

Dynamic Capabilities, Network Resources and Organizational Performance of Banks in the Nigerian Business Environment

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Abstract: This study examines the impact of Dynamic Capabilities and Network Resources on bank performances in the Nigerian business environment. The study utilizes a survey research design that gathers primary data from the respondents. Observed the assumption of normality, linearity and homoscedasticity we estimated by OLS a standard multiple regression linear model where we observe, that Dynamic Capabilities and Network Resources are statistically significant with Network Resources scale recording a higher beta value ($\beta=1.95$, $p<0.01$) than Dynamic Capabilities scale ($\beta=1.25$, $p<0.01$). The study concludes by confirming that Network Resources and Dynamic Capabilities have a significant effect on the performance of banks of Nigeria.

Keywords: Network Resources; Dynamic Capabilities; Organizational performance; Competitive Advantage; Dyadic Relationship

JEL Codes: O47; M21; C23

1. Introduction

The Nigerian business environment may be described as very unstable that requires resources that can rapidly adapt to the changes in the internal and external environmental variables. The study of dynamic capabilities emphasizes the process by which firms acquire, adapt and create wealth in this kind of environmental change (D'Aveni, 1994). Globally, today's business environment is characterized by manic competition and speedy change that makes firms to have less time to sustain their competitive advantage (Teece, 1997., D'Aveni, 1994).

Dynamic capabilities have been roughly defined by Day (1994:38) as the "complex bundle of skills and accumulated knowledge that enable firms or strategic business units (SBU) to coordinate activities and make use of their assets". Although this definition does not specifically include the firm's environment and efficiency, it could be implied that both skills and assets of the firms are to be utilized in the environment. Dynamic capabilities have equally been viewed as the routine within an organization's managerial and organizational process that aim to gain, release, integrate and reconfigure resources (Teece, et al. 1997) in which they are immune to changes (Winter, 2003; Zolloand & Winter, 2002).

Dynamic capabilities do not only examine an organization's resource by looking at the demands of customers and also monitoring the market trends which include an increase in the demand of a particular product or service, rather, it also emphasize the environment by bringing about innovation and forming an alliance with firm customers and other key participants in the environment (Teece, 2007). The occurrence of business network, that is, groups of organizations, tends to be the latest trend in recent economy (Belussi and Arcangeli, 1998; Blundel, 2002). A statement according to Christopher (2000:39) says that 'companies now have entered the new era where the prizes will go to

those organizations who can better structure, coordinate, and manage the relationships with their partners in a network committed to better, closer and more agile relationships with their final consumers'.

Where businesses network their resources, organizations can gain access to better information, resources, markets, process and technologies. Organizations with network resources tend to achieve some of their strategic objectives which include organizational functions, sharing of risks and outsourcing of value chain stages (Hakansson, et al., 2007). There is however a dark side to network resources which may endanger an organization into a fruitless business relationship with others. Relationships may not tend to end well if not properly managed. As a result, network resources can be a source of both opportunities and constraints.

Network resources are of importance to organizations because they are classified to what could be explained to be a network planning process which takes the combination of the business, marketing and the engineering disciplines so as to generate a united and a dynamic master plan for all the activities of organizations (Al-Laham and Souitaris, 2008; Rovira, et al., 2008). Network resources can be explained to be the process of gathering different complimentary resources from the relationship with others, most especially resources that have an enhanced value and that provide an organization with an added advantage over others (Yli-Renko et al., 2001, Buckley and Carter, 2004)

The economical, social and technological change in Nigerian business environment may have made organizations, in the presence of a great and healthy competition, to adjust slowly to these changes. This could emanate from their inability to recognize dynamic capabilities and network their resources in the industries. Consequently, the main objective of the study is to examine the impact of network resources and dynamic capabilities on organizational performance of Nigerian and to specifically

determine how organizations can be effective and efficient in managing their networks while at the same time exploring the relationship between organizations' dynamic capabilities and performance in a business network environment. This study tends to provide answers to certain questions about the impact of network resources and dynamic capabilities on organizational performance. As a result, the research hypotheses tested in this study are:

H01: Network resources have no significant effect on organizational performance in Nigeria.

H02: Dynamic capabilities have no significant relationship with organizational performance among Nigerian firms.

This study on network resources, dynamic capabilities and firm performance is very important especially in the Nigerian corporate arena which may be majorly driven by the banking industry, telecommunication industry and, information technology, among others. Organizations in these industries need network resources in order to stay connected with each other and have a strategic link with the industries they are, in order to increase their operations and also improve their profitability base. Dynamic capabilities could help managers to be forward thinking, it helps managers to adapt to the new environmental changes, and it makes managers of business organization proactive in nature

2. Literature review

The relationship between dynamic capabilities and business network has been looked into majorly by scholars (Tece 1984; Eisenhardt and Martin, 2000; Hankansson and Ford, 2002) of developed countries. However, there has been some argument by the Industrial Marketing and Purchasing (IMP) group that interaction with other parties and organizations strategically develops the dynamic capabilities of an organization (Hankansson and Snehota, 1989). This argument was further strengthened by the statement of Ford et al. (2003:97) which states that "if properly used, supplier relationships can dramatically enhance the resources and capabilities that an organization can use". These relationships can also be extended to customers and other stakeholders in the industries. In the same view, the Resource Based View (RBV), perspective of capabilities suggests that interaction and relationships move along as a drive to organize the resources and capabilities not acquired by an organization (Foss, 1999; Loasby, 1994, 1998).

There have been numerous researches on industrial markets that have helped in generating a broader knowledge of the business markets ranging from the buyer-supplier relationship to network-resource relationship that are being developed and managed by organizations in developed countries (Axelsson and Easton, 1992; Ford, 1980; Ford, 2002; Ford et al., 1998; Hakansson, 1982, 1987; Hakansson and Snehota, 1995). This study has adopted the below Industrial Marketing and Purchasing (IMP) model which looks to capture the important attributes of the network resource relationship because it tends to offer the beauty of the relationship in an approach that consists of four elements

which include the interacting parties, the interaction process, the interaction atmosphere and the interaction environment (Hakansson, 1982).

An organization is viewed by the RBV as a collection of resources and capabilities (Wernerfelt, 1984). Resources by Amit and Schoemaker (1993) can be defined as "stocks of available factors that are owned or controlled by the firm". Resources, according to Grant (1991) and Amit and Schoemaker (1993) can be classified into two components which are the tangible components (financial and physical asset, such as, property, plant and equipment) and the intangible components (human capital, patent, technology knowhow). Capability, on the other hand can be defined as the ability of an organization in effectively utilizing its resources to achieve a desired goal (Amit and Schoemaker, 1993). So, a distinction is made between possessing something of value and the ability to effectively utilize that value.

Capability can be seen as a middle approach which is adopted by the organization in which they make use of organizational processes in delivering improved productivity to its resources (Amit and Schoemaker, 1993). Capabilities can be in the form of invisible assets which could come as tangible or intangible organizational procedures which are developed by an organization over a period of time and in which case cannot be bought but built (Teece, et al., 1997).

It was maintained by the RBV that there will be diverse nature of resources and changing ranks for different organizations and that the survival of an organization relies on its capacity to establish new resources, to improve on its already established capabilities and to build on its capabilities uniqueness in order to achieve competitive advantage (Day and Wensley, 1988; Peteraf, 1993; Prahalad and Hamel, 1990). It is therefore worthy to note that the ordinary control of greater resources is not enough for an organization in achieving competitive advantage: - rather it is how an organization organizes its scarce resources and utilizes its capabilities to the utmost use that helps in achieving competitive advantage (Peteraf, 1993; Song et al., 2007).

As pointed above, the literatures of dynamic capabilities have its origin in the Resource-Based View which tends to study the relationship between the competitive advantage and the resources of the organization. The RBV sees this relationship as something that is specific to the organization and not necessary to the nations. It is believed that for a capability to be dynamic, it should be scarce, adaptive and cannot easily be copied by competitors (Barney, 1991; Foss and Roberston, 2000). Dynamic capabilities may also be embedded in the firm's strategic network of resources that may generally be supported through numerous resources that are related to network resources, such that they can be pooled together to generate a system of dynamic capabilities which cannot be substituted, cannot be copied and it must, be scarce and of high value to the organization (Mata et al., 1995).

Dynamic capabilities and network resources could be two important elements for an organization in targeting customer positioning. They may help in assisting an organization to analyze and envisage the different choices of customers, while also forecasting the demand for a particular product

thereby improving customer service. Aside from these, it should help in developing and expanding new knowledge, while also improving on the prevailing knowledge that influences the ability of the organization in reacting to environmental change. These two important elements are also necessary because encourages interactions by the sharing of knowledge and useful information in all areas of business units. This automatically helps an organization to be more flexible and thereby, having a quick response to market needs and changes (Helfat and Peteraf, 2003).

3. Theoretical Framework

Edith Penrose (1959), one of the early scholars to attach importance and necessity to network resources, competitive advantage and performance, termed an organization as the combination of dynamic, mixed physical and human resources that it maintains and monitors (Penrose, 1959). The series of researches in the RBV view organizations within an industry to be varied based on the type of resources being controlled by researcher. 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).

Network resources are of unequal importance to becoming a source of competitive advantage to an organization. As a matter of fact, Barney (1991) described network resources that bring an advantage to the organization to have four characteristics which are: (i) they must be of value and be very distinctive to the organization, (ii) they must be scarce and difficult to supply, (iii) they must be hard to be copied and, (iv) they must be irreplaceable.

There has been wide researches using the resource based view (RBV) theoretical models, but few researchers have only attempted to analyze these models in an empirical manner especially in Nigeria (Collis, 1991; 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 pragmatism, orientation and attitudinal resources, product innovation and service delivery, organizational capabilities in export knowledge and planning and the ability to leverage strategically important relational resources (Newbert, 2007).

4 - Empirical studies: a fundamental problem

A survey research design was adopted for this research study in line with the studies conducted by Al-Laham and Souitaris(2008).This method of research design was adopted to describe the effect of network resources and dynamic capabilities on organizational performance. This followed a positivist philosophy to survey research design. The type of data used in this research was a primary data. The research instrument used was a well-structured questionnaire which

was complemented with a few interviews. The questionnaire was divided into two sections; Section A contained the demographic and personal information about the respondent which include sex, age, marital status, educational qualification, department and work experience. Section B contained questions related to the research questions under consideration. It employed a 5 point Likert scale instrument from strongly agree to strongly disagree; where "strongly agree is 5 points, and strongly disagree" is 1 point

This research work focused on top management employees of Nigerian banks. The choice of the financial institution for this study is appropriate due to the frequent changes being experience in the Banking environment since the post consolidation era. The consolidation era witnessed the merging of over seventy-four (74) small banks into twenty-one (21) major banks by the Central bank of Nigeria in year 2001 to ensure global competitive. The population of this research work was drawn from the list of members of the board of directors and managers of Nigerian banks as listed in the stock exchange annual bulletin containing seven hundred and thirteen (713) personnel profile. The population was evenly distributed among top staffs of Nigerian banks, consisting of males, females, different age brackets, working experience and qualifications of the respondents under study. The stratified random sampling procedure was adopted in selecting the sample size. A total of two hundred and fifty (250) respondents were randomly selected by casting a yes or no of lots on the bulletin.

Five managerial staffs of twenty five (25) branches on Nigerian banks were each administered the questionnaire totalling 250 staffs of which fifty (50) respondents failed to return their questionnaires. Of the two hundred (200) questionnaires returned, sixty three (63) were incomplete and thus removed from the data. A final sample size of one hundred and thirty seven (137) completely filled, returned and found suitable for the analyses.

5. Analyses and Discussion

Standard multiple regression analysis was used to assess the ability of two independent variables (Network resources scale and dynamic capabilities scale) to predict the level of organizational performance (Organizational performance scale). Preliminary analyses were conducted to ensure no violation of the assumptions of normality, linearity, multicollinearity and homoscedasticity. After entry of the network resource scales and dynamic capabilities scales, the total variance explained by the model as a whole was 77.4%, $f(2, 134) = 228.92, p < .001$. In the coefficient model, the two independent variables were statistically significant. However, network resource scale recorded a higher beta value ($\beta = 1.95, p < 0.01$) than dynamic capabilities scale ($\beta = -1.25, p < 0.01$). Having analyzed the data, this study rejects the null hypothesis H01 which states that network resources and dynamic capabilities have no significant effect on organizational performance in Nigeria.

Table 1: Correlation I

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	t
1	.880(a)	.774	.770	.35308	4.14

Independent variable: Constant; dynamic capabilities; many resource combinations (see, Annex I)

Dependent Variable: organizational performance

Table 2: F-Statistic

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	57.076	2	28.538	228.924	.000(a)
	Residual	16.705	134	.125		
	Total	73.781	136			

Independent variable: Constant; dynamic capabilities; many resource combinations (see, Annex I)

Dependent Variable: organizational performance

Table 3: Correlation II

			Network Resource	Organizational Performance	T
Spearman's rho	network resource	Correlation Coefficient	1.000	0.324(**)	11.39
		Sig. (2-tailed)		0.000	
		N	137	137	

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

The relationship between network resources (as measured by network resource information) and organizational efficiency (as measured by organizational efficiency) was investigated using spearman's rank correlation coefficient. Preliminary analyses were performed to ensure no violation of the assumptions of normality, linearity and homoscedasticity. There was a weak, positive correlation between the two variables, $r = .32$, $n = 137$, $p < .0005$. This implies that there is a significant relationship between network resources and organizational efficiency, thereby rejecting the H02, which is the null hypothesis. However, the magnitude of the correlation of Spearman is low. Therefore, network resources accounts for 10.24% (that is, the r^2) of the banks' performances

The findings of this study revealed that network resources and dynamic capabilities are statistically significant to organizational performance. The firms also possess the ability to quickly respond to sudden changes in government policies and the environment in general. However, in terms of the degree of relationship, it seems that network resources have a higher degree of effect on organizational performance than dynamic capabilities as shown in the t-values. Similarly, it showed that network resources in an organization are very important to the organization in achieving efficiency because it is a medium of accessing information and other resources from other firms. The finding also confirm that for an organization to bring about

new ideas (dynamic capabilities), it has to bring together many resources inform of collaborating with other organizations (network resources) so as to achieve its goals and objectives. Consequently, it could be concluded that network resources are very important to the organization because it allows firms to access information from other organization with which to work on so as to achieve its target objectives. It is suggested that organizations should try to know more about their customers, suppliers, competitors and government so as to ensure better service offer or produce goods to their satisfaction.

Conclusion

From the above, it was recommended that managers should understand the importance of dynamic capabilities and network resources to the success of their firms. As such, for banks to improve on performance, the management should try to network and interact with other organizations both within and outside the industry given the uncertainty and dynamic nature of the business environment. Greater market share of the industry could be gained through the acquisition, deployment and management of these capabilities and networking. Equally important to the management of Nigerian banks is the need for them to continuously renew and improve their organizational capabilities regularly for the purpose of responding to environmental changes and proving a quality service to its customers.

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ANNEX I - Questionnaire

BACKGROUND INFORMATION OF RESPONDENTS

1. How long has the bank being in the Industry ()
2. What is your age (years)? 25 - 35 (), 36 - 45 (), 46 - 55 (), 56 and above ()
3. Please indicate your highest level of education: WAEC/O LEVEL (), NCE/OND (), HND/Bachelors Degree (), PGD/Masters Degree (), Doctorate ()
4. What is your current position? CEO(), Top Manager(), Middle Manager(), Staff (), Others (please specify)_____
5. How long have you worked for this bank? Less than 5 years (), 5- 10 years (), 11- 15 years (), 16-20 years (), more than 20 years ().
6. How many employees do you have in your bank? Less than 20 (), 21-50 (), 51-100 (), 101-200 (), 201-300 (), 301-400 (), 401-500 (), Above 500 ()

Please indicate (by ticking the appropriate box) the extent to which you agree or disagree with each of the statement below. The following scale is applied for all statements.

1	2	3	4	5
STRONGLY DISAGREE (SD)	DISAGREE (D)	UNDECIDED (UD)	AGREE (A)	STRONGLY AGREE (SA)

STRATEGIC DYNAMIC CAPABILITY

Code	Items					
	During the past three years:	1	2	3	4	5
SDC 1	Our bank’s ability to remove unexpected obstacles that emerged in the competitive environment has been greater than that of our direct competitors					
SDC2	Our bank’s ability to adapt quickly to sudden changes in industrial policies has been greater than that of our direct competitors					
SDC3	Our bank’s ability to succeed in an intensely competitive business environment has been greater than that of our direct competitors					

NETWORK RESOURCES

Code	Items					
	Over the past three years, our bank has maintained strong inter-organizational collaboration in terms of funding, technologies, R&D, market development, logistics, project discovery, and other business activities with:	1	2	3	4	5
BN1	Governmental organizations/agencies					
BN2	Our suppliers,					
BN3	Our customers,					
BN4	Our competitors,					
BN5	Other bank-level collaborations					
BN6	Various non-profit organizations such as research institutes and universities.					
BN7	Organizations from other countries or abroad					

COMPETITIVE ADVANTAGE

Code	Items	1	2	3	4	5
CAD1	Having dynamic capabilities can lead to substantial cost advantages for our company					
CAD2	Our company has realized significant cost savings by improving the quality of our relationship with other banks in the industry					
CAD3	By regularly investing in new technologies, processes and strategies, our company can be a leader in the market					
CAD4	Our company can enter lucrative new markets by adopting business network strategies					
CAD5	Our company can increase product/service quality by making its current processes dynamic					
CAD6	Increasing the inter-dependency abilities of our company's activities will lead to a quality improvement of our product/services					

ORGANIZATIONAL PERFORMANCE

	My organization, compare with key competitors, (adapted from Ellinger et al., 2002, and York and Mire, 2004)	1	2	3	4	5
PF1	is more successful					
PF2	has greater market share					
PF3	is growing faster					
PF4	is more profitable					
PF5	is more innovative					
PF6	has larger size in terms of turnover					
PF7	has more patents.					