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EFFECT OF INFORMATION TECHNOLOGY CAPABILITY ON COMPETITIVE ADVANTAGE OF THE KENYAN BANKING SECTOR: A CRITIQUE

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ABSTRACT

For many years, the importance of technology has greatly influenced the society and the business world. Today, everything in our environment is purely a product of high-end advancement. Information technology has fully grown with outstanding drive and acquired a noble rank for itself and all those that are linked to it. Moreover, today competitive advantage of the banking industry is associated with information technology. This paper critiqued a journal article, "Effect of Information Technology (IT) Capability on Competitive Advantage of the Kenyan Banking Sector" by Kamau et al., (2019), whose objective was to establish the impact of Information Technology on the competitive advantage of Kenya's financial industry. The study discovered that information technology capability management practices like investing towards improvement of the ICT hardware and skills of the ICT personnel resulted to a significant improvement in the competitive advantage of commercial banks in Kenya.

KEYWORDS: *Commercial Bank, Information Technology Capability, Competitive Advantage, Capability, ICT hardware and personnel*

INTRODUCTION

This article, "Effect of Information Technology (IT) Capability on Competitive Advantage of the Kenyan Banking Sector" by Kamau et al., (2019), sought to establish the impact of information technology on the competitive advantage of Kenya's banking industry. The article's findings suggest that information technology capability has a significant and positive impact on the competitive advantage of Kenya's commercial banks. From the article, it is evident that IT capability management practices like ICT hardware improvement and investment, ICT personnel skill development, recruitment of best ICT experts, and the use of information communication technology to control market information among other developments result to a crucial enhancement to the competitive advantage of banks in

Kenya. This paper provides a critical analysis of Kamau's et al. (2019) study giving its weakness and strengths.

THE CONTEMPORARY STRATEGIC MANAGEMENT ISSUES IN INFORMATION TECHNOLOGY IN THE KENYAN BANKING INDUSTRY

Currently, the business environment can be characterized as uncertain, ambiguous, volatile, and complex. Therefore, in such business surroundings, the ability to sense and as well as respond to market opportunities and threats faster than the competition has become essential for the survival of firms. Under this hostile business environment, competition is resulting in both supply and demand to fluctuate more rapidly and frequently than before. This means that firms ought to be agile and also require the ability to sense and respond to market changes faster than before though smoothly to maintain their competitiveness.

Additionally, Kamau et al. (2019) argue that once an organization gains a sustainable competitive advantage, the next step is to sustain high performance within the organization. While reviewing Tallon and Pinsonneault's (2011) study, Kamau et al. (2019) stated that a firm's agility can be enhanced by antecedents like IT capability. Therefore, the accumulation of lower-order capabilities like that of IT can result in higher-order capabilities like business agility, which promotes the competitive advantage of an organization. From the results, information technology capability has a positive and significant impact on competitive advantage of financial institutions in Kenya, which is shown by a positive beta coefficient of 0.341 and a significance value of 0.000 (Sig < 0.05) at a 5% level of significance. It is also evident that with other factors being constant, a unit increase in IT capability results in 0.341 units increase in the competitive advantage of the financial institutions in Kenya. Kamau et al. (2019) also assert that the results of the research were similar to the outcome of a survey by Mithas et al. (2011), which focused on establishing how information management capability impacts an organization's performance. Moreover, the research also links to the findings of Liu et al. (2013), whom studied the positive effects of IT capabilities on organizational performance. This stance by Kamau et al. (2019) is very valid since studies suggest that, currently, organizations are competing in challenging markets, which makes them to face complex and unpredictable as well as competitive customer-oriented surroundings (Chepkole & Deya, 2019;Njoroge et al., 2019;Chege et al., 2019). Moreover, the studies suggest that, to survive in such uncertain surroundings, businesses are forced to look for methods to be more agile and adaptable in the market compared to their competitors. Just as Kamau et al. (2019), the studies also suggest that, the key challenge for organizations is to attain and sustain their competitive position. Information communication technology (ICT) has, therefore, become one of the backbones of today's society, which has reshaped business practice hence adopted by many organizations.

It is important to note that in the article by Kamau et al. (2019), the authors sum-up the research well by saying that IT has a positive significant impact on the competitive advantage of a financial institution in Kenya (p.16). The study also suggests that commercial banks aim at improving their IT capability through investing in the improvement of the ICT hardware and skills. These arguments are valid because in a study by Namada (2018), it is stated that an organization achieves competitive advantage through selling products in a way that clients achieve more value compared to its competitors. Though information technology does not give the organization an absolute competitive advantage, it is one way that makes the difference in the banking industry in Kenya. In contrast, from Porter's definition, a company can gain competitive advantage through differentiation or lower cost. Without these attributes, a firm cannot outperform its competitors. Therefore, from Porter's view and the fact that all banking organizations in Kenya have adopted sophisticated information technologies, the idea that IT has a positive significant impact on the competitive advantage of a financial institution in Kenya seems to be exaggerated. From strategic management point of view, it is evident that for a company to gain an advantage over the other, it has to lower its costs compared to its competitors. On the other hand, studies have argued that to integrate the information systems with business strategy, there is a need for a good amount of cost to be invested in software, hardware, and training of people. Additionally, information technology is prone to security threats and the increasing data regulations, which makes it very expensive to install and manage (Chae et al., 2018). This proves that this study, though realistic, has some major biases that cannot be ignored.

However, studies by Turedi and Zhu (2019), Schweikl and Obermaier (2019), and Butler (2019) contrast Kamau et al.'s study, and argues that, there is no significant effects from ICT investments on firm's value, firm performance, and its competitive advantage. This research supports the ICT paradox theory as per Lee and Connolly (2010). Additionally, the studies argue that ICT has not changed the fundamental nature of the business-cycle and the instability of investment behavior. Schweikl and Obermaier (2019) and Turedi and Zhu (2019) further argue that ICT has a negative impact on a firm's performance hence claiming that in a post-ICT implementation period, organizations often experience competitive declines either in market share or profit. This creates the debate on the future of banking industry, which largely depends on IT for competitiveness.

The study adopts a descriptive survey research design that targeted 259 respondents from the head of operations department, head of the finance department, customer care department, research and development department, human resource department, sales, and marketing department, among others, in each of the 37 commercial banks in Kenya. This method of sampling results in unbiased as well as representative samples as per Geist et al. (2019) and DumanandMutlu (2019),which makes this research valid. Though the size of samples is dictated by the nature of data analysis as well as approximated response rate, most researchers propose one hundred participants as the minimum sample size especially in huge populations. This justifies that the research by Kamau et al. (2019) achieves validity in terms of the methods it adopted. Additionally, various statistical data analysis techniques have been adopted producing relevant results that indicate that this study is robust repeatable. However, the study concentrates on the heads of the departments only, and also fails to involve clients from such financial institutions, who could have indicated whether they have a preference of certain financial institutions due to better information technologies.

Moreover, the study has been supported by literature from various studies (Catherine et al., 2019; Chege et al., 2019;Njoroge et al., 2019), which validate it. Secondly, the study has introduced its literature with a problem, develops the background by providing a history of scholarly works on the subject and ultimately the objectives and rationale for the research, which is an indication that it is valid. Unfortunately, the study though focused on Kenya, failed to consider and compare with other financial industries on the use of IT in the literature review section. Lastly, from the discussion, it is evident that the scholars utilized critical thinking skills to validate and discuss their studies. For instance, at the hypothesis testing (pp.14-15), the scholars try to, like some earlier outcomes, validate their discussion.

CONCLUSION

The banking industry in Kenya is very wide and competitive and has undergone evolution for many years as new technologies have emerged, and are being introduced in the said banking sector. The modern technology in the banking industry has also revolutionized how clients are handled. Kamau et al. (2019) argue that IT has a positive significant effect on the competitive advantage of financial institutions in Kenya, which spurs some debates on whether that is true or not. Though this statement may be correct, there is still some weaknesses in this study. For instance, the cost of managing information technology is very high, which raises questions on competitive advantage. Secondly, lack of client participation results in questions on whether the study was standard. Lastly, the lack of comparison to other industries may indicate bias in the study. Nevertheless, there is stronghold from the fact that IT makes the company advantaged during a competition, the scholars use various literature sources to justify their studies, and lastly, the study involved a standard number of participants.

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