

Impact of strategic agility on the financial performance of commercial banks in Jordan

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ABSTRACT

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The Jordanian banking sector has been able to achieve remarkable growth rates at various levels. This sector is based on a robust infrastructure and is subject to the supervision of the Central Bank, which guarantees the likes of banks operating to financial reporting standards in order to maintain good financial soundness indicators. Therefore, this study aimed to examine the impact of strategic agility on the financial performance of commercial banks in Jordan. The study population was represented by senior managers. The purposeful sampling method was used to collect primary data from (188) respondents who constituted (81.74%) of the sent questionnaires. Structural Equation Modeling (SEM) was applied to test the study's hypotheses. The results showed that strategic agility had a positive impact on financial performance, as the greatest impact was strategic sensitivity, followed by resource fluidity, and finally leadership unity. This study contributed to the development of a logical framework supported by empirical evidence about the possibility of developing financial performance in dynamic environments. Hence, senior managers recommended focusing on making rational decisions derived from studying the reality of the work environment and adjusting organizational structures to become more flexible in response to the volatile business environment.

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1. Introduction

In light of this rapidly changing environment that has become difficult to predict. The essential role of flexibility and agility is that the organization enjoys keeping pace with these changes and to use them optimally to achieve the organization's strategic goals. Long (2000) provides Agility in its strategic dimension the possibility for the organization to obtain an internal vision that enables the organization to use and restructure its available resources to reach the competencies that the organization needs to overcome competitors. It also allows the organization to obtain an external vision to monitor and predict the path of the external environment variables and to benefit from them in the formation of new opportunities by designing innovative and quality products that meet and stimulate changing customer demands (Tabe Khoshnood & Nematizadeh, 2017). There has become great interest by organizations in various fields to find solutions and tools capable of influencing financial performance, which is a major factor in organizations that want to maintain a competitive advantage through the optimal use of resources (Khalayleh & Al-Hawary, 2022; Barney, 2000). The banking sector is considered the most demanding sector to achieve high levels of financial performance in order to achieve appropriate gains for internal and external stakeholders (Mohammad, 2019; Mohammad et al., 2018). Recently, the banking sector in Jordan has achieved remarkable growth in its sustainable capacity, as it is the largest sector in the Jordanian economy and the main financier of nearly 95% of investments in the rest of the sectors. Moreover, it was able to gain a distinguished reputation among developing countries, as it has achieved good financial soundness indicators. The liquidity ratio in Jordanian banks reached 136.7% at the end of the first half of 2022, with a margin of increase of 36.7% from that determined by the Jordanian Central

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Bank. Further, it has achieved a 17.1% capital adequacy ratio, which is an excess of 6.6% over the percentage specified by the Basel Committee of 10.5% (CBJ, 2022).

Although the role of strategic agility on organizations' performance has been studied (Arokodare et al., 2019; Haider & Kayani, 2020), the literature review confirmed the limited studies that measured the impact of strategic agility on financial performance. Thus, the current paper contributes to addressing this gap by examining the impact of strategic agility on the financial performance of commercial banks in Jordan. Moreover, it provides empirical evidence that helps in developing strategies appropriate to the context of developing countries such as Jordan in order to achieve outstanding levels of financial performance.

2. Theoretical review

2.1 Strategic agility

The concept of strategy has evolved according to the changes taking place in the organizations' environments and the challenges posed by those environments, the most important of which is the competition that requires the company to have the tools that enable it to deal with these changes and challenges (AlTaweel & Al-Hawary, 2022). Strategic thinking is considered one of the most important approaches in the context of business organizations as an entry point for sound management, and because it is related to turbulent business environments and helps companies develop short-term reactions to long-term reactions, directing the company to possess the necessary resources to explore environmental opportunities and threats, and for the company to proceed in solving problems through their reactions that serve the achievement of its strategic objectives (Al-Douri & Saleh, 2009).

Despite the multiplicity of the definitions of strategic agility, it can be said that the main feature of organizations that are characterized by strategic agility is the ability to quickly adapt to unexpected changes in the competitive business environment (Al-Nawafah et al., 2022; Cheng et al., 2020). Strategic agility has been defined as the company's ability to adapt to external conditions that may suddenly shows rapid flexibility and responsiveness, which entails directing organizational resources to take advantage of available opportunities and deal with threats efficiently and thus enable the organization to achieve its strategic objectives (Alolayyan et al., 2022; Reed, 2020). Through reviewing the strategic agility literature, researchers use three dimensions of strategic agility (Harahap et al., 2022; Muda et al., 2022; Dammaj, 2019): strategic sensitivity, leadership unity or what is known as collective commitment, and resource fluidity. The strategic sensitivity in this context indicates the high ability to sense and identify opportunities and threats faster than competing organizations. Leadership unity refers to the commitment of the management team to take and achieve strategic decisions. Finally, resource fluidity describes the ease of reallocation of organizational resources in line with the changes faced by the organization.

2.2 Financial performance

Financial performance has been defined as the organization's ability to survive and continue to achieve its goals by investing its financial resources efficiently (Saraireh et al., 2022; Aryan et al., 2022; Cho et al., 2019). Nirino et al. (2021) emphasized that financial performance revolves around effectiveness and efficiency in utilizing the organization's resources and protecting them from loss and waste. Besides, financial performance has been described as the degree to which the basic activities of the organization contribute to creating the organization's value to achieve the desires of stakeholders at the lowest costs (Hamid & Purbawangsa, 2022). According to Ginting (2021), it is one of the broad performance concepts of the organization based on a quantitative analysis of financial indicators and comparing them with standard ratios to determine the organization's ability to invest its resources to achieve profits.

Although the use of several methods to measure financial performance, basic financial indicators remained at the forefront of research and studies related to evaluating organizations on the basis of their financial capacity. Hameedi et al. (2021) explained that the accuracy of the financial assessment is related to the quality of the financial reports and the degree of disclosure and transparency contained in these reports. Financial performance measures include an index to measure the organization's liquidity, profitability, indebtedness, and other aspects related to the organization's activities (Prasetyo et al., 2021). For evaluating the financial performance of the banking sector, a set of financial indicators are used, most notably the return on assets (ROA), the return on equity (ROE), and the stock market returns (SMR) (Bātae et al., 2021; Ramzan et al., 2021). ROA is a measure that explains how efficiently available resources are used by the ratio of net income after tax to the total assets of an organization. ROE is one of the financial performance indicators used to evaluate the profitability rates achieved by the organization through the funds invested in it, which represents the ratio of net income after tax to overall equity. As for SMR, it is an indicator of the organization's market reputation and the profitability of its shares, as it is calculated on the basis of the ratio of net profit per share to the closing price per share.

3. Conceptual study framework and hypotheses

Strategic agility is described as a positive ability of the organization represented in the speed of response and flexibility in dealing with constantly changing environments, which include sudden events that have a positive impact on improving organizational outputs such as financial performance. Some studies have confirmed in this context that an agile organization achieves success in the competitive environment through its ability to respond, flexibility and speed, which makes it capable of achieving a competitive advantage (Arokodare et al., 2019), which in turn is reflected in the financial performance of the company. There are a number of studies whose results showed a relationship between strategic agility and the company's

performance, including a study of Ofoegbu and Akanbi (2012) showed that strategic agility in its combined dimensions (strategic sensitivity, resource fluidity, and collective commitment) have a direct positive impact on improving the company's performance.

Palanisamy and Sushil (2003) showed that achieving competitive advantage requires companies to be able to change their strategies in order to respond to environmental changes in a timely and appropriate manner. In light of the clarity of the company's strategic direction and its reliance on flexibility and its employment of strategic agility and creativity, the company will be able to financially succeed. Given the dimensions of strategic agility used in the current study, which are clarity of vision, understanding core capabilities, selected strategic target, shared responsibility, and taking action, it is noted that these dimensions help in achieving competitive advantage by stating that the clarity of the company's vision and strategic objectives is a guideline that directs it towards its financial priorities and objectives and therefore the company's attempt to reduce its operations costs must be consistent with its vision and not be at its expense. The core capabilities that the company possesses are represented by its knowledge, experience, and skills to improve the company's ability to achieve flexibility, provide high-quality products and deliver them to its customers on time. Strategic agility implies shared responsibility, as it helps direct the efforts of its employees towards achieving higher levels of financial performance. Finally, the actual actions taken by the company in the context of exploiting its resources and utilizing them in response to the conditions of the organizational environment support the company's ability to achieve its financial goals related to all stakeholders and to occupy a competitive position in the market. This makes it one of the most successful companies with outstanding financial performance. Based on the above the study hypotheses may be formulated as:

H₁: *There is an impact of strategic agility on financial performance.*

More specifically:

H_{1a}: *There is an impact of strategic sensitivity on financial performance.*

H_{1b}: *There is an impact of resource fluidity on financial performance.*

H_{1c}: *There is an impact of leadership unity on financial performance.*

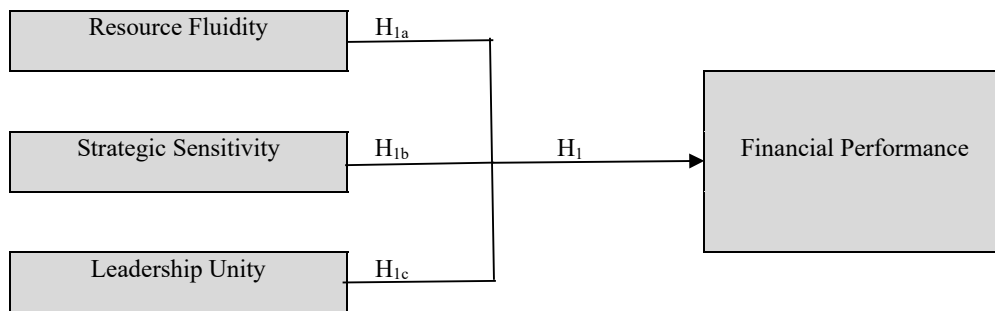


Fig. 1. Conceptual model of the study

4. Methodology

4.1 Sampling and data collection

The Jordanian financial sector has noticed a substantial development since the beginning of 2017, as indicators showed a growth in its investments accompanied by an improvement in financial safety indicators. Banks are the mainstay in the financial sector, as they facilitate the connection between investors and savers. Moreover, their importance lies in attracting international and global investments based on the provision of an integrated infrastructure for banking services and the freedom to transfer funds arising from investments. Jordan has a developed banking system relative to the rest of the Middle East countries, as it includes 25 banks, including 21 commercial banks and 4 Islamic banks. These banks offer a wide range of banking options to their individual and institutional customers, including deposits, loans, credits, current accounts, ...etc. All of them are subject to the control and supervision of the Central Bank. Therefore, the current study targeted the banking services sector in Jordan, where a questionnaire was distributed to a purpose sample of senior managers in commercial banks. The electronic questionnaire was designed and distributed via e-mail to (230) senior managers. The questionnaires that were answered reached (198) questionnaires, it was found that (10) of them are not valid for conducting statistical analysis. Hence, the questionnaires subject to statistical analysis were (188) questionnaires, which forms a response rate (81.74%) of the sent questionnaires.

4.2 Measurement

The study questions included in the questionnaire were divided into two main pivots and an introduction. The introduction defined the aims of the study, methods of dealing with the data provided and the degree of confidentiality. The first pivot deals with the control variables directed to the members of the study sample. The second pivot asked the respondents about strategic agility and financial performance. The five-point Likert scale (1: "Strongly disagree" to 5: "Strongly agree") was used as a format that determines the answer to each question related to the main study variables.

• Strategic Agility

Strategic agility represented the independent variable in the current study, as it was measured using 13 items developed through the studies of (Doz, 2020). Strategic agility was considered a second-order construct, which was divided into three first-order constructs. Resource fluidity was measured through 4 items including (e.g., The bank's management provides training programs that help employees build their various capabilities and experiences). Strategic sensitivity was measured through 4 items including (e.g., The management has a clear vision of the bank's future activities and a mechanism to meet the challenges of the business environment). Leadership unity was measured through 5 items including (e.g., The bank's management encourages the competitive work climate and constructive dialogue among its employees).

• Financial Performance

The financial performance was the dependent variable in this study, where it was measured using 7 items that were developed based on (Ramli et al., 2019). The financial performance was considered a first-order reflective construction that included expressions to measure banks' ROA, ROE, and SMR (e.g., the bank's equipment influences the reduction of operational costs and hence better return on assets, the bank's management seeks to maximize profitability through efficient exploitation of financial resources to fulfil stakeholders' desires and the bank's shares witnessed a rapid increase during the last three years).

• Control variables

Variables such as gender, age group, educational level, and job experience were identified as control variables. Previous experimental studies reported that these properties are related to some of the variables used in the current study (Mohammad et al., 2022; Fosso Wamba & Guthrie, 2020). Gender was described by the two categories of males and females. The age group has been broadly categorized into four groups: less than 30, from 30 to less than 40, from 40 to less than 50, and 50 and over. In the same context, job experience was considered a variable of four categories: less than 5, from 5 to less than 10, from 10 to less than 15, and 15 and more. As for the educational level, it is classified into bachelors, masters, and doctorate. The point being considered is that these variables were only used to exercise control over the hypothesized relationship, and not to examine their moderating effects on this relationship.

4.3 Data analysis strategy

The covariance-based structural equation modeling technique was used through the AMOSv24 program, where researchers widely recommended the use of this technique in administrative studies (Mukhlis et al., 2022; Sarstedt et al., 2016). CB-SEM provides the ability to analyze the impact chain and theoretically predict the behavior of the variables, but it needs the data to be normal distributed and a sample commensurate with the complexity of the variables (Boudlaie et al., 2022; Zhang et al., 2021). Therefore, CB-SEM was used to identify the validity and reliability of the study instrument by confirmatory factor analysis, and it was also used to verify the impact of strategic agility on competitive performance. Simultaneously, SPSSv24 program was used to obtain the results of the descriptive tests and verify multicollinearity.

5. Results

5.1 Measurement model evaluation

To assess the discriminatory and convergent validity of the procedures, a confirmatory factor analysis (CFA) based on the covariance matrix and a maximum likelihood estimate was performed.

Table 1
Reliability and validity analysis result

Constructs	Items	λ	AVE	MSV	$\sqrt{\text{AVE}}$	α	ω
Resource Fluidity	RF1	0.684	0.521	0.374	0.722	0.807	0.813
	RF2	0.761					
	RF3	0.728					
	RF4	0.711					
Strategic Sensitivity	SS1	0.814	0.584	0.428	0.764	0.845	0.849
	SS2	0.792					
	SS3	0.691					
	SS4	0.755					
Leadership Unity	LU1	0.715	0.552	0.391	0.743	0.853	0.860
	LU2	0.804					
	LU3	0.733					
	LU4	0.672					
	LU5	0.783					
Financial Performance	FP1	0.751	0.605	0.387	0.778	0.909	0.914
	FP2	0.837					
	FP3	0.703					
	FP4	0.772					
	FP5	0.822					
	FP6	0.786					
	FP7	0.764					

The results listed in Table 1 showed that the values of factor loadings (λ) ranged within (0.672-0.837), which is greater than the minimum threshold of 0.50 (Al-Hawary & Al-Syasneh, 2020). The values of average variance extracted (AVE) were higher than the minimum accepted value of 0.50 (Mohammad et al., 2020), thereby the convergent validity of the measurement model was verified. Regarding the discriminatory validity, the maximum shared variance (MSV) values were less than AVE, as well as the values of the square root of AVE (\sqrt{AVE}) were less than the correlation coefficients shown in Table 2 between the rest constructs. Accordingly, the results supported the discriminatory validity of the measurement model (Mohammad, 2020; Rimkeviciene et al., 2017). Moreover, internal consistency was tested through Alpha Cronbach coefficients (α) that ranged within (0.807-0.909), and composite reliability was confirmed using McDonald's Omega coefficients (ω) that were in a domain (0.813-0.914). It is noted that all values exceeded the acceptable minimum of 0.70 (Alolayyan et al., 2018), thus the reliability of the measurement model was verified.

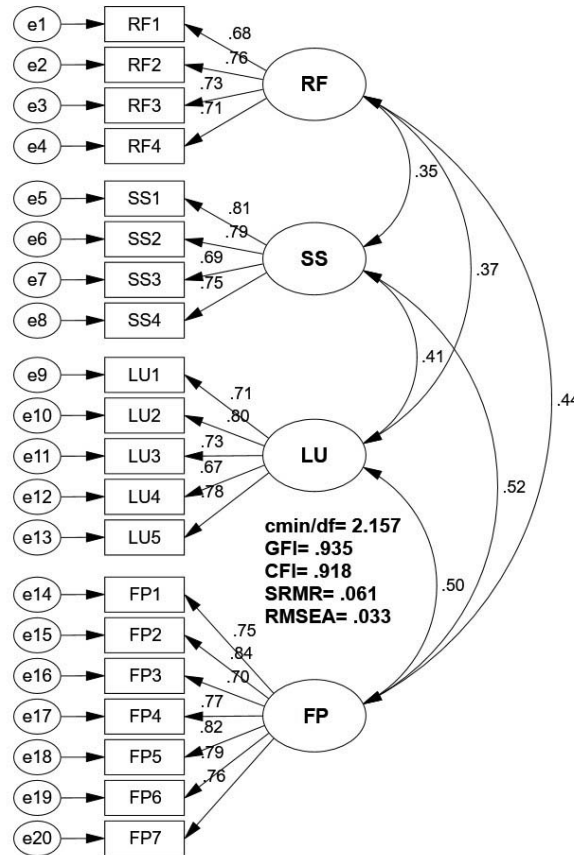


Fig. 2. Standardized estimates for the impact of strategic agility on financial performance

In addition to determining the validity and reliability of the measurement model, CFA contributes to identifying goodness of fit indices. The results shown in Fig. 2 showed that the ratio of chi-square to degrees of freedom (cmin/df) was (2.157) which is less than the upper bound of 3, as well as the value of goodness of fit index (GFI) and comparative fit index (CFI) was greater than the lowest acceptable value 0.9. Besides, the value of standardized root mean square residual (SRMR) was less than the upper threshold 0.09 and the value of root mean square error of approximation (RMSEA) was less than 0.05. Consequently, all indicators of goodness of fit referred to values that support construct validity (Zainudin et al., 2019).

5.2 Descriptive results

The descriptive analysis tests shown in Table 2 indicated that the strategic sensitivity (M= 3.76, SD= 0.833) was in the first place and had a high level among the dimensions of strategic agility, followed by the resource fluidity (M= 3.71, SD= 0.728) in the second place at a high level, then leadership unity (M= 3.66, SD= 0.917) was ranked last and had a moderate level. Moreover, the financial performance (M= 3.58, SD= 0.902) was at a moderate level.

Table 2
 Descriptive statistics and multicollinearity check

Constructs	Mean	SD	VIF	1	2	3	4
1. Resource Fluidity	3.71	0.728	1.06	-			
2. Strategic Sensitivity	3.76	0.833	1.74	0.584	-		
3. Leadership Unity	3.66	0.917	1.35	0.561	0.533	-	
4. Financial Performance	3.58	0.902	-	0.675	0.688	0.604	-

The correlation coefficients between the study constructs were at a moderate level ($r = 0.533, r = .688$), and it is also less than 0.80 the value adopted for the multicollinearity test (Hair et al., 2019). These results are supported by the values of the variance inflation factor (VIF) that were within the range (1.06-1.74) which are less than the upper threshold of 3 (Tamura et al., 2019; Thompson et al., 2017). Hence, there is no multicollinearity between the dimensions of strategic agility.

5.3 Structural equation model

The study hypotheses were tested using two structural models. The first structural model presented in Fig. 3 sought to examine the impact of strategic agility as a second-order construct on financial performance.

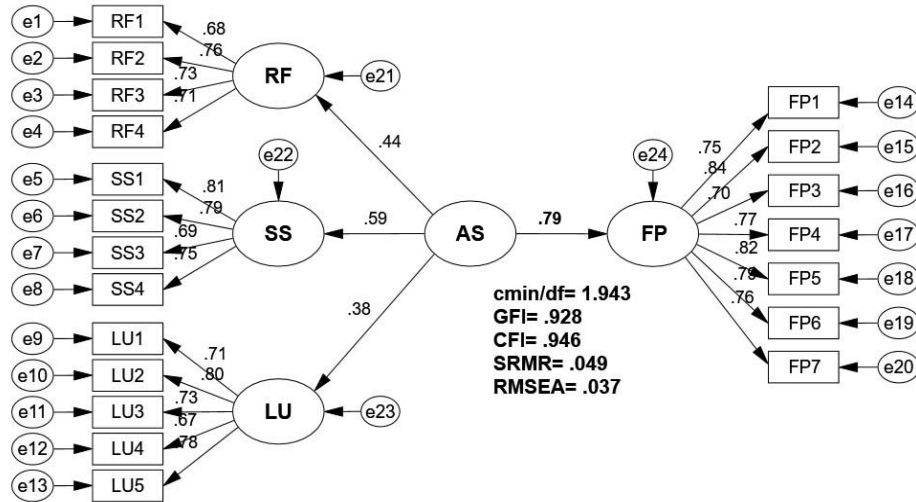


Fig. 3. SEM for the impact of strategic agility on financial performance

The results showed the fit indicators were appropriate, where the ratio of cmin/df was less than the upper bound of 3, the values of GFI and CFI were greater than the lowest acceptable value of 0.90, the value of SRMR was less than the upper threshold 0.09, and the value RMSEA was less than 0.05, which is the upper limit for this indicator. While the second structural model shown in Fig. 3 aimed to examine the impact of strategic agility dimensions as first-order constructs on financial performance. The results of this model showed appropriate values of fit indicators, as the cmin/df ratio was less than the upper bound of 3, the values of GFI and CFI was higher than the lowest acceptable value of 0.90, the value of SRMR was less than the high threshold 0.09, and the value of RMSEA less than 0.05., which is the upper limit accepted for this indicator.

Table 3
Impact result of strategic agility on financial performance

IVs†	B	SE	β	t-value	p-value	result
Strategic Agility	0.837	0.024	0.79	34.875	***	Supported
Resource Fluidity	0.692	0.033	0.57	20.969	***	Supported
Strategic Sensitivity	0.758	0.035	0.64	21.657	***	Supported
Leadership Unity	0.624	0.038	0.51	16.421	**	Supported

Note: †: dependent variable is financial performance, * $p \leq 0.05$, ** $p \leq 0.01$, *** $p \leq 0.001$.

All results related to the study hypotheses are reported in Table 3. The results indicated that strategic agility has a significant positive impact on financial performance ($\beta = 0.79, t = 34.875, p < 0.001$). Moreover, all dimensions of strategic agility have a significant positive impact on financial performance, where the highest impact was strategic sensitivity ($\beta = 0.64, t = 21.657, p < 0.001$), then resource fluidity ($\beta = 0.57, t = 20.969, p < 0.001$), and finally leadership unity ($\beta = 0.51, t = 16.421, p < 0.01$).

5. Discussion and Conclusion

Based on the business environment dynamics model, this research aimed to test the impact of strategic agility on the financial performance of Jordanian banks. It was observed through the statistical results that the level of strategic agility of the Jordanian banks is high and corresponds to (Halalmeh, 2021; Mohammad, 2022). This result is attributed to banks having the ability to invest their resources and reconfigure them to respond rapidly to changes in the turbulent business environment. Moreover, they invest the skills and experience of their accumulated human resources that acquired through interaction with the business environment to achieve a unique competitive position. However, banks are having difficulty overcoming the limits of strategic change resulting from the time limits for reformulating objectives and strategies.

The research emphasized the complementarity of strategic agility capabilities to overcome the difficulties faced by Jordanian banks to achieve the goals of customers. Banks, even if they have a strategic vision, seek to take advantage of the emerging business environment opportunity and modify the comprehensive vision to match those opportunities, which is reflected in

customer satisfaction and loyalty. This does not mean a complete elimination of the procedures and organizational rules used to reach the strategic goals. On the contrary, banks should reformulate it to enhance work flexibility and increase the employees' autonomy for performing their duties by relying on easy access to the information necessary for decision-making.

On the other hand, the results showed a moderate level of financial performance of the Jordanian banks, as this result is in line with (Al-Eitan & Bani-Khalid, 2019; Al-Hroot et al., 2020). This result is interpreted paradoxically, as the bank's profitability, which is positively associated with increased sales of services, needs to spend more on research and development activities, which are negatively related to profitability but necessary to innovate services that satisfy its current customers and attract new customers. Moreover, decision-makers in Jordanian banks are aware of focusing on the quality of services in achieving outstanding financial performance, as these services contribute to increasing stock prices and enhancing the bank's reputation, which is reflected in increasing the liquidity needed to invest in financial assets and making dividends that meet the aspirations of shareholders.

The results indicated that strategic agility positively affects the financial performance of Jordanian banks. Strategic agility was described as a highly efficient mechanism for achieving the financial goals of all stakeholders through the efficient investment of available resources (Gerald et al., 2020). Moreover, the results confirmed that the ability of banks to adapt to the disruptions of the business environment improves indicators of financial soundness and increases the market value of the bank compared to competitors. Thus, it could be concluded that strategic agility is one of the most important factors that lead to enhancing financial performance based on increasing sales volume of innovative services of high quality. Besides, Strategic agility reduces the additional costs spent on adapting to the changing business environment by relying on reducing the advertising expenses necessary to retain the customer, which leads to an increase in the bank's profitability (Zhou et al., 2019). Strategic agility also allows freedom for employees at various administrative levels to express their opinion and submit their proposals for new services that achieve more financial resources and invest in value-producing ideas.

6. Implications

The current study contained many theoretical contributions that broaden the literature on financial performance by focusing on enhancing the organization's ability to deal with changes in the speculative business environment. Most of the studies such as (Al-Nouri, 2020; Fosso Wamba & Guthrie, 2020; Tou et al., 2020; Vilkas et al., 2020) focused on the operational aspects of organizations such as integrating technology into production processes and creating new products and services that meet customer desires with the aim of improving financial performance. Instead, this study relied on the strategic aspects that enable the organization to achieve sustainability in competitive advantage and develop long-term performance by relying on agile capabilities to exploit business environment opportunities and avoid threats. Moreover, the study responds to recent calls referred by Teece et al. (2016) to explore strategic business models based on the theory of dynamic capabilities to achieve the vision and mission of the organization. Consequently, the focus has been on the foundations of strategic agility as an essential dynamic capability in organizations that helps managers to make critical decisions regarding the reconfiguration of the organization's resources based on the foresight of the business environment to achieve the forefront of the service or industrial sector and enhance their financial position.

In practical terms, the study presents a set of implications for managers and decision-makers who are considering scaling through understanding and evaluating the elements that contribute to better financial performance. The critical role of strategic sensitivity in improving financial performance was highlighted by making rational decisions based on scientific foundations as well as the ability to predict future challenges, as the study focuses on the need to formulate strategic plans based on accurate information gathered and analyzed from the business environment. In addition, it recommends that managers and decision-makers restructure the organization's resources and acquire fluid resources that can be used in creating and providing unique products to customers that are difficult for competitors to imitate. Finally, the study confirms the importance of leadership unity in forming a work climate that supports creativity, through which employees can present their ideas and suggestions about the products and services of the organization, in order to be able to anticipate competitors in obtaining opportunities from the business environment.

7. Limitations and future directions

Regardless of the theoretical and practical contributions the current study provides, it includes some limitations that pose opportunities for future studies. First, this study was conducted on the commercial banking sector in Jordan, which raises some inquiries about the possibility of generalizing the results. Therefore, it is advisable to conduct similar studies in different geographical contexts to avoid such inquiries and enable comparisons. Second, the study was designed based on a cross-sectional approach, which makes it vulnerable to rapid changes in the business environment and limits its ability to predict future conditions. Therefore, future researchers should think about studies that depend on the longitudinal approach and include a larger sample from different business sectors such as industry, telecommunications, and education in order to enhance the results achieved. Third, the current study was built to test the impact of strategic agility on financial performance. Therefore, it deals with two constructs, one of them was a first order and another a second order. In future research, it is possible to introduce moderate or mediated variables to gain in-depth knowledge of the role of strategic agility and the factors helping to improve the financial performance of organizations.

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