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Abstract

Strategic capability has become an essential factor in the performance of commercial banks within a competitive, technology-dependent, and well-regulated environment. This paper examines the effect of strategic capability on organizational performance of the commercial banks in Kenya focusing on leadership alignment, resource optimization, and technological innovation. The paper was anchored in the Resource-Based View (RBV), which emphasizes the effective development and deployment of valuable internal resources and capabilities. A pragmatic research philosophy and a mixed-methods design were adopted. The study was conducted among licensed commercial banks across the three banking tiers in Kenya. Primary data were collected using a semi-structured questionnaire containing closed-ended Likert-scale items and open-ended questions. Quantitative responses were analyzed using descriptive and inferential statistics, while qualitative responses were analyzed thematically. The two strands were integrated during interpretation of the findings. Overall, the findings indicated a high level of strategic capability among commercial banks, characterized by leadership alignment, efficient use of organizational resources, and technology deployment in strategic implementation. Strategic capability had a positive and statistically significant effect on the organizational performance; therefore, the null hypothesis was rejected. Qualitative results also revealed that leadership responsiveness, a knowledgeable workforce, technological adaptation, and judicious use of resources were found to enhance competitiveness, service efficiency and managerial decision-making processes. The paper concludes that strategic capability is a key determinant of commercial banks' performance in Kenya. It recommends that banks strengthen leadership alignment, establish formal mechanisms for optimizing resources, and ensure that technology investments remain aligned with strategic objectives and performance measures.

Keywords: *Strategic Capability, Leadership Alignment, Resource Optimization, Technological Innovation, Organizational Performance, Commercial Banks.*

1.1 Introduction

The importance of strategic capability has grown, and what is crucial now is how organizations will react to competitive challenges, new technologies, and evolving customer needs. Strategic capability was defined by Johnson, Scholes and Whittington (2017) as the degree of sufficiency and efficient blending of the resources and competencies with which a company is able to survive and thrive. Teece, Pisano and Shuen (2020) also defined strategic capability as the capacity of a firm to combine, structure and develop internal and external competencies to deal with rapidly

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evolving settings. Strategic capability was, therefore, interpreted in the thesis as a coordinated use of organizational resources and competencies for its adaptability and sustained competitive success. Johannesson, J. and Palona, I. (2021). reported that commercial banks' strategic capability helped enhance their operational technologies as well as their leadership practices and financial strategies to match market demands, thus promoting resilience and organization performance.

Leaders who are aligned, strategies that optimize resources and technological innovation were identified as the key dimensions of strategic capability in the study. Heubeck (2024) noted that a synergy of leadership ensures communication and implementation of strategic objectives at multiple levels within the organization. Resource optimization, on the other hand, is concerned with the effective allocation and utilization of the financial, human and technological resources in achieving strategic goals. When added to leadership, innovation and managerial skills and information systems, they commented that the synergy of all these resources can help organizations be strategic in synergy (2021). In addition, Ferreira et al. (2021) found that those organizations that possess dynamic capabilities in their strategy are more likely to respond to environmental change, control risk and make the best of new market opportunities.

Strategic capability is critical in the banking sector as commercial banks have to deal with the effect of fast technological development, regulatory demands, growing competition, and evolving customer preferences. The study posited that leadership alignment promotes strategic clarity and smoother execution of organizational objectives and resource optimization enables banks to channel limited resources to priority areas. Technological innovation can also help banks to automate, and to increase their digital offerings and customer experience. Shiferaw and Kero (2024) found that institutions that demonstrated strategic fit and inquisitive working cultures, showed greater responsiveness to changes in their operating environments. These capabilities, therefore, give banks a more solid foundation for competitiveness while gaining the ability to adapt and for better organizational performance.

Commercial banks occupy a pivotal role in financial intermediation and savings mobilization, credit provision and investment in Kenya, thus organizational performance remains relevant to the sector. The results of the thesis, though, revealed mixed performance of the sector in recent times. The Central Bank of Kenya (2024) reported that banking assets had experienced a growth of 17.6% in 2023, but banking profitability had fallen by 9.1% excluding taxes, and the average level of non-performing loans (NPLs) had risen to 13.6% of assets. On the other hand, Central Bank of Kenya (2022) revealed that the non-performing loan ratio was at 12.3% in 2021 when the pre-tax profits growth was 23.5%. The differences suggest that increased asset growth doesn't always result in a positive trend within asset quality or profitability, so it's essential to review internal ability that could be a conduit to a better organizational trend.

The study conceptualized organizational performance as a multidimensional entity involving both financial and non-financial outcomes. Profitability, customer satisfaction, innovation outcomes and employee's productivity were adopted as indicators of banking performance. Otioma (2023), together with Njuguna and Kariuki (2022), reported favorable outcomes of profitability, customer experience, and operational efficiency for digital innovation and strategic management reforms. The second element of Kaplan and Norton's Balanced Scorecard (BSC) was also echoed when discussing the thesis, as the importance of measuring organization's performance was raised in four aspects: finance, customer, internal processes and learning aspects. A similar finding of a

positive associations between digital adoption, human capital development, and organizational performance in financial institution was obtained in Kenya by Kariuki and Gachanja (2023).

The study argues that while strategic capability is now recognized as one of the critical factors for organizational success, there is empirical need to interrogate its relationship with organizational performance in commercial banking industry of Kenya. The study cited Fainshmidt et al. (2016) and Drago et al. (2022) who established the link between strategic capability and an organization's performance synergized by aligning leadership, optimizing resources and creating technological innovations. There has, however, been little understanding of how these capabilities get converted to sustainable organizational outcomes (Otioma, 2023). The study also noted that previous studies often used narrowly designed investigations, or concentrated on specific types of banks, and thus restricted the understanding of the three-tiered banking system in Kenya. For example, Ferreira et al. (2021) were referred to when disparities in capital structures and resource limitation for banks were pointed out among the different tiers of the banking system. This study examined the direct impact of strategic capability on organizational performance of commercial banks in Kenya. The study adopted strategic capability as a operationalized construct based on leadership alignment, resources optimization and technological innovations.

1.2 Statement of the Problem

Kenya's banking sector remains central to financial intermediation, savings mobilization, and the provision of investment finance and credit, making the organizational performance of commercial banks an important concern. However, despite continued asset growth, sector performance has shown mixed trends. Banking assets grew by 17.6% in 2023 whereas the profits before tax reduced by 9.1%, reported the Central Bank of Kenya (2024), as the overall ratio of non-performing loans to assets rose to 13.6%. The Central Bank of Kenya (2022) reported a non-performing loan ratio of 12.3 percent and a gain in pre-tax profits of 23.5 percent in 2021. The differences indicate issues surrounding profitability, asset quality and efficiency at the commercial banks in Kenya.

Strategic capability has been singled out as having a significant positive effect on organizational performance via its model of leadership alignment, resource utilization and innovative technologies. Fainshmidt et al. (2016) maintained that firms that have better strategic capability are more likely to coordinate their resources within the firm and be able to respond to the market competition. These findings align with the results of Drago et al. (2022), who demonstrated a positive link between strategic capability and firm performance; this indicates that those firms with stronger internal capabilities are more likely to attain better outcomes. But, Otioma (2023) noted that how strategic capabilities are embedded in achieving sustainable organizational outcomes is still not well understood. This raises the need for more empirical evidence of direct impact of strategic capability on organizational performance in the Kenyan commercial banking sector.

Previous empirical studies have also presented methodological and contextual limitations. Fainshmidt et al. (2016) and Drago et al. (2022) largely employed cross-sectional, descriptive, or simple regression approaches when examining organizational relationships. Ferreira et al. (2021) also noted that the majority of the studies focused on Tier I banks with less attention paid to Tier II and Tier III banks which are differently capitalized and have weaker resource bases. This means that insights gained from a narrow range of financial institutions may not be representative of the importance of strategic capability and organizational performance in all financial institutions in the general commercial banking industry in Kenya.

Since there are ongoing risks of fluctuating profitability, growing credit risk and operational issues despite continued investments in leadership, resources, and technology, it becomes important to determine if strategic capability has a significant impact on organizational performance. This paper therefore examined strategic capability through leadership alignment, resource optimization, and technological innovation and assessed its effect on the performance of commercial banks in Kenya.

1.3 Research Objective

The objective of the paper was to determine the effect of strategic capability on organizational performance of commercial banks in Kenya.

1.4 Research Hypothesis

The study tested the following null hypothesis:

H₀₁: There is no significant relationship between strategic capability and performance of commercial banks in Kenya

2.0 Literature Review

2.1 Theoretical Review

2.1.1 Resource-Based View

The Resource-Based View (RBV), advanced by Barney (1991), focuses on the capabilities and resources that a firm possesses and can mobilize. The theory suggests that a company can be more likely to have a sustainable competitive advantage if its resources are valuable, rare, non-substitutable, and inimitable. Barney (1991) believed that there were differences between the performance outcomes and competitive strength of different organizations due to differences in the resources available. Others have agreed to the notion that resource heterogeneities allow for the generation and maintenance of competitive advantages which a competing firm might not be able to easily replicate, as Grant (1996) posed. From this perspective, strategic capability may be viewed as the ability of an organization to put it together and use its capacity internally to reinforce competitiveness and performance.

The importance of RBV to strategic capability is clearly seen in the focus it is able to put on internal resources including technology skills, effective resource management and leadership. Barney (1991) said that if an organization has strategically valuable resources, then they can have a strategy that it is unlikely for competitive organizations to copy. This was later echoed by Peteraf and Barney (2003) who identified the need for the rapid development of and reconfiguration of strategic resources given a changing environment. More recent works by Barney & Mackey (2021) and Pitelis, Teece, & Yang (2023) have further stressed that performance should not only be sustainable based on having a(resource) but also being able to use it effectively (use it well) and to replenish the resource if necessary (renew it effectively). In commercial banks, this argument backs the notion that establishing leadership synergy, optimizing resources and innovations in technology are strategic strengths that have the potential to improve organizational results.

Furthermore, empirically RBV has been used to understand performance in financial institutions. In the domain financial institution, Kamukama et al (2017) used the theory, and concluded that intangible strategic resources are linked to the better financial performance. Ferreira et al. (2021) also used RBV to investigate the strategic capability development of the Kenyan commercial banks and found that internal capability has been shown to have a significant effect on organizational

outcomes. Kamukama, Ahiauzu and Ntayi (2017) also concluded that financial institutions competitive position and financial performance can be boosted by the strategic resources which include leadership competencies, financial systems and financial innovation capabilities. The findings are in line with researchers' expectations that similar to commercial banks with greater strategic capabilities would achieve better organizational performance, hence RBV can be used as evidence in this context.

RBV has been praised, and has been criticized for its use, but it is more useful than some have claimed. However, the theory could deteriorate into tautology because resources are sometimes defined as strategic once their effects on performance are established (Priem & Butler, 2001). This is problematic because it is hard to distinguish between organizational resources that actually provide sustainable advantages as opposed to those that don't. Since the RBV treats external factors as uncontrollable, there have also been criticisms on the failure of RBV to pay adequate attention to external factors which will affect the efficiency of internal resources. Peteraf and Barney (2003), however, countered this, by adding a more dynamic interpretation of capabilities, as well as their reminder that strategic resources need to shift and adjust to environmental changes. The theory, however, is still valuable as an explanation of the role that an organization's internal resource differences can play in influencing organizational differences in performance.

The RBV approach is used to explain the strategic capability–organizational performance relationship and is provided as the theoretical foundation for this paper. Strategic capability is reflected in the leadership alignment, resource optimization and technological innovation that are indicators of internal organizational capabilities capable of generating added value strategically. These dimensions are considered by Heubeck (2024) as some of the important elements of strategic capability, and Barney and Mackey (2021) suggested that the link between leadership, innovation and managerial skills and information systems provides synergy for the resources of an organization. Ferreira et al. (2021) also claimed that organizations with dynamic strategic capabilities can better respond to environmental changes, exploit opportunities, and minimize risks. RBV, thus, offers a suitable framework for explaining the role effective development and use of these strategic capabilities can play in achieving better organizational performance among Kenya's commercial banks.

2.2 Empirical Literature Review

2.2.1 Strategic Capability and Organizational Performance

The empirical literature suggests that strategic capability is generally associated with positive firm performance because strategic capability allows enterprises to align leadership, resources, and technological investments with organizational priorities. Shiferaw and Kero (2024) analyzed strategic capability at commercial banks in Kenya and found that banks with higher level of strategic alignment and culture of innovation had a higher level of responsiveness to changes in their operating environment. Their research revealed that their companies became more resilient and their performance more overall when they got their operational technologies, leadership practices and financial strategies aligned with their market requirements. Similarly, Heubeck (2024) reported that leadership unity and technological innovation enhance the organizational competitiveness and Drago et al. (2022) revealed that strategic capability was beneficial towards organizational performance in dynamic operating environment.

Leadership alignment has emerged as a key mechanism through which strategic capability helps drive performance. Shiferaw and Kero (2024) found that alignment of the leadership role helps financial institutions achieve strategic coherence and operational efficiency, which transforms the financial institutions' strategic priorities into full understanding and implementation. In conclusion, Heubeck (2024) noted that overall leadership cohesion laid a strong basis for boosting organizational responsiveness and competitiveness, especially when institutions are dealing with dynamic market conditions in today's society. The findings indicate that having leadership teams aligned around shared strategic priorities leads to greater consistency of planning, the allocation and implementation of resources among units. The alignment is especially important for commercial banks where strategic, operational and technological functions must be coordinated effectively for it to be possible.

Better resource optimization is also related to better organizational results as it allows companies to allocate financial, human and technological resources towards activities with more added value to the company from a strategic perspective. It was top managers, the leaders in the organization, those managers who have sound managerial skills, who invest innovation and information systems these are the bricks and mortar of the organization, but it is about effective integration, this determines organizational advantage, for that purpose, Barney and Mackey (2021) said that organization should not only have the resources. Ferreira et al. (2021) also reported that companies with more strategic capability were better able to adapt their resources, address new risks facing them, and capitalize on new market opportunities. But in the banking sector, resource optimization ensures that institutional resources are used for optimal output and coupled with strategic thinking that propels them for enhanced competitiveness and future performance, thus reducing wastage.

Technology innovations are also another empirical aspect of strategic capabilities. Memon & Ooi (2023) identified that digital leadership is associated with responsible innovation and provides competitive advantage as organizations are able to respond better to changes in technology and competition environment. In the same way, Aboalghanam & Awad (2023) revealed that organisational readiness through organisational and technological factors positively influenced digital innovation and firm performance. For the finance industry, technological capability is highly critical since banks rely on digital technology platforms for improved responsiveness and performance. Thus, technological innovation can contribute to strategic capability if there is effective leadership and organisational capability along with an institution conducive to the use of technology. In a similar finding, Shiferaw and Kero (2024) established that innovation-driven financial institutions were more receptive to change in the environments that were typical of financial institutions. In addition, Otioma (2023) uncovered that commercial banks in Kenya can become technologically adaptive and consider their environment when dealing with shifts in regulatory and competitive pressures. All these results suggest that the benefits of technology are enhanced when it is embraced and embedded in the organizational mission and vision.

Empirical evidence also links strategic management reforms and technology adoption to organizational performance outcomes. Digital innovation and strategic management reforms have been associated with improvements in profitability, customer experience and operational efficiencies among Kenyan banks as reported by Otioma (2023) and Njuguna and Kariuki (2022). Similarly, Kamukama, Ahiauzu and Ntayi (2017) revealed that strategic internal capabilities had a significant impact on the profitability of financial institutions in the East African region and satisfaction of their clients. Also, there is a connection between digital adoption and human capital development and better organizational performance of financial institutions in Kenya according to

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Kariuki and Gachanja (2023). Such studies show that strategic capability can have an impact on the financial and the non-financial results of its application, such as profitability, customer satisfaction, operational efficiency as well as institutional competitiveness.

However, the current empirical literature has some constraints. Fainshmidt et al. (2016) and Otioma (2023) (2021) reported positive relationships between strategic capability and performance while Drago et al. (2022) stated that the mechanisms through which strategic capabilities lead to sustainable organizational outcomes is less understood. Fainshmidt et al. (2016), Drago et al. (2022) and Ferreira et al. (2021) also used cross sectional, descriptive and direct regression method and limited their studies to Tier I banks. This left a contextual and methodological gap as Tier II/ Tier III banks are found to be different in terms of resources and capital structure. Therefore, it became necessary to study the direct effect of strategic capability on organizational performance in the general commercial banking subsector of Kenya.

3.0 Methodology

A pragmatic research philosophy was adopted, given that the study aimed to examine and provide quantitative evidence as part of the investigation yet also provide a qualitative description explaining the interrelationship of strategic capability and organizational performance. Saunders, Lewis and Thornhill (2019) found that research philosophy forms the assumptions which underpin the production and understanding of knowledge, whereas Creswell and Creswell (2018) corresponded pragmatism with the point of multiple methodological views that can be applied in practice to address research problems. Morgan (2014) also believes that pragmatism is not unique in its focus on the usefulness of the products of research in practice, but that this is also the case in the other philosophies. The support of the pragmatic orientation was then given to the consideration, integration and incorporation of measurable relationships within the organization with contextual managerial experiences that were applied in the commercial banking environment in Kenya.

A convergent mixed methods approach was used in which both the quantitative and qualitative data were collected at once using the same semi-structured questionnaire. Creswell & Plano Clark (2017) state that using a convergent design provides an opportunity for collection of both quantitative and qualitative data simultaneously in one phase of the study and then combining it for analysis. Quantitative data included the responses provided on the closed-ended Likert scale questions and it was used to analyze the relationship between the variables under investigation. The qualitative data included the responses provided on the open-ended questions and they gave the experience and explanations of the managers regarding strategic capability and organizational performance. As stated by Tashakkori & Teddlie (2010), mixing of the numerical data with interpretive data provides an opportunity for different kinds of data to help in addressing the research problem.

The quantitative and qualitative components were first analysed separately. The quantitative data were analysed with descriptive and inferential statistics in order to discern patterns and relationships between the variables involved in the study. Thematic content analysis was used to analyse the qualitative data, employing the software NVivo. As described by Braun and Clarke (2006), thematic analysis is “a method for identifying, organizing, and offering insight into patterns of meaning (themes) across a dataset.” The process started with becoming familiar with the responses provided by the participants in the study, followed by generating initial codes from the significant statements. Related codes were further categorized according to their similar

meanings and relevance to the study variables. Consistent with Braun and Clarke (2021), the emerging categories were scrutinized and developed into overarching themes, capturing the patterns found within the participants' responses. Finally, the emerging themes were validated against the original responses, thus following the recommendations on enhancing the credibility of the process (Nowell et al., 2017).

The integration of both strands took place after the independent analysis of quantitative and qualitative data, specifically when interpreting the results. Creswell and Plano Clark (2017) stress that the integration stage in a convergent mixed methods approach is characterized by bringing separately analyzed quantitative and qualitative results together in order to come up with a joint interpretation. Consequently, quantitative results for each of the variables in the study were compared with qualitative themes in order to establish the presence of support, complementarity or contradiction to the results obtained through statistical data analysis. Fetter et al. (2013) see such comparative analysis as one of the main ways how mixed methods evidence provides for a more complete interpretation of the research issue than any of its parts taken individually. For instance, the quantitative results related to strategic capability were considered along with qualitative themes regarding technology adoption, leadership, resource usage and strategic responsiveness of the managers. The evidence obtained through the comparison process was then synthesized to provide the final interpretation of the relationship between strategic capability and organizational performance.

The target population consisted of all 39 commercial banks licensed in Kenya and were categorized into Tiers I, II and III to distinguish the differences in size and nature of the banks. A census methodology was used at the institutional level and thus all 39 banks formed part of the study. On the other hand, five managerial personnel from each bank were selected for the survey, forming a target population of 195 respondents. The respondents were chosen from functional departments such as strategy, operations, finance, human resources, and risk and compliance because they made strategic decisions in relation to allocating resources, implementing strategies of the organization and monitoring its performance. Purposive sampling was used in the study since the method helped gather information from individuals with knowledge and experience about the concepts under study (Etikan et al., 2016).

After the exclusion of the 20 respondents who formed part of the pilot study group, the proposed sample for the main study was made up of 175 respondents. In the actual survey process, 166 questionnaires were sent out to the 39 commercial banks. Out of these, 152 questionnaires that could be used for analysis were received. Therefore, while the number of questionnaires sent out was less than what had been proposed earlier, the fact remains that all 39 commercial banks formed part of the achieved sample. The multiple responses received from one commercial bank were treated as independent managerial responses since the respondents were from different functional areas and the responses given by each were a reflection of his/her personal experience. The responses were thus analysed based on individual respondents rather than the banks as a whole, even as an institutional census helped achieve an institutional sample covering the entire commercial banking sector in the three bank tiers.

The study used a semi-structured questionnaire for data collection consisting of closed and open-ended questions. Leadership alignment with strategy, optimizing resources, and technological innovation were used as a measure of strategic capability, and profitability, market share, customer satisfaction and employee productivity were included in organizational performance. Qualitative

responses were collected through the use of open-ended questions giving explanations to the respondent's experience and perception of the strategic capability and organizational performance. The measures of strategic capability concerned specifically the level of leadership team coherence in achieving strategic objectives, as well as smart allocation of organizational resources and the implementation of digital tools to boost competitiveness.

A pilot study was conducted to pre-test the research instrument for clarity, reliability, and validity. Cronbach's alpha was used to assess the reliability and values greater than the acceptable limit were assumed as having good internal consistency. A pilot study was conducted among 20 managerial employees drawn from four commercial banks, comprising one Tier I, one Tier II and two Tier III banks, to assess the suitability of the research instrument before the main study. The pilot participants were excluded from the final study to prevent prior exposure to the questionnaire from influencing the main findings. Content and face validity were assessed through expert review of the questionnaire for relevance, clarity, comprehensiveness and alignment with the study variables, while construct validity was assessed using factor analysis supported by the Kaiser-Meyer-Olkin (KMO) measure and Bartlett's Test of Sphericity. Reliability was assessed separately using Cronbach's alpha, with coefficients above the acceptable threshold indicating satisfactory internal consistency of the measurement scales. The Cronbach's Alpha coefficient for strategic capability items was high with a value of 0.879, showing a good consistency among the items in measuring the leadership alignment, resource optimization and technological innovations. The internal consistency correlation among all the performance indicators in the organization was high (Alpha = 0.872) with a total instrument reliability coefficient of 0.864. For empirical analysis, Hair et al. (2019) and Bryman (2016) specified that the coefficient 0.80 is good and above.

Quantitative data were analyzed using descriptive and inferential statistical techniques. The descriptive analysis was used by calculating mean, standard deviation, and dispersion and simple linear regression was used to establish the direct effect of strategic capability on organizational performance. The regression model was specified as:

$$OP = \beta_0 + \beta_1 SC + \varepsilon$$

where OP represented organizational performance, SC represented strategic capability, β_0 represented the constant, β_1 represented the regression coefficient and ε represented the error term. Qualitative responses were analyzed thematically to identify recurring explanations relating to leadership alignment, resource deployment, technological innovation and performance, and the qualitative findings were subsequently used to complement interpretation of the quantitative results.

4.0 Results and Discussion

4.1 Response Rate

The study initially targeted 195 respondents, comprising five respondents from each of the 39 commercial banks. Following the pilot study involving 20 respondents who were excluded from the final study, the planned main-study sample was reduced to 175 respondents. Before questionnaire administration, nine of the targeted respondents were not covered, resulting in 166 questionnaires being distributed across the 39 commercial banks. Of these, 152 questionnaires were successfully completed and returned, while 14 were either not returned or were incomplete, yielding a response rate of 91.6%. The achieved response rate provided adequate data for

descriptive and inferential analyses and was considered satisfactory for survey-based research (Saunders et al., 2019).

Table 1: Response Rate

Response Category	Frequency	Percentage (%)
Questionnaires Returned	152	91.6
Questionnaires Not Returned	14	8.4
Total Distributed	166	100

4.2 Descriptive Statistics

4.2.1 Strategic Capability

Strategic capability was assessed through leadership alignment, resource optimization and technological innovation. The results indicated a mean of 4.2875, median of 4.315, mode of 4.50 and standard deviation of 0.4728. The relatively high mean demonstrated that respondents generally perceived their banks as possessing strong strategic capabilities. The low standard deviation further indicated that respondents held relatively consistent views regarding the extent to which leadership, organizational resources and technological systems supported strategic implementation.

Table 2: Descriptive Statistics for Strategic Capability

Statistic	Strategic Capability
N	152
Mean	4.2875
Median	4.315
Mode	4.5
Standard Deviation	0.4728
Skewness	-1.562
Kurtosis	5.238

Strategic capability was rated highly, indicative of leadership alignment, optimization of resources and technological innovation becoming an important part of banking operations. A similar study by Shiferaw and Kero (2024) also revealed leadership synchrony creates better strategic coherence and efficiency in the operations of financial institutions in Kenya. Heubeck (2024) found technological innovation and leadership cohesion to be correlated to organizational competitiveness, while Drago et al. (2022) determined that strategic capability is positively related to performance in dynamic situations. Results from these similar studies revealed that banks which orchestrate their leadership development, resources and technological expertise systemically have positive capabilities to adjust to competitive and environmental shifts.

The qualitative evidence complemented the quantitative findings by providing practical explanations of how strategic capability operated within the commercial banks. To maintain confidentiality, respondents were assigned anonymous identification codes R01, R02, R03 and R04, where “R” denoted respondent and the numerical identifier distinguished individual participants without revealing their names or bank identities. The responses particularly highlighted technological responsiveness, leadership effectiveness, employee competence and risk

management as important elements supporting strategic success. R01 explained that, “Our ability to adopt digital banking technologies and respond quickly to changing customer needs has contributed greatly to our success. Mobile and internet banking have enabled us to serve customers more efficiently while reducing operational costs.” Similarly, R02 stated that, “Strong leadership, skilled employees, and effective risk management have been important capabilities for the bank. These have helped us make sound strategic decisions, introduce competitive products, and respond effectively to changes in the banking environment.”

The qualitative responses also revealed challenges associated with aligning strategic capabilities across different organisational functions. In particular, respondents highlighted the need to coordinate technological investments with strategic priorities and ensure that employees possess the skills necessary to utilize emerging technologies. R03 observed that, “One major challenge is keeping technology investments aligned with the bank’s strategic priorities. Technology changes rapidly, yet implementation requires significant financial resources, employee training, and support from management.” In a related observation, R04 explained that, “Sometimes different departments have competing priorities, which makes alignment difficult. Budget limitations, resistance to change, skills gaps, and delays in decision-making can also affect the successful implementation of strategic initiatives.” These responses demonstrate that strategic capability depended not only on possessing technological and organisational resources but also on the capacity to align those resources with strategic priorities, employee competencies and coordinated decision-making.

Overall, the qualitative findings reinforced the quantitative results by demonstrating that strategic capability was manifested through the combined application of leadership, technological innovation, skilled human resources, risk management and effective allocation of organisational resources. The responses further showed that the effectiveness of these capabilities could be constrained by competing departmental priorities, resource limitations, resistance to change and skills gaps. Consequently, strategic capability within commercial banks was reflected not merely in the possession of valuable resources but in management's ability to coordinate and deploy them effectively in response to changing customer, technological and competitive requirements. The qualitative evidence therefore provided contextual explanations for the quantitative findings and demonstrated how strategic capability was experienced and implemented within the commercial banks studied.

4.2.2 Organizational Performance

Organizational performance was measured using profitability, market share, customer satisfaction and employee productivity. The results produced a mean of 4.3564, median of 4.38, mode of 4.60 and standard deviation of 0.4412. The high mean indicated that respondents generally perceived their banks as performing favorably across both financial and non-financial performance dimensions. The relatively low standard deviation also showed considerable consistency in respondents’ assessment of performance across the commercial banks.

Table 3: Descriptive Statistics for Organizational Performance

Statistic	Organizational Performance
N	152
Mean	4.3564
Median	4.38
Mode	4.6
Standard Deviation	0.4412
Skewness	-1.628
Kurtosis	5.146

The findings suggested favorable performance in profitability, market presence, customer satisfaction and employee productivity. Otioma (2023) similarly reported improvements in profitability, customer experience and operational efficiency among Kenyan banks associated with strategic management reforms and digital innovation. Njuguna and Kariuki (2022) also linked technological advancement with improvements in bank performance, while Kamukama, Ahiauzu and Ntayi (2017) established that strategic internal capabilities enhance profitability and customer satisfaction among East African financial institutions.

Qualitative responses reflected the multidimensional nature of organizational performance. One respondent explained that: “Customer satisfaction, employee productivity, operational efficiency, asset quality, and effective leadership are major factors affecting our performance. Financial performance is important, but customer loyalty and service quality also determine long-term success.”

Another respondent stated: “The quality of management decisions, employee competence, technology, customer experience, and the economic environment influence our performance. Profitability and growth are closely connected to how well the bank manages customers, employees, risks, and operational resources.”

These views demonstrate that bank performance was perceived not only in terms of financial outcomes but also through customer experience, workforce productivity, operational efficiency and managerial effectiveness. This position corresponds with Kaplan and Norton’s (2020) multidimensional perspective of organizational performance and with Kariuki and Gachanja (2023), who associated digital adoption and human capital development with improved performance in Kenyan financial institutions.

4.3 Effect of Strategic Capability on Organizational Performance

The study examined whether strategic capability significantly influenced organisational performance among commercial banks in Kenya. Strategic capability was treated as the predictor variable, while organisational performance was the dependent variable. A simple linear regression model was estimated to determine the explanatory contribution of strategic capability to organisational performance. The model was specified as:

$$OP = \beta_0 + \beta_1 SC + \varepsilon$$

where OP represented organisational performance, SC represented strategic capability, β_0 was the constant, β_1 represented the regression coefficient for strategic capability, and ε represented the error term. The null hypothesis stated that strategic capability has no significant effect on organisational performance of commercial banks in Kenya. The original analysis confirms that simple linear regression was used to test this relationship.

Table 4: Model Summary for Strategic Capability and Organizational Performance

R	R ²	Adjusted R ²	Std. Error of Estimate
0.801	0.642	0.64	0.45921

The model summary indicates a strong positive relationship between strategic capability and organisational performance, as reflected by an R value of 0.801. The coefficient of determination (R²) was 0.642, indicating that strategic capability explained approximately 64.2% of the variation in organisational performance, while the remaining variation was associated with factors outside the simple regression model. The adjusted R² of 0.640 remained close to the R² value, indicating limited adjustment after accounting for model complexity. The results therefore demonstrate that strategic capability had substantial explanatory power in relation to organisational performance.

Table 5: ANOVA for Strategic Capability and Organizational Performance

Model	Sum of Squares	df	Mean Square	F	Sig.
Regression	92.871	1	92.871	271.929	0.001
Residual	51.229	150	0.342		
Total	144.1	151			

The ANOVA test results presented in Table 5 show that the regression was statistically significant, $F(1, 150) = 271.929$, $p < 0.05$, meaning that strategic capability statistically significantly predicted organisational performance for commercial banks in Kenya. From the regression sum of squares of 92.871 relative to the residual sum of squares of 51.229, it can be seen that a large part of the variance in organisational performance was explained by strategic capability. This result is supported by the model summary, which indicated that strategic capability accounted for a substantial amount of the variance in organisational performance. Therefore, the statistically significant regression model provides evidence that variations in organisational performance arose from differences in leadership alignment, resource optimisation and technological innovation.

The findings further suggest that strategic capability provides an important organisational foundation through which commercial banks can strengthen their performance. Effective leadership alignment facilitates coordinated implementation of strategic priorities, while resource optimisation enables banks to deploy financial, human and technological resources toward activities that generate greater organisational value. Technological innovation further enhances the capacity of banks to improve operational processes, respond to changing customer expectations

and adapt to an increasingly digital financial environment. Taken together, these dimensions demonstrate that organisational performance is influenced not merely by the availability of resources but by the ability of management to align, deploy and continually reconfigure those resources in response to changing strategic requirements. This interpretation is consistent with Teece et al. (1997), Ferreira et al. (2021), and Otioma (2023), who emphasize the performance value of organisational capabilities, resource reconfiguration and effective utilisation of strategic and technological capabilities.

Overall, the statistically significant ANOVA provides sufficient grounds for carrying out the analysis of the regression coefficient for the independent variable strategic capability. It shows that the entire regression model has the ability to explain the variation in organizational performance in the commercial banking industry and proves the hypothesis that strategic capability is a critical factor in determining organizational performance in the commercial banking industry. Nevertheless, the ANOVA provides grounds for the overall significance of the regression model and not for the size and direction of the individual effect; these are established by the regression coefficient results.

Table 6: Regression Coefficients for Strategic Capability and Organisational Performance

Variable	B	Std. Error	Standardized Beta	t	Sig.
Constant	1.172	0.118	—	9.932	0.002
Strategic Capability	0.664	0.032	0.801	20.992	0.001

The regression coefficient results in Table 6 showed that strategic capability had a positive and statistically significant effect on organisational performance of commercial banks in Kenya. Strategic capability recorded an unstandardized coefficient of $B = 0.664$, a standard error of 0.032, a standardized coefficient of $\beta = 0.801$, and $t = 20.992$, $p < 0.05$. The positive unstandardized coefficient indicates that a one-unit improvement in strategic capability was associated with a 0.664-unit increase in organisational performance, holding other factors in the model constant. The relatively large standardized coefficient further demonstrates that strategic capability was strongly associated with organisational performance. In the context of commercial banks, the findings suggest that strengthening leadership alignment, optimizing organisational resources and effectively deploying technological innovations can contribute to improved financial and non-financial performance.

The findings are comparable with Ferreira et al. (2021), who established that dynamic capabilities contribute positively to firm performance by enabling organizations to integrate and reconfigure their resources in response to changing competitive conditions. Their findings emphasized that organisational capabilities become particularly valuable when firms effectively combine strategic resources with innovation and organisational learning. Similarly, Otioma (2023) found among Kenyan firms that information technology capability contributed significantly to performance-related outcomes by strengthening firms' capacity to utilize technological resources, learn and innovate. These studies support the present finding by demonstrating that organisational performance depends not simply on the possession of resources but on management's capacity to

coordinate, deploy and adapt strategic resources and capabilities to changing organisational and environmental requirements.

Based on the coefficient results, the fitted regression model was $\text{Organizational Performance} = 1.172 + 0.664 \text{ Strategic Capability}$. Confirming the positive direction of the relationship between strategic capability and organisational performance. The null hypothesis that strategic capability has no significant effect on organisational performance of commercial banks in Kenya was therefore rejected, hence supporting the alternative hypothesis that strategic capability has a significant effect on organisational performance of commercial banks in Kenya. The findings imply that commercial banks seeking improved performance should view leadership alignment, resource optimisation and technological innovation as interconnected strategic capabilities that facilitate coordinated decision-making, efficient deployment of resources and responsiveness to technological and competitive changes.

4.2.4 Diagnostic Tests

Although the descriptive statistics for the study variables indicated negative skewness and elevated kurtosis, the assumptions underlying regression analysis were assessed separately before inferential analysis was undertaken. In particular, normality of the regression residuals, linearity, multicollinearity, homoscedasticity and independence of observations were examined to determine the suitability of the data for regression analysis. Normality assessment focused on the residuals rather than requiring the individual predictor and outcome variables themselves to follow a normal distribution, since the normality assumption in ordinary least squares regression relates primarily to the distribution of model errors (Field, 2018; Hair et al., 2019; Saunders et al., 2019).

The diagnostic results indicated that the assumptions required for regression analysis were adequately satisfied. Normality was assessed using the Shapiro–Wilk test, with the results indicating no statistically significant departure from normality at the 5% significance level. Linearity was examined to establish whether the relationships between the predictor variables and organisational performance were approximately linear, while homoscedasticity was assessed to establish whether the residual variance remained reasonably constant across predicted values. Multicollinearity was evaluated using the Variance Inflation Factor (VIF), and independence of residuals was assessed using the Durbin–Watson statistic. The diagnostic results did not indicate violations sufficiently serious to invalidate the regression estimates; consequently, the data were considered appropriate for the subsequent inferential and mediation analyses (Field, 2018; Hair et al., 2019; Hayes, 2022).

5.0 Conclusion

The study concluded that strategic capability was positively and significantly associated with organisational performance among commercial banks in Kenya. The findings indicated that leadership alignment, resource optimisation and technological innovation were important strategic capability dimensions associated with favourable organisational performance outcomes. Commercial banks characterized by stronger alignment of leadership with strategic priorities, more effective utilisation of organisational resources and greater integration of technological innovation also reported higher levels of organisational performance. The findings therefore demonstrate a significant predictive relationship between strategic capability and organisational performance within the commercial banking context rather than establishing a causal relationship.

The findings further suggest that the performance value associated with strategic capability depends on how effectively organisational resources and competencies are coordinated and deployed towards strategic priorities. Strategic capability therefore involves more than the possession of valuable resources; it encompasses the organisational ability to align and utilize those resources in ways that support strategic objectives. This interpretation provides empirical support for the Resource-Based View by demonstrating an association between the effective deployment of strategically relevant internal resources and organisational performance. Given the cross-sectional nature of the study, however, the findings should be interpreted as evidence of significant association and predictive relationships and not as proof that strategic capability causes changes in organisational performance.

Leadership alignment emerged as a key component of strategic capability as leadership decisions, strategic objectives and operational activities support a shared purpose in the organization. Teams are consistently led to make sure that plans are consistent, provide strong accountability, and make coordinated plan implementation easier. A clear expectation of what each strategic direction means can help different organizational units achieve shared priorities for performance, which will minimize gaps in implementation and help the organization respond effectively to changing market needs.

Resource optimization was also crucial to organizational strength. Strategic deployment and utilization of financial, human and technological resources help banks achieve higher productivity, lesser wastage and concentrate limited resources on higher value-added activities. Efficient use of resources also boosts operational efficiency and helps banks maintain the capacity for innovation, better service and servicing the competition. Resource optimization thus serves as the basis for enabling the operational implementation of strategic priorities, and translates them into measurable organizational outcomes.

Technological innovation also helped in contributing to the performance-enhancing role of strategic capability. Utilization of digital platforms and automated systems and processes augmented by technology can help commercial banks deliver better services, have streamlined processes and move faster to meet customer needs. Technological innovation therefore bolsters process efficiencies within the operation and the responsiveness of the operation to the markets of the outside world. Its contribution to performance however, will be dependent on its alignment and integration with a strategic agenda rather than simply serving as a pathway for organizational investment in technology.

Strategic capability has a significant, complementary effect on the performance of the organization, namely through alignment of its leadership, optimization of its resources and technological innovations. Strategic direction through leadership alignment, optimization of resources for the efficient execution of activities, and organization transformation and responsiveness through technological innovation. The three can be integrated into the capacity of commercial banks to gain operational effectiveness, customer satisfaction, profitability and sustained competitiveness.

6.0 Recommendations

Commercial banks in Kenya should strengthen leadership alignment by ensuring strategic priorities are cascaded into plans and performance expectations and there are corresponding accountability structures for managers. The strategic objectives need to be consistently shared

across departments so that all managerial and operational decisions are in line with the strategy set for the bank. Enhancing this alignment will limit strategic drift, remove implementation gaps and encourage synergy with the organization's efforts to achieve its objectives.

The banks should also establish formal frameworks to optimize resources. Financial, human and technological resources should be appropriately deployed based on defined objectives for strategy and be monitored on a frequent basis through performance feedback. This would allow management to highlight where they might be using their resources ineffectively and focus more on activities that have more strategic value, as well as increase the operational productivity. Therefore, decisions about resource allocation should be explicitly based on quantifiable organizational outcomes and not just relying on the previous budgeting processes.

Commercial banks should treat technology as an integrated strategic enabler rather than a standalone investment. The technology must be chosen and deployed consistent with the management priorities, requirements of the customer and information on performance. The technological initiatives, such as digital platforms, and automation should therefore be measured on the basis of the improvement in the efficiency of the services they enable, the way in which the organization can respond to them and the possibilities they present for the organization's strategic work.

From a policy perspective, the empirical findings support recommendations directed primarily at strengthening strategic capability within commercial banks, particularly in the areas of leadership alignment, resource optimisation and technological innovation. Banking institutions should therefore incorporate these dimensions into their strategic planning, performance monitoring and institutional capacity-development programmes. Sector-level institutions, including the Central Bank of Kenya, may complement these bank-level efforts by encouraging capacity-building initiatives and industry learning programmes that strengthen strategic leadership, efficient resource utilisation and responsible technological adaptation. However, such sector-level measures should be regarded as broader policy proposals informed by the study findings rather than direct outcomes of the regression analysis, since the empirical analysis focused on the relationship between strategic capability and organisational performance at the commercial-bank level.

7.0 Implications for Theory

The results support the Resource-Based View in the Kenyan commercial banking setting. The strategic capability that is manifested in the institutional alignment of leadership, optimized use of resources and technological innovations was also highly correlated with organizational performance. The evidence thus bolsters the RBV notion of an internal organizational capabilities difference as contributing explanation for differences in performance in firms. The findings do not constitute a generalization of the theory; rather, they provide contextual evidence of the continued usefulness of RBV to explain organizational performance in an emerging-economy banking environment.

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