Competitive Characteristics on Competitive Advantage: A Case of Financial Services Sector in Kenya

Prescott B. Muhonza[1][*], Peter N. Kiriri[1] and Kefah M. Njenga[1]

[1]Chandaria School of Business United States International University – Africa
Corresponding Author's E-mail: prescott.muhonza@gmail.com

Abstract

This study aimed to determine the influence of competitive characteristics on the competitive advantage of firms in the financial services sector in Kenya, that is, banking, microfinance, and savings and credit societies institutions, using the resource-based theory. The study targeted 1356 members in the financial services sector. From the population, a sample of 340 staff members was targeted using the Yamane formula, factoring in a 10% non-response error, and data was collected using a closed-ended questionnaire. The descriptive statistics used were mean, standard deviation, and percentages, while the inferential statistics used were factor analysis, correlation coefficient, analysis of variance (ANOVA), and regressions analysis. The response rate was 92%. The study found out that competitive advantage had a positive and significant correlation with the competitive characteristics constructs; agility r (306) =.592, p<.05; competitive forces, r (306) =.540, p<.05; dynamic capabilities (306) =.587, p<.05. On the regression, the competitive characteristics constructs had a significant influence on competitive advantage: agility (β = .287 t = 5.157, p<.05); competitive forces (β = .248 t = 4.878, p<.05); and dynamic capabilities (β = .286 t = 5.201, p<.05). This shows a change of dynamic capabilities by a unit influenced competitive advantage by .286. From these results, agility had a higher influence on the competitive advantage with a Beta of .287 followed by dynamic capabilities with a Beta of .286, and lastly, the competitive force with a Beta of .248. On the hypothesis test, the study found out that competitive characteristics have a significant influence on the achievement of competitive advantage (β = .687 t = 16.472, p<.05) hence rejected the null hypothesis of the study. The study recommends that managers should consider agility as a predominant principle guiding strategic and operational activities in the business environment on competitive characteristics.

Keywords: Competitive Characteristics, Competitive Advantage, Agility, Competitive Forces, Dynamic Capabilities

Introduction

Competitive characteristics speak to the innate attributes of a firm that enables it respond to the market dynamics as they evolve through innovative and differentiating responses (Gupta & Randhawa, 2008). According to Swab and Johnson (2019), competitive characteristics form the basis of a firm's disposition in competing with other firms in the business environment. This is a source of competitive advantage. With regard to competitive advantage, Barney (1993) describes competitive advantage as a firm's ability to outperform its competition by translating its competitive strategy favorably in the industry relative to the competition. It is a

superior performance relative to rival firms in the same industry or superior performance relative to the industry average resulting from differentiation, cost advantage (Porter, 1985).

The success of a firm in the competitive business environment requires an understanding of the business environment and its competitors so much so that Payne (2012) posits that firms ought to carry out a critical evaluation of the industry and the firm's competitive environment, which includes an assessment of both existing and potential competition. The changing competitive landscape has occasioned profound competitive and technological implications for most businesses (Kaleka & Morgan, 2017). Mostafa (2015) points to a new fiercely competitive environment where customers have so much choice and so much power, which if not properly harnessed, can sway the fortunes of the organization. Organizations need to appreciate this competitive environment by developing competitive characteristics that influence their ability to create value as it thrives to charm and retain customers in the present and the future (Payne, 2012). In creating this competitive stance, it is imperative for firms to continually learn about their customers and innovate new ways to provide them with ever-greater value to remain relevant and competitive. The ability of a firm to be agile, an understanding of the competitive forces and dynamically utilize resources both internal and external is a significant source of competitive advantage (Ju, Park & Kim, 2016).

In formulating strategy, an organization should develop a course of action sufficient to the attainment of specific objectives that are considered mandatory if the organization successfully competes in the marketplace (Shujahat *et al.*, 2017). These strategies must be flexible enough to adjust to the reactions of competitors, suppliers, employees, and others both inside and outside of the organization. This inbred flexibility is what makes the strategy source of competitiveness, making an organization more proactive rather than reactive to the uncertainty and change prevalent in the global marketplace.

As described by Chen (2018), competitive advantage is linked to firms that have achieved a dominant position caused by their target market product or service offered perceived to be better than that of its competitors. It consists of managerial decisions and actions which result from the firm achieving superior performance compared to its competitors. Competitive advantage can be obtained by leveraging knowledge gained from customers, customer expectations, behavior, and preferences. The knowledge obtained from the interaction with the customer cannot be easily imitated and becomes a competitive advantage.

Enterprises are clamoring to create and maintain long-term competitive advantage and market reach by focusing on developing products and services that promote interdepartmental collaboration reaching out to internal and external stakeholders (Hsu, 2016). By forming strategic partnerships and collaborations, some companies, realizing the shift of power towards customers, accord customers a say in determining the solution developed for them through a co-creation platform as a strategy to gain competitive advantage (Anna & Katarzyna, 2018). This partnership brings forth a collaborative or interactive engagement between the customers and the suppliers, otherwise known as a co-creation engagement (Prahalad & Ramaswamy, 2004).

Kaleka and Morgan (2017) posit that the changing competitive landscape has occasioned profound competitive and technological implications for most businesses. Organizations need to appreciate this new environment impacting their ability to create value as it thrives to charm and retain customers in the present and the future (Payne, 2012). It is thus imperative for firms

to continually learn about their customers and innovate new ways to provide them with ever-greater value. Mostafa (2015) points to a new fiercely competitive environment where customers have so much choice and so much power. In this environment, the capacity to learn and act fast is increasingly a significant source of competitive advantage (Payne, 2012).

The financial services sector is very competitive as each service provider in the financial service space continues to expand its products and services to attract new customers and retain its existing client base (Marike et al., 2020). This competitive and vibrant character of firms in the financial sector (banks, insurance, SACCOs, and microfinance) is driven by the intensity of change in the face of technological advancement, changing customer behavior, and evolving regulatory environment (Aldiabat, Al-Gasaymeh, Sardar & Rashid, 2019).

The financial system forms the heart of any country's development, and an effectual provision of financial services influences the economic growth and prosperity of a country (Otchere et al., 2017). This sector provides employment and income generation opportunities, savings and investment, wealth accumulation, and loan provision, making the sector a crucial fragment of a country's economy and business environment (Freytag & Fricke, 2017). As alluded by Sutton and Jenkins (2007), the strength and agility of financial sector institutions are important for Africa since an efficient provision of financial services that foster the expansion and competitiveness of local companies aims at participation in regional and international markets.

The financial sector in Kenya comprises banking, insurance, capital markets, pensions, and Sacco societies industry and unregulated financial services providers and is augmented by a vibrant financial markets infrastructure that facilitates payments, settlement, and safekeeping services (Central Bank of Kenya, 2020). The adoption of FinTechs and digital technology has transformed the sector in terms of products and services through innovations enabling the rollout and delivery of critical services into the Kenyan economy (Ndungu, 2019). The complexity of the financial sector has resulted in the establishment of non-operating holding companies to manage the operations of these complex entities. All this transformation and growth in complexity has brought efficiency and synergies in resource use and profit maximization for organizations in the sector (Central Bank of Kenya, 2020).

Kariuki (2015) espoused that the Kenyan financial sector is bank-led, where top tire commercial banks have departments that deal in investments, insurance, microfinance, custodial services, private equity ventures, and long-term ventures with capital markets authority. Microfinance institutions provide financial capital to individuals at the local level, resulting in increased entrepreneurial activity, promoting economic growth (Ndungu & Moturi, 2020). According to Ndungu and Moturi (2020), these microfinance organizations utilize digital technology innovations adapting their business strategies to enhance their market share and promote financial inclusion. Savings and Credit Co-operative Societies (SACCOS) are financial institutions operating as co-operatives societies that meet the everyday needs of their members through savings mobilization, loans, and financial advisory services (Auka & Mwangi, 2013). SACCOs offer similar products with other financial institutions such as commercial banks, although they are preferred for low-income households who find it difficult to access credit from banks (Odhiambo, 2019).

This present study focuses on the competitive characteristics and competitive advantage of firms in Kenya's financial services sector, focusing specifically on banking, microfinance, and savings and credit societies institutions in Kenya. These financial sectors are under the central

bank of Kenya and the Sacco Societies Regulatory Authorities. In total, there are 42 banking institutions in the banking sector, 12 microfinance institutions, and 147 savings and credit societies as per the listing obtained from the Central Bank of Kenya (2019) and Sacco Societies Regulatory Authorities (2020), respectively.

Theories of Competitive Advantage
The term competitive advantage is likened in various journals to sustainable competitive advantage or economic rent (Barney & Clark, 2007). Peteraf and Barney (2003) described competitive advantage as an organization's aptitude to invent more economic value than its competitors in a particular industry. It is that know-how possessed by a firm that competitors find challenging to imitate, ensuring the firm stays ahead of the present and emerging competition. Garrett Jr and Covin (2013) describe the importance of firm knowledge in enhancing corporate performance. According to Dierickx and Cool (1989), accumulated knowledge represents an asset stock helpful in delivering competitive advantage.

Resource-Based View (RBV)
The firm is considered a bundle of resources and capabilities. These two components are what the firm manipulates to provide the basis for firm strategy as well as the primary source of profit to the firm (Grant, 2016). The firm converts these resources and capabilities into aspects that create strategic advantage if they are specific to the firm and not effortlessly imitable (Lockett et al., 2009). These resources and capabilities are constituted of physical, financial, human: tangible and intangible assets and premised on the Resource-based view, these resources are valuable, rare, inimitable, and non-substitutive, termed VRIN (Barney, 1991; Lockett *et al.*, 2009).

According to Grant (2015), the resource-based view recognizes the firm as a unique bundle of personal or individualized resources and capabilities managed by the management of a firm to maximize value through their optimal deployment and developing its resource base for the future. The resource-based view (RBV) focuses on explaining how firms internally generate competitive advantage by specifically addressing two central ideas of path dependence and heterogeneity of resources (Lockett, 2013). Bertels and Herko (2011) further assert that the theory is premised on the absence of homogeneity of somewhat immobile resources.

According to Barney and Clark (2007), RBV has its roots in classical economics and sociology theories. The journey to developing the theory of RBV commenced with the works of Penrose (1959), who questioned the role of resources and how the resources can be applied to firm growth. She argued that as firms grow, they acquire new resources, and it is possible to combine the new resources with existing resources to create new value (Penrose, 1959). She mentioned that firms should be viewed as administrative units that connect and coordinate the actions and activities of numerous groups of individuals within the firm. These are a bundle of productive resources that could vary from one firm to the next, making them heterogeneous regardless of being in the same industrial cluster (Barney & Clark, 2007).

According to Barney and Clark (2007), probably the premier publication directly addressed the subject of Resource-based theory was by Wernerfelt (1984) and Mahoney (1995). Wernerfelt (1984), in his writing, employed the duality concept of product or service and resources in discussing the relationship between resources and the product or service that results from their utilization to generate competitive advantage. He introduced resource specificity and context, suggesting that strategic actions need specific assembly of physical, financial, human, or

organizational resources, and in this, a firm's competitive advantage is established by its ability to obtain and guard the resources at its disposal (Lockett *et al.*, 2009; Barney & Clark, 2007; Wernerfelt, 1984). Mahoney (1995), on the other hand, while still discussing resources, focused on strategic theories that make a firm more efficient in generating economic value over other organizations, developing attributes that would be associated later with resource-based theories. That is the heterogeneity and inimitability of resources that generate superior value. Barney (1986)while arguing for superior performance based on resource attributes moved beyond Wernerfelt (1984) discussion to argue that it is the resources that a firm control that is the source of superior performance, which was agreed upon and extended by Dierickx and Cool (1989).

According to Talaja (2012), the value of resources is engrained in its ability to neutralize threats and enable the company to exploit the opportunities that arise in a business environment. Resources are valuable when they enable a company to design and implement strategies that improve its efficiency and effectiveness. The rareness of resources means that competitors have no or limited access to a particular resource (Talaja, 2012). Valuable resources are accessible to all cannot be a source of competitive advantage, and to achieve a competitive advantage, resources have to be rare and treasured (Barney & Clark, 2007).

Barney (1991) states that capabilities and resources possess three distinct features that make them difficult to imitate. They are historically determined, socially embedded in the organization, and tacit. Resources are distinguished from capabilities regarding traceability and the extent to which they relate to individual agents (Foss & Eriksen, 1995). Resources are always traceable and tied to the individual, while capabilities are not traceable and do not have to be attached to individuals.

According to Lockett *et al.* (2009), RBV is a prominent core theory in strategic management and requires limited minimal assumptions about the nature of strategy behavior as it is a theory based on the firm's nature. These two assumptions are the central tenets of path dependency and firm heterogeneity. According to Kraaijenbrink, Spender and Groen (2010), firms focus on resources as a significant component with a rather simplistic view of firm resources as a fundamental constituent of the firm. This view negates the holistic and emerging theories that liken a firm to an organism with complex feedback and controlled mechanisms as it is focused on maintaining boundaries.

Kraaijenbrink *et al.* (2010) professed some critique of the RBV theory. RBV lacks managerial implications or operational validity because RBV directs managers to obtain and develop VRIN resources to develop an appropriate organization without mentioning how this should be done. RBV implies an infinite regress of resources (ad infinitum), leading firms to an endless search for limitless capabilities. RBV applies some level of generalization, assuming that its applicability is limited to large firms with significant power, negating the influence of smaller nimble firms, and assumes that RBV works for firms that only strive to achieve sustainable

competitive advantage. Sustainable competitive advantage cannot be achieved because, as asserted by Acquaah (2003), the advantage is temporal, and organizations must continuously evolve with changing circumstances.

Inimitability is invariably compromised, so a firm must keep innovating as the competitive environment and profitability are exposed continuously to competitors, substitutes, supply, and buyer power. RBV does not address itself to why firms exist, why their boundaries and internal organizations are as they are, and why firms are better at generating economic rent than others; hence, are not a theory of the firm. The VRIN model is neither essential nor is it sufficient for enduring competitive advantage. Armstrong and Shimizu (2007) argue that other factors, in addition to VRIN, must be considered when explaining sustainable competitive advantage and therefore makes RBV insufficient. The worth in a resource is too ambiguous to provide beneficial concepts. RBV is not a valid theory and does not contain law-like generalizations that must be expected (Lockett *et al.*, 2009). The definition of a resource is impracticable because there is no dissimilarity between resource input to the firm and capabilities that enable the firm to select, organize and deploy such inputs (Kraaijenbrink *et al.*, 2010).

The resource-based theory brings the firm to assess the value and importance of resources alongside the resources' readiness (Barney *et al.*, 2001). Competitive advantages are attributable to the resources of a firm, and the firm should understand which resources are unique in nature and are not available to their competitors, are non-substitutable, as these are what provides more benefit to the firm over competitors who are not able to counter the same expectation that the firm creates in the market (Wernerfelt, 1995).

Firm agility, understanding of competitive forces and an organization's dynamic capabilities are according to Payne (2012), considered key resources in driving the competitiveness of a firm. Sustaining success, therefore, will depend on an organization's agility, recognizing the need to evolve its configurations as conditions evolve is a resource that enhances competitive advantage (Lengnick-Hall & Beck, 2016). Additionally, a grasp of the industry's competitive forces can significantly help an organization take a strong position in the industry and make it less vulnerable to competitor action enhances an organization's competitiveness (Pervan et al., 2017). Finally, according to Ju *et al.* (2016), dynamic capability enables firm integrate reorganize its internal and external resources to meet the demands of the competitive environment and in so doing enhance its competitive position in the business environment.

As competitive advantage is about the utilization of firm resources to gain a strategic advantage over rivals, this study looks at the organization's resources and more specifically the attributes of agility, competitive forces and dynamic capabilities of a firm that are beneficial for accentuated performance and success of competitive advantage within the firm and help in the management of resources effectively. Therefore, the resource-based view is a vibrant concept that enables the firm to act, enact, and operate as per its internal and external resources to gain a competitive advantage.

Conceptual Review

Agility

Competitive Forces

Dynamic Capabilities

Competitive
Advantage
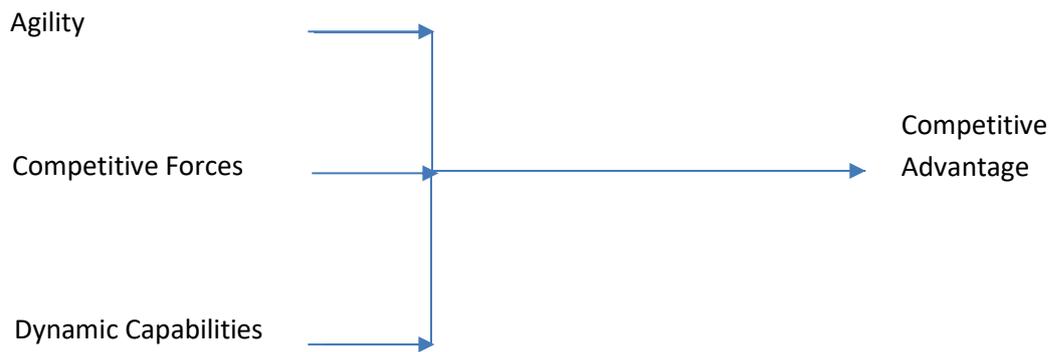
Agility
Strategic agility and resilience capacity give an organization the preparedness to handle changing environmental conditions, restore their verve through the shocks in the business environment, and become more dexterous due to the experience (Lengnick-Hall & Beck, 2016). The ability to exercise resilience in organizational capacity assists firms in maneuvering through different forms of strategic agility and adequately respond to the shifting environmental conditions making the firm more competitive in the industry (Lengnick-Hall & Beck, 2016).

Singh *et al.* (2013) posit that in response to environmental changes, strategic agility constitutes two dimensions: the scale of helpful variety to accord flexibility; and the rate of varieties generation (speed of generation) in the organization's product and service offerings. The speed and volume of information that can be transmitted electronically continue to increase, providing an abundance of delimitations to the volume and richness of information that can be swiftly transmitted (Payne, 2012). Sustained success depends on an organization's ability to select the best form of agility for existing strategic purposes and recognize the need to evolve its configurations as conditions evolve (Lengnick-Hall & Beck, 2016). With the increased intensity of competition and the speed of adopting new technologies, an organization must embrace continuous strategic stances to remain relevant and retain its competitive advantage (Appelbaum, Calla, Desautels & Hasan, 2017).

Concerning learning, Shin, Lee, Kim and Rhim (2015) avers that organizational learning encompasses the creation, adaptation, and replication of knowledge and accumulates knowledge over time. Integration of the internal knowledge base and organizational learning enhances organizational effectiveness through experience-based improvement in task performance. Likewise, strategic agility requires economies of knowledge through enterprise-wide learning with skilled people (Shin *et al.*, 2015). Agile organizations rely on employees with technical skills, and knowledge workers are alert to opportunities and challenges to adapt their businesses in a timely and flexible manner. Thus, organizational learning's augmentation by empowering employees through flexible working conditions would be essential for strategic agility. Knowledge-intensive organizations are the ones that are repeatedly creative, versatile, and excellent in problem-solving (Shin et al., 2015).

The volume and speed with which information is transmitted between companies and their customers facilitate individualized or customized dialogue. The organization can engage and modify its product and service offer that is suitable for the specific needs and profiles of its

customers (Ramaswamy, 2008). To achieve such interactivity between the company and its customers, the firm needs to be able to respond to the information that is provided by customers, taking advantage of its agile response at the speed with which volumes of market intelligence data can be collected from customer interactions to guide a continual review and adaptation of the services it offers, to meet its chosen customers' needs better than its rival organizations (Payne, 2012).

Appelbaum *et al.* (2017) asserted that organizational agility undertakes to bridge the relative indolence gap that may exist between the speed of organizational learning and the speed of environmental change. Many organizations have grown complacent due to long-standing market dominance, but to effectively implement the strategic mission and foster long-term competitiveness in the increasingly fluid environment, organizations have to morph into highly adaptive, flexible, learning organizations (Meredith & Francis, 2000).

Competitive Forces
Porter (1980) developed a model framework for analyzing and understanding the influence of an industry's structure on the profit potential of the firms within the industry, becoming one of the most important contributors to the strategic discipline (Pervan *et al.*, 2017). Hawawini, Subramanian and Verdin (2003) indicated that the industries' operational attributes are the principal determinants of organizational performance. Awareness of the industry's competitive forces can significantly help an organization take a strong position in the industry and make it less vulnerable to competitor action (Pervan *et al.*, 2017).

According to Porter (1980), the competitive environment in an industry is determined by five forces: the threat of new entrants, the threat of substitute products or services, the bargaining power of customers, the bargaining power of suppliers, and the rivalry among players in the industry. The coalesced potency of these five forces is useful for defining the future profitability potential of a firm in the industry and becoming very important in strategy formulation (Grigore, 2014). More specifically, when the industrial rivalry is not strong, companies have the ability to raise prices and hence earn higher profits. Likewise, the larger the bargaining power of customers/suppliers and the more significant the threat of new entrants, the lower the firm's profitability. Finally, if the substitution of a company's products or services is relatively easy and of low cost, then its power can be weakened, and the firm's profitability can be reduced.

As noted by Grigore (2014), the industry's structure, manifested in the competitive forces, sets industry profitability in the medium and long term. Porter's competitive strategy's ultimate function is to explain the sustainability of profits against bargaining and against the direct and indirect competition (Porter, 1980). Huang, Dyerson, Wu, and Harindranath (2015)support the argument that a firm's strength of competitive environment and awareness of competitive forces enhance the firm's competitive position but temporarily argue that the competitive advantage resulting from entry barriers or market concentration is temporary.

Intensive competition influences the firm's strategic process and hence determines its achievement and purpose; therefore, an organization's survival and success can be achieved if the firm has the responsive capability to create and align its strategies to the environment (Umelue & Akwaeze, 2019). This is influenced by both the internal environment and the external competitive business environment. Rapid technological change, easier entry by foreign competition, and the accelerating breakdown of traditional industry boundaries subject

firms to new unpredictable competitive forces. Hence, a firm needs to be a learning organization in the dynamic marketplace to meet customer needs appropriately.

The combination and choice used by companies for value creation will depend on each company's specific circumstances. However, of absolute importance to all these firms is the need to be continually learning about its customers, inventing novel tactics of imparting them with increased value (Payne, 2012). The new fiercely competitive environment in which customers have an abundance of choice and extensive power requires the capacity to learn and act with agility as the foremost source of competitive advantage (Payne, 2012; Singh, Sharma, Hill & Schnackenberg, 2013).

Dynamic Capabilities
Ju, Park, and Kim (2016) describe dynamic capability as an organization's capability to integrate and reorganize its internal and external resources. By implementing the dynamic capabilities, an organization can create enterprise values such as operational performance, management innovation, and sustainable competitive advantage. Dynamic capabilities are implemented in business environments where dynamic capability is required for an organization to remain sustainable (Ju *et al.,* 2016).

As espoused by Lengnick-Hall and Beck (2016), an organization's buoyancy capacity secures its ability to take situation-specific, sturdy, and transformative actions when confronted with unforeseen, formidable events with the potential to endanger an organization's long-term survival. Strategic agility is a complex construct that can take numerous forms yet still seize an organization's ability to develop and quickly apply flexible, nimble, and dynamic capabilities (Vagnoni & Khoddami, 2016).

A firm has to be a learning organization, with the ability to proactively respond to changes within the competitive global market, to capture and adapt information so gained quicker than its competitors, to stand a better prospect of achieving and maintaining superiority over them concerning its ability to meet its chosen customers' needs. Becoming an agile organization is not an easy task, as it is a never-ending journey (Meredith & Francis, 2000).

Allen, Chandrasekaran and Basuroy (2018) suggest that early involvement in new product design and development (NPD) empowers potential consumers while at the same time enabling entities to attract more participants overall and more diverse participants to the idea generation process. Knowledge obtained from external sources sometimes transcend opportunity identification and extends into opportunity exploitation (Foss, Lyngsie & Zahra, 2013)

The dynamic capabilities approach, which is an expansion of the resource-based view (Ambrosini & Bowman, 2009), is an approach seeking to explain the firm's ability to outperform its competition as the firm successfully weaves its way into a state that the sustainable competitive advantage and performance (Pervan *et al.*, 2017). As Breznik and Hisrich (2014) adduced, dynamic capabilities enhanced by innovation capabilities become a competitive advantage when the organization can renew its resources as its external environment changes. Further, the capabilities that are important for competitiveness and improved performance encompass an organization's proficiency to detect and capture opportunities and the inherent capability to redesign the firm's resources (Pervan *et al.*, 2017).

As stated in the dynamic capabilities approach, possessing the VRIN (valuable, rare, inimitable, and non-substitutive) components in a resource without rejuvenating them will not

result in superior performance (Ambrosini & Bowman, 2009). Dynamic capabilities, therefore, are the firm's behavioral focused ability to integrate, reconfigure, rekindle, and recreate its resources and capabilities and, most critically, elevate and reconstruct its core capabilities in retort to the mutating environment to attain and sustain competitive advantage (Wang & Ahmed, 2007). The organization can assimilate, construct, and reconfigure internal and external competences to address rapidly changing environments that constitute dynamic capabilities (Breznik & Hisrich, 2014).

According to Breznik and Hisrich (2014) and Wang and Ahmed (2007), there are three critical components of dynamic capabilities: adaptive capability, absorptive capability, and innovative capability. Adaptive capabilities represent the capability of an organization to identify and take advantage of the market opportunities. Once the new opportunities and information have been identified, organizations should assimilate and exploit them, denoting the absorptive capability. Zahra and George (2002) defined absorptive capacity as a dynamic capability that inspires the organization's ability to generate and employ the knowledge necessary to build additional organizational capabilities. Innovative capability depicts the organization's capability to develop new products and markets (Pervan *et al.*, 2017).

As described by Breznik and Hisrich (2014), dynamic capabilities are divided into three components. The first one, adaptive capability, is the capacity to sense and shape opportunities and threats, denoting a detailed scanning, creation, learning, and interpretive environment undertakings (Pervan *et al.*, 2017). This approach includes a broader view of the organization's environment, incorporating the business network, including the group of stakeholders such as buyers, suppliers, labor market, competitors, and complements, financial, educational, and research institutions, and regulators (Teece, 2007). There are vast opportunities in the business environment worth scanning in the ecosystem that is primarily connected to the markets and technologies that can be tapped into to analyze customer changing needs and innovations, suppliers, and competitors (Pervan *et al.*, 2017). Without these activities, the organization would not be able to recognize the opportunities that are visible and being exploited by firms in the business environment (Teece, 2007).

The second component of dynamic capabilities has to do with seizing opportunities and involves addressing the sensed opportunities through new products, services, or processes, which requires the mobilization of resources, such as finance and human resources, investment in development, and commercialization (Teece, 2007). This is the ability to take and execute the right decisions and requires a strategic leader with the ability to craft and execute the vision to ensure the proper organizational alignment, gather and allocate resources, and timing (Pervan *et al.*, 2017).

The third aspect of the Teece (2018) model of dynamic capabilities is transformation, which involves maintaining competitiveness by boosting the organization's transformative, combining, protective, and re-configurative ability of its tangible and intangible assets in its operating capabilities (Teece, 2007).

There are several ways dynamic capabilities can influence organizational performance. Agile and flourishing organizations can recognize and evaluate opportunities related to markets and technologies and further design new products and business models that can result in profitability and earn the firm competitive advantage (Pervan *et al.*, 2017). Adapting and shaping resources to the fluctuating business environment can enhance firm profitability by

improving the efficiency of the organization's reaction to environmental verve, which has a positive effect on organizational performance (Pervan *et al.*, 2017). Dynamic capabilities enhance inter-firm performance and provide new decision options that could generate higher profitability (Wilden, Gudergan, Nielsen & Lings, 2013).

Research Methodology
The research adopted a positivism philosophy. The researcher developed a scientific approach to the research using deductible reasoning to idealize the theories promulgated. The research design applied in this study was descriptive research. The population 1356 for this study was derived from the financial services sector, with the unit of analysis being the firms that operate in the financial service sector: institutions in the banking sector, microfinance institutions, and savings and credit societies as per the listing obtained from the Central Bank of Kenya (2019) and Sacco Societies Regulatory Authorities (2020), respectively. The justification for the use of financial institutions was the study's relevance to the sub-sectors and ease of access to these institutions. Additionally, the choice of sample frame was ideal because they represented the interests of the sector of choice in Kenya on the subject of interest in the study.

The probability sampling technique using a multi-step sampling technique divided into three steps was applied. Stratified random sampling technique was used to select firms from the three stratus, banking institutions, microfinance institutions, and savings and credit societies institutions. This stratification was done because it was perceived that the different strata have internal homogeneity within the subgroups (Singh & Masuku, 2014). The proportionate sampling technique was used to obtain the total number of managers involved in the study from each stratum based on the total number of managers in the population, ending up with 1356 managers. This informed the number of managers who participated in the study—simple random sampling to select the managers who participated in the study in four departments. Simple random was employed to avoid biases in selecting the respondents who were present at the time of data collection. Using Yamane's (1967) formula, the sample size was determined at 309 respondents, and this was adjusted by an additional 10% to cater for non-responses due to the COVID-19 restrictions, to make 340 respondents.

A five-point Likert scale questions ranging from 'strongly agree' to 'strongly disagree.' questionnaire was used to collect the primary data using the cross-sectional technique. To validate the research, a pilot study was conducted to ensure data collection instrument reliability using the Cronbach's coefficient alpha to measure the reliability of the 5-point Likert scale questions establishing general reliability (combined factors of .980 showing the questions asked were reliable the study. Data analysis was done using Statistical Package for Social Sciences (SPSS) for analysis. Before data analysis, the Normality test, Linearity test, Multicollinearity test, and the Homoscedasticity tests were conducted to ensure the data fit the required statistical assumptions in answering the research objectives. The inferential analysis used in this study consisted of factor analysis, correlation analysis, Analysis of Variance (ANOVA), and Linear Regression.

The regression model was derived from the model summary table to ascertain the significance and percentage at which DV influences IV. The ANOVA table showed if the regression is the best model to answer the study hypothesis, and lastly, the coefficient table shows the Beta level and the values for the equation (sig<0.05). Multi-linear regression was used to answer the hypothesis:

H$_{01}$: Competitive characteristics has no significant influence on the realization of competitive advantage in the financial services sector in Kenya

$$Y_1 = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \epsilon$$

Where: β is a constant value; Y is the dependent variable (competitive advantage); X_a are the independent variables (agility, competitive forces, dynamic capabilities), ϵ is the error term.

Findings

As depicted in Table 1, the mean, median, and standard deviation measured the distribution of the competitive characteristics, and the results showed that four questions were rated as 'agree' with a mean value of 4, while the remaining questions were rated as 'strongly agreed' with a mean value of 5. The four questions rated as 'agreed' with a mean value of 4 were also rated as 'Agreed' based on the median value of 4. Similarly, questions rated as 'strongly agreed' with a mean value of 5 were also rated as 'strongly agreed' based on the median value of 5. This shows the managers agreed and strongly agreed on all the questions on competitive characteristics. On the standard deviation, the least value was 0.526, and the highest value was 0.639. This shows that the response (agreed and strongly agreed) on the competitive characteristics' questions had a high level of consensus among the respondents.

Table 1: Descriptive of Competitive Characteristics

		Mean	Median	Std. Dev.
C1	Strategic agility/responsiveness prepares our firm for the changing business environment	4.34	4	0.626
C2	Our firm's resilience is key to firm success	4.66	5	0.526
C3	The speed of adoption is influenced by our firm's speed of organizational learning	4.54	5	0.617
C4	Our firm's ability to learn is the foremost source of competitive advantage	4.52	5	0.595
C5	The industry structure sets the profitability potential of our firm in the industry	4.34	4	0.586
C6	Competitive forces determine our firm's competitive strategies	4.51	5	0.585
C7	Competitive forces influence the responsiveness of a firm towards direct and indirect competition	4.39	4	0.629
C8	Continuous learning of customers ensures that our firm is ready to avail increased value to the customer	4.45	5	0.577
C9	Our firm's collaborative engagements enhance the firm's capability to outperform the competition	4.41	4	0.63
C10	Our firm's ability to reconfigure its core competencies enables it to attain and sustain competitive advantage	4.5	5	0.59
C11	Our firm's ability to assimilate and exploit the new opportunities is a source of competitive advantage	4.51	5	0.573
C12	Our firm is swift at sensing opportunities arising from the changes in the business environment	4.45	5	0.639
C13	Our firm can transform ideas into workable solutions to create a competitive advantage	4.55	5	0.582
C14	Our firm designs new products for the mutual benefit of all the stakeholders	4.59	5	0.561

The factor analysis was performed to determine the sampling adequacy's strength, identify the total variance explained, and extract the pattern matrix that informed the viability of constructs

included in the study. The output of Kaiser-Meyer-Olkin (KMO) value was .908, with significant ($p<.05$) Bartlett's test of Sphericity at X^2 (91, N=312) = 1572.856, $p<.05$. This output shows the competitive characteristics factors were adequate for extraction since the KMO was greater than 0.5 and the Bartlett's test was significant ($p<.05$).

Table 2: KMO and Bartlett's Test on Competitive Characteristics

Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		.908
Bartlett's Test of Sphericity	Approx. Chi-Square	1572.856
	df	91
	Sig.	.000

The Eigenvalue of >1 extracted three components with a cumulative variance of 57.668% accounted for by each component to the variables. The components extracted for further analysis were agility, competitive forces and dynamic capabilities. The average of the component value of the transformed data had a stronger component of .732 which was higher than the least factor loading value of .609. This shows that the factor loading that informed the pattern matrix were stronger.

The correlation matrix shows the the relationship between the independent variable parameters derived from the factor matrix and also between the independent variable parameters or latent variables and the dependent variable. As shown in Table 2, there was a positive and significant correlation between the competitive characteristics parameters: agility correlated with competitive force r (310) = .516, $p<.05$, agility correlated with dynamic capabilities r (310) = .618, $p<.05$. Similarly, competitive forces significantly correlated with dynamic capabilities r (310) = .498, $p<.05$. This shows an increase in any of the competitive characteristics sub-variables have a positive and significant influence on other competitive characteristics parameters.

Similarly, there was a positive and significant correlation between the dependent variable and the independent variables parameters. Competitive advantage correlated with agility r (306) =.592, $p<.05$; competitive forces, r (306) =.540, $p<.05$; dynamic capabilities (306) =.587, $p<.05$. This shows that an increase in competitive advantage has a positive and significant influence on the competitive characteristics parameters.

Table 3: Correlation Matrix on Competitive Characteristics on Competitive Advantage

		Agility	Competitive Forces	Dynamic Capabilities	Competitive Advantage
Agility	Pearson Correlation	1			
	Sig. (2-tailed)				
	N	311			
Competitive Forces	Pearson Correlation	.516**	1		
	Sig. (2-tailed)	.000			
	N	310	310		
Dynamic Capabilities	Pearson Correlation	.618**	.498**	1	
	Sig. (2-tailed)	.000	.000		
	N	310	310	310	
Competitive Advantage	Pearson Correlation	.592**	.540**	.587**	1
	Sig. (2-tailed)	.000	.000	.000	
	N	306	306	306	306
**. Correlation is significant at the 0.01 level (2-tailed).					

Different diagnostic tests were conducted to determine the type of regression used in answering the research hypothesis. These diagnostic tests were guided by the statistical regression assumptions that included; Normality test, Linearity test, Multicollinearity test, and Homoscedasticity. The results were as follows:

Normality test on competitive characteristics was tested using the One-sample Kolmogorov-Smirnov Test and produced a result of M=4.49, SD=.386 with minimal difference in the values. The deviation from the normal was not significant (p>.05), indicating the data on competitive characteristics was normally distributed.

Multicollinearity test was conducted using the Variance Inflation Factor (VIF) to determine if competitive characteristics and competitive advantage were highly linearly related or high correlation produced a result of VIF value of 1 which shows the absence of multicollinearity.

The linearity test was conducted using the analysis of variance (ANOVA) to determine if the function of the independent and dependent variable lies on a straight line or the line of best fit whose point of intercept gives Y-intercept value. As shown in Table 3, competitive characteristics has a significant and positive linear relationship with the competitive advantage ($p<.05$). Further, the deviation from linearity was not significant ($p>.05$); hence competitive characteristics and competitive advantage were linear.

Table 4: Linearity Test on Competitive Characteristics and Competitive Advantage

			Sum of Squares	df	Mean Square	F	Sig.
Competitive Advantage * Competitive Characteristics	Between Groups	(Combined)	30.382	102	.298	6.088	.000
		Linearity	19.012	1	19.012	388.620	.000
		Deviation from Linearity	11.369	101	.113	2.301	.051
	Within Groups		9.931	203	.049		
	Total		40.313	305			

The homoscedasticity checks for the constant variance of the standardized residuals showed that the predicted values form a pattern between the values of -2 to 2 of the regression standardized residuals. This shows that the competitive characteristics as an independent variable is not homogenous.

Regression Model - Influence of Competitive Characteristics on Competitive Advantage
The statistical assumptions that included; Normality test, Linearity test, and multicollinearity test were positive. Further, there was a positive and significant correlation between the competitive characteristics and the competitive advantage. The competitive characteristics variable passed the statistical assumption for the linear regression analysis; hence the linear regression was selected to test the research hypothesis:

H_{01}: Competitive characteristics has no significant influence on the achievement of competitive advantage in the financial services sector in Kenya

The output of the linear regression model had three tables, each discussed as follows:

Table 5 shows the model summary output. The model summary shows the degree to which the independent variable influences the dependent variable and if the influence is significant. As

presented in Table 4, the degree to which competitive characteristics influence the competitive advantage was statistically significant, $R^2 = 0.472$, F (3, 302) =90.065, p-value <.05. This shows, 47.2% of competitive advantage can be attributed to competitive characteristics. This means that the competitive characteristics predictors: agility, competitive forces, and dynamic capabilities explained 47.2% of competitive advantage in the financial services sector in Kenya.

Table 5: Model Summary on Competitive Characteristics and Competitive Advantage

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics				
					R Square Change	F Change	df1	df2	Sig. F Change
1	.687[a]	.472	.467	.26543	.472	90.065	3	302	.000
a. Predictors: (Constant), Dynamic Capabilities, Competitive Forces, Agility									

Table 6 shows the regression ANOVA output. The regression ANOVA determines if the model used is the best to answer the study hypothesis. As presented in Table 5, competitive characteristics had a significant influence on competitive advantage *F* (3, 302) = 90.065, *p*<.05). This shows that the regression model used was suitable for predicting the outcome variable on how competitive characteristics influence the competitive advantage.

Table 6: ANOVA Table on Competitive Characteristics and Competitive Advantage

Model		Sum of Squares	df	Mean Square	F	Sig.
	Regression	19.036	3	6.345	90.065	.000[b]
1	Residual	21.277	302	.070		
	Total	40.313	305			
a. Dependent Variable: Competitive Advantage						
b. Predictors: (Constant), Dynamic Capabilities, Competitive Forces, Agility						

Table 7 shows the coefficient output of competitive characteristics parameters on competitive advantage. The coefficient indicates the Beta values of the parameters. As presented in the table, all the competitive characteristics latent variables had a significant influence on competitive advantage. The agility influenced the competitive advantage ($\beta = .287$ $t = 5.157$, *p*<.05). This shows a change of agility by a unit influenced competitive advantage by .287. Similarly, the competitive forces influenced the competitive advantage ($\beta = .248$ $t = 4.878$, *p*<.05). This shows a change of competitive forces by a unit influenced competitive advantage by .248. Lastly, the dynamic capabilities influenced the competitive advantage ($\beta = .286$ $t = 5.201$, *p*<.05). This shows a change of dynamic capabilities by a unit influenced competitive advantage by .286. From these results, agility had a higher influence on the competitive advantage with a Beta of .287 followed by dynamic capabilities with a Beta of .286, and lastly, the competitive force with a Beta of .248.

Table 7: Coefficient Table on Influence of Competitive Characteristics Parameters on Competitive Advantage

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	95.0% Confidence Interval for B	
		B	Std. Error	Beta			Lower Bound	Upper Bound
1	(Constant)	1.629	.178		9.159	.000	1.279	1.979
	Agility	.220	.043	.287	5.157	.000	.136	.303
	Competitive Forces	.195	.040	.248	4.878	.000	.116	.273
	Dynamic Capabilities	.232	.045	.286	5.201	.000	.144	.320
a. Dependent Variable: Competitive Advantage								

The general form of the regression model used was:

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \epsilon$$

Where; β_0 = constant, $\beta_2 X_2$ = competitive characteristics and ϵ = error term

$$Y = 1.629 + .287X_1 + .248X_2 + .286X_3 + \epsilon$$

Thus, the study rejected the null hypothesis H_{02}: Competitive characteristics has no significant influence on the achievement of competitive advantage in the financial services sector in Kenya and accepted the alternate hypothesis, H_{02}: Competitive characteristics has a significant influence on the achievement of competitive advantage in the financial services sector in Kenya.

Discussion
The study revealed that competitive characteristics have a significant influence on the achievement of competitive advantage in the financial services sector in Kenya.Strategic agility enables a firm to prepare and respond to environmental changes and impacts firm performance. Appelbaum *et al.* (2017) findings coincided with this study that increased organizational agility increases the ability to respond proactively to unexpected environmental changes. Additionally, results obtained by (Shin *et al.*, 2015) indicate that Korean SMEs' strategic intent toward agility positively influences their operational performance and customer retention. However, this was not the case for financial performance. The swelling intensity of competition and the speed of adopting new technologies require firms to embrace continuous strategic change to remain relevant and retain their competitive advantage. Not embark on change for the sake of change but focusing on their core competencies while having an eye open to the opportunities presenting themselves through the co-creation engagements. Management must adopt agile strategies across the entire organization that promote innovative ways to leverage existing areas of expertise to anticipate and fulfill changing customers' needs. This commitment to agility goes well beyond simply proposing new policies and procedures; it requires that management rethink and redesign organizational structures, functions, and time-honored management practices such as planning, budgeting, incentive, and measurement systems that have embedded deep within them a bias toward the status quo as they engage with customers as their strategic partners.

Tied together with agility is organizational resilience, and this study established that an organization's resilience is key to its success. This agreed with Fatoki's (2018) study which indicated a significant positive relationship between entrepreneurial resilience and individual and organizational success, and Santoro *et al.* (2018), whose findings showed that entrepreneurs' perceived resilience is positively associated with their perception of success. Singh *et al.* (2013) adduced that among the avenues for building a competitive advantage based on a firm's agility is flexibility or speed of adoption. The speed of adoption is influenced by the organization's ability to be a learning organization, as established in this study. Business managers should consider heterogeneous and widespread relationships with diverse stakeholders to maintain their competitiveness in the changing business environment and advance new solutions to ensure business success when they stumble upon adverse situations.

The firm's ability to identify and compete competitively within the organization enhances the organization's competitive performance. Pervan *et al.* (2017) revealed a statistically significant influence of both the industry's characteristics and dynamic capabilities on the firm's performance. Additionally, Huang *et al.* (2015) and Rivard *et al.* (2006) concurred with the study that industry structure influences firm performance. However, Rivard *et al.* (2006) further argued that the diminishing performance associated with environmental hostility need not impact profitability. Bayraktar *et al.* (2017) agreed with the study findings that competitive forces determine the firm's competitive strategy and firm performance. That competitive strategies lead to innovation, which, in turn, increases firm performance. Hernández-Espallardo and Delgado-Ballester (2009) insisted that firms' investment in innovation, preferably when competitive pressures are more intense. The study also identified responsiveness as a driver to remaining competitive in the business environment. Umelue and Akwaeze (2019) studied the effect of Nigerian banks' responsiveness to environmental challenges and agreed with the study findings.

Additionally, the study concluded that a learning atmosphere is a key value driver to customers, which Umelue and Akwaeze (2019) agreed with while studying Nigerian banks' responsiveness. Firms can enhance their performance by focusing on competitive strategies like cost-leadership and differentiation. Co-creation platforms allow the firm to differentiate from the competition and provide more customer-focused solutions, which is a pre-cursor to firm success. The positive relationship between innovation strategy that results from differentiation and firm performance cannot be underemphasized. Innovation also helps the firms to reduce the cost of production and delivery and enhance quality features.

Breznik and Hisrich (2014) looked at the links between dynamic capability and innovation capability to identify how they can be related through a systematic literature review. The review indicated that there are common characteristics between both fields, and although relatively new in the field of strategic management, dynamic and innovation capabilities are widely recognized as crucial to the sustained competitiveness of an organization. The study established a strong link between collaborative engagement and firm capabilities and performance on the component of dynamic capabilities. Pervan *et al.* (2017) agreed with our findings that dynamic capabilities influence firm performance. Additionally, Ju *et al.* (2016) established a link between firm capabilities positively influencing the technological innovation and operational performance of an enterprise and a competitive advantage source. For firms to develop these capabilities, management must develop their ability to sense opportunities and threats latent in the business environment accorded through the co-creation environment to succeed. Vision, too, is required to develop this relationship.

Collaboration between actors influences the relationship and performance, and this has mutual benefits to the actors. Borekci *et al.* (2014) collaborated these findings, whose findings showed a pattern between organizational performance and the relational dynamics of collaboration. They argued for co-opetition as this enhances the relationship value and performance. *Allen et al.* (2018) and Foss *et al.* (2013) further looked at the utilization of external knowledge in innovation (idea generation and product design). Allen *et al.* (2018) found that incorporating external input into product design is positively related to unit sales, and Foss *et al.* (2013) found that the use of external knowledge sources is positively associated with opportunity exploitation as established in this study.

Awareness of the firm's competitive characteristics is critical in harnessing competitive advantage against rival firms. Understanding the customer, learning customers, and innovating with the customer creates greater value for the customer. Firms require an agile stance, speed and flexibility, and an awareness of the changing environmental and business conditions. In co-creation engagements, firms are learning institutions. As learning organizations, understanding the influence of industry structure and competitive forces strongly positions the firm in the industry, making it less vulnerable to competitive action. Achievement in the industry depends on market knowledge, strategies in the market, industry and firm-specific, where industry-specific reflects market knowledge, including knowledge of customer and competitors.

Conclusion

The study identified the effect of competitive characteristics on competitive advantage for firms in the financial services sector in Kenya. The study concludes that competitive characteristics have a significant influence on realizing competitive advantage in the financial services sector in Kenya. The competitive characteristics was measured by agility, competitive forces, and dynamic capabilities. Of these factors, agility has a higher influence on the competitive advantage, followed by dynamic capabilities, and lastly, the competitive force. Also, firms' competitive characteristics are essential to generating a competitive advantage for firms in Kenya's financial services sector.

The study recommends the players of the financial sector to; first, focus on the processes important for recognizing, collecting, and analyzing information related to changes in the market (customers, competitors, and suppliers).Secondly, to develop technology and the business "ecosystem" and the ability to interpret this information to learn about the behavior of the market participants, technological opportunities and changes related to all other subjects that could affect the firm and its customers. Lastly, they should also have capabilities of sensing opportunities and threats, managerial understanding, and build their vision to achieve superior performance. Policymakers should consider agility on policies to ensure a predominant principle guiding strategic and operational activities in the business environment without monopoly. Fostering agility will be paramount in ensuring successful co-creation engagement performance.

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