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Effect of Social Capital on Competitive Advantage: The Mediating Role of Absorptive Capacity among Commercial Banks in Kenya

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ABSTRACT

The objective of this research is to present a model that describes the general effect of social capital and absorptive capacity on company competitive advantage. The study processed data from 272 respondents of employees of commercial banks in Kenya that meet certain requirements. This study found that social capital has a positive and significant effect on absorptive capacity and competitive advantage respectively. Absorptive capacity has a positive and significant impact on competitive advantage. Furthermore social capital and absorptive capacity together have a positive and significant impact on firm competitive advantage. Absorptive capacity mediates the relationship between social capital and firm competitive advantage. Future research is suggested to try with additional other variables such as monetary incentives and/or corporate culture.The practical implication of this research is to improve social capital, it is necessary to improve social capital and absorptive capacity together. Furthermore firm competitive advantage can be improved if social capital and absorptive capacity are improved simultaneously.The model proposed in this research improves the understanding of academics and practitioners about the construct of social capital. The mediation function of absorptive capacity is something new from this research compared to

previous researches. This research also provides an additional contradictory list of previous researches on the relationship between social capital and firm competitive advantage.

Key Words: Firm Competitive Advantage, Social Capital and Absorptive Capacity

Introduction

Nowadays, organizations are seeking to develop in greatly changing domestic and international environment, and the uncertainty of the environment has become the new normal in organizational development (Nadkarni *et al.,* 2014, Chen *et al.,* 2019). However, much attention has been given to competitive advantage by scholars, especially in strategies and organizational management. There are many insights on competitive advantage (McGrath, 2013; Rui *et al.*, 2016; Delery Roumpi, 2017; Harrigan & Diguardo, 2017).

Previous studies on competitive advantage shows that firms respond to competitors' competitive behavior effectively by adapting and adjusting their own resources in facing dynamic environment changes (Li & Zhou, 2010; Delery & Roumpi, 2017). However, because of the continuous changes in the foreign market and industry competition environment, internationalized firms cannot persistently respond to competitive behaviors within the industry, especially for small and medium enterprises (SMEs). Some scholars believe that core competitiveness and capabilities should be maintained in order to achieve sustainable competitive advantages (Saranga *et al.,* 2018). The aforementioned is the local perspective of competitive advantage, but it is more difficult to be maintained and established from the international perspective (Li & Zhou, 2010). Internationalized SMEs not only need to overcome the competition from the local industry, but also face the risks brought by the global companies' competitive behaviors and the heterogeneity of diversified overseas markets, which highlights the importance of international competitive advantages (Kwak *et al.,* 2018). Therefore, this study combines internationalization and organizational learning theories to examine the key antecedents of internationalized SMEs' competitive advantage, merely studying several main effects (Saranga *et al.,* 2018) and some specific variables of competitive advantages (Li and Zhou, 2010) for the internationalized extension of SMEs (Kwak *et al.,* 2018).

Social capital has been used at various times to explain superior managerial performance, the growth of entrepreneurial firms, improved performance of functionally diverse groups, the value derived from strategic alliances, and enhanced supply chain relations. A resource that actors derive from specific social structures and then use to pursue their interests; it is created by changes in the relationship among actors (Landrum, 2007). Early attempts to define social capital focused on the degree to which social capital as a resource should be used for public good or for the benefit of individuals. Putnam, (2000) suggested that social capital would facilitate co-operation and mutually supportive relations in communities and nations and would therefore be a valuable means of combating many of the social disorders inherent in modern societies, for example crime. In contrast to those focusing on the individual benefit derived from the web of social relationships and ties individual actors find themselves in, attribute social capital to increased personal access to information and skill sets and enhanced power (Powell, 2001) According to this view, individuals could use social capital to further their own career prospects, rather than for the good of organizations. According to Robert Putnam (2000) social capital refers to the collective value of all social networks and the inclinations that arise from these networks to do things for each other. According to Putnam and his followers, social capital is a key component to building and maintaining democracy. According to Varshney (2001) social capital should be considered in terms of three clusters: structural, relational, and cognitive. This dimension focuses on the advantages derived from the configuration of an actor's, either individual or collective, network.

The relational dimension focuses on the character of the connection between individuals. This is best characterized through trust of others and their cooperation and the identification an individual has within a network. Stam *et al* (2014) added a third angle, that of communication. Communication is needed to access and use social capital through exchanging information, identifying problems and solutions, and managing conflict. Meaningful communication requires at least some sharing context between the parties to such exchange. In addition, absorptive capacity is essential for organizational competitiveness because it enhances the firm’s ability to recognize external knowledge and to use this knowledge for commercial ends (Cohen & Levinthal, 1990). Similarly, Zahra & George (2002) also argued that Absorptive Capacity plays a vital role in system improvements and organizational innovations. An empirical study shows that absorptive capacities enhance a firm’s innovation activities (Tai & Chen, 2009) and earn a competitive advantage for the firm (Darwish *et al.*, 2018). A Firm with well-developed Absorptive Capacity possesses outstanding abilities to utilized new external knowledge in combination with existing knowledge to achieve amazing organization competitive advantage (Engelman *et al.*, 2017). Therefore, as Absorptive Capacity increases competitive advantage will enhance (Escribano *et al.*, 2009; Tsai, 2001). Most of the studies (Naqshbandi & Tabche, 2018) focused on the role of Absorptive Capacity in organizational performance while the factors necessary for Absorptive Capacity is overlooked in the literature. Thus, there is need to investigate the relationship between intangible sources (social capital) of the firm and its absorptive capacity.

Theory and Hypotheses Development

Competitive Advantage

Competitive advantage is dominance gained by an organization when it provide the same value as its competitors but at a lower price, or at higher prices by providing greater value through differentiation. Competitive advantage results from matching core competencies to the opportunities (Thomas, 2001)**.** According to Powell, (2001) firm competitive advantage is advantage gained over competitors by offering customers greater value, through lower prices or by providing additional benefits and service that justify similar, or possibly higher, prices. Therefore if a firm possesses resources and capabilities which are superior to those of competitors, then as long as the firm adopts a strategy that utilizes these resources and capabilities effectively, it should be possible for it to establish a Competitive advantage.

According to Russel (2003) competitive advantage occurs when an organization acquires or develops an attribute or combination of attributes that allows it to outperform its competitors. These attributes can include access to natural resources, such as high grade ores or inexpensive power, or access to highly trained and skilled personnel human resources. New technologies such as robotics and information technology can provide competitive advantage, whether as a part of the product itself, as an advantage to the making of the product, or as a competitive aid in the business process for example, better identification and understanding of customers.Michael Porter defined the two types of competitive advantage an organization can achieve relative to its rivals, that is, lower cost or differentiation. This advantage derives from attributes that allow an organization to outperform its competition, such as superior market position, skills, or resources. In Porter's view, strategic management should be concerned with building and sustaining competitive advantage (Barney, 2007).

A firm is said to have a competitive advantage when it is implementing a value creating strategy not simultaneously being implemented by any current or potential player (Clulow *et al.*, 2003). Successfully implemented strategies will lift a firm to superior performance by facilitating the firm with competitive advantage to outperform current or potential players (Passemard and Calantone, 2000).To gain competitive advantage a business strategy of a firm manipulates the various resources over which it has direct control and these resources have the ability to generate competitive advantage (Rijamampianina 2003). Superior performance outcomes and superiority in production resources reflects competitive advantage (Lau, 2002).Competitive advantage is the ability to stay ahead of present or potential competition, thus superior performance reached through competitive advantage will ensure market leadership.

Concept of Social Capital

The concept of social capital has grown in popularity over a wide range of social sciences and other related fields (Adler & Kwon, 2002). Social capital has continued to evolve over time.The concept of social capital in management hasbeen related to network of relationships that are formed over time among individuals (Adler & Kwon, 2002). Nahapiet & Ghoshal (1998), provided a definition of social capital that combines external and internal ties as sum of the potential and actual resources (Adler & Kwon, 2002). Social capital is defined by the OECD as networks together with shared norms, values and understandings that facilitate co-operation within or among groups. Social capital is the expected collective or economic benefits derived from the preferential treatment and cooperation between individuals and groups. Although different social sciences emphasize different aspects of social capital, they tend to share the core idea that social networks have value. Just as a screwdriver physical capital or a university education cultural capital or human capital can increase productivity both individual and collective, so do social contacts affect the productivity of individuals and groups (Hofstede, 2001).

Social capital lends itself to multiple definitions, interpretations, and uses. David Halpern argues that the popularity of social capital for policymakers is linked to the concept's duality, coming because it has a hardnosed economic feel while restating the importance of the social.A resource that actors derive from specific social structures and then use to pursue their interests; it is created by changes in the relationship among actors (Landrum, 2007). Varshney (2001) in his examination of the role of social capital in the creation of intellectual capital, suggest that social capital should be considered in terms of three clusters: structural, relational, and cognitive. Carlos García Timón describes that the structural dimensions of social capital relate to an individual ability to make weak and strong ties to others within a system. This dimension focuses on the advantages derived from the configuration of an actor's, either individual or collective, network.The relational dimension focuses on the character of the connection between individuals.

Absorptive Capability

Absorptive capability is a firm’s ability to learn from other firms. (Zahra and George, 2002) define absorptive capability as the active organizational capability of a firm to obtain, absorb, transform, and utilize external knowledge. In addition, absorptive capability has been found to be an important factor that positively contributes towards an uneven knowledge transfer process (Soh & Roberts, 2005). Absorptive capacity consists of processes to recognize the value of new external knowledge, to absorb this knowledge, and to convert it into productive, valuable, and firm specific learning outcomes directly relevant to its activities (Cohen & Levinthal, 1990; Lane & Lubatkin, 1998). The extent to which knowledge is readily identified, filtered, assimilated, and applied in a firm depends on its knowledge sharing routines (Calantone *et al.*, 2002).

The concept of absorptive capacity has resonated in various organizational theories since the first time this theory emerged (Volberda *et al.*, 2010). In terms of conceptualization, most scholars indicated that absorptive capacity is a higher-order construct (Zahra and George, 2002; Flatten *et al.*, 2011; Kang and Lee, 2017; Limaj & Bernroider, 2019). Absorptive capacity is a composite of four capabilities, including acquisition, assimilation, transformation, and application. The acquisition and assimilation constitute the absorptive capacity. The transformation and application constitute the absorptive capacity (Zahra and George, 2002; Limaj and Bernroider, 2019). Absorptive capacity has been found to depend on previous knowledge and knowledge sources (Todorova & Durisin, 2007). Companies need to identify the most promising source of external knowledge and harmonize them with their corresponding absorptive capacity (Grimpe & Sofka, 2009). According to Flatten *et al.*, (2011) Absorptive capacity is the firm's ability to recognize, assimilate and apply new values of external knowledge for commercial purposes. Cohen & Levinthal (1994) Absorptive capacity allows companies to understand and utilize new advances in particular area of knowledge.

Social Capital and Firm Competitiveness

The concept of social capital springs from social network theory, which is a valuableresource for firm to gain competitive advantage. The measures of networks lay on cohesion and structuralrelationship of the actors. The concept of social capital has been emerging from social to individualperspective. Bourdie ponders profitability of social capital as aprivate good, which springs from trust among group members along with stable relationship with honorand reputation, while Coleman considers social capital as a public good which has a become an element of social structure (Häuberer, 2011). The simultaneous process brings productivity improvement and high competitive advantage (Denrell *et al.*, 2013).

Over the past two decades, social capital has already received much attention from a wide range of disciplines, in particular sociology (Portes, 1998), organization theory (Burt, 1997), and network studies (Leana & Van Buren, 1999). Burt (1997) conceptualized social capital as a set of social resources embedded in relationships. Nahapietand Ghoshal (1998) argued that social capital arises from the positive interaction that occurs between individuals and a network. Moreover, some organizational scholars espoused a broader dimension of social capital from the viewpoints of social relationships, norms, and values (Boytsun *et al.,* 2011 & Ghoshal, 1998). Lesser (2000) proposed that networks are an important source of social capital.

Through social networks, managers have opportunities to establish partner relationships and to detect future developments in a dynamic market. Clearly, social capital requires both the social structure and the ability to mobilize resources through that structure. It is jointly owned by the parties in the relationship and cannot be appropriated by any single individual (Burt, 1992).Long-term relationships are beneficial to many interfirminteractions (Dyer, 2000), though the difficulties in building such a relational exchange start as early as the initiation phase. A firm's critical resources may span firm boundaries and may be embedded in interfirm processes (Smith *et al.,* 1995). Social capital enables linking toexternal factors that can help mobile resources for firms (Kim, 2007; Luthans & Youssef, 2004). In order to obtain competitive advantage, firms need to utilize external resources effectively through their firm's network relationships (Elfring & Hulsink, 2003). We posit that social capital is fundamental to competitive strategic choice. Therefore,

Hypothesis 1: Social capital has a positive impact on competitive advantage.

Social Capital and Absorptive Capacity

The concept of absorptive capacity has resonated in various organizational theories since the first time this theory emerged (Volberda *et al.,* 2010). The absorptive capacity constructs can be divided into two components: internal and external absorptive capacity (Lewin et al, 2011).Absorptive capacity depends on previous knowledge and knowledge sources (Todorova &Durisin, 2007). Companies need to identify the most promising source of external knowledge and harmonize their corresponding absorptive capacity (Grimpe&Sofka, 2009). Absorptive capacity refers to a firm's ability to recognize, assimilate and apply new values of external knowledge for commercial purposes (Flatten *et al.*, 2011). Bharatiet *et al.,* (2015), conducted research on the influence of social capital on knowledge management practices. In this study social capital is seen from the structural, cognitive and relational dimensions. The study was conducted by taking 283 final samples of which mostly professionals in the information technology industry in the United States. The results show about a positive relationship between social capital and knowledge management practices. Monavvarian *et al*. (2013) also conducts research on the influenceof social capital on knowledge management practices. The study was conducted by taking 273 samples from a population of 950.

Hypothesis 2: There is statistical significant effect of social capital on competitive advantage of commercial banks in Kenya.

Absorptive Capacity and Firm Competitiveness

There is a lack of understanding of how to assess valuable knowledge from the external environment, how to shape the knowledge creation process of firms, and how to strengthen the combination of existed knowledge base with external knowledge and enhance internal innovation and performance by conversion. These are all related to the AC (Cohen and Levinthal, 1990). According to the definition of AC proposed by Lane *et al.,* (2006), Peng and Lin (2019) refer to AC as “the capacity of firms to effectively utilize external knowledge through three consecutive processes, including (1) to identify and understand potential valuable knowledge outside the firm through exploratory learning; (2) to absorb new valuable knowledge through transformative learning; (3) to use the absorbed knowledge to create new knowledge and commercial consequence through exploitative learning”. According to Escribano *et al.,* (2009), absorptive capacity relies on firms’ existed knowledge assets and emphasizes recognizing, integrating, and utilizing new knowledge. The knowledge assets are mostly embedded in procedures, personnel, and products (Peng & Lin, 2019).

Representatively, the main functions of absorptive capacity are to acquire and digest knowledge acquired from outside and further create new knowledge through internal process; the function of absorptive capacity is to convert internal knowledge and apply it to the response to environmental changes (Zahra & George, 2002; Camisón & Forés, 2010; Flatten *et al.,* 2011; Limaj and Bernroider, 2019). Some scholars argued that development of absorptive capacity may explain innovation, performance, or competitive advantage through theoretical framework from different perspectives, including organizational culture (Limaj and Bernroider, 2019), social capital (García-Villaverde *et al.,* 2018), and innovation (Kang and Lee, 2017; Flor *et al.,* 2018). Specifically, organizational learning theory contributes to explain reasons, antecedents, and insights under which AC creates value and advantage (Zahra and George, 2002; Jansen *et al.,* 2005; Lane *et al.,* 2006; Limaj and Bernroider, 2019). Potential absorptive capacity plays a leading role in the process of firms creating values. The main task of absorptive capacity is to acquire external knowledge and digest them into internally recognized knowledge. In the model of input–process–output, the quality and value of knowledge must be verified. Therefore, firms with better absorptive capacity will be able to acquire more new and implicit knowledge and information with low repeatability (Liao *et al.*, 2016). When this knowledge is introduced during the internal knowledge integration and knowledge creation, firms will be able to create new knowledge with more values than competitors and improve internal process management and efficiency of routines, thereby enhancing their competitive advantages. Therefore, this study proposes the following hypothesis:

Hypothesis 3: There is statistical significant effect of absorptive capacity on the competitive advantage of commercial banks in Kenya.

Hypothesis 4: There is a mediating effect of absorptive capacityon the relationship between social capital and competitive advantage of commercial banks in Kenya.

Conceptual Frame works

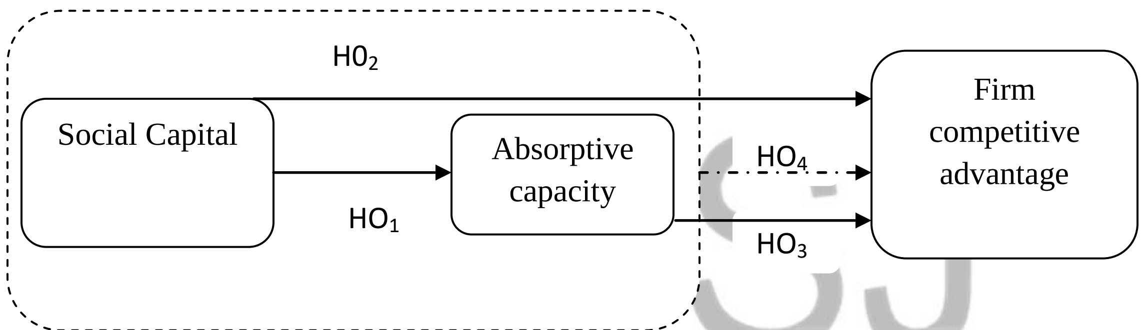

Figure 1: The study model. (Researcher, 2018)

RESEARCH METHODOLOGY

Research Design

The study used a descriptive design since we focused on getting inferences from the findings on the impact of knowledge management on firm competitive advantage of selected commercial banks in Kenya.

Population and Sample Size

The population of the study consisted of managers and employees of commercial banks in Nakuru town and the key surrounding towns of Naivasha and Gilgil, Kenya. According to the central bank of Kenya directory (2018), there are 858 employees from 30 commercial banks in Nakuru County. From the target population of 858, a sample size of 362 employees were selected using Taro Yamane (1973) sample size formula and modified by Kent (2008) was used to select a sample size of 362 employees as shown below.

$$n = {}^{N}/_{1 + N_{e^2}}$$

Where:

n = Sample size

N = Population size

e = the error of Sampling

This study allowed the error of sampling on 0.04. Thus, sample size was as follows:

$$\mathbf{362=858/1+858(0.04)^2}$$

Data Collection Instruments

The questionnaires were the main instrument of data collection. Questionnaires were issued to managers of selected commercial banks in Nakuru County. Each respondent was given enough time to respond to questions and any clarification was done at the same time by research assistants.

Measures of Variables

Unless otherwise stated, all items were measured with a 7-point Likert response anchored (1) *strongly disagree* to (7) *strongly agree*.Firm competitive advantage was measured using 5 items using 16 items derived from Musazizi (2010), the items comprised the enhanced decision making process, decentralized organizational structure, stability of employees, manages its capabilities, good reputation, strong brands, understanding of our customers, capable of building long term relationships with suppliers and chain members, effective advertising and product patents.

The social capital constructs were modeled after Adler and Kwon (2002). We measured resource interdependency by sourcing related items from Sarkar *et al.,* (2001), resource complementarily and reciprocal commitment scales. Social capital was measured using 9 items adopted from Narayan and Cassidy (2001) that captured the responses. The 9 items comprised of employer to treat me in a consistent and predictable manner, treating employees fairly, trust, intelligent decisions, freely interaction, respect rules and norms, dependability, protect organization property and constructive statements.

However, Absorptive Capacity has been measured using Likert scales based on diverse categories, the majority of which focus on describing each of the dimensions of Absorptive Capacity according to the concept proposed (Szulanski, 1996; Chen, 2004; Warajajtakul and Ussahawanitchakit, 2012; Maynez-Guaderrama *et al.,* 2012; Lane and Lubatkin, 1198; Gluch *et al.,* 2009; Gebauer *et al.,* 2012; Ritala and Huermelinna, 2013). The study also considered construct: internal capabilities and external sources (Engelen *et al.,* 2014; Popaitoon and Siengthai, 2014; Seo *et al.,* 2015).

Data Processing and Analysis

The data collected from the respondent was coded and entered in SPSS V20 for data analysis. Before analysis was, test for normality was done so as to ascertain whether to use parametric or non-parametric test in subsequent analysis. Descriptive statistics was done to identify characteristics of demographic data of respondents while inference statistics was done for the purpose of Correlation i.e. identify the relationship between social capital, absorptive capacity and Firm competitive advantage. The model below was used to predict the firm competitive advantage.

Model Specification

To test for the direct effect *social capital and* absorptive capacity*onfirm competitive advantage.* Multiple regression analyses was conducted and the coefficient significances being examined at every step of the process. The multiple linear regression models that was used for the study are as shown below;

$$\mathbf{y = \beta_o + \beta_1 X_1 + \varepsilon \ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots \ (i)}$$

$$\mathbf{y = \beta_o + \beta_1 X_2 + \varepsilon \ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots \ (ii)}$$

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Simple regression analysis with X_1^- (social capital) predicting Y (Firm competitive advantage) to test *effect of social capital on firm competitive advantage*. While model (ii)Simple regression analysis with X_2^- (absorptive capacity) predicting Y (Firm competitive advantage) to test *effect of* absorptive capacity *on firm competitive advantage. The s*ignificant levels were measured at 95% confidence level with significant differences recorded at [$p < 0.05$].

Testing the Mediating Effect of absorptive capacity on the Relationship between social capital and Firm Competitive Advantage

$y = \beta_o + \beta_1 X_1 + \varepsilon$…….. (i) Simple regression analysis with X predicting Y to test or path *c* alone

$M = \beta_o + \beta_1 X_1 + \varepsilon$ …… (ii) Simple regression analysis with X predicting M to test for path *a*

$y = \beta_o + \beta_1 M_4 + \varepsilon$…... (iii) Simple regression analysis with M predicting Y to test the significance of path *b* alone

$y = \beta_o + \beta_1 X_1 + \beta_4 M_4 + \varepsilon$….. (iv) A multiple regression analysis with X and M predicting firm competiveness

$\boldsymbol{y}$ Firm competitive Advantage

M absorptive capacity

$\boldsymbol{\beta_0}$ Is the constant

$\boldsymbol{x_1}$ Social capital

$\boldsymbol{\beta_1}$ - $\boldsymbol{\beta_4}$ are the coefficient regression or change introducing $\boldsymbol{y}$,M and Y by each $\boldsymbol{x}$

ε error term

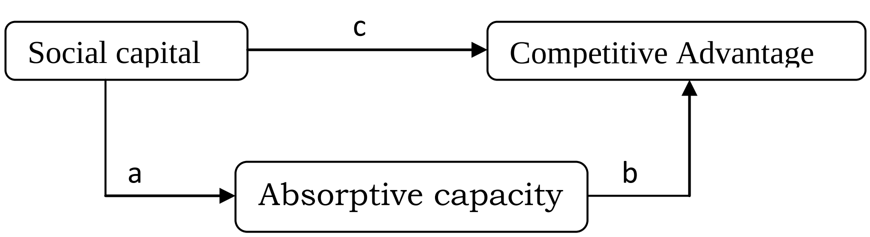

Figure 3.1: Analytical Model

**notes: The purpose of Steps 1-3 is to establish that zero-order relationships among the variables.*

If one or more of these relationships are no significant, researchers have concluded a mediation effect is not possible though this is not always true (MacKinnon et al., 2007). Assuming there are significant relationships from Steps 1 through 3, one proceeds to Step 4. In the Step 4 model, some form of mediation is supported if the effect of M (path b) remains significant after controlling for X. If X is no longer significant when M is controlled, the finding supports full mediation. If X is still significant (both X and M both significantly predict Y), the finding supports partial mediation.

Preliminary analysis

To ensure the reliability of the data collection instrument, Cronbach's alpha was used as echoed by Nunally, (1978). The threshold reliability value is .60 and above was considered (Hair, Anderson, Tatham & Black, 2006), and so the results of this study are reliable because all the study variables had Cronbach's alpha of more than 0.7 (Social Capital α = .80; Absorptive Capacity α = .83; and firm competitive advantage α = .87).

RESULTS

Table 1 below summarizes the study finding on Response Rate of the study. The study finding reveled that out of 362 questionnaires distributed to the respondents, only 272 questionnaires were filled and completed accurately and were used for analysis which gives a response rate of approximately 75.14% (percent). The response rate was, therefore, accepted as adequately sufficient for the intended purpose (Oso & Onen, 2005).

Descriptive statistics and correlations results among the study variables are reported in Table 2 below. The levels of correlations among the variables are relatively modest, withmost variables exhibiting significant correlations. Since a number of independentvariables were relatively correlated, a multicollinearity analysis was conducted usingVariance Inflation Factors (VIF). The results indicated that multicollinearity was not a problem since all the variables were within the recommended threshold of less than10 (Hair *et al*., 2006).

Table 1 Study Response Rate

Category	No of Respondent	Percentage
Sample Size	362	100.00
Response	272	75.14
Non-Response	090	24.86

Source: Survey Data (2018)

Table 2 Descriptive and Correlation Analysis

Variable	Mean	Std Dev.	FCA	SA	AC	VIF
Firm competitive advantage [FCA]	4.11	.34	1			1.25
Social capital [SA]	4.34	.48	.740**	1		1.98
Absorptive Capacity [AC]	4.63	.61	.457**	.298**	1	3.17

Notes: Pearson's product moment correlation, 2 tailed test: *p < .05; **p < .01; N = 272.

Results of hypothesis tests

Hypothesis 1 predicted that the more Social capital in a firm, the higher the firms' competitive advantage. However, results on Table 3revealsthat the hypothesis hold (β = -0.482, p < 0.05). Hypothesis 2 suggested that thegreater the absorptive capacity in commercial banks, the higher the firms' competitive advantage.This hypothesis was supported by the results (β = 0.502, p <0.05).

Table 3 Regression Test Results

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
					11.769	
	(Constant)	0.153	0.013			0.005
1					10.609	
	Social Capital [SC]	0.429	0.040	0.482		0.000
	Absorptive Capacity [AC]	0.446	0.091	0.502	9.732	0.000

a. Dependent Variable: FCAfirms' competitive advantage

b. SC= **Social Capital**, AC= **Absorptive Capacity**,

R= .658a

R^2= .434

Adjusted R^2=.423

F test = 141.914*

Notes: N = 272; *p < .05; **p < .01.

Hypothesis 3 proposing that the greater the social capital the greater the Absorptive Capacity, also received support from the results (p =0.000 which is less than α = 0.05) using the direct effect from the model testing the mediating effect.

Testing the Mediating Effect of Knowledge Management

Mediation analyses can be performed with either multiple regression or SEM. The logic of analyses is the same in both cases. In general SEM is preferred method (Baron & Kenny, 1986; Hoyle & Smith, 1994; Judd & Kenny, 1981). Preacher and Hayes (2004) the bootstrapping method provides an advantage to the Sobel's test since it increases power. The Preacher and Hayes Bootstrapping method is a non-parametric test. As such, the bootstrap method does not violate assumptions of normality and is therefore recommended for small sample sizes.

Hypothesis 4 (h_{o4}): stated that there is no significant mediating effect of absorptive capacity on the relationship between social capital and firm competitive advantage.

Table 4 below shows that the direct total effect of testing the mediating effect of social capital and firm competitive advantage. The output provides the significance tests of part "c" which tests the effect of social capital on firm competitiveness. The study findings reveled that entrepreneurial orientation had coefficients of estimate which was significant basing on β_1 = 0.482 (p-value = 0.00034 which was less than α = 0.05).

The test of path "a" was social capital to absorptive capacity and the study finding indicated thatsocial capitalhad a significant effect on absorptive capacity (p =0.000 which is less than α = 0.05). While path "b" was testing the effect of absorptive capacity onfirm competitive advantage which was also found to be significant at (p= 0.000 which is less than α = 0.05).

Finally path "c'"tested the effect of social capital on firm competitiveness, controlling for absorptive capacity so as to test the indirect effect. The finding revealed that the effect was significant at p = 0.000which is less than α = 0.05. Therefore the model met all the criteria for mediation according to Baron and Kenny (1986). Hence we conclude there is partial mediation of absorptive capacity since part "c'" was found to be significant.

Table 4 Direct and Total Effects

	Coeff	s.e	t	Sig(two)
C (YX)	0.0877	0.0297	2.9577	0.0034*
a (MX)	0.3600	0.0603	5.9662	0.0000*
b (YM.X)	0.1570	0.0124	12.7428	0.0000*
c' (YX.M)	-0.7106	0.0131	-54.3914	0.0000*

Notes: *Significant at p<0.05,Sample size=272, Y= firm competitive advantage, X= social capital, M= absorptive capacity

Source: (Survey Data, 2018)

The result in table 5 below shows the test of the indirect effect in a normal distribution using the Sobel test. The test was done because it is preferred to Baron and Kenny (1986) method. The results of table 5 were obtained using Baron and Kenny (1986) method which has been considered conservative because of its low power (MacKinnon, Warsi, & Dwyer, 1995).

Table 5 Indirect Effect and Significance Using Normal Distribution

	Value	s.e.	LL95CI	UL95CI	Z	Sig(two)
Effect	0.5652	0.0948	0.3793	0.7510	5.9594	0.0000**

Source: (Survey Data, 2018)

The findings from table 4shows the coefficients of path a = 0.3600 and path b =1.5700, while the coefficients of the indirect effect = 0.5652, which was significant using the Sobel test (p<0.05). Boost trapping was performed further to determine the mediating effect and the results are presented in Table 6 below:

Table 6 Bootstrap Results for Indirect effect

	Data	Mean CI	s.e.	LL99	LL95CI	UL95CI	UL99CI
Effect	0.5652	0.5587*	0.0835	0.3256	0.3914	0.7142	0.7649

Note: LL =Lower Limit (or the lower boundary) and UL = Upper Limit (or upper boundary) of the Confidence interval, Number of bootstrap resamples 5000,*significant at p<0.05

Source: (Survey Data, 2018)

Table 6 output provides the bootstrapped confidence intervals at 99 and 95 percentiles are calculated but we only look at the 95% confident level. Here we are looking to see if ZERO (0) lies within the interval range of the Confidence interval. Essentially we are asking whether it is possible (with 95% confidence). If the indirect effect is equal to zero there would be no mediation. The findings show an indirect effect at 95% that ranged from 0.3914 to 0.7142.

The estimated effect was 0.5587, which waslying in between the interval range and hence zero does not occur between the lower limit and the upper limit. The study conclude that the indirect effect is significant, hence mediation exists and therefore we reject Hypothesis (H_{o4i}) that stated there is no significant mediating effect of absorptive capacity on the relationship between social capital and firm competitive advantage.

Discussions and Conclusions

This paper focused on three key issues: First is whether social capital and Absorptive Capacityaffectsfirms' competitive advantage. Using employees of selected commercial banks in Kenya, we found support for the proposition that social capital and Absorptive Capacityhad significant effect on firm competitive advantage. Consistent with previous results, knowledge acquisition has a statistical significant relationship with firm competitive advantage. This finding is similar to the result obtained by Russel (2003).

The study findings also revealed that absorptive capacity was positively associated to firm competitive advantage. This finding is similar to the results obtained in previous studies such as Kim, (2007), and Luthans & Youssef, (2004). Thus, effective utilization of resources or better still tangible/intangible assets and intangible capabilities will result to a better competitive advantage and hence performance.

The results of the study further showed that Social Capital has positive and significant effect on Absorptive Capacity. This means the higher/positive the Social Capital the higher/Positive Absorptive Capacity. The findings in this study are in line with previous research results from Chuang *et al*. (2016), Aribi & Dupouet (2015) and Hughes *et al*. (2014). The findings are in line with previous research because finance company actively interacts with partners in carrying out their daily business activities. This is consistent with Chuang *et al.* (2016) suggesting that companies should strengthen relationships within the business network to facilitate knowledge exchange.

Given the increasingly critical role of absorptive capacity in connection with firm competitiveness in today's dynamic market place, this study has contributed to the current body of knowledge in competitive advantage by combining social capital theory and the Resource based view theory blended with knowledge and dynamic capability approaches to develop an integrative theoretical model of management capability-based Competitive advantage of the firm.

Limitations

The primary purpose of the study was to investigate the relationship between social capital and firm competitive advantage and testing the mediating effect of absorptive capacity among commercial banks listed in Nakuru County, Kenya. It is important to appreciate the study limitations. First, we focused on a single industry.Although this is one way of controlling for industry effects, the results may not berepresentative of other sectors and so we need to interpret the results with caution.Second, the sample size used is relatively small and so future research using differentsectors and larger samples may provide additional insights and add to the understanding ofissues explored in the study. Finally it may also be fascinating to examine social capital dimensions and to tie them to firm competitive advantage including both financial and cycle time performance implications in a multi-sector approach.

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