



Research Article

Influence of absorptive capability on organizational performance of tier two commercial banks in Kenya

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ABSTRACT

Firms that clearly understand their mandate are more easily able to understand their customers and hence are in a better position to create products that correctly fit in with the market needs and withstand competition. Most firms in the same industry operate under similar environments, however, the ability of a firm to understand its surroundings and take up the opportunities around it and at the same time minimize its threats within certain acceptable time limits, brings out to a large extent the difference between performance of one firm and the other in a similar industry. This study was anchored on the competitive theory as advanced by Michael Porter. A descriptive approach was used by explaining the data and characteristics of the population being studied. The study targeted a total of 64 respondents. This study did not sample the tier two commercial banks because they are few and hence a census was adopted. A pilot test on 8 employees was consequently carried out before this study. The respondents agreed that tier two banks strive to be competitive in the market and employees are encouraged to implement new ideas. The study concluded that absorptive capability has a significant contribution to performance of tier two banks. The study also recommended that banks should enhance customer retention to build their customer base.

Keywords: *Banking; Tier-Two Banks; Absorptive Capability; Performance*

1. INTRODUCTION

Absorptive capabilities are described as the capacity of an organization to create or potentially extend specific capabilities to meet advancing conditions, according to (Schilke, 2014). Cohen and Levinthal (1990) assert that absorptive capability is the ability of a firm to see the estimation of new, outer information, absorb it, and apply it to business parts. Firms with higher absorptive ability show more grounded restriction of getting from accomplices, joining outer information and changing it into firm-introduced information.

Absorptive Capability is additionally said to be an explanation behind organizations putting resources into Research & Development rather than essentially buying the outcomes post factum. The more a firm puts resources into research and improvement exercises, the more it will have the alternative to invite the estimation of new outside information.

The differential absorptive capacity across firms is shown in a few viewpoints: dynamically strong adopters (versus less effectual ones) (i) exhibit extended length commitment of assets despite frailty (versus transient obliged obligation and switched at whatever point there's any hint of frustration); (ii) gain from different accomplices and research encounter grow direct information on the new headway (versus genuine pantomime and recycled

information); (iii) outright review the new invading progression and offer information inside multidisciplinary groups (versus shallow investigation and utilitarian structure); (iv) make and utilize comparing innovations (versus no correlative innovations utilized); and (v) have a raised level of information and aptitudes in zones critical to applying the new progression. (Waemustafa & Sukri 2015).

Developed in the field of vibrant administration, the idea of absorptive capabilities has dynamically thrived. Likewise in different sectors of thinking of the firm and associated behavior, it has ended up being exceptionally productive in inclining to the way associations arrange or neglect to bargain, with innovative difficulties (Dosi et al., 2000). In this way, absorptive capabilities appear to have become a kind of shrunken scale establishment of the writing, primarily with a transformative foundation, which indigenizes innovative change by connecting the approach of new innovative ideal models to the development of the firm information base.

Firms can sustain an upper hand and sustainable performance by creating and directing absorptive capabilities such as information assimilation, innovation and organization agility. This is because the environments are evolving quickly, which results in significant levels of vulnerability. When a sustainable upper hand is accomplished by the firm, the firm is at a point where it can choose, pick up and embrace the best, (Kraaijenbrink & Spender, 2011).

A shift in focus to absorptive capabilities in this way reduces if not eliminates the materialness of the significant, uncommon, supreme and non-substitutable structure because the emphasis is on strategist shifts from attempting to secure sources of current upper hands to continuously making resources as well as capabilities to yield future upper hands. As indicated by Tarutė and Gatautis (2014) absorptive capabilities are interwoven in routine organizational processes that immediate the advancement of the resource setup and operational routines of a firm.

In Ghana, the period between 1990 and 2009 witnessed massive entry of 17 banks to the Ghanaian banking sector. As a result, the success or failure of banks in the country was highly dependent on competition that has also been aggravated by entry of new banks resulting in traditional banks not being able to leverage on their investment in short-term government securities. Competition and poaching for talented workforce have also been at the core of operations of the Ghanaian banks, argued by (Awuah et al., 2014). To further highlight the effect of the competition in the country, banks are forced to engage in cut-throat persuasive promotional efforts to fend off competitors despite dealing in uniform products. Consequently, the tier two commercial banks in Ghana settled on various capabilities such as absorptive capability and organization agility in order to compete, Argued by (Awuah et al., 2014).

All organizations endeavor to work towards achieving their goals and creating a self-sustaining platform by creating unique products that meet the needs of their target market. absorptive capabilities ensure that the firm is strategic, creative and ensures innovation by always revolving all resources to their advantage. By doing these, a firm will be in a better position to compete, take greater risks to outwit competition in the industry

and ultimately create a sustainable future through market leadership. In response to these scenarios level, two banks in Kenya have tried to adopt strategies that will translate to their advantage, create and sustain competition in the banking sector. This study seeks to examine the influence of absorptive capabilities on organizational performance of level two business banks in Kenya.

The purpose of the research was to examine the influence of absorptive capability on organizational performance of tier two commercial banks in Kenya.

The research sought to produce data that would be used by various stakeholders interested in the application and awareness of absorptive capabilities in tier two commercial banks in Kenya. It will empower the top managerial staff and the executives of the various tier two commercial banks to recognize areas of weakness that need consideration and foster sound strategic choices to convey the most extreme investment esteem. The findings will go far in distinguishing the challenges that are and possible solutions presented by the absorptive capabilities approaches in the banking industry in Kenya.

The investigation will provide information to academicians and different partners as a reference point for literature in the field and also related areas. This information enhances the exploration work of academicians as well as gives legitimate relevant foundations with respect to level two banks in Kenya.

2. THEORETICAL LITERATURE

In their paper, Cohen and Levinthal (1990) mention the absorptive cut-off, which refers to the constraint on a firm's ability to see the estimation of new, outer information, absorb it, and apply it to business parts of the bargains survey and use outside information is, in a sense, a segment of the degree of previous information Firms having a greater capacity to absorb new information show more grounded restriction of getting from accomplices, joining outer information and changing it into firm-introduced information.

The possibility of absorptive cut-off was first described as an affiliation's "capacity to see the estimation of new information, acclimatize it, and apply it to business closes" by Cohen and Levinthal (1990). For them, absorptive breaking point relies colossally upon prior related data and assorted variety of establishment. The speculations a firm makes into its examination and headway (R&D) endeavors are right now to their model of progress of absorptive cut-off. As far as possible is viewed as aggregate, inferring that it is simpler for a firm to put consistently in its absorptive breaking point than contributing instantly. Endeavours put to make absorptive cut-off in one period will make it simpler to store up it in the accompanying one.

"The combination of absorptive breaking point and its effect on want improvement recommend a crazy instance of way dependence wherein once a firm stops putting resources into its absorptive cut-off in a quickly moving field, it may never acclimatize and mishandle new information in that field, paying little mind to the estimation of that information."

Absorptive cut-off is additionally said to be an explanation behind organizations putting resources into R&D rather than essentially buying the outcomes post-factum (for instance licenses). Internal R&D groups increment the absorptive furthest reaches of an association. An affiliation's interest in R&D then effects genuinely its absorptive breaking point. The more a firm puts resources into research and improvement exercises, the more it will have the alternative to invite the estimation of new outside information.

Cohen and Levinthal (1990) likewise focused on that assorted variety permits an individual to make "novel affiliations and linkages". They in like manner bolster the acquiring of different groups to have a variety of people participating and presenting themselves to different methods for looking at things.

Woiceshyn and Daellenbach (2005), in their investigation of Canadian oil and gas firms, find that organizations' absorptive ability is fundamental for progress even with the outer innovative change. Their discoveries uncover that while getting the new level depleting advancement, firms with higher absorptive capacity experience an all-around fruitful distribution process affecting positive execution results, while firms with lower absorptive ability experience huge troubles.

The differential absorptive capacity across firms is shown in a few viewpoints: dynamically strong adopters (versus less effectual ones) (i) exhibit extended length commitment of assets despite frailty (versus transient obliged obligation and switched at whatever point there's any hint of frustration); (ii) gain from different accomplices and have research and encounter and grow direct information on the new headway (versus genuine pantomime and recycled information); (iii) outright review the new invading progression and offer information inside multidisciplinary groups (versus shallow investigation and utilitarian structure); (iv) make and utilize comparing innovations (versus no correlative innovations utilized); and (v) have a raised level of information and aptitudes in zones critical to applying the new progression (Woiceshyn & Daellenbach 2005).

2.1. PORTER'S COMPETITIVE ADVANTAGE THEORY

According to Porter (1980), the 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 a better market approach, a firm is able to decide which and when to compete in a certain market. Through having better marketing information, customer relationship management, brand management and market research, an organization is able to position itself better to acquire a competitive edge over competitors.

2.2. CONCEPTUAL FRAMEWORK

A conceptual framework refers to a figurative connection between study variables based on the concepts derived from reviewed literature (Sullivan, 2011). Fig. 1 shows the

relationship between the study variables; Absorptive capability and organization performance of tier two commercial banks in Kenya

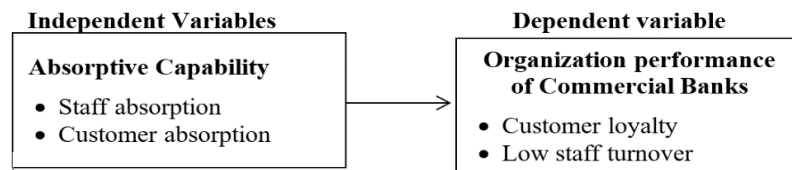


Fig. 1. Conceptual Framework

Source: Researcher (2020).

2.3. RESEARCH DESIGN

Descriptive survey research addresses research questions about who, what, where, why, and how is the problem (Saunders et al., 2009; Parveen et al., 2015). A descriptive approach was accomplished in this analysis by explaining the data and characteristics of the phenomenon population being studied. Since the entire tier, two commercial banks are being investigated, this research design was adopted by the researcher.

2.4. TARGET POPULATION

The target population of the study comprised of the 16 tier two commercial banks licensed to operate in Kenya according to the CBK (2018) annual report. Four managers were targeted in each bank making a total of 64 respondents as managers are the ones who can give the best information for organizational performance (Qureshi et al., 2020). Details of the respondents were shown in Table 1.

Table 1. Target Population

Classification	Target Population	Percentage (%)
IT Managers	16	25
Marketing Managers	16	25
Finance Managers	16	25
Operations Managers	16	25
Total	64	100

2.5. DATA COLLECTION

Data was collected via a questionnaire. Questionnaires are useful for studies because they gather knowledge that is not measurable such as an individual's emotions, motives, behaviors, achievements and experiences (Ali et al., 2019). The data collection instruments were subjected to a pilot test to ascertain the validity and reliability of the instrument. A 5-10% of the population was sufficient for a pilot, in this case, the researcher used a pilot test on 8 employees making 5% of the population which was sufficient for this study.

2.6. RELIABILITY OF THE RESEARCH INSTRUMENT

By having several similar things on a scale, evaluating a diverse range of individuals and using standardized test procedures, reliability was improved. For this analysis, Cronbach alpha was used to test the reliability. Cronbach alpha is an internal consistency measure

commonly used on an evaluation tool to determine the correlation values between the answers (Sullivan, 2011). Cronbach alpha, in each mixture, measures correlation among all variables. Cronbach's Alpha (α) shows to what degree a collection of measuring elements should be handled.

Christensen et al., (2011) noted that the threshold for Cronbach's Alpha varies among disciplines and the nature of the study. They argued that a value above 0.7 is generally accepted while a value of 0.6 is normally accepted for completely new instruments. The study adopted a Cronbach alpha of 0.7 which is accepted for instruments that are not completely new.

2.7. VALIDITY OF THE RESEARCH INSTRUMENT

The appropriateness of research responses to the research question, or the correctness of study findings, are referred to as "study validity" in research (Sullivan, 2011). We must determine if the questions provided properly answer the study's goals throughout the validity checking process. This should involve determining whether or not the manner in which answers are reported is adequate (Brace, 2013).

The questionnaire was also checked to verify that there were no typographical mistakes. Some, if not all, of the mistakes were discovered through use of validity testing. The pilot respondents were given the opportunity to raise questions on the clarity of the questions, which assisted the researcher in determining the validity of the questions posed. The comments received from the pilot test served as a foundation for revising the questionnaire before it was administered in its final version.

2.8. RESPONSE RATE

The research had hoped to get responses from 64 people. Sixty-one questionnaires were successfully returned in time for data analysis from the total sample size of 200. This equates to a response rate of 93.75 percent in total. According to Mugenda and Mugenda (2003), a response rate of 60 percent is considered excellent, while a response rate of 70 percent or above is considered very good for a study. The response rate was deemed sufficient for drawing conclusions about the study's goals based on the information collected.

2.9. ABSORPTIVE CAPABILITY ON PERFORMANCE.

The purpose of this part of the research was to determine the contribution of absorptive capacity to the organizational performance of tier two commercial banks in Kenya, as well as the implications of this contribution. In order to achieve this goal, the respondents were asked to indicate their level of agreement with the claims made about absorptive capacity in the questionnaire. The results were interpreted using a five-point Likert scale, with a mean score of 3.6-5.0 indicating strong agreement with the statement, a mean score of 2.6-3.5 indicating that the respondents were neutral (neither agreed nor disagreed), and a mean score of 1-2.5 indicating that the respondents strongly disagreed with the statement. Table 2 presents the results of the research.

Table 2. Absorptive Capability on Performance.

Absorptive Capability	Mean	Std. Deviation
The organization has invested in Market trends	4.36	0.667
The organization has invested in Banks financial performance	4.45	0.654
The organization has invested in Banks expansion strategy	4.02	0.761
The organization has invested in Organizational structure	4.14	0.576
The organization has invested in Customer demands	4.28	0.523
The organization has invested in Staff expertise	4.36	0.613
The organization has invested in New asset acquisition	4.01	0.718

Source: Field Data (2019)

The results in Table 2 shows that the respondents agreed that the banks invest in the Banks' financial performance (mean score = 4.45) and it also invests in Market trends (mean score = 4.36). The respondents also agreed that they have invested in Staff expertise (mean score = 4.36) and in customer demands (mean score = 4.28). The respondents further agreed that investments in organizational structures have also been increased (mean score = 4.14); increased investment in banks expansion strategies (mean score = 4.02); and the investment in the acquisition of new assets also played a role (mean score = 4.01).

The findings above are asserted by Cameron and Quinn (2011) who argue that the absorptive capability of an organization plays a major role in determining the applicability of its dynamic performance.

It was decided to do a regression analysis in order to find out what kind of connection existed between the independent factors (Absorptive Capability) and the dependent variable (performance) of tier two commercial banks in Nairobi. As seen in Table 3, the findings are given in the next section.

Table 3. Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	0.850 ^a	0.722	0.680	0.18265

a. Predictors: (Constant), Absorptive Capability,

Source: Field Data (2019)

In statistics, the correlation coefficient (R) is used to demonstrate the connection between two variables. The coefficient of determination (R) is 0.850, indicating a significant connection between the variables (absorptive capability and performance). This means that the independent variable (Absorptive Capability) explains 72.2 percent of the performance of Kenya's tier two commercial banks, according to the R square value of 0.722. Other factors that were not included in the research may account for the remaining percentage of variance.

Table 4. ANOVA

Model		Sum of Squares	Mean Square	F	Sig.
1	Regression	2.859	0.572	17.139	0.001 ^a
	Residual	1.101	0.033		

a. Predictors: (Constant), Absorptive Capability

b. Dependent Variable: performance.

Source: Field Data (2019)

The ANOVA determines whether or not there is a statistically significant difference between the means of the two variables (Ali et al., 2020). The findings in Table 4 indicate that the F-calculated value ($F=17.139$) is significant ($p=0.0010.05$), indicating that the model is correct. Because of this, there is a statistically significant difference between absorptive capacity and performance in this study. When a significant value of 0.001 is obtained, it indicates that the regression model is significant and that the findings should be trusted.

Table 5. Regression Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	0.157	0.783		0.200	0.843
	Absorptive Capability	0.270	0.060	0.428	4.523	0.000

a. Dependent Variable: Performance

Source: Field Data (2019)

The study results show that in Table 5, there is a positive and statistically significant relationship between Absorptive Capability and performance in tier two banks as shown by $\beta = 0.270$ and $p=0.001<0.05$.

3. SUMMARY OF FINDINGS

The study sought to examine contribution of absorptive capability on organization performance of tier two commercial banks in Kenya. It was found out that the banks aggressively sought new markets for their products and it also embraced innovations. The respondents agreed that the organization empowered employees to seek new opportunities; it embraced risks in introducing new products and services and the bank's leadership also encouraged employees to embrace risk. The respondents also agreed that tier two banks strive to be competitive in the market and employees are encouraged to implement new ideas.

4. CONCLUSIONS

The study concluded that absorptive capability has a significant contribution to performance in tier two banks. The banks had an absorptive capability whereby they continually and aggressively sought new markets for their products and also embraced innovations. Besides, the employees were also empowered to seek new opportunities. The bank strives to be competitive in the market hence the absorptive capability which makes the company continually implement new ideas and banks expansions.

The study also recommended that banks should enhance customer retention so as to enhance and build their customer base which will consequently lead to improved and better performance in their banks.

The researcher suggests further studies to be done on tier one banks in Kenya.

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