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INFLUENCE OF STRATEGIC CAPABILITIES ON PERFORMANCE OF FIRMS IN THE LEATHER INDUSTRY IN KENYA

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ABSTRACT

Performance of the firms in leather industry has deteriorated whereby some firms have closed their businesses. The firms are characterized by lack of quality effluent facilities, high cost and low availability of quality hides, scarce design and process skills, difficulties in accessing and understanding export markets and insufficient availability of growth capital. The domestic market share of Kenyan leather firm's products has been eroded by imports of new low-cost leather footwear, mainly from China and India, as well as donated, second-hand footwear bringing to question the capabilities of the firms in the leather industry to compete in the domestic market. As a result, this study sought to establish the influence of strategic capabilities on performance of firms in the leather industry in Kenya. Specifically, the study sought to determine the influence of technological capability, human resource capability, knowledge management capability and marketing capabilities on performance of firms in the leather industry in Kenya. A descriptive research design was adopted. The target population was all the 16 tanneries which are the firms operating in the leather industry in Kenya. The unit of observation was the heads of department from operations, human resource, IT, Marketing and Administration. Therefore, a total of 80 respondents were targeted.

A census was conducted on the entire target population. Data was collected through a structured questionnaire and analysed through Statistical Package for Social Sciences version 24. Both descriptive and inferential analysis was used. The results indicated that strategic capabilities have a positive and significant influence on performance of the firms in leather industry in Kenya. The study recommends the firms in the leather industry to invest in building more technological capability by investing in improvement of technology hardware infrastructure, software infrastructure, development initiatives and hiring of technical experts; to invest in developing the human resource capacity of the employees through workshops, seminars and trainings ; invest in building knowledge by investing in knowledge creation systems such as surveys, IT, emails and knowledge creation platforms such as benchmarking and workshops and invest in customer relationship management platforms such as online complaints systems, customer satisfaction surveys as well as brand management initiatives through promotions and advertising.

Key Words: *Technological Capability, Human Resource Capability, Knowledge Management Capability, Marketing Capabilities, Organizational Performance*

BACKGROUND OF THE STUDY

Many organizations are always struggling to get better ways to attain a sustainable performance. Jarzabkowski, Balogun and Seidl (2007) suggest the need for firms to focus on their internal strengths in order to provide strong differentiation, create more added customer value and extendibility. For any firm to perform well today, the key strategy is to ensure they are competitive in their strategic capabilities rather than competing for product and services leadership. Strategic capabilities are an important form of sustainable performance in any firm and therefore; it has to be a primary factor in formulating strategies (Agha, Alrubaiee & Jamhour, 2011). Strategic capabilities are conceptualized as a company's capacity to build as well as extend essential abilities to manage evolving conditions (Schilke, 2014). A move in concentration to vital capacities subsequently decreases if not eliminates the applicability of the important, rare, incomparable and non-substitutable structure on the grounds that the emphasis of the specialist shifts from attempting to secure sources of current competitive advantages to continuously making assets or potentially abilities to yield future competitive advantages.

Strategic capabilities are implanted in routine authoritative cycles that control the development of an association's asset design and operational schedules (Tarutė and Gatautis, 2014). The assets of an organization, including its resources and mastery, establish the premise of its practical achievement base. Pandza and Thorpe (2009) suggest that specialists should mean to shape, change, and consolidate these resources into key abilities, driving strategic success in turn. The concept of capabilities is supported by the Dynamic Capability Theory by Teece *et al*. (1997) as well as the Resource Based Theory by Penrose (1959) which argued that firms which possess special capabilities such as technological capability, human resource capability, knowledge management capability and marketing capabilities have a better chance of outperforming those without. In addition, scholars such as Mithas, Ramasubbu and Sambamurthy (2011); Liu, Ke, Wei and Hua (2013); Chen, Wang, Nevo, Jin, Wang and Chow (2014) argued that one of the most critical capabilities for a firm to possess is the technological capability.

However, according to Ravi *et al* (2013); Seleim *et al* (2009); Shaheen *et al*, (2013), Human Resource Capability was very important for the performance of any organization. On the other hand, Kiseli and Senaji (2016); Chen, Feng and Liou (2004) and Liu, Song and Cai (2014) believed that Knowledge Management Capability is an important capability

for firm performance while Thomas (2011); Morgan, Slotegraaf and Vorhies (2009); Kamboj and Rahman (2015) indicated that Marketing Capabilities are the main determinants of a firm's performance. This study borrows from the suggestions by these scholars and combines the four capabilities.

STATEMENT OF THE PROBLEM

Development of the Leather industry is critical for Kenya to become an industrialized, middle-income country by 2030 since it will diversify its exports (World Bank, 2017). However, data from UN ComTrade (2018) reveal that the country's leather industry is underperforming. African countries own up to 20% of the global livestock population but account for only 4% of world leather production. It has been revealed that the leather industry is growing and the demand for leather and leather products is growing faster than supply.

Kenya is Africa's third largest livestock holder hence the leather industry has great potential (Kenya Leather Development Council, 2018). However, the industry has seen poor performance from its key firms whereby some have closed their businesses. The firms are characterized by lack of quality effluent facilities, high cost and low availability of quality hides, scarce design and process skills, difficulties in accessing and understanding export markets and insufficient availability of growth capital (UN ComTrade, 2018). The domestic market share of Kenyan leather firm's products has been eroded by imports of new low-cost leather footwear, mainly from China and India, as well as donated, second-hand footwear *'Mitumba'*.

The production costs of leather products are documented to be 30% more expensive than imported leather thus making it hard to compete with imported leather materials. The Kenya Leather Development Council has indicated that among the key strategies for the firms in the leather industry in Kenya to compete with other firms is development of their capabilities in production, skills, value addition, technology and restructuring. Based on this, this study sought to find out what strategic capabilities the firms in the leather industry have put in place to improve their performance. Jabbouri and Zahari (2014) argued that firms with strategic capabilities should be less vulnerable to external changes and internal inefficiencies and should thus perform better because the structure provides the necessary systems and processes. In this line, this research strived to establish whether having strategic capabilities can enhance the performance of firms in the leather industry which is characterized by stiff competition.

RESEARCH OBJECTIVES

i. To determine the influence of technological capability on performance of firms in the leather industry in Kenya

ii. To establish the influence of human resource capability on performance of firms in the leather industry in Kenya

iii. To determine the influence of knowledge management capability on performance of firms in the leather industry in Kenya

iv. To examine the influence of marketing capabilities on performance of firms in the leather industry in Kenya

THEORETICAL REVIEW

This study was built on Human Capital Theory, Resource Based Theory, Dynamic capability Theory and Porter's Competitive Advantage Theory. The concept of dynamic capability came from the work of Teece *et al*. (1997). This was in appreciation of the fact that the environment of operation of any given organization changes and hence a firm needs to be agile enough to change as well.

As result, there is a need for the firms to have what we call dynamic capabilities to make the process easy. A firm needs to be able to integrate its internal resources with the external competencies in order to blend into a strong competitive advantage. The Human Capital Theory proposed by Schultz (1980) posited that human capital is critical in an organization in order to realize productivity. To improve its productivity further, there is a need for training which can impart useful skills and knowledge to the people. The more people are trained, the more they deliver in the organization and the more the organizational income increases. This is because investment in education has been linked to higher organizational achievements. It can hence be argued that an investment in human capital can result to better organizational performance (Fitzsimons, 2017).

Resource Based Theory proposed by Penrose (1959) argued that firms can use resources to improve their competitive position and hence performance. A firm can gain an advantage over its peers if at all it possesses special resources which have three characteristics: uniqueness, substitutability and inimitability. Such are the resources called unique and can propel a firm to greater performance. The resources have been categorized from capabilities, human resources, physical resources, financial resources to intellectual resources (Armstrong & Taylor, 2014). However, the two main categories are tangible and intangible resources. It can be argued that a firm which has these resources enjoys better performance due to sustainable competitive advantage for as long as the competitors cannot copy them.

Pioneered by Porter (1980), Porter's Competitive Advantage Theory emphasizes the need for competitive strategy in relation to the environment of operation. The theory argues that environment of operation is important to an organization and that they need to scan it very well in order to understand the marketing approach to take. With better marketing approach, the firms can be able to compete with its competitors. To do so, they need marketing capabilities. With better marketing capabilities, a firm is able to decide which and when to compete in a certain market. Through having better marketing information, customer relationship management capability, brand management capability and market research capability, an organization is able to position itself better to acquire competitive edge over competitors (Oz, 2019).

CONCEPTUAL FRAMEWORK

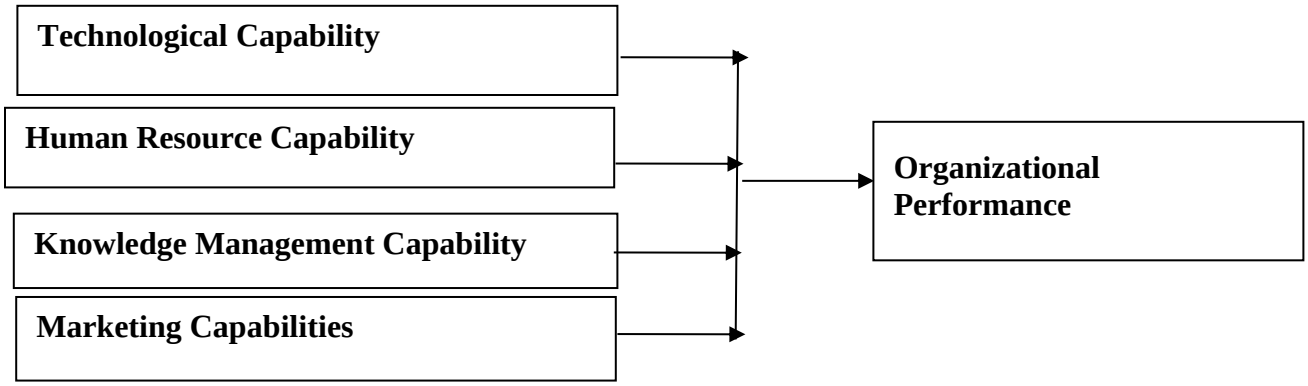

Figure 1: Conceptual Framework

EMPIRICAL LITERATURE REVIEW

Mithas, Ramasubbu and Sambamurthy (2011) conducted a study to establish how information management capability influences firm performance and established that these three capabilities mediate the relationship between information management capability and firm performance. Liu, Ke, Wei and Hua (2013) conducted a study to establish the impact of IT capabilities on firm performance. It was established that the absorptive capacity and IT capability affect firm performance. Ravi *et al* (2013) focused on establishing if Human Capital Investment in employee training has effects in improving employees' performance and established that employee general training that can be utilized outside the focal firms leads to an improvement in their performance. Seleim *et al* (2009) focused on analyzing the correlation between organizational performance and human capital in software companies and revealed that human capital development boosts organizational performance both directly and indirectly.

Chen, Feng and Liou (2004) conducted a study to determine the effect of Knowledge management capability on firm performance through an empirical investigation. The results showed that firms significantly reduce the ratios of costs of selling, general, and administrative (SG&A) to revenues and SG&A to sales in the second year after the adoption of KMS. Han and Wang (2012) focused on the relationship between knowledge management, knowledge management system and organizational performance and found that knowledge creation, knowledge organization and knowledge transfer process can promote knowledge management capability.

A study was conducted by Thomas (2011) to determine the link between marketing capabilities and firm performance revealed that some marketing capabilities such as customer acquisition and retention skills were essential in enhancing firm performance. Another study by Morgan, Slotegraaf and Vorhies (2009) to establish how Marketing Capabilities affect profit growth among firms in the USA established that marketing capabilities have direct and complementary effects on both revenue and margin growth rates.

RESEARCH METHODOLOGY

The study adopted a descriptive survey research design. The target population of the study was 16 tanneries which are the firms operating in the leather industry in Kenya. The target population was the head of departments from the operations, human resource, IT, Marketing and Administration. Therefore, a total of 80 respondents were targeted. A census was conducted on all the 16 tanneries in Kenya. Quantitative primary data collected through close-ended questions measured on a five-point likert scale was used. Statistical Package for Social Sciences (SPSS Version 22) was used for analysis of the quantitative data.

Various statistical analytical approaches were used namely; descriptive and inferential statistics. In this study, the descriptive analysis involved frequencies in their absolute and relative forms (percentage). Mean and standard deviations were also used as measures of central tendencies and dispersion respectively. The inferential analysis used was correlation and regression analysis. A multiple regression was used to enable in identification of which capabilities are stronger than others in influencing performance. The regression model adopted is shown below:

$Y= \beta_0+ \beta_1X_1+\beta_2X_2+ \beta_3X_3+ \beta_4X_4 +\varepsilon$. Where: Y is the Performance of firms in the leather industry in Kenya, X_1 is Technological Capability, X_2 is Human Resource Capability, X_3 is Knowledge Management Capability, X_4 is Marketing Capabilities, β_0 is the regression constant or intercept, β_1, β_2, β_3 and β_4 are regression coefficients and ε is the error term.

RESEARCH FINDINGS AND DISCUSSIONS

The target population of the study was 15 tanneries (after one participated in the pilot study) which are the firms operating in the leather industry in Kenya where the head of departments from the operations, human resource, IT, Marketing and Administration totaling to 75 respondents were targeted. Out of the number, 59 questionnaires were properly filled giving a response rate of 79%. The response rate was satisfactory according to Flick (2015).

Demographic Characteristics

The respondent's department, highest level of academic qualification and working experience were analysed and presented in this section. Table 1 summarizes the demographic factors of the study. The results demonstrated that all the departments targeted, were represented in the study with respondents from administration being 22%, those from marketing were 24%, HR were 22%, IT were 17% and operations were 15%. There was representativeness in the departments as targeted.

The results also demonstrated that the respondents with a bachelor's degree were the majority at 56% followed by masters 36% while the least were with a PhD (5%). The findings imply that the heads of departments were educated. Lastly it was indicated that majority (47%) of the HOD of the turneries had a work experience above 8 years, those with a work experience between 4 and 8 were 39% while those with a work experience below 3 years were 14%. Nonetheless, it implies that a work experience above 8 years was the dominant figure among the HOD.

Table 1 Demographic Characteristics

Demographic	Category	Frequency	Percentage
Department	IT	10	17
	HR	13	22
	Marketing	14	24
	Administration	13	22
	Operations	9	15
Highest Level of Education	PhD	3	5
	Master's degree	21	36
	Bachelor's degree	35	59
Working Experience	Below 3years	8	14
	4-8 years	23	39
	More than 8 Years	28	47

Descriptive Statistics

The rating of the likert scale questions is presented in this section per objective. Majorly, descriptive statistics was about mean and standard deviation of the responses per question.

Technological Capability

Descriptive Statistics on the questions regarding technological capability (Table 2) demonstrated that the organizations have invested in improvement of technology hardware infrastructure (M = 3.61), software infrastructure (M = 4.36), development initiatives (M = 3.71) and hiring of technical experts (M = 3.54). The respondents however neither agreed nor disagreed that their organizations have invested in improvement of research initiatives (M = 3.29) and on whether the organizational systems are run using modern technology (M =2.85). Generally, there is an agreement that the organizations have technological capability (Average M = 3.56).

Table 2 Technological Capability

Statement	Mean	Standard Deviation
The organization has invested in improvement of technology hardware infrastructure	3.61	1.51
The organization has invested in improvement of technology software infrastructure	4.36	1.35
The organization has invested in improvement of research initiatives	3.29	1.31
The organization has invested in improvement of development initiatives	3.71	1.44
The organization has invested in hiring of technical experts	3.54	1.53
The organizational systems are run using modern technology	2.85	1.42
Average	**3.56**	**1.43**

Human Resource Capability

Descriptive Statistics on the questions regarding human resource capability (Table 3) demonstrated that the organizations hire based on the applicant's technical skills (M = 3.80), the applicant's professional qualifications (M = 3.81) and there is investment in trainings to enhance the employee's knowhow (M = 3.64). There was no disagreement or agreement on whether the organizations hire based on the applicants work experience (M = 3.27) and educational level (M = 3.46). Generally, the findings indicated that the organizations have human resource capability (Average M = 3.60).

Table 3 Human Resource Capability

Statement	Mean	Standard Deviation
The organization hires based on the applicant's technical skills	3.80	1.48
The organization hires based on the applicants work experience	3.27	1.62
The organization hires based on the applicant's professional qualifications	3.81	1.50
The organization hires based on the applicant's educational level	3.46	1.61
There is investment in trainings to enhance the employee's knowhow	3.64	1.62
Average	**3.60**	**1.57**

Knowledge Management Capability

Descriptive Statistics on the questions regarding knowledge management capability (Table 4) showed that the organizations have invested in knowledge creation systems such as surveys (M = 3.75), knowledge creation systems such as use of IT (M = 4.19), knowledge sharing systems such as emails (M = 3.88) and knowledge creation platforms such as benchmarking and workshops (M = 3.85). However, the respondents neither agreed nor disagreed on whether their organizations have invested in knowledge storage platforms (M = 3.41). Generally, there was an agreement that the organizations have high knowledge management capability (Average M = 3.81).

Table 4 Knowledge Management Capability

Statement	Mean	Standard Deviation
The organization has invested in knowledge creation systems such as surveys	3.75	1.41
The organization has invested in knowledge creation systems such as use of IT	4.19	1.21
The organization has invested in knowledge storage platforms	3.41	1.26
The organization has invested in knowledge sharing systems such as emails	3.88	1.29
There are knowledge creation platforms such as benchmarking and workshops	3.85	1.32
Average	**3.81**	**1.30**

Marketing Capabilities

Descriptive Statistics on the questions regarding marketing capabilities (Table 5) indicated that the organizations have invested in customer relationship management platforms such as online complaints systems (M = 4.54), customer satisfaction surveys (M = 4.69), there is brand management initiatives through promotions (M = 4.46) and advertising (M = 4.56). However, the respondents were indifferent on whether their organizations have invested in marketing research to establish the customer's preferences and tastes (Mean = 3.10). Generally, there was an agreement that the marketing capabilities of the organizations is high (Average M = 4.27).

Table 5 Marketing Capabilities

Statement	Mean	Standard Deviation
The organization has invested in customer relationship management platforms such as online complaints systems	4.54	0.99
The organization has invested in customer relationship management platforms such as customer satisfaction surveys	4.69	0.75
There are brand management initiatives through promotions	4.46	0.77
There are brand management initiatives through advertising	4.56	0.88
The organization has invested in marketing research to establish the customers preferences and tastes	3.10	1.46
Average	**4.27**	**0.97**

Correlation Analysis

Correlation analysis as shown in Table 6 indicated that technological capability significantly improves performance of the firms in the leather industry in Kenya (r = 0.805; P-Value < 0.05). It means that more investment in technological capability would lead to an improvement in performance of the firms in the leather industry. Mithas, Ramasubbu and Sambamurthy (2011) also established similar results. The results also demonstrate that human resource capability significantly improves performance of the firms in the leather industry in Kenya (r = 0.782; P-Value < 0.05). It means that more investment in development of human resource capability would lead to an improvement in performance of the firms in the leather industry. Ravi *et al* (2013) also demonstrated that human resource capability improves performance.

It was also showed that knowledge management capability significantly improves performance of the firms in the leather industry in Kenya (r = 0.346; P-Value < 0.05). It means that more investment in development of knowledge management capability would lead to an improvement in performance of the firms in the leather industry. Kiseli and Senaji (2016) also established that knowledge management capability improves performance without increasing costs. The results demonstrate that marketing capability significantly improves performance of the firms in the leather industry in Kenya (r = 0.755; P-Value < 0.05). It means that more investment in development of marketing capability would lead to an improvement in performance of the firms in the leather industry. Thomas (2011) indicated that some marketing capabilities such as customer acquisition and retention skills were essential in enhancing firm performance.

Table 6 Correlation Analysis

		Technological Capability	Human Resource Capability	Knowledge Management Capability	Marketing Capability	Perform
echnological apability	Pearson Correlation	1				
uman Resource apability	Pearson Correlation	.742**	1			
nowledge anagement apability	Pearson Correlation	.281**	0.01	1		
arketing apability	Pearson Correlation	.505**	.659**	0.254	1	
erformance	Pearson Correlation	.805**	.782**	.346**	.755**	1
	Sig. (2-tailed)	0.000	0.000	0.007	0.000	
	N	59	59	59	59	59
* Correlation is significant at the 0.05 level (2-tailed).						

Regression Analysis

A multivariate regression was utilized to foresee the impact of key abilities on execution of firms in the cowhide business in Kenya. The model summary brings about Table 4.9 show that up to 83.4% of the variety in execution of firms in the leather business is represented by the four key abilities. Different components represent the excess 16.6% of the variety in execution of firms in the leather business.

Table 7 Model Summary

R	R Square	Adjusted R Square	Std. Error of the Estimate
.913	0.834	0.821	0.54824
Predictors: (Constant), Marketing Capability, KMC, Technological Capability, HR Capability			

The results in Table 8 reveal that the model that was used to predict the influence of strategic capabilities on performance of firms in the leather industry in Kenya was a good fit (P-Value < 0.05). The model is therefore considered a good fit to predict any other similar outcomes in different scenarios.

Table 8 ANOVA

	Sum of Squares	df	Mean Square	F	Sig.
Regression	81.373	4	20.343	67.584	.000
Residual	16.231	54	0.301		
Total	97.604	58			
Dependent Variable: Performance					
Predictors: (Constant), Marketing Capability, KMC, Technological Capability, HR Capability					

The beta coefficient for technological capability in Table 9 indicated that it has a positive and significant influence on performance (β = 0.475; P-Value <0.05). This indicates that increasing technological capability significantly improves performance of firms in the leather industry. Chen, Wang, Nevo, Jin, Wang and Chow (2014) indicated that technological capability strengthens the adaptation of a firm to changes in the environment of operation. It was also shown that HR Capability has a positive and significant influence on performance (β = 0.229; P-Value <0.05). This indicates that increasing HR Capability significantly improves performance of firms in the leather industry. Seleim *et al* (2009) also demonstrated that employee training gave rise to superstar performers where more productivity was translated to organizational performance.

The results also showed that knowledge management capability has a positive and significant influence on performance (β = 0.185; P-Value <0.05). This indicates that increasing knowledge management capability significantly improves performance of firms in the leather industry. Liu, Song and Cai (2014) showed that knowledge management improves organizational agility which enhances firm performance.

In regard to marketing capability, it was demonstrated that it has a positive and significant influence on performance (β = 0.422; P-Value < 0.05). This indicates that increasing marketing capability significantly improves performance of firms in the leather industry. Morgan, Slotegraaf and Vorhies (2009) also established that marketing capabilities have direct and complementary effects on both revenue and margin growth rates.

Table 9 Model Coefficients

	B	Std. Error	Beta	t	Sig.
(Constant)	1.580	0.362		4.365	0.000
Technological Capability	0.475	0.108	0.400	4.398	0.000
HR Capability	0.229	0.095	0.255	2.411	0.019
Knowledge Management Capability	0.185	0.084	0.143	2.202	0.031
Marketing Capability	0.422	0.095	0.348	4.442	0.000
Dependent Variable: Organizational Performance					

CONCLUSION

The investigation reasons that greater interest in mechanical capacity would prompt an improvement in execution of the organizations in the calfskin business. The examination likewise reasons that advancement of human asset capacity would prompt an improvement in execution of the organizations in the cowhide business. Another end is that greater interest in information the executive's ability would prompt an improvement in execution of the organizations in the cowhide business. It was likewise inferred that greater interest in advertising capacity would prompt an improvement in execution of the organizations in the calfskin business.

RECOMMENDATIONS

Since increasing technological capability significantly improves performance of firms in the leather industry, the study recommends the firms in the leather industry to invest in building more technological capability by investing in improvement of technology hardware infrastructure, software infrastructure, development initiatives and hiring of technical experts. Based on the findings that increasing HR Capability significantly improves performance of firms in the leather industry, the study recommends the firms in the leather industry to invest in developing the human resource capacity of the employees through workshops, seminars and trainings.

Since the findings indicated that increasing knowledge management capability significantly improves performance of firms in the leather industry, the study recommends the firms in the leather industry to invest in building knowledge by investing in knowledge creation systems such as surveys, IT, emails and knowledge creation platforms such as benchmarking and workshops. Based on the findings increasing marketing capability significantly improves performance of firms in the leather industry, the study recommends the firms in the leather industry to invest in improving the marketing capability by investing in customer relationship management platforms such as online complaints systems, customer satisfaction surveys as well as brand management initiatives through promotions and advertising.

CONFLICT OF INTEREST

No potential conflict of interest was recorded by the authors.

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