# Adaptive Capabilities as Predictors of Sustainable Competitive Advantage among Selected Banks in Nigeria

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*Adaptive capabilities, Product Innovativeness and Sustainability*

## Abstract

This study examines adaptive capabilities as predictors of the banks' sustainable competitive advantages. The study adopts a quantitative research method approach. The survey research design was adopted, in which, cross-sectional data were gathered through use of questionnaire from respondents in eleven Nigerian banks. The research instrument item was validated in the pilot study and the reliability test shows an average Cronbach Alpha of $\alpha = 0.811$. The questionnaire was then administered to four hundred and ten (410) managerial bank staff, with a minimum of 10 years working experience. A total number of three hundred and eighty-two (382) copies of questionnaire were fully completed, returned and were found usable. The data collected were analyzed using descriptive statistics, multiple regression and correlation coefficients which reveal that the overall regression model is fit with an average 0.70 adjusted $r^2$. The study revealed that adaptive capabilities have a significant effect on the product innovativeness. The study, therefore recommends that bank top management should concentrate their activities on acquiring, developing and maintaining their dynamic capabilities. The study also concludes that these dynamic capabilities variables are very instrumental to achieving sustainable competitive advantage of banks in Nigeria.

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**Background to the Study**

The concepts of adaptive capabilities 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. Consequently, having a continuous edge over competitors can be possible with the presence of these dynamic resources within the organization, especially those in the banking industry (Teece, Pisano & Shuen, 1997).

Adaptive capabilities and sustainable competitive advantage are concepts rooted in the strategic management literatures. The history and emergence of these concepts could be traced to the organizational activities aimed at ensuring that a firm, such as a bank, survive in the dynamic business external environments (that is, the political, economic, social, technological, and legal environments) which are mostly characterized with uncertainty (Grant, 2005). Survival, here, could mean the ability to successfully navigate these external environmental factors by aligning organizational and inter-organizational resources and capabilities, for the purpose of gaining sustainable competitive advantage.

Sustainable competitive advantage can be described as the long-term performance of a bank over its closest rival in the banking industry in terms of profitability, market share, quality employees and stakeholders' satisfactions, innovation and performance among others. In the same vein, competitive advantage (which can be temporary) can be viewed as the value that an organization is able to accumulate to be able to ensure distinction from its close 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 and value, they will purchase that service, and, more importantly, will continue to do so over time (Wood, 2004).

The inability of firms to continuously create valuable, rare, inimitable and non-substitutable resources (human and non-human) can be a major challenge in the banking business industry. Contemporary 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, which brings the challenge of dynamism. Managers are now provided with much relevant and irrelevant information and choices, as a result of the advent of the internet and communication technology, which now makes effective decisions so complex and difficult to make from the whole gamut of information in the space. This can surely hinder the banks sustainable competitive advantage.

**Objective of the Study**

The general objective of the study is to investigate the relationships that exist between adaptive capabilities and sustainable competitive advantage in selected money deposit banks in Nigeria. However, the specific objective of the study is to examine the effect of adaptive capabilities on product innovativeness. In view of the research objectives stated above, the research questions addressed in this study is to what extents do adaptive capabilities have any

significant effect on product innovativeness?  The research hypothesis tested was based on the set objectives of this study and validated in this study is as follows:

$H_{o1}$: Adaptive capabilities have no significant effect on the product innovativeness.

The findings of this study is beneficial not only to the managers in the banking industries but to other stakeholders in the business community including the policy formulators, regulatory agencies, the academia, industrial, financial and economic analysts among others. The benefits are in the deep understanding of how sustainable competitive advantage of firms can be achieved through the development of adaptive capabilities.

This study was divided into four sections in which the first section dealt with the introduction. Section two of this study elaborated on the literature review. Section three dealt with the research methodology and analysis. Section four focused on the summary, conclusion, recommendation and finally the references used for the study.

## Literature Review
### Dynamic Capabilities
The concept of Dynamic Capabilities (DCs) in the Resource Based View of the firm has gained rapid recognition as a potential source of achieving and sustaining competitive advantage in manufacturing firms (Eisenhardt & Martin, 2000; Teece et al., 1997). DCs have been identified as change agents that allow organizational development and renewal of their capabilities enabling them to respond to changes in the external environments (Teece et al., 1997) and renewal of resources (Zahra, Sapiewenza & Davidsson, 2006).  Dynamic capabilities concept has been found to be a significant source of sustainable competitive advantage; however, the process through which organizations develop DCs is lacking empirical investigation (Zahra et al., 2006; Priem & Butler, 2001).

Dynamic capabilities is a firm's behavioural orientation to constantly integrate, reconfigure, renew and recreate its business resources and capabilities, and most importantly, upgrade and reconstruct its core capabilities in response to the changing environment to attain and sustain competitive advantage  (Zahra et al., 2006). By this definition, it can be argued that dynamic capabilities are not simply processes, but embedded in processes. Processes can often be explicit or modifiable structuring and combination of resources and thus can be transferred more easily within the firm or across firms.

### Forms of Dynamic Capabilities
### Adaptive Capabilities
This is the firm's ability to identify and capitalize on emerging market opportunities (Hooley, Lynch & Jobber, 1992; Chakravarthy, 1982). Chakravarthy (1982) distinguishes adaptive capability from adaptation. The latter describes an optimal end state of survival for a firm, while adaptive capability focuses more on effective search and balancing exploration and exploitation strategies (Staber & Sydow, 2002). This type of 'balancing' act is brought to a strategic level and linked to the business resource perspective. Adaptive capability is

manifested through strategic flexibility, the inherent flexibility of the resources available to the firm and the flexibility in applying these resources (Sanchez, 1995).

**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).

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).

**Forms of Sustainable Competitive Advantage**
**Product Innovativeness**
To obtain sustainable competitive advantages, firms have to introduce innovative products or services regularly and continuously (Fallah & Lechler, 2008). One indicator of the success of new products is the product innovativeness (Ahlstrom, 2010). The product innovativeness can help banks to distinguish themselves from competitors and build competitive advantages (Ahlstrom, 2010). Researchers note that sometimes all customers care about is how and what is new about an innovative product, so they can have strong feelings and perceptions about the product innovativeness (Phau, Teah, Lim & Ho, 2015). Due to its impact on consumer behaviours and attitudes, the product innovativeness has gained more attention in the strategic and customer-related literature (Athanassopoulos, 2000).

**Theoretical Framework**
**The Resource-Based View Theory**
Drawing on Penrose (1959), the Resource-Based View (RBV) suggests that the firm, in this case a bank, could be best viewed as a collection of sticky and imperfectly imitable resources or capabilities that enable it to successfully compete against other firms. In other words, the success of a bank is mostly attributed to the value of resources it has and the capacity to deploy these resources. The relevancy of this theory to this study is in its resource-dependency approach which states that the more valuable the firm's capabilities are, the more the firm can

achieve competitive advantage (Barney, 1991). It is within this perspective that the dynamic capabilities of the firm could be traced.

The Resource-Based View is perhaps the dominant theoretical perspective within strategic management (Barney & Mackey, 2005). Resource-Based View contends that certain assets and capabilities provide the foundation for a competitive advantage, and thereby set the stage for substantial wealth creation (Wernerfelt, 1984). To provide a competitive advantage, resources must be valuable, rare, inimitable, and difficult to replace via substitution (Barney, 1991). Chi (1994) refers to resources that meet these standards as 'strategic' resources. Examples of strategic resources found in the literature include patents, brand name, reputations among others.

**Methodology**
A survey research design was used in this study. This method of research design was used to determine the extent of the effect of adaptive capabilities on product innovativeness of selected banks in Nigeria. The study was carried out in the Nigerian banking sector of the Nigerian economy. This is because the banking sector accounts consistently for between 12-18% of the Nigerian GDP (CBN Bulletin, 2012).

The study area is Lagos State which is located in the South-Western hemisphere of Nigeria. Lagos State is regarded as an emerging Mega City and serves as the commercial nerve centre of Nigeria. The choice of Lagos State offers a vantage location for this study as 92% of Nigerian banks also have their headquarters and major business transactions in Lagos, Nigeria (NSE Factbook, 2013).

This study employed a non-probabilistic sampling technique. To enhance the sample precision and representativeness, multi stage sampling approach was adopted to select the respondents surveyed. In this study, primary source of data gathering was employed. The questionnaire was the major instrument of data collection. The study gathered a cross-sectional primary data from the respondents over a period of six months, from June 2016 to November, 2016. A total number of 410 copies of the questionnaire were distributed, out of which 382 copies were fully completed and returned.

For this study, the analytical techniques employed in analyzing the data collected, using the Statistical Package for Social Sciences (SPPS 21.0), were the Simple Percentage Analysis, the Product Moment Correlation Coefficient and the Regression Analysis (ANOVA).The descriptive statistics of the data is shown.

**Table 1**

| 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% |
| No of Employees | 51-100 | 101-200 | 201-300 | 301-400 | 401-500 | Above 500 |
| | 2.7% | 26.7% | 2.7% | 1.4% | 4.1% | 62.4% |

**Testing of Hypothesis**
**Hypothesis One:**

$H_o$: Adaptive capabilities (AC) have no significant effect on the product innovativeness (PI).

**Table 2**

| Model Summary[b] | | | | | |
|---|---|---|---|---|---|
| Model | R | R Square | Adjusted R Square | Std. Error of the Estimate | Durbin-Watson |
| 1 | .876[a] | .767 | .765 | .77580793 | 2.031 |
| a. Predictors: (constant) AC… | | | | | |
| b. Dependent Variable: PI | | | | | |

**Source:** Field Survey (2018)

The table 2 shows that the value of R = 0.876 and the coefficient of determination (R Square) of 0.767. This suggests the notion that product innovativeness is influenced by 76.7% of adaptive capabilities, while the rest (100% - 76.7% = 23.3%) is explained by other factors. The Durbin-Watson figure 2/031 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 residuals are not serially correlated.

**Table 3**

| ANOVA[b] | | | | | | |
|---|---|---|---|---|---|---|
| Model | | Sum of Squares | Df | Mean Square | F | Significance |
| 1 | Regression | 133.264 | 1 | 133.264 | 221.414 | .000[a] |
| | Residual | 228.714 | 380 | .602 | | |
| | Total | 361.978 | 381 | | | |
| a. Predictors: (constant) AC... | | | | | | |
| b. Dependent Variable: PI | | | | | | |

The table 3 shows a probability level of significance value of 0.000. Therefore the probability (0.000) is much smaller than 0.05, then the multiple regression models can be used to predict the product innovativeness of Banks in Nigeria. The regression result of the study's model suggests that the independent variables adaptive capabilities have significant effect on product innovativeness. 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 271.414 is significant at $p<0.05$. 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 variables is rejected. The evidence established that the independent explanatory variable adaptive capabilities have individual and combine impact on the product innovativeness of Nigerian banks.

**Discussion and Implications for Management**
It was found out that the banks' adaptive capabilities to create value have been greater than that of their direct competitors in the industry. In other words, the banks' ability to succeed in an intensely competitive business environment has significantly influenced its service innovativeness. This supports the expectation of this study that adaptive capabilities have a significant effect on the product innovativeness of banks in Nigeria. This is also in line with the findings of Pavlou and El Sawy (2011).

The study therefore, concludes that adaptive capabilities are most important in guaranteeing sustainable competitive advantage. Adaptive capabilities have a positive and significant impact on product innovativeness. Therefore, the study shows that the banks' abilities to remove an unexpected obstacle in the competitive banking environment assist to predict how their innovative products are perceived by the banking public (Hitt, Bierman, Shimizu & Kochhar, 2001).The study also concludes that the possession and deployment of adaptive capabilities can foster the attainment of a sustainable competitive advantage in the banking industry (Amit & Schoemaker, 2002). Therefore, the ability to monitor and respond to the closest rival strategy is an essential tool towards profitability.

Based on the findings and conclusions of this research, the researcher recommended that managers of banks should focus on acquiring adaptive capabilities to improve their

innovativeness for sustainable competitive advantage. These capabilities can be acquired through continuous training of decision-making personnel and field officers in order to build valuable resources to knowledge pool. Future research should focus on other industries such as telecommunication, household product industries among others, so as to analyze the role of adaptive capabilities in building sustainable competitive advantage for generalization. The analysis for future studies could be comparative and can be conducted on an industry-by-industry basis. Researchers should then investigate similarities and differences in adaptive capabilities and sustainable competitive advantages through cross-industry studies.

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