

DYNAMIC CAPABILITIES AND BUSINESS NETWORK AS PREDICTORS OF SUSTAINABLE COMPETITIVE ADVANTAGE AMONG SELECTED BANKS IN NIGERIA

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ABSTRACT

This study investigates dynamic capabilities and business network as predictors of sustainable competitive advantages in Nigeria banks. The study adopts a quantitative approach. The survey research design was adopted, in which, cross-sectional data were gathered through use of questionnaire from respondents in Diamond bank plc, Lagos state, Nigeria. The research instrument was validated and the reliability test shows an average Cronbach Alpha of $\alpha = 0.811$. The questionnaire was then administered to the entire staff of Diamond bank plc. A total number of two hundred and fifteen (215) copies of questionnaire were fully completed, returned and were found usable out of two hundred and fifty (250) copies of questionnaire. The data collected were analysed using descriptive statistics, multiple regression and correlation which reveal that the overall regression model is fit with an average 0.70 adjusted r^2 . The study reveals that Nigeria banks' competitive capabilities and firms' networks have significant impact on the sustainable competitive advantage of Nigerian Banks. The study, therefore recommends that managers should also pay greater attention to the differential impacts of dynamic capabilities on business innovation strategies, as the study found that competitive capabilities can greatly enhance competitive advantage, and this can bring about increased organisational performance.

Keywords: Dynamic Capabilities; Business Network; Sustainable Competitive Capabilities; Nigeria Banks

1.0 Introduction

The concepts of dynamic capabilities, business networks and sustainable competitive advantage have thus become very important in the business arena probably because as the business environment changes, there is need to adequately respond to it, both timely and efficiently. Competitive advantage of banks in Nigeria could therefore be sustained where the firms possess the dynamic capabilities to

successfully navigate the ever-changing business environment and also develop a dyadic relationship in the industry through business networks. Consequently, having a continuous edge over competitors may be possible with the presence of dynamic resources and networking possibilities within the organization especially those in the banking industry (Teece, Pisano & Shuen,

1997). The business network approach to business asserts that rather than transacting with others on an ad-hoc basis, banks can form and develop long-term relationships within which they continuously adjust to each other. Banks on their own can develop several networks, for example, in the bankers' committee where at least the managing directors of banks meet monthly (Halle'n, Johanson & Seyed-Mohamed, 1991).

Dynamic capability differs, for example, from the operational ability to develop new products but it is the ability to reform the way the organisation develops new product with respect to product development (Zahra, Sapienza & Davidsson, 2006). It is the changing-process capabilities embedded in the ability of the firms. For example, when there is a change in government policies, in terms of the Central Bank of Nigeria's (CBN) directives to banks, the processes and procedures in the bank that allows it to quickly and effectively respond to such policies are the dynamic capabilities. It may also be the capability to correctly pre-empt or react to Government policies that directly or indirectly affect the bank. The same also goes for other environmental factors whether it is legal, technological, relational or economical. When the Treasury Single Account (TSA) was introduced by the Government, banks vary in to the directive.

Business networking could allow banks to quickly recognize their business environmental changes from their relationship with others, while dynamic capabilities may ensure effective response to these changes. Many researches on these variables have been undertaken globally, especially in well-developed economies with much focus on the manufacturing sector with less attention on the organized service sector such as the banks. It is for this reason, among others, that this study has been undertaken to explore the relationship between dynamic capabilities,

strategic business network and sustained competitive advantage in the Nigerian banking industry.

Sustainable competitive advantage may be described as the long-term outperformance of a bank over its closest rival in the banking industry in terms of profitability, market share, quality employees and stakeholders' satisfactions among others. Competitive advantage, unlike sustainable competitive advantage, can be viewed as the value that an organization is able to accumulate to be able to ensure distinction from its competitors (Dubé & Renaghan, 2009). The value that is created by a bank could be measured by the price customers are willing to pay for its particular service (Passemard & Kleiner 2000). Therefore, if bank customers perceive that the service is producing the required benefits, they will purchase that service, and, more importantly, will continue to do so over time (Wood, 2004).

The bank's possession and emphasise on dynamic capabilities and its business network could ensure the continuous patronage of customers for a long time. Hitt, Bierman, Shimizu & Kochhar (2001) view competitive advantage and sustainable competitive advantage, as more or less synonymous. This strategy may be result of the management of the bank's dynamic capabilities and business network. For this advantage to be competitive, it should be a strategy whose benefits cannot be copied or which would simply be too expensive to copy.

Today's business environment, unlike ever before, is faced with massive and rapid changes in the environment that could affect the practices and decisions of bank managers (Adebisi, 2013). Managers are now provided with much information and choices, as a result of the advent of the internet and communication technology, which now makes it effective decisions complex and difficult to

make from the whole gamut of the information space.

The inability of Nigeria banks to mitigate and possibly remove unexpected obstacles in the business environments may be an area for serious concern. If there is sudden change for example in Central Bank of Nigeria's (CBN) policies in the monetary and fiscal terms, the Nigerian banks may not be able to effectively sustain their competitive advantages, locally and internationally, as a result of these policy changes. In this area, there is also paucity of investigation on the way and the speed with which managers in Nigeria respond to these changes vis-a-vis its effect on the level of banks competitiveness. In Nigeria, this may also be a major cause for concern. So, the prompt compliance to the changes in the banking policies from the Central bank of Nigeria (CBN), such as the recapitalization policy, Bank Verification Number (BVN) compliance, Treasury Single Account (TSA) foreign exchange restrictions, mobile and electronic banking system are some of the factors that may erode the ability of banks in Nigeria to remain competitive over time.

In addition, the problem which could be associated with poor sustainable competitive advantage of organizations in the inter-relationship among other stakeholders in the environment such as the suppliers, competitors and customers. There could be the problem of taking advantage of networking within the firms and its external stakeholders. This can also translate to the inability of firms to carry out daily activities in an effective and efficient way in order to achieve the firm's overall goal of profitability. Finally, there is the problem of the inability to continuously achieve product or service innovation which may have been caused by the absence of network connections and dynamic capabilities.

The general objective of the study is to investigate the relationships that exist

between dynamic capabilities and business networks and subsequently determine the extent to which both concepts and their constructs are determinants of sustainable competitive advantage in the post-consolidation era of the Nigerian banking. However, the specific objective of the study is to examine the contribution of competitive capabilities and firms' networks to sustainable competitive advantage of banks in Nigeria.

In view of the research objectives stated above, the research questions to be addressed in this study is what proportion of the Nigeria banks' competitive capabilities and firms' networks contribute could be significantly traced to the sustainable competitive advantage?

The research hypothesis to be tested and validated in this study is as follow:

H₀₁: Nigeria banks' competitive capabilities and firms' networks have no significant impact on the sustainable competitive advantage of Nigerian Banks.

The findings of this study will be beneficial not only to the banking industries operators but to other stakeholders in the business community including the policy formulators, regulatory agencies, the academia, industrial, financial and economic analysts among others. The literature has revealed that past researchers have mostly concentrated their researches on business resources such as men, machine, material and money among others, including capabilities and business networks among manufacturing company, blue chip and large firms.

This paper is arranged starting with the introduction section, which was then followed by the literature review, then the methodology and the analyses. The study ends with the discussions and implication for management.

2.0 Literature Review

2.1 Dynamic Capability

Dynamic capabilities, according to Day (1990) are roughly defined as 'complex bundle of skills and accumulated knowledge that enable firms or Strategic Business Units (SBU) to coordinate activities and make use of their assets. The Resource Based theory has been used by previous scholars to explain the concept of dynamic capabilities.

Teece, Pisano & Shuen (1997) also define dynamic capabilities as "the ability to integrate, build, and reconfigure internal and external competencies to address rapidly-changing environments". This concept endeavours to address certain deficiencies of the resource-based view such as how resources are developed, released, or integrated within a focal firm. From this perspective, the focus of the resource-based view is on the selection of appropriate resources, whereas the dynamic resource based view, based on dynamic capabilities, puts more emphasis on the development, evolution, and renewal of resources.

Eisenhardt & Martin (2000) define capabilities as the firm's processes that use resources- specifically, that is, it involve the processes that integrate, reconfigure, gain and release resources to match and even create market change. Teece et al. (1997) emphasized that bank dynamic capabilities reflect how organizations first develop firm-specific capabilities and competences in a changing business environment. Bank's dynamic capability could give the organization the ability to do something well even in a dynamic environment. These competences and capabilities are highly related to the bank's business process, expansion path and market position (Zott, 2003).

2.2 Network Capabilities

Business network resources and dynamic capabilities, when they are scarce and

treasured, can bring about an improved balance scorecard and a source of sustainable competitive advantage over rivals especially when they are also unique and cannot be substituted. It is understood that banks make use of important assets to take advantage of opportunities in the external environment while also nullifying the threats that exist therein, they further use it as a source of competitive edge over banking industries that do not have close business network resources or those that failed to utilize theirs. The RBV study on business network resource capabilities and organizational performance has been of great importance to researchers in different disciplines (Barney, Wright & Ketchen, 2001; Newbert, 2007; Peng, 2004).

It has been observed that some researchers do use the term business network resources and dynamic capabilities interchangeably, however, in the theoretical aspect they are two different terms. While business network resources are comparatively sovereign, candid and stationary, dynamic capabilities however is combined, multifaceted and vibrant (Helfat, 2007). Researches that are of similar element are of the opinion that dynamic capabilities establish organizational values in a way of changing the network resources of the organization into fresh resources in a dynamic process through a definite strategy and an organizational process (Eisenhardt & Martin, 2000). Looking closely at the formal aspect of Helfat (2007:1) which declared that 'dynamic capabilities signify the capacity of an organization to purposefully create, extend, or modify its resources base'.

2.3 Sustainable Competitive Advantage (SCA)

Barney (1991) suggests that a firm has a sustained competitive advantage when the firm is implementing a unique value-creating strategy which any current or potential competitors do not implement simultaneously

and these other firms are unable to duplicate the benefits of this strategy. Based on both Barney's work, this study conceptually defines sustainable competitive advantage as the long-term benefit of implementing some unique value creating strategy which any current or potential competitors do not implement simultaneously, along with the inability to duplicate the benefits of this strategy. Due to the importance of SCA to the long-term success of firms, a body of literature addresses its content as well as its sources and the different types of strategies that can help companies to achieve SCA (Kim & Mauborgne, 1999).

The fundamental basis of a firm's long-run understanding of its success is the achievement and maintenance of a sustainable competitive advantage. The idea of SCA surfaced in 1984, when Day (1984) suggested types of strategies that can help sustain competitive advantage. The actual term 'SCA' emerged in 1985, when Porter (1985) discussed the basic types of competitive strategies firms can possess (low-cost or differentiation) to achieve SCA.

SCA is the fundamental issue in marketing strategy (Varadarajan & Jayachandran, 1999). A competitive advantage can result either from implementing a value-creating strategy not simultaneously being employed by current or prospective competitors, or from superior execution of the same strategy as that of the competitors which other firms have the inability to duplicate the benefits of this strategy sustains the competitive advantage (Barney, 1991). SCA can therefore result from either implementing a value-creating strategy which any current or prospective competitors do not simultaneously implement or from the superior execution of the same strategy as the competitors (Bharadwaj, Varadarajan & Fahy 1993).

2.4 Dynamic Capabilities and Business Network Resources

Edith Penrose, who happen to be one of the early scholars to attach importance and necessity to dynamic capabilities, business network, sustainable competitive advantage and organizational performance, termed an organization as the combination of dynamic, mixed physical and human resources that it maintains and monitor the business environment (Penrose, 1959). The series of research in the RBV are of the assumption that organizations within an industry varies based on the type of resources being controlled by them, they are of the opinion that there exists some sort of immobility in the resources being owned by these organizations, thus making their variety justifiable and durable (Barney, 1991).

Business network resources may also be of unequal importance to becoming a source of sustainable competitive advantage to Nigerian banks. As a matter of fact, Barney (1991) described dynamic capabilities as that which brings an advantage to the organization to have four characteristics which are: they must be of value and be very distinctive to the organization, secondly is that they must be scarce and difficult to supply, the third attribute is that they must be hard to be copied, while the last one is of the opinion that they must be in substitutable.

There has been wide researches using the resource based view (RBV) theoretical models, but few researchers have only attempted to analyse these models in an empirical manner (Collis, 1991; Fahy, 2002; Mahoney & Pandian, 1992; Wernerfelt, 1984). The few researchers that have empirically tested these models are of the opinion that specific network resources bring about a positive effect to the performance of an organization. Generally speaking, the empirical results indicates that certain dynamic capabilities and network resources are of an important impact to the

performance of an organizations out of which include: the management's experiential, orientation and attitudinal resources, product innovation and service delivery, organizational dynamic capabilities, business network and sustainable competitive advantage in export knowledge and planning and the ability to leverage strategically important relational resources (Newbert, 2007).

2.5 Theoretical Framework

Drawing on Penrose (1959), the resource-based view (RBV) suggests that "the firm is best viewed as a collection of sticky and imperfectly imitable resources or capabilities that enable it to successfully compete against other firms" (Silvermann, 1999). The RBV can be seen as an alternative perspective on business networks, as it focuses on the internal resources a company possesses and the way a firm gains competitive advantage through using those resources (Barney, 1991). It is within this perspective that the dynamic capabilities of the firm could be traced.

Resources may be physical (equipment, patented innovations) or intangible (brand equity, operating routines). Barney (1991) defines a firm's resources as "all assets, capabilities, organizational processes, firm attributes, information, knowledge among others, controlled by the firm that enable the firm to conceive of and implement strategies that improve its efficiency and effectiveness". Barney further divides different resources into physical capital resources, human capital resources and organizational capital resources. The RBV offers an insight into how resources are combined into dynamic capabilities and applied in obtaining strategic advantage. The RBV is basically a model that is based on the notion that firms are heterogeneous in their resources (Wernerfelt, 1984; Teece, Pisano & Shuen, 1997)

The resource-based view (RBV) has been used as a theoretical background to study the

manner in which organization's resources and capabilities influences the financial performance of an organization (Wernerfelt, 1984). It was suggested by the RBV theory that all organizations have a distinct component of resources and dynamic capabilities which helps in giving them a commanding financial performance and competitive advantage over others (Song, Benedetto & Nason, 2007). The RBV explains the ability of the organization to transform those resources and dynamic capabilities into a valuable and difficult to imitate dynamic capabilities that makes the difference between the financial superiority performance and others in the industry (Liebermann & Dhawan, 2005). These resources and capability may be static (fixed) or dynamic, in which the latter could be useful in mitigating the threats from the business environment. Thus, dynamic capabilities could be very useful for managers to understand, manage, deployed, maintain and sustain overtime.

3.0 Methodology

Research design used for this study is a survey research design and a deductive research. It is the plan and structure used to investigate the answers to research questions from respondents (Kerlinger, 1992). This method is to determine the extent of the effect of dynamic capabilities and business network on sustainable competitive advantage in the Diamond bank plc. The study was carried out at Diamond bank plc, Lagos state, Nigeria. The banking system occupies a unique position in the Nigerian financial system.

The target population was the top managers and directors of Diamond bank plc. They include members of the board of directors (both executive and non-executive directors), and employees (whether branch or head office) with a minimum of 10 years' experience in the banking sector. The total population of directors and employees in the

Diamond bank plc at Lagos State that are listed under the stock exchange market have been put at 3,308 (NSE Factbook, 2013).

A total number of two hundred and fifteen (215) respondents were sampled from the population and 58% return rate was recorded. It was believed that this size was adequately representing the population directors and top management staff who have spent over ten years in the industry. This study uses a stratified and simple random technique sampling procedures.

The questionnaire was the major instrument of data collection and it was broadly divided into two. The first part of the questionnaire contained relevant personal data of the respondents while the second part was divided into nine sections designed to elicit responses to answer the research question and test the hypothesis.

Descriptive statistics (frequencies, percentages, tables and mean item score) was used for some of the data collected, while inferential statistics (Regression analysis, Pearson's product moment coefficient correlation, ANOVA and Spearman rho correlation) was used in testing and analysing the research hypothesis postulated for the study since the thrust of the study is the significant relationship between variables. Factor analysis was also employed to determine the loading of the variables.

For this study, the analytical techniques employed in analysing the data collected, using the Statistical Package for Social Sciences (SPSS 21.0), were the Simple Percentage Analysis and the Regression Analysis (ANOVA). The descriptive statistics of the data is shown below

Table 3.1: Descriptive Statistics of the Data

Gender	Male	Female				
	57.0%	43.0%				
Age of Respondents	25-35 years	36-45 years	46-55 years	56 years & above		
	54.8%	35.7%	9.0%	0.5%		
Education	NCE/OND	HND/BSC	PGD/M.Sc	Ph.D		
	10.9%	51.2%	34.4%	3.2%		
Position	CEO	Top Manager	Middle Manager	Staff	Others	
	0.5%	15.8%	35.7%	47.5%	0.5%	
Working Experience	1-4 years	5-10 years	11-15 years	16-20 years	Above 20 years	
	31.2%	48.9%	14.5%	2.7%	2.7%	

Source: Field Survey (2018)

The table 3.1 revealed that 57.0% of the respondents were males, while 43.0% were females. This implies that more than average percent of the respondents were males. Also, it is discovered that 54.8 % of the respondents were within the ages of 25-35 years; 54.8% of the respondents fall within the ages 36-45 years, 9.0% of the respondent were within 46-

55% while age 56 and above contained 0.5% of the respondents. In addition, educational background indicated that 10.9% of the respondents are NCE/OND holders, 51.2% have an HND/BSC, and 34.4% of the respondents are holders of PGD/MSC while 3.2% of the respondents are PHD holder. Moreover, it identified that 0.5% of the

respondents are CEO, 15.8% of the respondent are top manager, 35.7% of the respondent are middle manager, and 47.5% of the respondent are staff while 0.5% of the respondents are others in the bank. Furthermore, it specified that 31.2% of the respondents have less than 5 years working

experience, 48.9% of them have a working experience of between 5-10years, 14.5% of the respondents have 11-15 years working experience, and 2.7% of them have a working experience between 16-20 years while 2.7% of the respondents have worked in the banking industry for more than 20 years.

3.1 Testing of Hypothesis

H_{o1} : Nigeria banks' competitive capabilities and firms' networks have no significant impact on the sustainable competitive advantage of Nigerian Banks.

Table 3.2: Model Summary

Model Summary ^b					
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.810 ^a	.657	.654	.58855716	2.021
a. Predictors: (constant) BN, DCC...					
b. Dependent Variable: SAR					

The R^2 of 65.7% signifies in the fitness of the model. It is the R^2 in regressing the entire variable in the log form. The dependent variable remained SAR while the independent is BN, DCC. Therefore, 65.4% of SAR is due to the predictor variables.

The durbin-watson figure 2.021 is close to the value of 2.0. Therefore, there is no problem of serial correlation in the model. Hence the model is good and can be used for prediction. There is no auto correlation since the residual are not serially correlated.

Table 3.3: Anova

ANOVA ^b						
Model		Sum of Squares	Df	Mean Square	F	Significance
1	Regression	144.485	2	72.242	208.552	.000 ^a
	Residual	75.515	218	.346		
	Total	220.000	220			
a. Predictors: (constant) DCC, BN...						
b. Dependent Variable: SAR						

The regression result of the study's model suggests that the independent variables business network and dynamic competitive capability have effect on organization performance. The test of overall significance of regression implies testing the null hypothesis. The overall significance of regression is tested using Fisher's statistics. In this study the calculated F^* value of 208.552 is significant at 5%. It is therefore concluded that linear relationship exists between the dependent and independent variable of the model. Based on these findings, the postulation which states that there is no significant relationship between the dependent and independent variable is rejected. The evidence established that the independent explanatory variable have individual and combine impact on the sustainable competitive advantage of Nigeria banks.

4.0 Discussion and Implications for management

The study found out that due to the massive investment in the bank's R&D department, technological capabilities, in the form of information and communication technology proficiency, are vital for the banks' sustainable competitive advantage. So, as technology changes, the bank's process also changes. This outcome is also in tandem with what Handfield and Withers (1993) found out in their study of technological firms. The study shows that ICT has assisted in developing and deploying capabilities that equally help in facilitating organisational team work, the recruitment of quality staff, good human resource management, respect for government policies and regulation, respect for labour related issues, and increase in the level of productivity. ICT has also helped to improve banks' compliance skills to CBN regulations such as the cumulative daily limit for each withdrawal, which was made easier

with the aid of ICT. The study showed that banks that use the analytical studio technique for their researches on ICT gives the banks competitive edge over their competitors. Thus, sustainable competitive advantage is achieved through the application of individual knowledge into the day to day operations to tackle short term and long term client/customer challenges (O'Connor & Ayer, 2005; Kelly, 2009).

5.0 Conclusion

The study conclude that complementarities exist among adaptive, integration and learning capabilities as they rely on information gathering and processing from the business environment. Furthermore, the study also indicated that banks that possess high dynamic capabilities can improve their innovation, competitive advantage and operational performance, in terms of market share and profitability. Banks with dynamic capabilities can also avoid the traditional trade-off between cost and innovation. Sustainable competitive advantage of banks can be significantly improved through the acquisition and deployment of dynamic capabilities. This long-term advantage is likely to occur with the presence and deployment of these capabilities. It finally concludes that future research must focus on the conceptualization and the generation phase of dynamic capabilities through exploratory or empirical studies.

The contributions to knowledge from this study advances the resource based view by demonstrating that the more dynamic the firms capabilities are, the more the firm can achieve competitive advantage. Specifically, it is within this notion that learning capabilities of the firm could be traced. It provides evidence that the increased attention to organise internal training in a bank allows employees to be more devoted to the cause and focus solely on how to achieve

organisation set goals and objective thereby improving organisational performance. It is recommended that managers should also pay greater attention to the differential impacts of dynamic capabilities on business

innovation strategies, as the study found that competitive capabilities can greatly enhance competitive advantage, and this can bring about increased organisational performance.

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