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Effect of Dynamic Managerial Capabilities on Organizational Performance: A Survey of Western Kenya Sugar Industry

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***Abstract**": The Kenyan sugar sector faces stiff competition from sugar firms in COMESA region leading to collapse and privatization of public sugar firms. This scenario calls for early strategic identification of strength, weakness, opportunities and threats posed by competition. In this regard the current study has been designed to assess the effects of dynamic managerial capabilities on the performance of sugar industry in Western Kenya. The study examined the effect of Participative leadership, relational capability on performance of sugar industry in Western Kenya. A survey design based on samples drawn from across the sugar industry in western Kenya was adopted. The target population was 108 employees.Data was collected by use of questionnaires and analyzed using inferential and descriptive statistics using SPSS version 20. From the results the predictors of performance of sugar industry were dynamic managerial capabilities constructs namely PL, RC with 68.5% of the variation in organization performance (Adjusted R Square = 0.685) and positively related to performance of sugar industry. Therefore the study recommends that the management of sugar industry and policy makers should formulate implement and evaluate dynamic managerial capabilities oriented policies in order to engender high organization performance.*

***Keywords:**Dynamic Managerial Capabilities ,Organization Performance*

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I. Introduction

The dynamic nature of the global business environment has occasioned uncertainty to organizations. These uncertainties have espoused from ever changing customer expectations courtesy of the erosion of competitive environments resulting to globalization of competition. This has called for the development of strategies that differentiates organizations from their competitors as a key success factor (Gathungu & Mwangi, 2012). In order to counter the turbulence in the business environment by use of strategies, there is need for early identification of strength, weakness and opportunities and threats posed by competition. According to Helfat and Peteraf, (2003) dynamic capabilities can be used in building, integrating or reconfiguring operational capabilities which can become core rigidities in the face of changing environments to engender high organization performanceThe concept of dynamic managerial capabilities helps to explain the relationship between the quality of managerial decisions, strategic change, and organizational performance (Constance & Jeffrey, 2014). The concept refers to the capabilities with which managers create, extend, and modify the ways in which firms make a living. According to Teece, Pisano and Shuen (1997), dynamic capabilities serve as an explanatory tool to analyze the firm's ability to build the competitive advantage in the time of uncertainty and change. It can therefore be inferred that inability of the firm to exploit its capabilities to avert the uncertainties' occasioned by dynamics in the business environment compromises on their competitive positioning in the markets hence poor performance in the long run. This is underpinned by the argument of Hilda, Hope and Ijeamaka (2016) that dynamic capabilities influence a firm's performance positively and thus any firm that fails to embrace them may not survive in the dynamic market environment because the possession of only unique resources is not sufficient anymore to gain competitive advantage. Ismael, Yusof and Davoud, (2010) opines that Organizational performance has been the most important issue for every organization, be it a profit or nonprofit one.

Organizations whose managers have superior DMCs can adapt and change more successfully than those whose managers have less effective or no DMCs (Helfat & Jeffrey, 2015). By their nature, dynamic capabilities are suited to dynamic markets, being able to cater for changes through adapting current resources and routines (Teece, 2007). The key principle behind them is continued competitiveness, as organizations are not only competing in their ability to configure and exploit existing resources, but also in their ability to renew and develop these resources (Hou, 2008). Dynamic capabilities lie within the firm's core management (Helfat

&Jeffrey, 2015) such that managerial judgment influences the deployment of dynamic capabilities (Ambrosini & Bowman, 2009).

However Drnevich and Kriauciunas, (2011) argue that several drawbacks of dynamic capabilities can be identified. These include the failure to incorporate dynamic capabilities into the internal processes within the firm (Tallon, 2008). Therefore, the role of dynamic capabilities in increasing organization performance is still questionable. Even though researchers recognize that dynamic capabilities of the firm may positively contribute to organization performance, there is no strong empirically grounded evidence in research literature that supports this idea (Hitt, Bierman, Shimizu & Kochhar, 2001). Moreover, it is important to examine such relations as dynamic capabilities are recognized as having insignificant direct impact on organization performance results (Protogerou, Caloghirou & Lioukas, 2008). Not all managers have dynamic managerial capabilities, and possession of a particular capability does not imply superiority (Eisenhardt & Martin, 2000). Nevertheless, the DC literature is limited in that it tends to focus on the organization as opposed to its employees (Adner & Helfat, 2003), and the human element has largely been overlooked (Powell, 2014). Besides literature has called for additional research into DMCs (Adner & Helfat, 2003; Martin, 2011; Sirmon, Gove, & Hitt, 2008). Wang and Ahmed, (2007) argues that most of the studies have tended to be industry (firm) specific. Thus there has been a call for more research across different organizations in different industries. These altogether warranted the need for the current study in assessing the effects of dynamic managerial capabilities on organization performance. The study assessed the effects of dynamic managerial capabilities constructs such as relational capabilities and participative leadership on organization performance.

II. Statement of the Problem

The Kenyan sugar industry is a major contributor to the national economy and accounts for about 15% of the agricultural performance (Kenya National Assembly, 2015). However Kenya vision 2030 stipulates that the sector should account for 20% of the GDP (Kenya Economic Survey, 2015). This is underpinned further by the fact that the combined installed capacity of all sugar factories in the country is 30,866.4 TCD(Total cane per day) while the average capacity utilized remains 19 239.33 TCD (59.535%) ascribed to capacity underutilization due to low levels of technical efficiency and managerial inefficiencies (KSB, 2010).It can therefore be inferred that individuals running this industry lack the necessary vision, acumen and purpose for the sector thus compromising on its sustainability and competitiveness (KSB, 2011). This denotes a dearth of DMCs amongst the human resources who should steer the sector to prosperity hence all efforts by stakeholders to revamp the sector has invariably culminated to zero progress. This can be ascribed to the fact that strategic management research has been skewed to organizational dynamic managerial capabilities rather than individuals or managers capabilities hence an explanation on dynamic managerial capabilities is still missing (Mollick, 2012).Nonetheless owing to this skewness in literature the question whether the adoption of DMCs will help the management of sugar sector to reconfigure its capabilities to become globally competitive to survive the anticipated regional sugar trade liberalization remains in abeyance.

According to KSB, (2011) achieving a higher performance in the sugar sector requires the adoption of dynamic managerial capabilities to address low levels of capacity utilization, lack of technological progress and poor managerial capacities (KSB, 2011). Even though dynamic managerial capabilities of the firm may positively contribute to firm performance, there is no strong empirically grounded evidence in research literature that supports this idea (Hitt et al., 2001; Helfat et al., 2007). Moreover, it is important to examine such relations as dynamic managerial capabilities are recognized as having insignificant direct impact on firm performance results (Protogerou et al., 2008). Nevertheless, the DC literature is limited in that it tends to focus on the firm as opposed to its employees (Adner & Helfat, 2003), and the human element has largely been overlooked (Powell, 2014). Besides literature has called for additional research into DMCs (Adner & Helfat, 2003; Martin, 2011; Sirmon & Hitt, 2009). From the existing literature it is not clear what the DMC disposition of western sugar industry is and how the disposition affects performance of the sugar industry in western Kenya. This has motivated the current study on the relationship between dynamic managerial capabilities on the performance of sugar industries in order to fill in the existing gap in literature. The study explored the relationship between the dynamic managerial capability constructs as learning based DMCs, innovation based DMCs, relational capability and Participative leadership on organization performance

III. Specific Objectives

3.1 The specific objectives of the study included;

1. To find out the effects of Participative leadership on performance of sugar industry in Western Kenya.
2. To determine the effects of relational capability on performance of sugar industry in Western Kenya

IV. Participative Leadership and Organization Performance

Leadership in organization does not take place in a vacuum; it takes place in organizational contexts (Porter & McLaughlin, 2006). Participative leadership encourages behaviour such as trust, support, and autonomy among others, that are involved in organizational learning capability to facilitate innovation hence improving performance (Alegre & China, 2013). Dialogue is a sustained collective inquiry into the processes, assumptions and certainties' that make up everyday experiences (Isaacs, 1993). Participative decision making refers to the level of influence employees have in the decision making process (Cotton et al., 1988).According to Zhu et al., (2005), leadership is one of the drivers of improved organization performance.

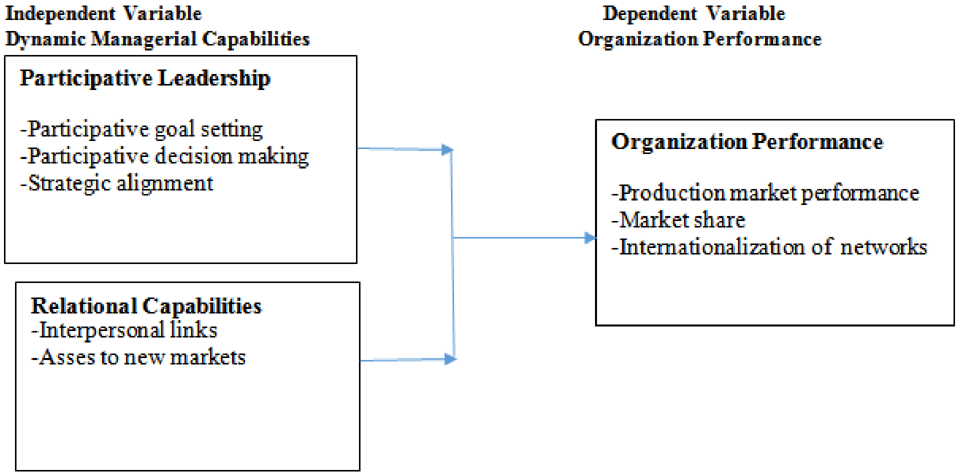
These authors argue that, leaders as key decision makers determine the acquisition, development, and deployment of organizational resources and conversion of these resources into valuable products and services. Thus leadership is seen as a source of managerial rent and therefore of sustainable competitive advantage (Rowe, 2001)The recent trend of participative leadership reflect the new business environment that emphasizes ethics, team work and collaboration through a more transparent decision making process. Such forms of influence have been linked to a variety of positive outcomes such as followers' satisfaction and high performance (Gardner, 2005). Integrity and managerial values such as honesty, altruism, compassion, fairness, courage, and humility are emphasised. Employees whose behaviour reflects these values will be more effective (Yukl, 2012).Participative leadership helps in developing learning capability (Berson, 2006). Participative leadership displayed by managers is understood as an antecedent of organizational learning capability. A leader who empowers the members of their organization; involves members in making important related decisions and considers their suggestions and concern, delegate responsibility and authority to members for important tasks and allows them to resolve work related problems without prior approval (Yulk, 2012) hence, this climate of support might promote taking risks and high degree of participative decision making.

Therefore, the ability of leaders to correctly use a participative style motivates subordinates to commit themselves to the organization. Yiing and Ahmad (2009) also found that participative leadership style is significantly and positively related with organizational commitment. Other scholars also revealed that this leadership style has a positive effect on the commitment of subordinates to the quality of service, shared values and the clarity of the employees' functions (Danneels, 2002). Gnyawali and Madhavan, (2001) also found that participative leadership behavior leads to increased organizational commitment in service organizations. Furthermore, other scholars argue that this leadership behavior influences the job performance of subordinates by creating very high levels of trust (Armstrong, 2009).

V.Relational Capabilities and Organization Performance

The phenomenon of cooperative relationships has become one of the most important areas in strategic management research in recent decades. It is broadly accepted that in a networked economy, in which pressures from globalization and technological change are more and more evident, value creation processes take place not only at the level of individual firms but also at the level of networks. Gnyawali & Madhavan, (2001) define networks as cooperative relationships in which firms are embedded and which influence the flow of resources among them. Rich literature on cooperative relationships demonstrates that they enable firms to acquire important resources (incl. technology, knowledge, and financial resources), gain access to new markets, increase responsiveness and flexibility, achieve greater efficiency of operations and in turn improve performance (Yli-Renko, Autio, & Tontti, 2002). However, research on relational capabilities of SMEs originating from the CEE region is still rare. Cooperative relationships are particularly important for firms originating from transition markets, which follow the path of international growth. In comparison to their counterparts from developed economies, they often lack experience and resources and thus they must find ways of compensating such deficiencies (Mathews, 2006). In this respect the relational capability, defined as the capability to interact with other firms that "accelerates the lead firm's knowledge access and transfer with relevant effects on company growth and innovativeness" (Lorenzoni & Lipparani, 1999) is of critical significance as it influences the flow of resources among firms in networks.

V. Conceptual framework



VI. Methodology

The study adopted a survey design based on samples drawn from across the sugar industry in western Kenya. According to Saunders, Thornhill and Lewis, (2009), Survey method is a popular and common strategy in business research. It enables large amount of data to be collected from an ideal population and in a highly economical .According to Mugenda and Mugenda, (2012) a population is a complete set of cases, objects or individuals with some common characteristics that are observable. The target population was 108 employees from Mumias, Nzoia, West Kenya and Butali sugar factories. A sample size refers to the number of people in the respondent group determined by the scope of the research (Collis & Hussey, 2009). In this study census sampling technique was adopted to arrive at the sample size which is 108 respondents.A structured and pre-tested questionnaire based on the specific objectives was used to gather primary data both quantitatively and qualitatively.Data was analyzed using descriptive and Inferential statistics such as multiple regressions was used to determine the effect of a set of independent variable (Dynamic Managerial Capabilities) on dependent variable (Organization Performance) and infer causal relationships between the independent and dependent variables. Coefficient of correlation was used to quantify the direction and strength of the linear association between the variables. The Statistical Package for Social Sciences (SPSS) version 20.0 package.

VII. Data Analysis, Results Findings And Discussion

Participative Leadership.

Studysought to establish the effect of Participative leadership on performance of sugar industry in Western Kenya. The study conceptualized that Participative leadership had an effect on performance of sugar industry. Thus; five questionnaire items were used to examine the prevailing status ofParticipative leadership in the organizations. Results presented in Table 1 reveal that the respondents were undecided that Employees are part of a team that are involved in decision making. (M=3.26 SD=1.333). Besides, a majority of the employees tended to agree that they are adequately engaged in strategic processes that helps the firm in turbulent times (M=3.82 SD=1.177). Some respondents also tend to agree that management provides resources to support quality training, particularly on modern plants and equipment. (M=3.60 SD=1.289). Some respondents were undecided whether employees participate through compliance teams, leading to quality service delivery (M=3.23 SD=1.336). Lastly the respondents tended to agree that employees participate in investment decisions making the organization to enjoy competitive advantage (M=3.51 SD=1.446).

Table 1 Participative leadership descriptive Statistics

Response items	**Mean**	**Std. Deviation**
Employees are part of a team that is involved in decision making.	3.26	1.333
Employees are adequately engaged in strategic processes that helps the firm in turbulent times.	3.82	1.177
The management provides resources to support quality training, particularly on modern plants and equipment.	3.60	1.289
Employees participate through compliance teams, leading to quality service delivery	3.23	1.336
Employees participate in investment decisions making the organization to enjoy competitive advantage	3.51	1.446

Relational Capability

The study also sought to establish the effect of effect of relational capability on performance of sugar industry in Western Kenya. The study conceptualized relational capability had an effect on performance of the sugar industry. Thus; five questionnaire items were used to examine the prevailing status of relational capability in the organizations Results presented in Table 2 reveal that the respondents were undecided whether a reward system encourages commitment to strategic direction of the organization. (M=3.00 SD=1.110). Besides, a majority of the employees disagree that a direct and indirect personal contact with the CEO is used for internal problem solving process (M=2.51 SD=1.119). Some respondents also undecided whether interpersonal links has increased problem solving skills in the firm (M=3.28 SD=1.148). Some respondents tended to agree that marketing and operations have been effectively linked between industry players to improve on standards of products (M=3.86 SD=1.069). Lastly the respondents tended to agree that there is frequent meeting between customers and firm operations (M=3.49 SD=1.055).

Table.2 Relational capability descriptive Statistics

Response items	Mean	Std. Deviation
Reward system encourages commitment to strategic direction of the organization	3.00	1.110
A direct and indirect personal contact with the CEO is used for internal problem solving process.	2.51	1.119
Interpersonal links has increased problem solving skills in the firm	3.28	1.148
Marketing and operations have been effectively linked between industry players to improve on standards of products.	3.86	1.069
There is frequent meeting between customers and firm operations.	3.49	1.055

Organization Performance Variable

The dependent variable of the study was organization performance. The study conceptualized that dynamic managerial capabilities could have an effect on organization performance. To this end, five questionnaire items were used to assess organization performance western Kenya sugar industry.Results displayed in Table 8.3, reveals that respondents concurred that the organization has realize increased customer base due to quality products manufactured (M=3.48 SD= .819). Some respondents were of the view that organizational technology is able to adapt quickly to changes necessary due to competition. (M=3.52 SD= .819). The respondents also tend to agree that there is increased market share as compared to our competitors. (M=3.94 SD= .867). Respondents also agree the shareholders returns have improved (M=3.63 SD=.684).

Table 3 Organization Performance Descriptive Statistics

Response items	Mean	Std. Deviation
The organization has realize increased customer base due to quality products manufactured	3.48	.819
Organizational technology is able to adapt quickly to changes necessary due to competition.	3.52	.819
There is increased market share as compared to our competitors.	3.94	.867
The shareholders returns have improved	3.63	.684

Correlation between DMCs and Organization performance

From the results, it can be seen that correlations among the dimensions were significant. Correlations between PL and RC, where r=.766**, r=.700** respectively were also positively and significantly related to organization performance where P<0.01. Linearity assumption was therefore satisfied. This implies that all the dimensions of dynamic managerial capabilities under study jointly have a positive and significant impact on organization performance in western Kenya sugar industries as such it behooves the management of the institution to pay high premiums on these dynamic managerial capabilities dimensions to secure high organization performance.

Correlation matrix

	PL	RC	Organization performance
PL	1		
RC	.563**	1	
Organization performance	.766**	.700**	1

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

Effects of dynamic managerial capabilities on organization Performance

Multiple regression analysis was used to test the formulated hypotheses. First, the model summary was analyzed to establish the strength of the conceptualized dimensions of dynamic managerial capabilities in predicting organization performance. Results presented in Table 4 reveal that the four constructs namely PL, RC 68.5 % of the variation in organization performance (Adjusted R Square = 0.685).Therefore, the remaining 31.5% is explained by other factors not considered in the study.

Table 4 Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.832[a]	.692	.685	.342	2.123
a. Predictors: (Constant), PL, RC					
b. Dependent Variable: Organization Performance					

Second, the ANOVA output was examined to check whether the proposed model was viable. Results shown in Table 5 reveal that the F-statistic was highly significant (F= 94.440 p<0.01), this shows that the model was valid.

Table 5ANOVA

Sum of Squares	Df	Mean Square	F	Sig.
22.118	2	11.059	94.440	.000[a]
9.836	84	.117		
31.954	86			
a. Predictors: (Constant), PL, RC				
b. Dependent Variable: Organization Performance				

The model significantly improved the ability to predict organization performance. Thus, the model was significant.

7.6Regression Coefficients of Organization Performance

Results of the regression coefficients presented in Table 8.8 shows that the estimates of β values and give an individual contribution of each predictor to the model. The β value tells us about the relationship between employee performances with each predictor. The positive β values indicate the positive relationship between the predictors and the outcome. The β value PL (.544) and RC (.394) were positive. The positive β values indicate the direction of relationship between predictors and outcome. From the results (Table 8.8) the model was then specified as:-

y= $\beta_1 X_1 + \beta_2 X_2 + \varepsilon$……………

Organization performance= . 544 PL, +.394 RC + ε ……….

The coefficients for each of the variables indicates the amount of change one could expect in organization performance given a one-unit change in the value of that variable, given that all the variables in the model are standardized basing on the standardized coefficients. Results reveal standardized regression coefficient for PL (β=0.544), implies that an increase of 1 standard deviation in PL is likely to result in a 0.544 standard deviations increase in organization performance. Standardized regression coefficient for RC (β=0.394), implies that an increase of 1 standard deviation in PL is likely to result in a 0.394 standard deviations increase in organization performance T-test was used to identify whether the predictors were making a significant contribution to the model. When the t-test associated with β value is significant then the predictor is making a significant contribution to the model. The smaller the value of significance (the larger the value of t) meaning greater is the contributor of that predictor. The results show that PL (t =7.420, P <.01) and RC (t =5.380, P <.01). These findings indicate that PL and RC as predictors, which significantly affect organization performance in sugar industry. These results imply that a participative leadership is most important predictor for organization performance.

Table6 Regression Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.	Collinearity Statistics	
		B	Std. Error	β			Tolerance	VIF
	(Constant)	1.367	.179		7.657	.000		
	PL RC	.337 .342	.045 .064	.544 .394	7.420 5.380	.000 .000	.683 .683	1.465 1.46
a. Dependent Variable: Organization Performance								

VIII. Discussion of results

Participative leadership encourages behaviour such as trust, support, and autonomy among others, that are involved in organizational learning capability to facilitate innovation hence improving performance (Alegre & China, 2013). The findings of this study significantly positive correlation r=0.766** P<0.01 between Participative leadership and performance of sugar industry in western Kenya. The multiple regression results shows that t is = 7.420 and P=0.001. These findings are in line with the findings of Yiing and Ahmad (2009); Robbins, Odendaal, and Roodit, (2008) who also found that participative leadership is significantly and positively related with organizational commitment which translates to increased organization performance. The implication of these results is that the sugar industry should give importance to participative leadership. Thus, the results will give them enough reason to consider participative leadership as an essential factor in enhancing organization performance. Relational capability, defined as the capability to interact with other firms that "accelerates the lead firm's knowledge access and transfer with relevant effects on company growth and innovativeness" is of critical significance as it influences the flow of resources among firms in networks (Lorenzoni & Lipparani, 1999). From the findings of this study there is significantly positive correlation r=0.700** P<0.01 between relational capabilities and performance of sugar industry in western Kenya. This is underpinned by the fact that cooperative relationships enable firms to acquire important resources (incl. technology, knowledge, and financial resources), gain access to new markets, increase responsiveness and flexibility, achieve greater efficiency of operations and in turn improve performance (Yli-Renko, Autio, & Tontti, 2002).The implication is that organizations should pay high premiums on their relational capabilities in order to secure maximal firm performanceThe regression model was statistically significant and explained approximately 68.5% of the variance of organization performance. Predictors of organization performance are Participative leadership, and relational capability. As evident from the results displayed, amongst the dynamic managerial capabilities dimensions, the most important predictor with respect to organization performance in the sugar industry in western Kenya was Participative leadership , with (β= .544,t=7.420 P=0.00).This suggests that in the light of dynamic managerial capabilities , Participative leadershipas a concept, when embraced by the sugar industry will contribute extensively to improving performance of sugar industry as compared to relational capabilities on performance of the sugar industry.

IX. Conclusion

From the findings it can be noted that the effect of all the construct of dynamic managerial capabilities would positively and significantly affect the performance of the sugar industry. It therefore calls for the formulation, promotion of dynamic managerial capabilities oriented policies and focusing on their implementation, in consequence it would become ingrained in management and operations of the sugar industry and not just an additional component of corporate policies thus high performance. Thus the current study provides absolute support to the suggestion that dynamic managerial capabilities be recognized as a significant precursor for the performance of the sugar industry. The study implies that in the light of dynamic managerial capabilities Participative leadership; as a concept, when embraced by the sugar industry will contribute extensively to improving performance of sugar industry as compared torelational capabilities on performance of the sugar industry. However, it should be adopted besides relational capabilities to enhance a synergistic relationship, which would eventually warrant high organization performance.

X. Recommendations

Authorities of the sugar industry should acquire better performance by attaching relational capabilities by giving impetus to marketing, a direct and indirect personal contact with the CEO and operations to improve on standards of products hence increasing organization performance.The organizations should improve on participative leadership, besides other dynamic managerial capabilities constructs to achieve high performance of the sugar industry. However there is need for securing employees participation through compliance teams in order to improve on quality service delivery and high level of satisfaction on the part of employees.

XI. Areas for further Research

Several studies should be undertaken to gain a more comprehensive understanding on this theme in other contexts, future research should also include: Intervening effects of entrepreneurial orientation on the relationship between dynamic managerial capabilities and performance of the sugar industry and other industries. Effect of managerial cognition on performance of sugar industry is also another area that needs more research.

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