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Influence of Strategic Managerial Capabilities on Performance of Manufacturing Firms in Kenya

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Abstract

The objective of the study was to determine the influence of strategic managerial capabilities on performance of manufacturing firms in Kenya. A descriptive survey design was used to analyse the primary data collected through self-administered questionnaires. Data was analysed using descriptive statistics and inferential statistics where data was coded and descriptive statistics generated using SPSS. Results were presented using graphs, tables and chart. Results found that strategic managerial capabilities have a positive and significant effect on performance. Management need to employ skills in developing clear operating procedures to run the business successfully, to coordinate different areas of the business to achieve results and the ability and to design jobs to suit staff capabilities and interest.

Keywords: *Manufacturing firms, performance, strategic managerial capabilities*

1. Introduction

1.1 Background of the Study

Employment of organizational capabilities effectively could lead to organizational performance. In the present day business environment that is characterized by a high degree of uncertainty, organizational managers face increasingly dynamic, complex and unpredictable environment, where technology, globalization, knowledge and changing competitive approaches impact on overall performance of the firm. Thus a key concern to any present day shareholder of a firm is the need of the management to develop systems and frameworks that not only deliver performance, but also the ability to control these systems against top level targets (Chau & Witcher, 2008). As a result, they note that more and more firms are turning to strategic approaches and internal resources that are valuable, scarce, inimitable and irreplaceable. Despite Kenya's manufacturing firms being viewed as small, they form the largest manufacturing industry in East Africa. The manufacturing companies are diverse. They include: Transformation and value addition of agricultural materials i.e. of coffee and tea, canning of fruit and meat, wheat, barley and cornmeal milling and refining of sugar. Production of electronics, assembly of motor vehicle and processing of soda ash are all parts of the sector. Assembly of computers was first done in 1987. Textiles, ceramics, cement, shoes, aluminum, steel, glass, wood, cork and plastics are other products manufactured in Kenya. Foreign investors own Twenty-five per cent of Kenya's manufacturing sector most being from The United Kingdom followed by the Americans (KAM, 2016).

There are few studies in Kenya on strategic organizational capabilities for example Nyangi, Wanjere and Egessa (2015) indicated that there exists a statistically significant correlation between organizational capability and performance of sugar manufacturing firms in western Kenya. Organizational capabilities adapted for the study included entrepreneurship, relationship building, product development, culture and learning. Similarly; Peng and Litteljohn (2011) found a strong positive relationship between strategy implementation and communication process and organizational capability. The evaluation of effect of strategic capability in the corporation established that the variable supported strategy implementation in the corporation. Also the study found that strategic flexibility supported strategy implementation at Agricultural Development Corporation.

1.2 Problem Statement

Organizational capabilities has been said to affect performance. However Kenya has been experiencing turbulent times with regard to its organizational practices and this has resulted in declining profits in the manufacturing sector of the economy (Mutindi, Namusonge & Obwogi, 2013). Statistics from World Bank

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show that large scale manufacturers operating in Kenya registered stagnation and declining profits for the last five years due to turbulent organization capabilities (WB, 2014). It is estimated that large manufacturing firms have lost 70 per cent of their market share in East Africa largely attributed to contingencies (RoK, 2014). Further statistics from Kenya Association of Manufacturers have shown that some firms announced plans to shut down their plants and shift operations to Egypt due to negative influences of management inabilities (KAM, 2014). In 2014, manufacturing sector in Kenya contributed barely 10% to the GDP which represented 3.4 per cent growth to Sh.537.3 Billion indicating a decline from the previous year 2013 where it had reported a 5.6 per cent growth mainly due to challenging organizational capabilities (KNBS, 2014).

A review of literature on strategic organizational capabilities has focused on non-manufacturing firms; Aduloju (2014) investigated managerial capabilities in insurance companies in Nigeria, Kearney *et al*, (2013) focused on Irish hospitality industry, Karanja et al (2014) on mobile service provider intermediary organizations in Kenya and Chengecha (2016) sought knowledge capability in relation to competitiveness of firms in the banking industry in Kenya. Majority of these studies have focused on service industry. However, there has been attributes to complexities experienced in studying service industry as service outputs are considered unclear in nature making it difficult to identify and measure their improvement or change. Further McDermott (2012) stated that services are more immediately perishable, inseparable (production and consumption occur at the same time) and tend to be more heterogeneous than manufactured products. The study used the organization's learning theory capability theory and the adaptive structuration theory to link the literature and findings of the study thereby filling this existing knowledge gap. The study therefore sought to determine the influence of strategic managerial capabilities on performance of manufacturing firms in Kenya.

1.3 Objective of the Study

The objective of the study was to determine the influence of strategic managerial capabilities on performance of manufacturing firms in Kenya.

2.Theoretical Literature

The literature was focused on the organization's learning theory capability theory and the adaptive structuration theory is based on Giddens (1984) structuration theory. Learning organizations develop as a result of the pressures facing modern organizations and enables them to remain competitive in the business environment. A learning organization has five main features; systems thinking, personal mastery, mental models, shared vision and team learning (Serenko, Bontis & Hardie, 2007). The learning organization concept encourages organizations to shift to a more interconnected way of thinking. Organizations should become more like communities that employees can feel a commitment to and therefore will work harder (Serenko *et al*, 2007). A learning organization benefits through sustenance of high levels innovation and competitiveness, better placed to respond to external pressures, knowledge to better link resources to customer needs, improves quality of output at all levels, improved corporate image by being more people oriented and increase in the pace of change within the organization. Organizational learning theory states that, in order to be competitive in a changing environment, organizations must change their goals and actions to reach those goals (Janz & Prasarnphanich, 2003). In order for learning to occur, however, the firm must make a conscious decision to change actions in response to a change in circumstances, must consciously link action to outcome, and must remember the outcome.

Adaptive structuration theory is concerned with the behaviour of humans as they use technology (such as computers) in a bank. On the other hand the behavioural school implies the way human beings react to the environment, for instance how people behave determines how knowledge is managed. The theory also refers to the nature of group-computer interaction since organizations, such as those in the banking industry, now rely heavily on the use of advanced information technology for the purposes of communication and relaying information. Over-reliance on IT has led many organizations and individuals to believe that knowledge is IT, yet Adaptive structuration theory focuses on communication using information technology, thus highlighting the concepts of appropriation and structuration (Sedera & Zakaria, 2008).

2.1 Empirical Literature

Strategic managerial capabilities have been extensively researched by scholars around the globe. Kenyan scholars Lee and Klassen (2008) sought to identify the influence of managerial capabilities in fostering SMEs participation in public procurement. The study adopted cross sectional survey design. The population of the study consisted of all the four mobile companies operating in Kenya. The study used primary data which was collected through self-administered structured questionnaires. The findings of the study were that the managerial capabilities and skills in business available or is able to obtain in due time, improvement of climate for innovation which includes an organized, systematic, and continual search for new opportunities, innovation strategy which has been linked to available resources, the corporate strategy, the marketing function and the information technology functions.

However a study by Sinkeet (2015) sought to identify the challenge of strategic management of resources in the devolved system of Governance in Kajiado County. This study adopted a descriptive survey design. The study used a descriptive survey approach in collecting data from the respondents. The study undertook census survey which involved the use of the entire target population of thirty six (36) respondents consisting of departmental heads and their deputies as a sample. The study used questionnaires to collect primary data. The findings revealed that strategic management of resources which included managerial capabilities had significant positive influence in the devolved system of governance in Kajiado County.

Additionally, a study by Yin (2012) aimed to identify alter competitive advantage creation path in Chinese lodging industry where the two resource-based constructs, managerial capability and organizational culture examined their effects on hotel's financial performance and customer satisfaction. Data were collected from the tourist hotels‟ senior managers from three star and above in two North-East cities in China. The census sampling was applied in both cities, which was according to the local Municipal Bureau of Tourism database. A total of 411 hotels met the sampling criteria and same amount of questionnaires were distributed. The findings revealed that there was statistically insignificant relationship between managerial capability and financial performance.

3. Research Design

A descriptive survey design was used to analyse the primary data. Survey design provided numeric descriptions of a sample of the population that was selected from the 513 manufacturing firms in Kenya. The research study covered the whole nation and therefore survey design was suitable for covering the extensive research. Stratified random sampling technique was used to select a sample size of 225 from the target population. The study used structured questionnaires to collect data. Data was analysed using descriptive statistics and were coded using Statistical Package for Social Sciences (SPSS).

4. Findings and Discussions

4.1 Descriptive Statistics for Strategic Managerial Capabilities

Table 1: Strategic Managerial Capabilities and Firm Performance

Statement	Strongly disagree	Disagree	Neutral	Agree	Strongly agree	Mean	Std Dev
The management have skills in developing a clear operating procedures to run the business successfully	4.14%	7.69%	10.65%	45.56%	31.95%	3.93	1.05
The management have the ability to allocate resources (e.g. financial, employees) to achieve the firm's goals	4.73%	5.33%	9.47%	45.56%	34.91%	4.01	1.04
The management have the ability to coordinate different areas of the business to achieve results	4.14%	5.33%	10.06%	44.97%	35.50%	4.02	1.02
The management have the ability and expertise to design jobs to suit staff capabilities and interest	5.33%	6.51%	10.06%	43.79%	34.32%	3.95	1.09
The management have the ability to attract and retain creative employees	5.92%	6.51%	9.47%	45.56%	32.54%	3.92	1.1
The management have the ability to forecast and plan for the success of the business	6.51%	7.69%	10.65%	44.38%	30.77%	3.85	1.14
The management have the ability to implement policies and strategies that achieve results	5.33%	5.33%	9.47%	44.97%	34.91%	3.99	1.07
Top management team attracts and retains well-trained and competent top managers	4.73%	4.73%	8.28%	48.52%	33.73%	4.02	1.02
Top management achieves better overall control of general organizational performance	5.33%	4.73%	7.69%	44.38%	37.87%	4.05	1.06
Top management perceives new organizational opportunities and potential threats	5.33%	5.92%	12.43%	43.20%	33.14%	3.93	1.08
Average						**3.97**	**1.07**

The results in table 1 revealed that majority of the respondents (77.51%) agreed with the statement that the management has skills in developing clear operating procedures to run the business successfully. The results further showed that majority of the respondents (80.47%) agreed with the statement that the management has the ability to allocate resources (e.g. financial, employees) to achieve the firm's goals. The results were in agreement with that of Basile and Faraci (2015) who found out that participating in organizational resource allocation and deployment such as, innovation and entrepreneurial systems helps the organization achieve its goals. The results also revealed that majority of the respondents (80.47%) agreed with the statement that the management have the ability to coordinate different areas of the business to achieve results. The findings were consistent with that of Kenyan scholars Lee and Klassen (2008) who found out that the managerial capabilities and skills in business available or is able to obtain in due time, improvement of climate for innovation which includes an organized, systematic, and continual search for new opportunities, innovation strategy which has been linked to available resources, the corporate strategy, the marketing function and the information technology functions. The results also revealed that majority of the respondents (78.11%) agreed with the statement that the management has the ability and expertise to design jobs to suit staff capabilities and interest. The results further indicated that majority of the respondents (78.11%) agreed with the statement that the management has the ability to attract and retain creative employees. The results were also consistent with that of

Helfa and Martin (2015) who discovered that managerial capability is the risk taking dimension of decision making in order to sustain unique qualities to even warrant the action of poaching competent managers just to seek effective organizational performance. The results revealed that majority of the respondents (75.15%) agreed with the statement that the management have the ability to forecast and plan for the success of the business. These results were in agreement with that of Knight *et al*., (1999) whose findings stated that top management team characteristics have important impacts on organizational outcomes because top executives are empowered to make strategic decisions for organizations and due to their understanding and knowledge of the larger environment, strategic leaders can develop more inspirational visions for their firms. The results showed that majority of the respondents (79.88%) agreed with the statement that the management has the ability to implement policies and strategies that achieve results. The results also revealed that majority of the respondents (82.25%) agreed with the statement that top management team attracts and retains well-trained and competent top managers. The results were consistent with that of Harter, Schmidt and Hayes (2002) who found out that clearly defined job description, investment in training, career plans and good bonus policies are a motivation from the management and the satisfaction of the stakeholders, translates itself into a firm's ability to attract and retain employees and lower turnover rates. The results further showed that majority of the respondents (82.25%) agreed with the statement that top management achieves better overall control of general organizational performance. The findings were in consistent with the study by Ahmed (2017) who found that there is a relationship between managerial capabilities, managerial performance and organizational performance. Moreover, the results revealed that majority of the respondents (76.34%) agreed with the statement that top management perceives new organizational opportunities and potential threats.

On a five point scale, the average mean of the responses was 3.97 which mean that majority of the respondents indicated that majority of the respondents agreed with the statement; however the answers were varied as shown by a standard deviation of 1.07.

4.2 Correlation Analysis between Managerial Capabilities and Performance

Table 2: Correlation Analysis between Managerial Capabilities and Performance

		performance	Strategic managerial capabilities
performance	Pearson Correlation	1	
	Sig. (2-tailed)		
Strategic managerial capabilities	Pearson Correlation	.552**	1
	Sig. (2-tailed)	0.000	

** Correlation is significant at the 0.01 level (2-tailed).

The results in table 2 revealed that there was a positive and significant association between strategic managerial capabilities and performance (r = 0.552, p = 0.000). This implies that an increase in managerial capabilities resulted in an improvement in firm's performance. The findings were inconsistent with that of Yin (2012) whose findings revealed that there was statistically insignificant relationship between managerial capability and financial performance.

4.3 Regression Analysis for Strategic Managerial Capabilities

The results in table 3 presented the fitness of model of regression model used in explaining the study phenomena. Strategic managerial capabilities were found to be satisfactory in firm performance. This was supported by coefficient of determination i.e. the R square of 30.5%. This shows that managerial capabilities explain 30.5% of the firm performance. The results meant that the model applied to link the relationship.

Table 4 provided the results on the analysis of the variance (ANOVA). The results indicated that the model was statistically significant. Further, the results implied that strategic managerial capabilities are a good predictor of firm's performance. This was supported by an F statistic of 73.208 and the reported p value (0.000) which was less than the conventional probability of 0.05 significance level.

Regression of coefficients results in table 5 revealed that strategic managerial capabilities and organization performance are positively and significantly related (B=0.548, p=0.000). The findings were consistent with that of Yin (2012) whose findings revealed that there was statistically insignificant relationship between managerial capability and financial performance.

Table 3: Model of Fitness for strategic Managerial Capabilities

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.552	0.305	0.301	0.282

Table 4: ANOVA for Strategic Managerial Capabilities

	Sum of Squares	df	Mean Square	F	Sig.
Regression	5.82	1	5.82	73.208	**0.000**
Residual	13.277	168	0.08		
Total	19.098	169			

Table 5: Regression of coefficients for Strategic Managerial Capabilities

	B	Std. Error	t	Sig.
(Constant)	1.773	0.247	7.178	0
Strategic managerial capabilities	0.548	0.064	8.556	**0.000**

4.4 Hypothesis Testing for Strategic Managerial Capabilities

The hypothesis was tested by using multiple linear regression (table 4, above). The acceptance/rejection criteria was that, if the p value is greater than 0.05, the Ho_1 is not rejected but if it's less than 0.05, the Ho_1 fails to be accepted.

The null hypothesis was that strategic managerial capabilities exert no significant influence on the performance of manufacturing firms in Kenya. Results in Table 4.31 above show that the p-value was 0.000<0.05. This indicated that the null hypothesis was rejected hence there is a significant relationship between Strategic managerial capabilities and performance of manufacturing firms in Kenya. These findings were also consistent with that of Yin (2012) whose findings revealed that there was statistically significant relationship between managerial capability and financial performance.

5. Summary, Conclusions and Recommendations

5.1: Summary

The results from strategic managerial capabilities indicated an increase in managerial capabilities resulted to an improvement in firm's performance. Correlation results found that managerial capabilities and firm's performance were positively and significantly related. Regression further revealed that managerial capabilities have a positive and significant relationship with firm's performance. The findings were consistent with that of Yin (2012) whose findings revealed that there was statistically insignificant relationship between managerial capability and financial performance.

5.2 Conclusions

The study concluded it is the management that achieves better overall control of general performance. Furthermore that the management has skills in developing organizational clear operating procedures to run the business successfully, the ability to coordinate different areas of the business to achieve results and the ability and expertise to design jobs to suit staff capabilities and interest. The study also concluded that top management perceives new organizational opportunities and potential threats, is able to forecast and plan for the success of the business and as well has the ability to attract and retain creative employees. In addition, the study concluded that the top management has the ability and sole responsibility to implement policies and strategies that achieve results.

5.3 Recommendations

The study recommends the management to employ skills in developing clear operating procedures to run the business successfully, to coordinate different areas of the business to achieve results and the ability and to design jobs to suit staff capabilities and interest. The study also recommends that top management need to perceive new organizational opportunities and potential threats, be able to forecast and plan for the success of the business and attract as well as retain creative employees.

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