliable nature of the research instrument that was used in the main survey.

Data assuming a normal distribution makes it possible to conduct parametric statistical tests like correlation analysis, regression analysis, t tests as well as analysis of variance (Pallant, 2010). For samples of 3 to 2,000, Shapiro -Wilk test should be used but if the sample size exceeds 2,000 then the Kolmogorov-Smirnov test applies (Field, 2009). The current study employed the use of Kolmogorov-Smirnov and Shapiro-Wilk tests in ascertaining normality. The study population included all the 63 companied listed at NSE thus justifying use of Shapiro-Wilk for normality test. The normality assumption was upheld with Shapiro-Wilk statistic greater than 0.5 (Razali & Yap, 2011; Field, 2009)

Table 2. Tests of Normality

	The Tests of Normality					
	Kolmogorov-Smirnov ^a			Shapiro-Wilk		
	Statistic	df	Sig.	Statistic	df	Sig.
Dynamic Capabilities	.033	40	.200*	.993	40	.972
Competitive Advantage	.068	40	.200*	.981	40	.454

Source: Research Data (2021)

The study's target comprised of all the 63 companied listed at NSE companies listed at NSE. The total number of questionnaires distributed amongst the respondents was 58. Forty (40) questionnaires were filled correctly and later returned by the respondents. This resulted in 68.9% response rate. The remaining 31.1% were unresponsive even after several follow-ups and reminders. Karman & Savaneviciene (2021) pointed out that a 50% response rate is adequate, 60% good and above 70% very good.

The hypothesized interaction was tested by simple linear regression analysis. The tests were conducted guided by the regression model:

$$CA = \alpha + \beta_1 DC + \varepsilon$$

CA= Aggregate mean (composite) score of Competitive Advantage

DC = Aggregate mean of the combined individual Dynamic Capabilities indicators, α = constant β =regression coefficient, ε = Error term

The findings are indicated in Table 1.3. The findings show a moderately strong relationship between dynamic capabilities and competitive advantage ($R = 0.669$). The coefficient of determination ($R^2 = 0.448$) shows that dynamic capabilities construct explains 44.8% of variation in competitive advantage. Dynamic capabilities construct significantly influence competitive advantage (High t-value of 6.978, $p < 0.05$). The resulting model shows that the F

value is 31.690 and a p-value of 0.000 which is < 0.05 . The beta coefficient results indicated that the firm will gain more competitive advantage from increased deployment of dynamic capabilities ($B=0.854$, $t=6.978$, $p<0.05$). This implies that dynamic capabilities predict competitive advantage. The findings provided a basis for concluding the influence of dynamic capabilities on competitive advantage of companies listed at NSE.

Table 3. Regression Results of the influence of Dynamic Capabilities on Competitive Advantage

Model Summary								
Model	R	R Square	Adjusted Square	R	Sig.	F	Change	
1	.669 ^a	.448	.439		0.000			
ANOVA ^a								
Model		Sum of Squares	df	Mean Square	F	Sig.		
1	Regression	5.040	1	5.040	31.690	.000 ^b		
	Residual	6.211	39	.159				
	Total	11.250	40					
Coefficients ^a								
Model		Unstandardized Coefficients	Standardized Coefficients	t	Sig.	95.0% Confidence Interval for B		
		B	Std. Error	Beta		Lower Bound	Upper Bound	
1	(Constant)	.549	.480		1.143	.258	-.412	1.509
	Dynamic Capabilities	.854	.122	.669	6.978	.000	.609	1.098

a. Dependent Variable: Competitive Advantage

Source: Research Data (2021)

6. Conclusion, Implications of the Study and Recommendation

The objective of the study was to test the influence of dynamic capabilities on competitive advantage of companies listed at Nairobi Securities exchange. The resulting hypothesis, H1, stated that dynamic capabilities construct has significant influence on competitive advantage of companies listed at NSE. It was established that the influence of dynamic capabilities on competitive advantage of companies listed at NSE was statistically significant.

The study results have implications on theory, knowledge, managerial practice, and policy. This study advances research and literature on dynamic capabilities focusing on competitive advantage implications of an organization's simultaneous engagement in sensing, seizing and integrating external competences, resources, opportunities and information. The study adds into the empirically tested research findings on dynamic capabilities and competitive advantage relationship, thus contributes to knowledge. Also, the findings of the study enhance the replication of similar studies in a different context, thus fostering comparative study. The research contributes to DCT by establishing that dynamic capabilities influences competitive advantage. The research thus supports dynamic capabilities theory.

The study outcomes are significant in influencing government policy. The government will benefit in formulating policy on the listed firms from the understanding of dynamic capabilities effects on competitive advantage. The various sectors represented by these companies are important to economic development of the country and contributes significantly to the gross domestic product. The Government of Kenya, in its Vision 2030 development policy,

endeavors to transform the country into a middle-income economy. DC influence on competitive advantage is evidenced by the large number of listed companies using their sensing, seizing and integration capabilities in their operations and thereby lower their costs while producing high quality and differentiated products.

The results of this study demonstrate that although dynamic capabilities significantly influence competitive advantage of companies listed at NSE, firm innovation, mediates this relationship. Firm managers and owners, should therefore recognize this interaction and formulate firm policies and procedures accordingly. This study further recognized that dynamic capabilities dimensions cannot result in competitive advantage separately. Sensing capabilities enable the firm recognize the changes in the environment while seizing capabilities make it possible for the firm to implement strategies for capturing opportunities. Integration capabilities glue together the previous routines and newly acquired capabilities so as to realize a competitive advantage. It is therefore necessary for listed firms to understand the Dynamic capabilities dimensions in order to incorporate them in their day-to-day activities. Managers who are keen in becoming competitive given the current changing environment should find the results of this study useful.

The research recommends that listed firms should develop sensing, seizing and integration capabilities that would enable them to attain a competitive advantage. Dynamic capabilities could be the solution to solving turbulence in environment characterized by the extensive and intense technological changes, shortening of the product lives, intense competition, changing customer preferences as well as industry structure (Karman & Savaneviciene, 2021). The study therefore recommends that policymakers should advocate the development of dynamic capabilities for the attainment of Kenya's Vision 2030.

7. Suggestions for Further Study

The data in this research was collected from a single source. One senior manager (CEO/operations/manufacturing/finance) provided the data by responding to the questionnaire which covered the various variables of the research. Relying on a response from one person in a big organization may have some limitations; such as single source and social desirability bias. Future researchers should involve more people across the management hierarchy and in different settings such as focus groups.

Cross sectional research design was used as the research design. Longitudinal studies could be carried out to test causal effects in future studies and to show whether the findings vary over time. It could further reveal how Dynamic capabilities affect competitive advantage as the environment increasingly becomes unpredictable with increased competition, an increasing regulatory framework, varying customer preferences. Prospective research studies should focus on organizations outside the companies listed at the NSE in order to ascertain the applicability of this study's conclusions to other contexts of Kenya's economic units. For instance, future research should include coverage of firms operating in various sectors, both listed and non-listed. Additionally, a replica of this study in a big population extending many industries should be considered. Such large population would be a useful extension of this study and would enhance the findings.

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