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The Relationship between Organization Culture and Performance in Commercial Banks in Kenya: The Mediating Role of Innovation

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ABSTRACT

In a knowledge economy most business processes are viewed through their knowledge capability. However, the real challenge is in developing an adequate system of knowledge management in firms that will give them a competitive edge. The question is; how do firms develop knowledge capability, and what is the effect of strategic knowledge capability on a firm's performance? This research sought to find out the relationship between strategic knowledge capability and performance in commercial banks in Kenya with specific interest on the mediating role of innovation. Specifically, the study sought to find out how organizational culture impacts on the performance of commercial banks in Kenya. The study employed the social survey methodology of study, using questionnaire as the main tool for data collection. To actualize this, data was collected using a single questionnaire distributed to each of the Chief Executive Officers of all forty-three banks. A drop and pick later procedure for questionnaire administration was used to distribute them. Data gathered was then analyzed quantitatively using both descriptive and inferential statistical tools; specifically Analysis of Variance (ANOVA) and regression analysis, with the finding that organization culture had no significant influence on both innovation and performance in commercial banks in Kenya. The conclusion that the strategic knowledge capability defined by organization culture had no significant effect on the performance in commercial bank was reached.

Key Words

Strategic knowledge capability, organization culture, innovation, performance.

Introduction

Modern businesses and companies are exposed to challenges posted by an unpredictable and complex competitive environment. The globalized business environment is characterized by changed business conditions, market liberalization, high production costs, improved information and communication technology, flexible organizational structures of companies and increasing partnership development (Jelenic, 2011). This means that competition has grown stiff and companies are left with few aspects of their firms that they can effectively compete on. In this world of demanding business, an organization's competitive edge almost wholly depends on how well it can manage and deploy its corporate assets (Tanaji, 2012). These assets can be categorized into tangible and intangible assets. Traditionally, tangible assets like plant, equipment, inventory and

financial capital were considered the most fundamental corporate assets. However, changes in the nature of business and the shift to a knowledge economy, plus the new information age have presented new resources that companies use in business processes. These resources include knowledge, reputation, organizational culture and intellectual capital and brands. Firms can successfully compete based on these resources and attain competitive advantage. This is determined by how well these assets are put to use. To put these assets to use and gain competitive advantage, the firm must possess the knowledge capability to do this.

With the rise of the service sector, the growing importance of theoretical knowledge, and the driving importance of technological change, knowledge is increasingly seen, along with capital and labour, as a key factor in productivity, competitiveness, employment and economic growth. Knowledge Management is a concept in which an enterprise consciously and comprehensively gathers, organizes, shares and analyzes its knowledge in terms of resources, documents, and peoples' skills (Lyons, 2000). Ralph (2003) views KM as a management discipline aimed at fostering usage and development of knowledge, with a view to promoting attainment of the company's strategic objectives, and therefore, helping the firm attain some level of competitive advantage. Darroch and McNaughton (2001) concur with this when they define KM as the management level that incorporates the creation of knowledge, organization of knowledge management flow and efficient use of knowledge as a tool for attaining long-term competitive edge. This knowledge that gives a firm long-term competitive advantage is referred to as strategic knowledge. Knowledge management is, therefore, about enhancing the use of organizational knowledge through sound practices of information management and organizational learning with a view to delivering value to the business (Jalal, 2002). It rests on two foundations: utilizing and exploiting the organizational information and the application of peoples' competencies, skills, talents, thoughts, ideas, intuitions, commitments, motivations and imaginations (ASIS, 2000). These two aspects can collectively be referred to as capability.

The Kenyan Banking Sector

Kenya has a total of 43 banks licensed and regulated by the Central Bank of Kenya (CBK). A good business climate and increased competition locally has seen some local banks including Kenya Commercial Bank and Equity Bank expand into the East African region. Recent developments in the sector include increased automation and innovation in the digital channels platform, with the latter buoyed by good and vibrant mobile telephone networks. This has given way to increased competition from other financial intermediaries like M-Pesa services by the leading mobile telephone service provider Safaricom Limited, and local banking networks. Most recently, the CBK has launched the Kenya Bankers Reference Rate (KBRR). Credit Reference Bureau regulations and the Consumer Protection Act were also implemented recently.

Commercial banks play an important role and contribute substantially to the growth of any national economy. Banks mobilize, allocate, and invest much of society's savings, and so, bank performance has substantive repercussions on capital allocation, firm growth, industrial expansion, and economic development (Beck, Levine, & Loayza, 2000). The sector is one of its major drivers. The banking sector is among the sectors under the financial services that is expected to contribute greatly to the realization of Kenya's Vision 2030 (Republic of Kenya, 2007). The profits of most banks in Kenya continue to grow annually. The mobile service providers like Safaricom Kenya Limited continue to report eleven digits profits that are on upward trend. More players join this financial service sector, attracted mainly by the kind of profits made in that sector.

The Kenyan banking sector registered improved performance in 2013 notwithstanding the marginal economic growth (Republic of Kenya, 2013) registered by the country. The sector registered a 15.9 per cent growth in total net assets from Ksh. 2.33 trillion in December 2012 to Ksh. 2.70 trillion in December 2013 (Republic of Kenya, 2013). Equally, customer deposits grew by 13.5 per cent from Ksh. 1.71 trillion in December 2012 to Ksh. 1.94 trillion in December 2013 (Republic of Kenya, 2013). In the same sector, there are banks that are struggling. Several banks have been reporting losses for

several years now. These losses are sometimes so high, running to billions of shillings (See Appendix VI).

Table 1: Banking Sector Profit before Tax (in KES Millions)

Year	2010	2011	2012	2013	2014
PBT	73,712.00	88,478.00	106,996.00	124,547.00	139,861.00
% Growth	-	20.0%	20.9%	16.4%	12.3%

Source: Republic of Kenya: Bank Supervision Annual Reports

Statement of the Problem

For the past years, businesses operated in a way reminiscent of the industrial era. This is a period when the attitude of the manufacturer was that any goods they manufactured would find customers and indeed, they did. The situation was the same in the service sector. In the banking sector, banks were made up of the traditional stone and mortar structures where all bank employees reported for work in the morning and sat in there all day waiting for customers to go to them for the services they had to offer. However, the knowledge era is now transforming the rules of business (Saint-Onge & Wallace, 2012). Goods are just not produced, the manufacturer must have the knowledge of what the customer needs now and how these needs are going to change over time in order to remain relevant. Bankers are now out in the field, practically ‘hawking’ bank services and products to both existing and prospective bank customers.

In the business context of the knowledge era, the globalization of capital and its greater availability through a variety of channels, lack of funds is no longer a bottleneck to growth and sustainability. Most businesses possess sufficient capital, and for those that may have a constraint, there are numerous sources from where they can acquire this capital. However, there are too few opportunities to apply the capital available to, and at

the yield levels expected by investors. This means that the new bottleneck in business is the capabilities required to create new opportunities to which this financial capital can be applied (Saint-Onge & Armstrong, 2004). These capabilities come from the knowledge that a firm possesses and how the firm develops the ability to use it. The principal cause, therefore, for increasing concern with knowledge and knowledge management is the idea that knowledge and its application are the means by which creativity can be promoted (Nonaka & Nishiguchi, 2000), innovation facilitated (von Krogh, Ichijo & Nonaka, 2000), and competencies pulled in such a way as to advance overall organizational performance whether in the public, private or not-for-profit sectors (Pitt & Clarke, 1999). As a result, knowledge capabilities must now move to the center of the organization's strategic planning framework.

The banking sector in Kenya is one of the most profitable sectors in the country. Total profits for the sector show a growing trend. While many individual banks make large profits, some make large losses running into hundreds of millions of shillings. All the banks operating in the sector have a customer base. Furthermore, the country still has a large population of unbanked citizens and therefore there is still potential to grow on this end. However, for them to acquire these customers, the banks must possess the knowledge capability to attract them. Do they really possess the strategic knowledge capability required to give them a sustainable competitive advantage? How do the profitable banks develop this much needed capability? A close look at the performance in the sector over the last ten years shows that the champions of previous years are currently trailing those they never thought were a threat. For example, Barclays Bank of Kenya dropped to position five in terms of profitability in the year 2014, and Standard Chartered bank to position three in the same year. These for a long time were industry leaders, exchanging position one and two as if they had the monopoly of banking knowledge and customer service, but are now trailing banks previously viewed as insignificant in the market like Equity, Kenya Commercial and Co-operative banks. Ning, Fan and Feng (2006) in their conference paper on capability concluded that there are few empirical studies on the relationship between knowledge capability and organization performance.

The aim of this research therefore, was to help fill this gap, and find out how commercial banks in Kenya develop strategic knowledge capability for sustainable competitive advantage.

Objectives of the Study

The main objective of this research was to analyze the effect of innovation in the relationship between strategic knowledge capability and performance in commercial banks in Kenya.

Specific Objectives

The specific objectives were to:

- i. Find out how organization culture impacts on performance of commercial banks in Kenya.
- ii. Enquire into the mediating role of innovation in the relationship between strategic knowledge capability and performance of commercial banks in Kenya.

Hypotheses

The following two hypotheses were formulated to help accomplish the objectives of the study;

Hypothesis 1 (H₀): Organization culture has no impact on performance in commercial banks in Kenya.

Hypothesis 2 (H₀): Innovation has no mediating role in the relationship between strategic knowledge capability and performance in commercial banks in Kenya.

Justification of the Study

Strategic knowledge capability development is a strategic activity meant to add value to the organization. This means that it needs to be closely linked to the organization's plans to ensure it contributes to profitability and sustainable competitive advantage. It is,

therefore, the recognition of the emerging importance of the need to develop and possess strategic knowledge capability that is the justification of this research. Organization performance and strategic positioning call for all industry players to understand the forces within their environment that influence this. Knowledge management can be singled out as a key determinant of commercial banks' performance. There is, therefore, a general acceptance that sustainable competitive advantage in the 21st century will be accomplished through Knowledge Management (Nonaka & Nishiguchi, 2000). The more research is conducted in this area of knowledge the better for all businesses.

The financial services market in Kenya is still simple, with very few product offerings. Banks in this market are left with very few areas on which to compete. Key among these is product or service offerings that meet customer needs every time and all the time. This means that possessing the ability to keep up with the ever-changing customer needs with innovative solutions will give a firm sustainable competitive advantage. The current study will benefit the commercial banks by highlighting the mediating role of innovation in the attainment of competitive advantage.

It has been argued that competition in the banking sector is so intense. This is made worse by the fact that most financial products and systems are easily copied to the extent that some modified and better versions of a new product are quickly rolled out by the competition shortly after a new product is launched by one bank. This study assumes that developing innovative capacity through gaining strategic knowledge capability can help banks in Kenya to develop a predictive approach and thereby a proactive strategy to develop a sustainable competitive advantage.

Scope of the Study

This study covered all registered banks in Kenya. There are forty-three banks in Kenya with branches distributed all over the country. These banks formed the population for this research.

Limitations of the Study

This research was conducted in banks in Kenya. Therefore, to generalize the finding to all firms may call for further research to include firms in other sectors of the economy. However, these results will still be useful to the banking sector, which is a key sector in any economy and the rest of the financial services sector. Other than this, other service-based firms will also benefit from this research. This is because continuous innovation is a sure way to attain sustainable competitive advantage in the services sector.

Further, because there are only forty-three banks in Kenya, this number may be too small to justify generalization of findings to all other firms. However, these results may still be widely applicable because the banking sector is one of the most profitable sectors of the Kenyan economy and any change in their performance affects many other sectors.

Literature Review

Introduction

For many years now, owners of family businesses have been passing on commercial knowledge to their children, master craftsmen painstakingly imparting their trades to apprentices, and workers exchanging ideas and knowledge on the job without much thought. But it was not until early 1990s that business leaders started talking about knowledge management (KM). Today, knowledge management is emerging as a key concern of organizations. In the same breath, knowledge is increasingly seen as a primary business asset (Halawi, Aronson & McCarthy, 2005) and knowledge management as a key differentiator between firms (Drucker, 1995). Knowledge is not a usual commodity. It is largely a public good. Unlike physical resources, it can be used and re-used without losing value. Its intellectual property can be transferred without losing ownership.

This section discusses strategic knowledge capability, founded on the premise of internal firm capability paradigm that anchors on the Resource-Based View (RBV) of the firm, knowledge-based view and the learning organization theories. Knowledge is looked at both as a resource for production, as well as a source of competitive advantage. The theories discussed lend themselves to this view. Performance and how it is measured in this research is also discussed.

Conceptual Framework

Central to Knowledge Management is the development of strategic knowledge capability. The effective development of this capability gives the firm sustainable competitive advantage. To develop this capability, the firm must possess three key enablers or influencers. These enablers are the overall organizational activities or mechanisms that can stimulate knowledge creation, protect knowledge, and facilitate the sharing of knowledge in an organization (Lee & Choi, 2003; Migdadi, 2005). These can be realized through the firm's organization culture and evidenced through innovations that drive performance. This is diagrammatically summarized as follows;

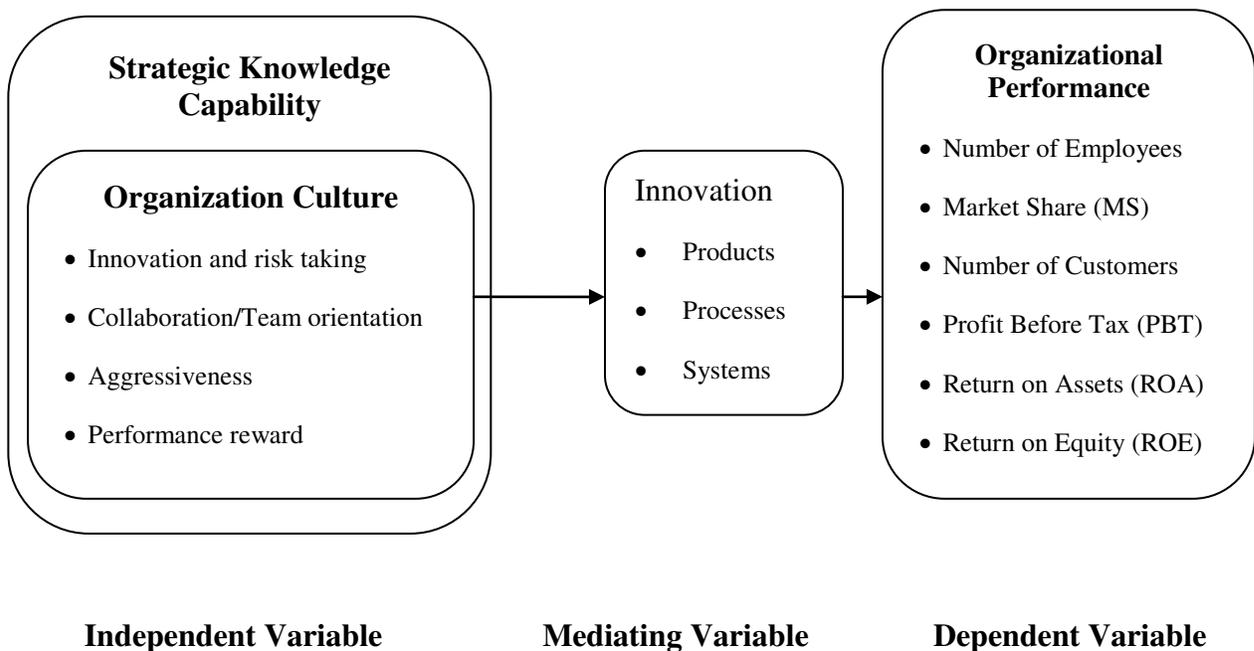


Figure 1: Relationship between Knowledge Capability and Firm Performance

Organizational Culture

Organizational culture is defined as the deeply rooted values and beliefs that are shared by personnel in an organization (Sun, 2008). It forms the basis of and shapes employees attitudes, values and norms. Culture is important because it can affect all aspects of an organization's activities (Campbell, Stonehouse & Hoston, 2002). Culture is used as the correct way for new employees to behave, thereby, culture can perpetuate organizational survival and growth (Sun, 2008). It is, therefore, shared by employees and has an impact on the development of strategic knowledge capability within the organization. This impact can either be positive or negative and therefore, either strengthening or hindering the development of this capability. According to Campbell et al., (2002), culture can have an influence on employee motivation, employee morale and goodwill, productivity and efficiency, the quality of work, innovation and creativity and the attitude of employees in the workplace. Shaping an organization's cultural factors is central to the ability of the firm to manage knowledge effectively. Therefore, organizations should seek to promote and build the types of cultural values that support their specific strategic knowledge capability objectives. There are certain organizational values that lead to different types of knowledge capability behaviour and yield varying outcomes. Therefore, values such as sharing, openness, and trust will lead to positive knowledge behaviours, which will lead to innovation and efficiency. Therefore, an organizational culture should provide support and incentives as well as encouraging knowledge-related activities by creating environments for knowledge exchange and accessibility.

Success of initiatives connected with knowledge management is conditioned by open relations between subordinates and superiors, awareness of mutual dependence, mutual exchange of information and experiences. This means that there has to exist trust between people in the organization. Trust concerns the relations between organization and employees based on mutual care. The effect of that is management trust in competences and skills of employees and resulting from that, a wide range of creativity freedom and

self-control. On the other hand, the firm gains and grows because of employees' faith in the organizational leader, their authority and the reality of their goals, and benefits from knowledge management are created.

In the firm, organization culture has to continue evolving in a way that engenders self-initiative and a collective sense of ownership on the part of individuals. Success of initiatives connected with knowledge management is conditioned by open relations between subordinates and superiors, awareness of mutual dependence, mutual exchange of information and experiences. This means that there has to exist trust between people in the organization. Trust concerns the relations between organization and employees based on mutual care. The effect of that is management trust in competences and skills of employees and resulting from that, a wide range of creativity freedom and self-control. On the other hand, the firm gains and grow because of employees' faith in the organizational leader, their authority and the reality of their goals, and benefits from knowledge management are created and share the knowledge they have in terms of best practices.

The integration of everything from knowledge and learning, to the way work gets done in the organization, will require significant behavioural changes in the manner in which work is performed (Saint-Onge & Armstrong, 2004). The definition and deployment of values represents the foundation on which the firm's knowledge strategy rest. The success of the knowledge strategy depends on the development of culture and leadership principles based on 'self-initiative'. The leaders and managers need to create, develop and maintain a context and a culture within which organizational learning is encouraged and promoted (Naudé, 2012). An 'entitlement and dependency' mentality will represent a serious barrier to the creation of an open, collaborative environment necessary for organizational learning and therefore, development of strategic knowledge capability. Such a strategy can only work where individuals function on the basis of collaboration where they are convinced that their own success is tied to the success of the enterprise as a whole. The alignment of individual goals and values with those of the organization is essential to ensure that individual learning contributes to building organizational

capability.

The rapid change being experienced globally means that there is quicker obsolescence of knowledge and a need for constant internal adaptation by organizations in all areas of their operations including new strategies, structures, processes and tools. More importantly, it calls for people and organizations to learn quickly so as to keep pace with these changes. It is the learning organization with people that possess strategic knowledge capability to keep with the pace of change that will attain competitive advantage. The challenge is in managing and training people to embrace a knowledge-oriented culture that makes adaptation to these rapid changes less painful. When work processes are team realized, the flow of knowledge and its deepening come naturally. Cooperation is the basis of teamwork and creating the networks of knowledge creation in every area of an organization, between organization employees and people from the environment in which the firm operates.

Communication, reward systems, and leadership are important cultural factors in knowledge management. If applied correctly, they encourage employees to continuously learn and collaborate to create strategic knowledge capability. In learning, they acquire new knowledge and develop knowledge capability that they use to find solutions that give the organization a competitive advantage. They also help employees gain trust and are therefore willing to take risks and try out new ways of doing things that may end up being beneficial to the organization. With trust, collaboration is born and the firm gains through the synergies that accrue as a result of employees putting their thoughts together to come up with superior solutions compared to competitors. Sometimes, all employees need to develop a positive culture of learning and developing knowledge capability is recognition. Organizations need to create various recognition schemes to encourage organizational learning that leads to development of innovative capabilities among employees. These recognition schemes will range from simple 'thank you' messages given in the presence of colleagues to more complex ones. The organization needs to involve employees in coming up with these schemes so that they feel part of it and are proud to be associated with them.

Innovation

The knowledge capability of an organization can be understood by individual search for creative problem-solving methods. KÖr and Maden (2013) in their research on the relationship between knowledge management and innovation in Turkish Service and High-Tech firms found that knowledge management processes relate positively to innovativeness, which in turn increases innovations in organizations. They also contend that knowledge management processes (i.e., knowledge acquisition, sharing, and application) have been considered an effective means of promoting an innovative culture and facilitating different types of innovation in organizations. They mention that the study was administered in a Turkish context and suggest that the proposed relationships should be examined in different cultures to increase the generalizability of the findings. Harlow (2008) in his research on the effect of tacit knowledge on firm performance conducted on selected firms in the United States of America (USA) and Canada found that there is a positive association between Tacit Knowledge Index (TKI) and firm outcomes. Therefore, the result in an organization of developing its strategic knowledge capability is innovation.

Innovation can be defined as the process of generation, development and implementation of new ideas and behaviours in an organization (Vaughan, 2013). Schumpeter first used the term “innovation” at the beginning of the 20th century. He defines innovations as product, process and organizational changes that do not necessarily originate from new scientific discoveries, but may arise from a combination of already existing technologies and their application in a new context (Hana, 2013). According to Damanpour and Gopalakrishnan (2001), innovation can be categorized into new product or service development, new production technology, new structure or administrative system and new organization plan or programmes. Innovation can be described as a generation, development, and implementation of something new into the organization as well as the expansion of new products, services, processes, technologies, administrative systems or structures (KÖr & Maden, 2013). It has been also defined as a knowledge process that

transforms knowledge into new products and services (Wilson, 2007). An organizational performance, survivability and competitiveness are all profoundly influenced by innovation (Plessis, 2007; Huang & Li, 2009).

Most executives' strategic plans are dominated by desires for innovation. New markets, new products, new technology, new approaches all could give a firm a competitive edge over others. Innovativeness is one of the most important sources of competitive advantage for any business enterprise (Hurley & Hult, 1998). It is determined by an organization's cultural openness to innovation that is related to the willingness of the organization members to participate in innovation activities (Van de Ven, 1986; Zaltman et al., 1973; Hurley & Hult, 1998). Dobni (2008,) states that innovativeness is a multi-dimensional context, which includes the intention to be innovative, the infrastructure to support innovation, operational level behaviours necessary to influence a market and value orientation, and the environment to implement innovation. Garcia and Calantone (2003) and Muffatto (1998) claim that innovativeness is the capacity of innovation and innovative climate that has a profound relationship between the firm's existing technological resources, skills, knowledge, capabilities, or strategies to foster innovation. Innovativeness also creates basic values, assumptions, and beliefs within the organization that lead employee behavior to transform knowledge into new products, services, processes, technology, and administrative systems or structures, policies, plans, and programmes.

Acquiring, applying, and sharing knowledge between the functional areas of an organization create conditions to elevate willingness of organizational members to participate in innovational activities. Knowledge sharing can promote close contacts and interactions within an organization, which support innovativeness. When knowledge is applied or acquired by organizations, organizational learning takes place (Darroch & McNaughton, 2002; Nonaka & Takeuchi, 1995), and there is also a positive impact on openness to innovation or innovativeness. Additionally, effective management of knowledge increases the stock of knowledge within an organization that develops

infrastructure to support innovation and increases the innovativeness, and the overall improvement in organizational performance.

Banks provide a service and thus have no tangible products to offer their customers to touch and judge its quality. The quality of their products is judged through the service experience. Given human nature, the services banks offer have to be varied frequently and by customer type so as to stay ahead of the competition. This makes it very difficult to satisfy customers and in most cases the employee providing the service cannot tell what the customer preferences are. With this, developing the knowledge capability of these employees becomes very important. Continuous innovation is the only evidence that a firm is successfully putting to use the strategic knowledge it possesses. Gloat and Samson in their paper presented at the 46th Hawaii International Conference on System Sciences contend that knowledge is important for innovation, and that without knowledge, there can be no innovation. Businesses have access to an extensive pool of knowledge obtained from trying to understand their customer needs, their business environment and from the skills and experience of their employees (Mohammed, 2011). If a business gathers, shares and exploits this knowledge to its fullest, it can be central to its ability to develop in all or several areas of its operations successfully. This does not only apply to large multinational manufacturing companies, but also to small sole proprietorships at the village level. Knowledge can be used by businesses to come up with new or enhanced offerings and processes. These include product innovation, organizational innovation; for example, new venture, internal communication system, accounting procedure, organizational structure, workflow procedures and others. The firm should encourage employees to progress significantly on their own towards an innovative goal without too much involvement of management. This way, a large database of ideas is collected, from where these can be analyzed for viability. This continuous stream of innovation will give the firm a competitive advantage. In the banking sector, there are three major areas of innovation including innovation in product or service offered, innovation in the process used to deliver product or service and innovation in the system used to come up with and offer the product or service.

Innovation in Products and Services

A firm that utilizes her knowledge effectively realizes an improvement in the goods or services it offers and the processes that it uses both to produce and sell them. In today's dynamic world; where customer needs change so fast and frequently, firms are expected to continuously improve on their offerings. This is only possible if the firm has a robust knowledge process in place. For example, identifying market trends before they happen and ahead of the competition might enable the firm to offer products and services to their customers before its competitors. This is because the firm will gain the 'first to market' advantage and reap the benefits before competition sets in. This is true if the need for the product offering was well-researched and the product fills a gap that previously existed. Consumers will be willing to provide the firm with feedback for improvement to identify with it.

Innovation in Processes

Knowledge helps firms to review their processes with a view to making improvements or do away with redundant ones and replacing them with new and more efficient processes. Firms that apply knowledge management will generally experience increased business efficiency because they make use of in-house expertise. This is an advantage to the firm because in-house expertise is cheaper to acquire than that acquired from an external provider. This is because new employees can be trained in-house at no or reduced costs. This way, the firm saves on costs as external training is usually very expensive. They will also have better staff recruitment and staffing policies as they will go out to purposely get specific knowledge or talent, and will know which employee has which knowledge. For instance, if there is increased knowledge of what customers are looking for, the firm is better able to find the right staff to serve them as well as having the ability to sell or license the knowledge to others. The firm may also be able to use their knowledge and expertise in an advisory or consultancy capacity to increase the firm's income streams. To do so, though, they need to make sure that they protect their intellectual property and

that they have an organization culture that allows them to do this with ease.

Innovation in Systems

In an effort to come up with more efficient systems that give them sustainable competitive advantage, firms need to continuously improve their systems. These could be systems that deal with delivery of end products to customers, productive systems and other management systems. This continuous improvement can be in terms of improvement aimed at reducing the costs associated with the system and delivering to the customer a high quality product at a comparatively affordable price. This is system innovation. This is only possible if the firm possesses the strategic knowledge capability to do so, and the end game of all the efforts directed at innovation and building innovative capacity is superior performance.

Performance

The assertion that knowledge is a resource that can give a firm a competitive edge is provocative. As a result, a lot of research has been conducted in the area of knowledge with a view to explaining how knowledge and what aspects of knowledge and knowledge management give a firm a competitive edge. Arumugam and Mojtahedzaden (2011) in their study on Iranian Industries found that innovation plays a fundamental role in determining the performance of Iranian manufacturing industries. They further concluded that both knowledge management and innovation had a positive effect on a firm's performance. Uhlaner, Stel, Meijaard and Folkering (2007) found out that knowledge promoted effective performance in Dutch SMEs. They argued that knowledge conversion influenced employees learning of the company's day-to-day operations, which significantly influenced the firm's performance. Therefore, there is need for commercial banks to improve their day-to-day operations through sharing of the relevant knowledge and consequently attain competitive advantage. A study carried out in Pakistan to investigate the linkages between knowledge management and company performance amongst 52 firms showed that there is a positive relationship between knowledge sharing

and building of a consistent process with firm performance (Lin Xiaoyan, 2013). Also the study showed a positive significant relationship between effective knowledge management and firm performance. Regarding firm innovativeness in order to attain competitive advantage the study findings showed a positive significant relationship between firm innovation and performance (Lin Xiaoyan, 2013). In Kenya, a study conducted by Kangogo and Gachunga (2015) to investigate the influence of knowledge management practices on enhancing service delivery in the banking sector in Kenya showed that knowledge acquisition enhanced service delivery.

The financial performance of a company is usually measured using its historical accounts. Using this would appear to be straightforward, but even these metrics are subjective. Accountants and managers may decide when to record revenues and costs, and sometimes, personal motives can colour this judgment (McKinsey & Company, Dobbs, Koller & Huyett, 2005). There are five dimensions of measuring organization performance, including return on investment (ROI), sales margin ratio (SM), asset turnover ratio, level of customer satisfaction and quality of product or service offered (Muhammad, Hassan & Kashifur, 2009). Some of the ways of measuring a company's financial performance are better and easier to use and interpret than others. Metrics, such as Return on Equity (RoE), Return on Assets (RoA), economic profit and company growth that can be directly linked to value creation are more meaningful than traditional accounting metrics like Earnings per Share (EPS). Although growing companies that earn a RoE greater than their cost of capital generate attractive EPS growth, the inverse is not true: EPS growth can come from heavy investment or changes in financial structure that do not create value. In fact, companies can easily manipulate EPS by for example, repurchasing shares or undertaking acquisitions. The true drivers of company growth and RoE are a better place to start measuring the performance of a company.

Knowledge is an intangible asset and therefore, it is impossible to measure the direct impact on financial performance of a firm of putting in a given level of investment into knowledge management. Concrete examples of where the investment in the process pays off in terms of benefits at both individual and organizational levels may have to be

applied instead. Traditional cost-benefit analyses may be too blunt tools to measure the impact of a given level of investment in knowledge management activities. Risk management and significant event audits may be better measures. For example, management would ask themselves questions such as; what is the potential impact of not having this information when we need it? This would give them a feel of the contribution of the investment in knowledge management. The firm could also adopt an incremental approach, in which case management would be asking themselves; “what does this information or knowledge add to the usefulness of what we already have?” The end point of all these and the reason firms invest in processes are to register an improvement in the organization’s bottom-line; the financial profits.

Theoretical Review

In the era of industrialization, companies created value by the physical transformation of tangible assets into products. Contrary to that time, in this era of Information Technology, the value of physical intangible resources has significantly increased, with the results that intangible assets are becoming a major source of competitive advantage (Mitrovic et al., 2008). To this end, Hofer-Alfeis (2003) argues that the development and practice of Knowledge Management is continuously and dramatically increasing in organizations. Businesses have recognized the need and importance of managing their intangible assets. The development of brands, stakeholder relationships, reputation and the culture of the organization are now readily viewed as providing sustainable success for a business. The ability to develop and leverage the value of these intangible assets comprises a core competency for organizations, particularly those providing financial and professional services whose offering is intangible. The quality of their offering can only be judged through the way in which it is delivered. There is no product that customers can touch, taste or feel so as to judge its quality. In these knowledge-intensive organizations, possessing knowledge is central to business success (Prahalad & Hamel, 1990; Drucker, 1998). And due to improvements in Knowledge Management, the race for seeking a competitive edge through knowledge increases at an even faster rate (Hofer-Alfeis, 2003). Success in today’s global interconnected economy springs from the fast and

efficient exchange of information. Sustainable competitive advantage is no longer rooted in physical assets and financial capital, but in effective channeling of intellectual capital (Seubert, Balaji & Makhija, 2001). A firm's knowledge and its capability to create exclusive knowledge are at the centre of the theory of the firm (Tongo, 2013). Today's organizations need high levels of knowledge capability. This is the ability to deploy knowledge to constantly design, develop, deliver and maintain products and/or services that its current and future customers will find valuable. In other words, an organization's knowledge capability is an indicator of its adaptive capacity. This refers to the organization's ability to be proactive in satisfying their current and future customer's needs. Today, knowledge is a significant competitive asset that firms possess (Grant, 2002).

Efficiently used, knowledge is not only an important intellectual asset, but also a useful tool for organizations to effectively compete in the increased levels of market competition (Carneiro, 2000; Alavi & Leidner, 2001). According to Drucker (1995), knowledge has become the key economic resource and the dominant, and perhaps even the only source of comparative advantage. Organizations can enhance the generation of new ideas and knowledge, knowledge availability, application of the existing knowledge and communication within knowledge-workers by effectively managing the knowledge (Plessis, 2007; Carneiro, 2000; Huang & Li, 2009; Lin & Lee, 2005; Alavi & Leidner, 2001). In such an environment, the competition among companies is sharpened in the market (Novicevic & Jelenic, 2008). Companies are under extreme competitive pressure to innovate and develop new techniques for improving the quality and functionality of products, reduce costs and, of course, provide the answers to increasingly sophisticated customers' demands in order to survive.

Ramirez, Moralez and Rojas (2011) show that in firms in Spain knowledge creation and organizational employees learning processes affected firm's performance. A study on knowledge management, innovativeness and organization performance with evidence from Serbia done by Slavkovic and Barbic (2013) shows that there is a positive significant relationship between knowledge management, knowledge creation and

knowledge embedding processes with administrative innovation. They further showed that there was a positive significant relationship between knowledge management, knowledge creation and knowledge embedding processes with process innovation. The study also shows that there is a significant relationship between KM as measured by the knowledge creation process and knowledge embedding process with organizational performance. Further, that both administrative innovation and technological innovation has a positive significant relationship with organizational performance, and therefore, firm innovation mediates on organization performance.

Company leaders who care about high business performance have also realized that the market value of their property increases with greater participation of intangible resources in relation to tangible property (Jelenic, 2011). In a knowledge economy, intangible resources are the decisive factors of business success. The modern company recognizes most business processes as that of knowledge. This thought is reinforced by the Knowledge-Based View Theory of the firm. Katsoulakos and Rutherford (2006) note that these days companies recognize the worth of their intellectual capital and are beginning to account for it in their balance sheets. They add that there is considerable evidence that the intangible component of the value of high technology and service companies by far outweighs the tangible value of its physical assets, such as buildings or equipment. The emergence of a global knowledge economy and associated demands on business strategy has been well-understood since the 1980s when the learning organization concept became popular. Therefore, knowledge is considered a strategic company resource, a source of competitive advantage and business success (Jelenic, 2011). In the knowledge economy, the focus is on the data, information and knowledge as the most important organizational resources.

Beckman (1997) found that knowledge is a way for understanding all about information and data to actively enable performance, problem solving, decision-making, teaching and learning of others. Today, a successful company is one that has the ability to learn faster than others, to change fast, and to have gained knowledge quickly turned into action. By this, the organization attains an advantage over competitors, and indeed, survivability in

the market (Trinic, 2008). New knowledge that companies convert to commercially applicable knowledge can increase their competitiveness by 70–80 % in global business conditions (Trinic, 2008).

In Kenya, several researchers have conducted studies and come up with various conclusions on both knowledge and the relationship between knowledge and firm performance. Rono (2011) in his study was able to show the extent to which knowledge management practices have been integrated and aligned to corporate strategy in Kenyan banks. Asava-Kihima (2009) concluded that knowledge management greatly affects the performance of commercial banks as it enhances product and service quality; increases productivity, innovative ability and activity, competitive capacity and many other factors that promote the firm and give it a competitive edge.

To evaluate the real value of a company, its stability, possibility of survival and development, it is not enough to observe the company only through its physical assets and financial strength. It has become increasingly important to identify and increase the transparency of intangible resources, to promote the intellectual capital and corporate knowledge through professional development, continuous training and education, together with the development of information technology support (Jelenic, 2011). The most valuable intangible assets are related to relationships with customers, employees and their skills, knowledge and organizational culture that are aimed at innovation, problem solving and general business improvement (Jelenic, 2011) as enumerated by the resource and knowledge based view theories of the firm. By the process of constant knowledge renewal, it is possible to create and add value, thus increasing the commercial transfer of skills and knowledge into applied experience as explained by both the theory of learning organization and the dynamic capability view. These theories are explained in detail below.

Resource-Based View (RBV) of the Firm

The Resource-Based Theory was developed by Penrose in 1959 to help understand how organizations achieve sustainable competitive advantage using resources that they

already possess. This view looks at the firm as a unique bundle of idiosyncratic resources and capabilities where the primary task of management is to maximize value through the optimal deployment of existing resources and capabilities, while developing the firm's resource base for the future (Grant, 1996). It is based on a firm using its internal strengths to take advantage of opportunities to counter threats in the market, with an aim to creating sustainable competitive advantage through acquisition, utilization, and exploitation of firm-specific resources and capabilities (April 2002; Riahi-Belkaoui 2003).

Today, the most significant firm specific resource that firms possess is knowledge. This knowledge when well-utilized will give a firm sustainable competitive advantage. This competitive advantage also becomes sustainable only when the knowledge is hard to copy. At this point, then it becomes strategic knowledge capability of the firm. Within the resource-based view (RBV), researchers assumed that the firm is a pool of hard-to-copy resources and capabilities (Conner, 1991) and that discrepancies in size distribution and competitiveness of firms occur from their distinctive capabilities to build up, expand, and organize those resources and capabilities to create and apply value-enhancing strategies (Amit & Schoemaker, 1993; Barney, 1991; Peteraf, 1993). A firm's resources consist of all assets both tangible and intangible, human and non-human that are possessed or controlled by the firm that permit it to devise and apply value-enhancing strategies (Barney, 1991; Wernerfelt, 1984). To be able to devise and apply value-enhancing strategies, the firm must possess strategic knowledge capability. In the resource-based view, knowledge is seen as an internal strategic asset with the potential to be a source of sustainable competitive advantage for an organization. It encompasses the facets to knowledge integration which comprise efficiency, scope and flexibility, and the four primary mechanisms by which knowledge is coordinated; rules and directives, sequencing, routines and group problem-solving and decision-making.

The resource-based theory treats enterprises as potential creators of value-added capabilities, and the underlying organizational competence involves viewing the assets

and resources of the firm from a knowledge-based perspective (Prahalad & Hamel, 1990; Conner & Prahalad, 1996). It focuses on the idea of costly-to copy attributes of the firm as sources of business returns and the means to achieve superior performance and competitive advantage (Barney, 1991; Rumelt, 1987; Conner, 1991, Prahalad & Hamel, 1990). Resources and capabilities that are valuable, uncommon, poorly imitable and non-substitutable (Barney, 1991) comprise the firm's unique or core competencies and therefore, present a lasting competitive advantage.

Tangible assets are not strategic since they can be acquired or imitated, hence, the firm should determine whether it is strategically wise to capture and share its knowledge since these actions eliminate the intangibility of tacit knowledge. Intangible resources are more likely than tangible resources to generate competitive advantage (Hitt, Bierman, Shimizu & Kochhar, 2001). Specifically, intangible firm-specific resources such as knowledge permit firms to add up value to incoming factors of production (Hitt et al., 2001), production processes and to the end product. This continuous value addition is only possible when the firm possesses strategic knowledge capability which gives the firm sustainable competitive advantage. Such advantage is developed over time and cannot easily be imitated. Barney (1991) regards resources as those assets controlled by a firm that allow the firm to formulate and implement strategies that expand its efficiency and effectiveness. The efficiency and effectiveness are then evidenced through superior firm performance that may be seen as good and improving in the industry.

Finally, literature on Resource-Based View (RBV) indicates that competitive advantages can be created and sustained via the use of knowledge. A firm can possess all the other tangible resources including land, capital and machines, which all other firms have, but without the capability on how to use these resources to gain sustainable competitive advantage, the firm will fail. It means that explanations for why some firms ultimately succeed and others fail can be found in understanding their resources and capabilities, which influence both the strategic choices that managers make and the implementation of those chosen strategies (Jackson, Hitt & DeNisi 2003). Therefore, RBV is an appropriate theory to explain whether strategic knowledge capability indeed formally and empirically

yields innovations in firms, and to explain the nature of the relationship between knowledge and a firm's performance in terms of profitability.

Organizational Learning Theory

Organizational learning theory states that, in order to be competitive in a changing environment, organizations must change their goals and actions to reach those goals (Vaidya, 2012). This change must be driven by changes in the environment within which they operate. Organizational learning occurs frequently within an organization and allows the organization to stay competitive in an ever-changing environment that firms operate in today. Organizational learning occurs when individuals gain knowledge and experiences, thereafter learn from these, which creates new knowledge and then embed this knowledge in the organizational systems, processes, policies and procedures (Naudé, 2012). For learning to occur, the firm must make a conscious decision to change actions in response to a change in circumstances, take deliberate steps to consciously link action to outcome, and must remember the outcomes that come out of those actions. These outcomes form the basis for future learning and are, therefore, important. Learning entails the firm possessing knowledge that is passed to others within the organization, or the firm acquiring this knowledge from outside the firm. The acquisition of this knowledge then puts the firm on a path towards acquiring strategic knowledge capability. As an aspect of an organization, organizational learning is the process of creating, retaining, and transferring knowledge (Argote, 2013). That dynamic knowledge is not in doubt. If a firm is to attain sustainable competitive advantage then, it must continuously change with the changing knowledge era. This calls for the firm to put in place measures to help her in the learning process. The learning process is made up of three parts; knowledge acquisition, interpretation and action.

In knowledge acquisition a firm acquires a "memory" of valid action-outcome links, the environmental conditions under which they are valid, the probabilities of the outcomes, and the uncertainty around that probability. The links are continually updated overtime, either through additions, rejections based on new evidence, or strengthening/expanding

the links from confirmatory evidence. There are many ways to acquire these links, including experiential, experimental, benchmarking, grafting, and so forth, but they must be a conscious effort to discover, confirm, or utilize a cause and effect, or they are simply blind actions relying on chance for success. A critical point is that firm actions will, and must change in response to changes in the environment, as each action-outcome links must be specified in terms of applicable conditions. Successful firms then scan their environment for signs of change, real or anticipated, to determine when change is necessary: this, of course, presupposes that they (a) have learned the important indicators to scan and (b) have learned the degree of environmental change indicator that requires change in actions.

Under interpretation, organizations continually compare actual to expected results to update or add to their knowledge repository. Results outside expectations must undergo a root-cause analysis, actions arising from the analysis adapted or new action-outcome links documented if necessary, and learning increased. Consequently, the third stage is adaptation/action. This is when the firm takes the interpreted knowledge and uses it to select new action-outcome links appropriate to the new environmental conditions. The main point here is that this is a process of continual adaptation to environmental conditions including internal environment, external environment, competitors, state of technology, and many others in the environment, and will be affected to a large extent by the complexity and dynamism the firm experiences. Once adaptation has occurred, the firm's knowledge base is updated to include the new action-outcome link, probabilities, uncertainty, and applicable conditions and the process continues. This feedback is a continual and iterative process, and occurs at all stages of the process. The firm must be deliberate in taking action on what is learned if it is to gain competitive advantage. It must adapt to a new internal environment, external environment, new competition, new and ever-changing customer tastes, and the ever changing technology. This cannot happen if the firm does not possess strategic knowledge capability necessary for these continuous and sometimes very fast changes. Strategic knowledge capability, therefore, facilitates organizational learning. It is a learning organization that is skilled at creating,

acquiring, organizing and sharing knowledge that can gain competitive advantage.

The Dynamic Capabilities View

The term Dynamic Capabilities was first introduced in a working paper in 1989, influenced by Gary Hamel's multinational strategy research leading to Core Competences of the Corporation (Prahalad & Hamel, 1990), and was cited in Nonaka and Takeuchi's 1995 innovation strategy work 'The Knowledge-Creating Company'. The dynamic capabilities view (DVC) of the firm is also an extension of the RBV of the firm argument addressing itself to how valuable, rare, difficult to imitate and imperfectly substitutable resources can be created and how the current stock of valuable resources can be refreshed in changing environments (Ambrosini & Bowman, 2009). Creation and refreshment of these resources come out of the firm's knowledge capability. The DCV attempts to explain how a firm can enjoy sustained superior performance in a rapidly changing industry through continuous proactive and reactive change (Teece, 2007). According to Teece and Pisano (1994), the business environment is dynamic and the key role of strategic management is appropriately adapting, integrating, and re-configuring internal and external organizational skills, resources, and functional competences towards this changing environment. To be strategic, a capability must be honed to a user need so that there are customers, unique hence products and services produced can be priced without too much regard to competition, and difficult to replicate so that prof its will not be competed away, (Teece & Pisano, 1994). A firm that cannot develop dynamic capability will push itself out of business.

Critique of Existing Literature

A lot of research has been done on knowledge and knowledge management in firms. A study by Rasoulinezhad (2011) to measure the role of KM on commercial banks performance in Iran showed that there is a significant positive relationship between knowledge management and commercial banks performance. Mostly, KM by commercial

banks in Iran has been enabled by embracement of information systems or related technological tools as employed by commercial banks. Further, the study depicted a weak significant relationship between knowledge acquisition and knowledge distribution in relation to KM. The study also showed that there is a strong significant relationship between knowledge infrastructures and knowledge processing with organization performance. The findings concurred with Prodromos and Vraimaki (2009) who argued that banking organization should manage their knowledge so as to attain some competitive advantage. This study seems to leave out the people aspect of knowledge management. People are key in the implementation of knowledge management processes. According to Kangogo and Gachunga (2015), innovation and agility have been found to significantly mediate the relationship between knowledge usage and organizational performance. This development is actually true innovation. Further, the study showed that KM minimized the level of staff turnover, improved employee and customer communication, and led to faster responses to clients' needs, all which when combined affected the performance of commercial banks positively. This study too focused on knowledge management processes leaving out the holders of knowledge in people in the banks. When it comes to knowledge as a source of competitive advantage to the firm, people must be put at the centre of it. It is the people that are the innovators. They are able to conceive an idea of how a service, product or a process should be improved to meet certain business and customer needs. It is people to discover the much needed knowledge, provide suggestions on how to acquire it and how to organize it for retention and future use.

In his study titled 'Knowledge Management for Competitive Advantage within Commercial Banks in Kenya', Asava-Kihima (2009) established that Commercial banks in Kenya had realized that knowledge was an important intangible asset that if well-utilized would help them gain competitive advantage. To this end, banks have highly automated their services, created Knowledge communities and incorporated technologies like internet, intranet, and knowledge bases. They have also created a culture where employees freely interact with each other in creating and sharing information. Further, they have embraced employee development through training and created access to

knowledge systems. To crown it all, top management fully supports a culture of knowledge building and sharing. As he notes however, there is a need to study the role of resources in the enhancement of knowledge management as it is highly believed that knowledge is about people's ability to comprehend situations and respond positively. Further, he also alludes to the need to study the relationship between training and knowledge utilization by employees.

Research Gaps

Many studies have been conducted on Knowledge Management and its effects on firm performance. Rasoulinezhad (2011) carried out a study on measuring the role of knowledge management processes in the commercial banks of Iran. In this research, the researcher asserts that there is a lack of knowledge management processes implementation and knowledge management itself. It is clear from the same research that there is a positive relationship between knowledge management practices and performance of Iranian banks, but to the extent that bank employees understand knowledge management. There is, therefore, a need to investigate the reasons for both deficiencies so as to come up with recommendations on how these two problems can be addressed by firms.

While most studies on knowledge management bring out the fact that KM has a positive relationship with firm performance, it is not clear how this happens. It is for this reason that this research seeks to focus on the role of innovation. Without knowledge in the firm, there would be no innovation. It is the people in the firm that innovate and this would not be possible if they did not possess knowledge and the capability to convert the knowledge into innovations for a competitive advantage. The table below is a summary of some of the past studies that have been done on knowledge.

Research Methodology

This study adopted a descriptive research design. According to Kothari (2011),

descriptive research includes surveys and fact-finding enquiries of different kinds. He says that the main characteristic of method is that the researcher has no control over the variables and can only report what happened or what is happening. This is a positivist approach as it depends on quantifiable observations that lend themselves to statistical analysis.

Population of the Study

Kothari (2011) defines population of the study as the complete enumeration of all the individuals under consideration. The population for this study was all banks registered in Kenya as at 31st December 2014. From appendix VI, there were forty-three registered banks in Kenya (Republic of Kenya, 2014). However, by the time of conducting the survey, there were only forty-one banks, with Dubai in liquidation and Imperial Bank under receivership (Republic of Kenya, 2015).

Sampling Frame

A census of all forty-three banks was conducted in which a questionnaire was distributed to each of the banks.

Sample Size and Sampling Technique

All the forty-three banks were to be surveyed. This is because the number of banks is small enough for a census to be conducted. This was driven by the fact that given the culture of the banks and their influence on employees, they were likely to respond to the questionnaire in the same way. Therefore, one questionnaire was distributed to the chief executives or their appointees, in each of the forty-three banks. This is because the chief executives are the custodians of strategy in their organizations and are therefore best placed to respond to questionnaire.

Whereas the questionnaire was distributed to all banks, a response was not received from some of them. Those that did not return the questionnaire did not out rightly say that they

were not going to respond. However, the wait proved too long and the researcher had to give up after several follow up visits yielded no response.

Research Instrument

The instrument for data collection was a questionnaire. This was combined with secondary data when it came to the variable; financial performance. A number of questions were developed to address specific objectives of the study. The questionnaire was divided into six sections; part 'A' that dealt with general information about the respondent and Part 'B' to 'F' dealt with questions around the four independent the mediating variables, with the final part being open for recommendations. The responses for the questions were calibrated using a five-point Likert scale (Strongly disagrees, Disagree, Not sure, Agree and Strongly Agree), and secondary data was used to analyze the dependent variable.

Data Collection Procedure

A drop and pick procedure was used to collect data, where the administrative assistant started making follow up two days after. Some of the respondents called the administrative assistant to collect their questionnaire once they were done with it. Visits were done every two days for those who had not called so as to collect back as many questionnaires as possible and to serve as a reminder to respondents.

Pilot Testing

Pilot testing is the pre-testing or trying out of a given research instrument, in this case, the questionnaire. The pilot test was carried out using ten employees of Barclays Bank of Kenya to test for reliability, validity of and any errors in the questions. It was not possible to give the questionnaire to the exact target group as this would have reduced their numbers in the actual survey to less than thirty, a number that would have been too small to be used to make any generalizations. There were 43 registered banks at the time of starting this research, but by the time the questionnaire was administered, two banks had been closed by the regulator through being put under receivership and liquidation

respectively, reducing the number to 41. If ten had been used for pretesting, the number of banks left for this research would have reduced to 31. Since it is not always easy to registered 100% response rate, it was thought wise to use a different group for pretesting. This was done using 10 senior managers of Barclays Bank with a view to test whether the questions made sense, if at all they were well constructed and easily understood. The questionnaire was administered to the pilot test respondents twice, with a break of two weeks in between to see whether they gave the same answers. The break was to allow the respondents the time necessary for them to forget about the initial questionnaire and enable them to tackle the second as round though it were a new one. The results were used to revise some of the questions before the final administration.

Validity of the Research Instrument

In testing for validity, we need to ask whether the questions posed adequately address the objectives of the study. This should include whether or not the manner in which answers are recorded is appropriate (Brace, 2013). In addition, the questionnaire was tested to ensure that there are no errors; both typographical and lexical. Pilot testing helped detect some, if not all the errors. The pilot respondents were allowed to ask questions relating to clarity of the questions which help the researcher to detect if the questions as had been framed were valid. Since the pilot testing was conducted twice, ambiguities were corrected at the second revision. The ten pilot respondents were part of the respondents for the final study. This helped to eliminate the possibility of inattention to the questionnaire due to respondent boredom and fatigue. The feedback from the pilot study then formed a basis for reviewing the questionnaire before the final administration.

Reliability of the Research Instrument

In this study, reliability was measured using Cronbach alpha. Cronbach alpha is a test of internal consistency frequently used to calculate the correlation values among answers on an assessment tool (Sullivan, 2011). Cronbach alpha calculates correlation among all the variables, in every combination. Cronbach's alpha can be written as a function of the

number of test items and the average inter-correlation among the items. It can be calculated using the formula;

$$\alpha = \frac{N \cdot \bar{c}}{\bar{v} + (N - 1) \cdot \bar{c}}$$

Where;

N = the number of items,

\bar{c} = the average inter-item covariance among the items and

\bar{v} = the average variance

From this formula increasing the number of items, increases Cronbach's alpha, and if the average inter-item correlation is low, alpha will be low. According to Chakrabarti and Sen (2013), as the average inter-item correlation increases, Cronbach's alpha increases as well (holding the number of items constant). A high reliability estimate should be as close to 1 as possible. From the responses for this research, Cronbach's alpha calculation using SPSS Version 22 was 0.722, which indicates a high level of internal consistency for this construct. The table below shows the results of the calculation:

Table 2: Reliability Statistics

Cronbach's Alpha	Cronbach's Alpha Based on Standardized Items	N of Items
.722	.729	39

Data Processing and Analysis

The questionnaire collected from the respondents was checked first for completeness. It was then coded and analyzed using Statistical Package for Social Scientists (SPSS) version 22 and Microsoft Excel. Both descriptive and inferential statistics were used to represent the quantitative data. Descriptive statistics help present the data in a more meaningful way and allow interpretation of the data. This includes measures of central tendency such as mean, mode and median, and measures of spread such as range, percentages, variance and standard deviation. On the other hand, inferential statistics

through multiple linear regression analysis was used to investigate cause and effect relationship and conclusions drawn. The general multivariate regression model below was used to carry out an analysis with the independent variable predicting the dependent variable:

$$Y = \beta_0 + \beta_1 X_1 + \varepsilon$$

Where:

Y = Performance

β_0 = The Intercept

β_1, β_2 , = Regression Coefficients

X_1 = Organization Culture

ε = Error Term

The degrees of freedom in a multiple regression = $N - k - 1$

Where:

N = the population of study

k = the number of variables under study

Three other analyses were conducted as follows:

1. The independent variable predicting the mediating variable (M)

$$M = \beta_0 + \beta_1 X_1 + \varepsilon$$

2. Mediating variable (M) predicting dependent variable

$$Y = \beta_0 + \beta_1 M + \varepsilon$$

3. Multiple regression on both the independent and mediating variables predicting the dependent variable

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 M + \varepsilon$$

To provide more stable measures of the underlying abilities, and given that each variable had several questions under it, composite variables using the mean of the scores of the

questions under each variable in SPS were developed (Ackerman & Cianciolo, 2000). The strength of the relationship between the variables was then measured using correlation coefficient. Finally, thematic analysis was used to analyze the qualitative data collected.

Performance is a variable that can be measured using both financial measures such as return on assets, profitability, return on equity and others, as well as non-financial parameters such as market share. Triangulation by data source was used where data collected using the questionnaire was analyzed from published sources such as financial reports so as to see whether they agree or, at least, do not contradict each other. From all these analyses, conclusions were drawn and recommendations made.

Findings and Discussion

The unit of analysis: the individual chief executive officers of banks as respondents and results of their responses are reported in terms of the summary statistics. Data was collected from 32 respondents made up of bank executives or their appointed representatives. The descriptive statistics for each tested variable are reported, including the mean, standard deviation (Std. Dev.), median and mode. Frequency tables, Pie charts and bar charts are used to illustrate the frequency distributions for each tested variable. The results associated with the testing of the hypotheses are reported according to each hypothesis tested; the process followed, and the diagnostic statistics and procedures used.

Bio data of Respondents

This section presents the bio-data of the respondents that took part in this research in terms of their gender, age, education level and years of service in the bank that they work for.

Response Rate

Table 3 reveals that 41 questionnaires were distributed to the target respondents. The completed questionnaires were edited for completeness and consistency. Of the 41 questionnaires used in the sample, 32 were returned. The remaining 9 were not returned. Those returned represented a response rate of 78%, which the study considered adequate for analysis and making generalizations.

Table 3: Response Rate

Questionnaire	Frequency	Percentage
Returned	32	78%
Not Returned	9	22%
Total	41	100%

Distribution of Respondents by Gender

In terms of gender, approximately 25 percent of the respondents were found to be female, and 75 percent male. Figure 2 presents the frequency distribution for gender. This distribution goes to confirm the low representation of women at the top leadership positions of most Kenyan organizations. There is currently only one female Chief Executive officer in the banking sector. The percentage here is therefore higher than reality on the ground. This means that most of the women who participated in the survey

did so in a delegated capacity. The distribution here goes to affirm the ‘glass ceiling’ that exists for women in the corporate world (Cotter, Hermsen, Ovadia & Vanneman, 2001).

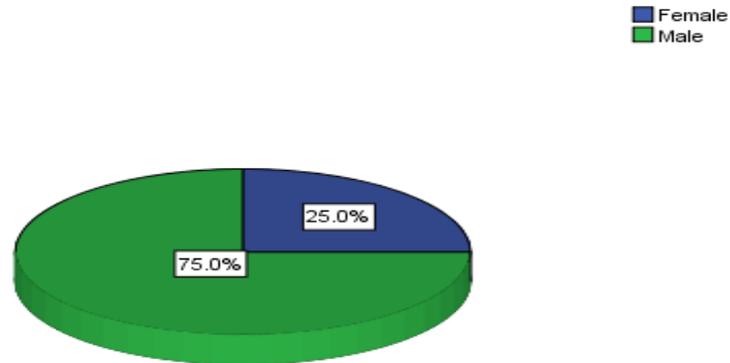


Figure 2: Gender of Respondents

Age of Respondents

The respondents for this survey were well balanced in terms of age. Each of the age groups 21-30, 31-40 and 41-50 years accounted for 31.3% of the respondents. Those above 50 years accounted for only 6.3%. This shows that bank executives and their designates are generally young people as those 40 years and below made up 62.6%. At the same time, 93.9% of the respondents were 50 years of age and below.

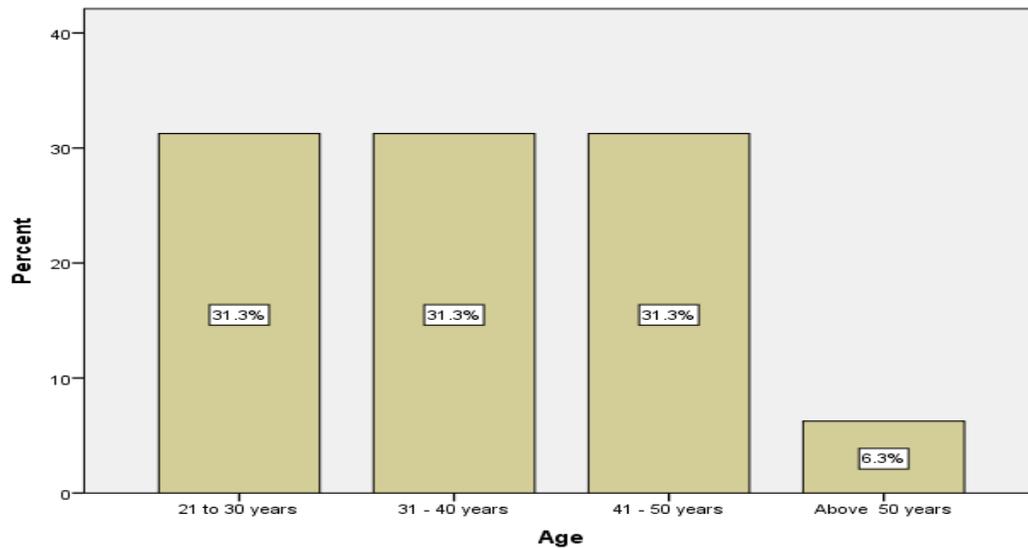


Figure 3: Distribution of respondents according to age

Highest Educational Level

Education is one of the most important characteristics that might affect the person's attitude and perception of social phenomena. The responses that an individual gives to questions are likely to be determined by his educational status and therefore, it becomes imperative to know the educational background. For this reason, the variable 'highest educational level' was investigated by the researcher. The respondents were required to indicate their highest attained academic qualification and the relative frequencies of the findings were presented in Figure 4. The data findings indicate that 53.1% of the respondents had post graduate qualifications, 40.6% were bachelor degree holders, and 6.3% of the respondents had diploma level qualifications. This means that majority of the bank executives in Kenya have graduate and post graduate degree holders, with a minority diploma certificate holders

Figure 4: Education level of the respondents

Years of Service in the Bank

Table 4 shows that 62.5% of bank executives have been in the bank for more than five years, with 34.4% having more than 10 years' experience. This shows that the respondents understand the banking sector very well, and have been in the bank long

enough to be able to initiate projects and see the results arising from them. This is important as those who have put in place any strategic knowledge capability initiatives should already be seeing the benefits and changes if any, which need to be made.

Table 4: Years of Service

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Less than 5 Years	12	37.5	37.5	37.5
	5-10 Years	9	28.1	28.1	65.6
	11-15 Years	4	12.5	12.5	78.1
	16-20 Years	3	9.4	9.4	87.5
	Over 20 Years	4	12.5	12.5	100.0
	Total	32	100.0	100.0	

Results of Hypothesis Testing

Parametric statistical methods call for the dependent variables to be approximately normally distributed for each category of the independent variable, in this case, performance and innovation respectively. To be able to test for this normality, the following numeric and visual outputs were investigated: (i) Skewness and Kurtosis Z-Values, which should be between -1.96 and +1.96, (ii) The Shapiro-Wilk test p-value that should be above 0.05 (Razali & Wah, 2011), and (iii) Histogram, Normal Q-Q plots and Box plots, which should visually indicate that the data are approximately normally distributed. The Skewness and Kurtosis Z-Values were also calculated by dividing their measure by their respective standard errors (Doane & Seward, 2011).

Test of Normality of Performance as a Dependent variable

The Kolmogorove-Smirnov significance value is 0.200 ($\alpha > .05$), which is not statistically significantly different from normal distribution and therefore the null hypothesis is accepted i.e. the performance data is normally distributed. Similarly, for Shapiro-Wilk at

0.977 and $p = 0.718$ is not statistically significant, and we therefore fail to reject the null hypothesis and assume that the data for performance is approximately normally distributed.

Table 5: Tests of Normality

	Kolmogorov-Smirnov ^a			Shapiro-Wilk		
	Statistic	df	Sig.	Statistic	Df	Sig.
Performance	.088	32	.200*	.977	32	.718

a. Lilliefors Significance Correction

*. This is a lower bound of the true significance.

This can further be confirmed by calculating the Skewness and Kurtosis p-values. These yield values of -0.290 and -0.232 respectively as calculated from the values in Table 5, both of which lie between -1.96 and +1.96, and therefore, it can safely be assumed that the data for performance is approximately normally distributed.

Table 6: Descriptive Statistics

		Statistic	Std. Error	
Performance	Mean	4.1302	.07557	
	95% Confidence Interval for Mean	Lower Bound	3.9761	
		Upper Bound	4.2843	
	5% Trimmed Mean		4.1424	
	Median		4.1250	
	Variance		.183	
	Std. Deviation		.42751	
	Minimum		3.08	
	Maximum		4.83	
	Range		1.75	
	Interquartile Range		.67	
	Skewness		-.290	.414
	Kurtosis		-.232	.809

This is further confirmed by the Normal Q-Q plot as seen in figure 5 that show most of the dots running along the straight line.

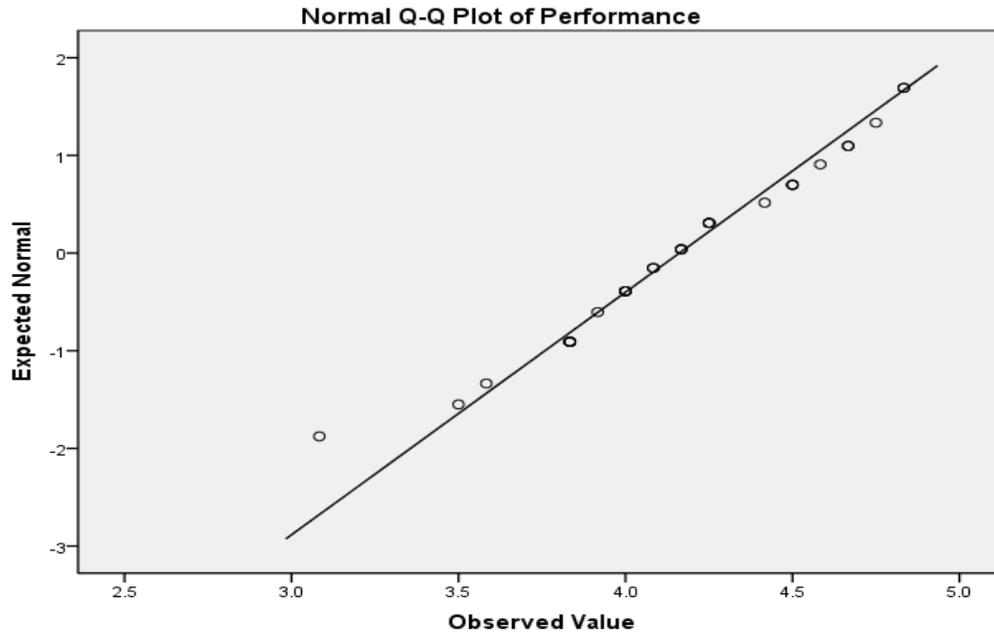


Figure 5: Normal Q-Q Plot

Results of Testing Hypothesis 1

The testing of this hypothesis relates to the research objective: “To find out how organization culture impacts on performance of commercial banks in Kenya.” The following null hypothesis was formulated to help accomplish this objective;

Hypothesis 1 (H_0): *Organization culture has no impact on performance in commercial banks in Kenya.*

Simple linear regression was run with performance as the dependent variable and organization culture as the predictor variable. This is performed with a view to test the nature of the relationship, if any, between organization culture and performance in commercial banks in Kenya. From the ANOVA table, organization culture is not a good predictor of performance in commercial banks in Kenya. Therefore, at a p-value = 0.200, which is greater than .05, the model is not significant at $F(1,30) = 1.717$, $P = 0.200$. This

means that organization culture has no significant explanatory power over organization performance.

Table 7: ANOVA^a of the Regression of Organization Culture and Performance

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	.117	1	.117	1.717	.200 ^b
	Residual	2.042	30	.068		
	Total	2.159	31			

a. Dependent Variable: Performance

b. Predictors: (Constant), Organization culture

This is further confirmed by the model summary where the Adjusted R square value is small at 0.054 and thus not different from zero.

Table 8: Model Summary^a of the Regression of Organization Culture and Performance

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.233 ^a	.054	.023	.26089

a. Predictors: (Constant), Organization Culture

The unstandardized coefficient for organization culture at 0.077 with a standard error of 0.059 is almost zero and therefore has no effect on the dependent variable, hence on the overall model. We therefore fail to reject the null hypothesis that the coefficient for organization culture is zero, or that organization culture does not help to predict organizational performance.

Table 9: Coefficients^a of the Results of Regression of Organization Culture and Performance

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	3.678	.207		17.747	.000
	Organization Culture	.077	.059	.233	1.311	.200

a. Dependent Variable: Performance

The relationship between organization culture and performance generally given as: $Y = \beta_0 + \beta_1 X_1 + \varepsilon$ can now specifically be represented as follows:

$$\text{Performance} = 3.678 + 0.077 \text{ Organization Culture}$$

Results of Testing Hypothesis 2

The final objective; to enquire into the mediating role of innovation in the relationship between strategic knowledge capability and performance of financial banks in Kenya, was tested through the null hypothesis below:

Hypothesis 2 (H₀): Innovation has no mediating role on the relationship between strategic knowledge capability and performance in commercial banks in Kenya.

Organization Culture and Innovation

An analysis of the relationship between organization culture and innovation was also conducted. The ANOVA significance value was $p = 0.872$, and therefore, organization culture is also a poor predictor of innovation. As a result, we fail to reject the null hypothesis that there is no significant relationship between organization culture and innovation.

Table 10: Coefficients^a of the Regressing Organization Culture and Innovation

Model	Sum of Squares	Df	Mean Square	F	Sig.
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1	Regression	.005	1	.005	.026	.872 ^b
	Residual	5.906	30	.197		
	Total	5.911	31			

a. Dependent Variable: Innovation

b. Predictors: (Constant), Organization Culture

The model summary shows that organization culture explains a variation of only 7.7% of the variance in innovation. The relationship therefore, though positive, is very weak.

Table 11: Model Summary^a of the Regression of Organization culture and Innovation

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.030 ^a	.001	-.032	.44368

a. Predictors: (Constant), Organization Culture

The slope of the line for the level of organization Culture predicting innovation at a t-value = 1.311 and significance of p = 0.200, which is greater than $\alpha = .05$ makes the model insignificant.

Table 12: Coefficients^a of the Regression Model of Organization Culture and Innovation

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	3.822	.352		10.844	.000
	Organization Culture	.016	.101	.030	.163	.872

a. Dependent Variable: Innovation

The relationship between the predictor variables and innovation can be summarized as:

$$\text{Innovation} = 3.822 + 0.016 \text{ Organization Culture}$$

The Relationship between Organization Culture, Innovation and Performance

Table 16 shows that the overall model; $Y = \beta_0 + \beta_1X_1 + \beta_2M + \varepsilon$, is statistically significant at $p= 0.018$ which is less than $\alpha = 0.05$. The related F value from the same table to assess the overall statistical significance of the model is:

$$R^2 = 0.291, F(2, 29) = 5.939, P= 0.007 \text{ (Significant)}$$

Table 13: ANOVA^a of the Regression of Organization Culture, Innovation and Performance

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	.627	2	.314	5.939	.007 ^b
	Residual	1.532	29	.053		
	Total	2.159	31			

a. Dependent Variable: Performance

b. Predictors: (Constant), Organization culture, Innovation

The Adjusted R² value for the overall model is 0.291, which means that 29.1% of the variance in performance can generally be attributed to organization culture and innovation. This is higher than that for the relationship between innovation and organizational performance at 24.3%. It means that while the relationship between Organization culture and performance is not statistically significance, culture positively impacts the relationship between innovation and performance and brings about better performance.

Table 14: Model Summary^a of the Regression of Organization Culture, Innovation and Performance

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.539 ^a	.291	.242	.22981

a. Predictors: (Constant), Organization culture

A look at the coefficients Table 15 reveals that organization culture is not statistically significant in the relationship between organization culture, innovation and performance in commercial banks in Kenya. However, innovation is statistically significant in the same relationship.

Table 15: Coefficients^a in the Regression of Organization culture, Innovation and Performance

Model		Unstandardized		Standardized		T	Sig.
		B	Std. Error	Beta			
1	(Constant)	2.5543	.405			6.308	.000
	Innovation	.294	.095	.486		3.109	.004
	Organization Culture	.073	.052	.218		1.395	.174

a. Dependent Variable: Performance

The relationship between the predictor variables and performance can be summarized as:

$$\text{Performance} = 2.554 + 0.294 \text{ Innovation} + 0.073 \text{ Organization Culture}$$

Results from Secondary Data

Secondary data sources, mainly Central Bank of Kenya Annual Bank Supervisory Reports were reviewed, with a view to analyse the performance of the banking sector in Kenya for the last three years 2013 to 2015. The findings were as follows:

Employment in the Banking Sector

A review of the total number of employees in the banking sector in Kenya between the year 2013 and 2015 shows a total increase of 6.3%. On a year to year basis, the change between the year 2014 and 2015 show a reduction of 2%. This reduction is partially

attributed to a reduction caused by Dubai and Imperial Bank Limited that were placed under receivership in the year.

Table 16: Employment in the Banking Sector

Employee Category	2013	2014	% Change	2015	% Change
Management	8,627	9,584	11.1%	10,310	7.6%
Supervisory	5,682	6,464	13.8%	6,973	7.9%
Clerical and Secretarial	17,978	18,539	3.1%	16,503	-11.0%
Support Staff	1,772	2,336	31.8%	2,426	3.9%
Total	34,059	36,923	8.4%	36,212	-2.0%

Source: CBK – Bank Supervision Reports

Growth in Customer Base and Market Size

From Table 20, the number of deposit account holders in the banks in Kenya showed growth from year to year. From the year 2013, that number has shown improved growth with a growth of 37.9% in 2013 over 2012, 30% in 2014 and a modest 23.8% in 2015. Once again, the reduced growth in 2015 could be partially explained by the turbulence then that saw the closure of two banks.

When it comes to market size, this shows an erratic pattern from 2012 to 2015. This can be seen from Appendix III. Between the year 2012 to 2015, 20 bank out of 40 that were open by the end of that year show a reduction in their market share index. This is 50% of all banks as at the end of 2015. Market share index is the composite of net assets, deposits, capital, number of deposit accounts and number of loan accounts. Between 2012 and 2014, and 2012 and 2013, 12 and 25 banks respectively saw a reduction in their market share index. These values represented 27.9% in 2014 and 58.1% in 2013.

Table 17: Growth of Deposit Account Holders Compared to Number of Staff

Year	No. of Deposit Account Holders	Percentage Increase in Deposit Account Holders	Number of Staff	Efficiency Score
2010	11,881,114	-	28,846	412
2011	14,250,503	19.9%	30,056	474
2012	15,861,417	11.3%	31,636	501
2013	21,880,556	37.9%	34,059	642
2014	28,438,292	30.0%	36,923	770
2015	35,194,496	23.8%	36,212	972

Source: CBK – Bank Supervision Reports

Prof it Before Tax

The prof it before tax for the banks in 2013 to 2014 shows a growth with a slight reduction in 2015 over 2014. The actual figure for prof it before tax for 2013 was Kenya shillings 125.76 Billion, 141.145 Billion in 2014 and 134.017 Billion in 2015. This shows a highly prof itable sector of the Kenyan economy.

Table 18: Income and Expenditure Items as a Percentage of Total Income and Total Expenses

Income	2013		2014		2015	
	Ksh. M	% of Total Income	Ksh. M	% of Total Income	Ksh. M	% of Total Income
Interest on Advances	211,391	58.4%	247,170	59.0%	279,324	61.15%
Fees and Commission for	19,676	5.4%	21,614	5.2%	20,614	4.51%

Loans and Advances						
Other Fees and Commission Income	33,869	9.4%	41,395	9.9%	42,245	9.25%
Interest on Government Securities	56,752	15.7%	62,330	14.9%	67,835	14.85%
Interest on Placement	5,344	1.5%	5,172	1.2%	9,922	2.17%
Other Income	35,144	9.7%	41,017	9.8%	36,870	8.07%
Total Income	362,177	100%	418,698	100.0%	456,810	100.0%
<hr/>						
Expenses						
Interest Expenses	83,793	23.1%	103,635	24.8%	133,126	41.24%
Bad Debts Charge	12,876	3.6%	17,159	4.1%	28,778	8.92%
Salaries and Wages	68,820	19.0%	75,371	18.0%	77,572	24.03%
Other Expenses	70,928	19.6%	81,387	19.4%	83,316	25.81%
Total Expenses	236,416	65.3%	277,552	66.3%	322,792	58.48%
Prof it Before Tax	125,760	34.7%	141,145	33.7	134,017	41.52%

Source: CBK – Bank Supervision Reports

Return on Assets and Equity

The Return on Assets in the banking sector between 2013 and 2014 was more or less stable at 4.7% and 4.46% respectively, with a slight drop in 2015 to 3.86% attributable partly to the three banks that were placed under receivership. The Return on Equity shows

a similar pattern, at a growth of 29.2% in 2013, 28.2% in 2014 and 24.4% in 2015 as can be seen from Appendix IV.

Summary, Conclusions and Recommendations

The results of this study contribute to our understanding of the relationship between strategic knowledge capability and performance in commercial banks in Kenya. Further, it confirms the role of innovation as a mediator in this relationship. This research sought to find out the relationship between strategic knowledge capability and performance in commercial banks in Kenya with specific interest on the mediating role of innovation. Innovation would not be possible in the absence of the requisite knowledge capability. The main objective of this study was to analyze the relationship between strategic knowledge capability and firm performance. Specifically, the study sought to fulfill the following objectives: find out how organizational culture impacts on the performance of commercial banks in Kenya, establish the effect of organizational culture on this performance, determine the effect of people characteristics on performance, analyze how information technology influences performance in commercial banks, and finally, enquire into the mediating role of innovation in the relationship between strategic knowledge capability and performance of financial banks in Kenya. These objectives were met as follows;

Specific Objective 1: *Find out how organizational culture impacts on the performance of commercial banks in Kenya*

The study suggests that organization culture has no statistically significant effect on organizational performance. This could be attributed to the fact that banks are a highly regulated industry where any change has to be authorized by the regulator; the Central Bank of Kenya. As a result, each bank has a conservative culture. There is a lot of formality in the interactions between employees. This kind of formality does not promote knowledge sharing.

Specific Objective 2: *Enquire into the mediating role of innovation in the relationship between strategic knowledge capability and performance of financial banks in Kenya.*

Innovation has a positive and statistically significant relationship with performance in commercial banks in Kenya. This means that performance in banks in Kenya is largely driven by innovation. Banking services and products are more or less uniform across the industry, with small differences here and there. At the same time, new products in the sector are usually very easy to copy and improve on by competitors. Further, their competitors are no longer just banks but other players in the financial services industry, including mobile service providers, foreign exchange bureaus, payday lenders and many others. As such, players in the banking industry have no choice but to keep innovating. The knowledge capability of a bank then becomes evident in the rate and level of innovation that takes place in the organization.

When the effect of organization culture and innovation combined on performance is investigated, the relationship is found not to be statistically significant too. However, organization culture significantly increases the extent of the significance of the relationship between innovation and performance in commercial banks in Kenya.

CONCLUSION

Several studies (Mahmoudsalehi, Moradkhannejad & Khalil Safari, (2012); Chen & Huang, 2007) have revealed a positive relationship between organization culture and Knowledge Management. However, the results of this study suggest that there is no significant relationship between organization culture and knowledge management capability in commercial banks in Kenya. At the same time, organizational culture also has no significant relationship with innovation, which has a significant positive relationship with performance. The results of this study contribute to the understanding of the relationship between strategic knowledge capability and performance in commercial

banks in Kenya. Further, it confirms the role of innovation as being an important factor that positively influences performance.

RECOMMENDATIONS

Information Technology

Banks hold large volumes of data acquired over many years of their operations. This arises out of the fact that most bank customers hold more than one product and use various different services, sometimes severally each month. They also hold data for potential customers that approached them for various products and services that they were unable to provide at the time of request but could become useful later on in helping them come up with new products and services. Such data could also be used to get new customers when such services later on become a reality. Some of the banks in Kenya have been operating for over one hundred years, and have information in various forms spanning that period of time. This data is known as big data. Big data is high-volume, high-velocity and/or high-variety information assets that demand cost-effective, innovative forms of information processing that enable enhanced insight, decision making, and process automation (Gartner, 2012). It is an evolving term that describes any voluminous amount of structured, semi-structured and unstructured data that has the potential to be mined for information. For this data to be useful to the banks, and to be used to grow their strategic knowledge capability, there is a need for the wide variety and extremely large volume of data held to be integrated into systems capable of handling big data, and the velocity at which the data can be processed looked at in terms of the systems' capability to ensure that it can be accessed easily and with speed whenever the need arises.

Further, it should be possible to get all the data on any one customer at a single click of the button. This way, banks will have grown their strategic knowledge capability to a level where they will be in a position to cross sell to their existing customers, make follow up on previous enquiries and make sales whenever they are able to fulfil those

needs they had previously been unable to provide, thereby growing their sales. At the same time, this big-data can be used as a source of research and development, and as a source of understanding changing customer needs and expectations, especially when it comes to the request they were unable to fulfil previously.

Employees

Employees are a key resource of the banks. They carry the strategic knowledge that drives innovation within those institutions. Even as the sector embraces technology and experiences and declining need for brick and mortar establishments, people will still be needed to come up with and drive innovations in this area. Growing their capability to keep up with the changing customer needs and business environment therefore is important. There is a need for continuous training to up-skill them to become technologically savvy.

Further, there is a need to relook at the whole remuneration system for employees within the banking sector so as to promote healthy competition, while at the same time encouraging free sharing of information between them and further grow the strategic knowledge capability in the sector. As this happens, deliberate steps must be taken to grow their professional ethics which has a direct impact on corporate governance to avoid the large fines the sector has suffered in the recent past, especially in the United States of America and Europe.

Blue Ocean Strategy

The banking sector in Kenya and the world over is very competitive. Each bank is trying to outperform their rivals and get a greater share of existing demand. With the entry of other players like mobile service providers, with a very wide penetration rate throughout the country, and offering almost all the services banks provide, banks are facing very tough times ahead. Together with other not so regulated service providers like pay-day lenders, the market space is getting so crowded, and prospects for profits and growth are reducing as time goes by. Products are fast becoming commodities, and

cutthroat competition is turning the red ocean bloody (Kim & Mauborgne, 2005). The only way out for banks is to create uncontested new market space that makes the competition irrelevant (Kim & Mauborgne, 2005); embrace the blue ocean strategy. They need to leverage on technology to continuously come up with an array of products and services to serve both their existing and potential customers, irrespective of what the competition is doing. The speed of roll-out of these products and services, and thereby repeatedly create blue oceans. When the banks are able to do this, they will have developed sustainable strategic knowledge capability for sustainable existence.

Suggestions for Further Studies

A business is a vast collection of knowledge and information. Many organizations treat these information as just that when it can be mined and used to grow the organizations' strategic knowledge capability and by extension their competitive advantage. There is a need to study the kind of information that banks in Kenya hold and how they can use this to grow their knowledge capability.

Further, mobile money and mobile e-commerce are quickly taking over the commercial sector in Kenya and other players in this space can no longer ignore it as a platform for doing business. There is a need to explore how banks can develop knowledge capability in this space and therefore still remain relevant in the face of the threat from mobile money and mobile e-commerce.

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APPENDIX: QUESTIONNAIRE

SECTION A: DEMOGRAPHICS

Instructions: In this section, circle the appropriate answer as applies to you.

1. Gender

Female[1] Male [2]

2. Age

Below 20 years [1]

21-30 years [2]

31-40 years [3]

41-50 years [4]

Above 50 years [5]

3. Highest Educational Qualification

Post Graduate [1]

Graduate [2]

Diploma [3]

High School [4]

4. Years of Service in the bank

Less than 5 years [1]

5-10 years [2]

11-15 years [3]

16-20 years [4]

Over 20 years [5]

SECTION B: The Relationship between Strategic Knowledge Capability and Performance in Commercial Banks in Kenya: The Mediating Role of Innovation

A. Organizational Culture

Kindly circle the appropriate box that shows the extent to which you agree or disagree with each of the questions that follow.

1	2	3	4	5
Strongly Disagree	Disagree	Neither Agree or Disagree	Agree	Strongly Agree

In my organization.....						
1	Has a strong culture that is consistent, well-coordinated and well integrated	1	2	3	4	5
2	People have shared values that act as the glue that holds them together	1	2	3	4	5
3	Employees have a strong sense of belonging	1	2	3	4	5
4	Steps are taken to develop employee capability to effectively perform their jobs	1	2	3	4	5
5	People at all levels feel that they have a responsibility to provide input into decisions that affect their work	1	2	3	4	5
6	People feel that their work is directly connected to the goals of the organization	1	2	3	4	5
7	Our behaviours are rooted in a set of core values that are shared among all employees	1	2	3	4	5
8	People understand the need for continuous change	1	2	3	4	5
9	Reward is provided on a regular basis rather than based on achievement of results	1	2	3	4	5
10	Incentive and bonus program is linked to Individual performance on the basis of equity in terms of	1	2	3	4	5

	individual contribution					
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B. Innovation

Kindly circle the appropriate box that shows the extent to which you agree or disagree with each of the questions that follow.

1	2	3	4	5
Strongly Disagree	Disagree	Neither Agree or Disagree	Agree	Strongly Agree

My organization.....						
11	Has systems in place empowering employees to come up with new ideas from time to time	1	2	3	4	5
12	Has launched a new product, system or process in the last two years	1	2	3	4	5
13	Is continuously improving her products and systems to keep up with the changing business environment	1	2	3	4	5
44	Consistently reviews her product offerings to check their relevance in the prevailing market conditions	1	2	3	4	5
15	Regularly carries out market intelligence to learn from trends	1	2	3	4	5
16	Does not shy away from making radical changes when the situation demands so	1	2	3	4	5
17	Has an environment such that employees are comfortable with continuous change	1	2	3	4	5
18	Employees who continuously come up with new ways of working and of dealing with emerging issues	1	2	3	4	5
19	Is always willing to take risks and learns from past	1	2	3	4	5

	mistakes					
20	People in my organization feel effectively empowered to perform their work	1	2	3	4	5
21	People are encouraged to develop new and more efficient ways to do their work	1	2	3	4	5

C. Performance

Kindly circle the appropriate box that shows the extent to which you agree or disagree with each of questions that follow.

1	2	3	4	5
Strongly Disagree	Disagree	Neither Agree or Disagree	Agree	Strongly Agree

My organization.....						
22	Has clearly defined goals and strategic objectives that drive her performance	1	2	3	4	5
23	Has a clear picture of the organizations future outlook in terms of performance in relation to the competition	1	2	3	4	5
24	Has a business strategy that is reviewed from time to time against performance and for relevance	1	2	3	4	5
25	Shows growth from year to year in terms of customer numbers	1	2	3	4	5
26	Has grown her branch network over the years	1	2	3	4	5
27	Shows a growing number of employees with time	1	2	3	4	5
28	Has been and continues to serve varied customer segments with unique and sustainable solutions	1	2	3	4	5
29	Strongly believes in continuously coming up with new/improved products/service that appeals to the market	1	2	3	4	5

30	Believes that finding ways to reduce operational costs is a good way to grow profits	1	2	3	4	5
31	Is continuously growing her capital base so as to improve her capability to serve more customers	1	2	3	4	5
32	Conducts continuous customer surveys to help gauge the level of customer satisfaction with current product offerings and service as a way to improve performance in the market place	1	2	3	4	5
33	Invests in improving the quality of our products and service level with a view to attract more customers and therefore acquire a larger market share	1	2	3	4	5

SECTION C: RECOMMENDATIONS

34. What recommendations would you give that would help banks in Kenya develop capability so that they attain sustainable competitive advantage? **(Kindly give 1 or 2 recommendations)**

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THANK YOU FOR TAKING YOUR TIME TO COMPLETE THIS QUESTIONNAIRE.