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Does Innovative Work Behavior Mediate the Relationship Between Dynamic Capability and Job Performance? Evidence from the Ethiopian Banking Sector

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Abstract

Employees' dynamic capability (DC) is increasingly treated as a micro-foundation of organizational adaptation, yet little is known about how it translates into job performance (JP) in developing-country financial markets. This study tests whether innovative work behavior (IWB) mediates the effect of DC on JP among Ethiopian bank employees. Anchored in dynamic capability, social exchange, and self-determination theories, a cross-sectional survey was administered to permanent head-office employees of two large private commercial banks (Awash Bank S.C. and Dashen Bank S.C.). Bank-specific samples were drawn by random sampling using Yamane's (1967) formula (450 targeted); 420 usable questionnaires (93.3%) were analyzed with PLS-SEM in SmartPLS 4.0. DC positively predicted IWB (β = 0.445) and JP (β = 0.384), and IWB predicted JP (β = 0.360). IWB complemented and partially mediated the DC–JP relationship (indirect β = 0.160, 95% CI [0.118, 0.211]), carrying about 29% of the total effect; the model explained 19.8% of the variance in IWB and 40.1% in JP. Banks should build both pathways: structured cross-functional rotations and continuous digital-skill assessment to develop DC, and idea-to-pilot innovation laboratories, risk-tolerant appraisal criteria, and recognition systems to convert capability into innovation. Generalization is limited to head-office staff of large private banks. The study provides micro-foundational evidence on employee-level DC from an African regulated banking market.

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Introduction

The African banking industry is characterized by increasingly complex and dynamic competitive forces arising from rapid technological advancement, regulatory change, and shifting customer demands (Eyo-Udo et al., 2025). The Ethiopian banking industry, marked by rapid growth and intensifying competition among commercial banks, exemplifies this dynamic environment (Abel et al., 2023). Recent liberalization has sharpened these pressures: Proclamation No. 1360/2025 permits foreign banks to enter through subsidiaries, branches, or equity participation (Federal Democratic Republic of Ethiopia [FDRE], 2025), while digital banking continues to expand across the continent (Eyo-Udo et al., 2025). In such a volatile industry, organizations must sense changes in their environments, seize the necessary resources and competencies, and reshape internal processes to react to emerging opportunities and threats (Teece, 2012). This capacity is conceptualized as dynamic capability, defined as the capacity of organizations and individuals to integrate, create, and adapt resources and competencies to address changing business environments (Teece, 2012).

According to dynamic capability theory, possessing resources is not enough to succeed in a competitive environment; it is essential to manage those resources dynamically in response to environmental change (Teece et al., 1997). Although the theory was developed at the firm level, the micro-foundations literature argues that organizational capabilities are ultimately enacted by individuals, so that explaining them requires attention to individual-level cognition and action (Teece, 2007; Felin et al., 2012; Helfat & Peteraf, 2015). At the level of the employee, dynamic capability refers to the ability to capitalize on opportunities, adjust to new situations, and continuously learn and apply new knowledge (Tworek et al., 2023). Employees with higher dynamic capability are theoretically more likely to contribute effectively to organizational success (Tworek et al., 2023).

Despite this conceptual progress, three gaps remain. First, empirical evidence on employee-level dynamic capability is scarce and dispersed. Existing studies address organizational performance during a crisis in Poland (Tworek et al., 2023), healthcare professionals in Iraqi public hospitals (Al Wali et al., 2023), and public-sector digital transformation in Malaysia (Subramaniam et al.,

2025), leaving the mechanisms that link capability to performance insufficiently specified. Second, the mediating mechanism is contested. Innovative work behavior (IWB), an employee's ability and willingness to develop, introduce, and apply new ideas, processes, and work methods, has been proposed as the channel through which capable employees perform better (Al Wali et al., 2023), and full mediation has been reported in one setting; yet dynamic capability theory implies that learning and adaptation can improve performance independently of innovation, which predicts partial mediation. Third, evidence from developing-country financial markets is absent. Research on Ethiopian banks has examined determinants of employee creativity (Kassa, 2021) but has not modeled employee-level dynamic capability, IWB, and job performance jointly; to the authors' knowledge, no study has done so for Ethiopian banking, where liberalization and digital transformation make employee adaptability a strategic concern for human resource management.

This study addresses these gaps by testing a single-mediator model among employees of two large private Ethiopian banks. It contributes (i) micro-foundational evidence that employee-level dynamic capability, empirically distinct from innovative behavior, predicts job performance; (ii) a theoretically grounded account of why mediation should be partial, supported by a decomposition of direct, indirect, and total effects rather than a binary mediation verdict; and (iii) context-specific managerial mechanisms for bank leadership.

Research Objectives and Research Questions

The general objective is to examine the effect of dynamic capability (DC) on job performance (JP) through the mediating role of innovative work behavior (IWB) among employees in the Ethiopian banking industry.

Specific Objectives:

- To examine the direct effect of DC on JP.
- To determine the effect of DC on IWB.
- To assess the effect of IWB on JP.
- To test the mediating role of IWB in the relationship between DC and JP.

Research Questions:

- To what extent does DC affect JP among banking employees in Ethiopia?
- To what extent does DC affect IWB among banking employees?
- To what extent does IWB affect JP among banking employees?
- Does IWB mediate the relationship between DC and JP?

Literature Review and Theoretical Framework

Theoretical Foundations

This study is anchored in three complementary theories. Dynamic capability theory explains why individuals with high dynamic capability perform better and innovate more. Social exchange theory and self-determination theory explain why innovation converts capability into performance, and why it does so only partially.

Dynamic capability theory extends the Resource-Based View (RBV) of the firm. According to Barney (1991), a firm's advantage becomes sustained once its resources are valuable, rare, difficult to imitate, and non-substitutable. However, the RBV explains how a combination of resources enables effectiveness at a given period but not how firms maintain their advantage amid changing conditions (Eisenhardt & Martin, 2017). Teece et al. (1997) developed dynamic capability theory to address this shortcoming: the capability to reconfigure resources is an additional capability that determines the sustainability of their value. Applied to employees, the same logic holds: an employee's knowledge and skills are valuable only if the employee can redeploy them as tasks change (Tworek et al., 2023). Teece (2012) describes dynamic capability as comprising three capacities: sensing (noticing that an existing process is failing or that an opportunity is emerging), seizing (gathering the knowledge or resources needed to respond), and transforming (changing how work is performed). These capacities apply at both individual and organizational levels.

Social exchange theory (Blau, 2017) explains why IWB raises job performance, and why the effect of dynamic capability on performance operates through innovation only partially. Its central tenet is reciprocity: when

organizations provide resources, support, or autonomy, employees reciprocate with additional effort. Innovative behavior is not part of formal job descriptions and is therefore discretionary effort; employees who believe the organization values and rewards their improvement ideas invest it in organizational goals, such as task and contextual performance (Borman & Motowidlo, 1993). Self-determination theory (Deci & Ryan, 2013) explains why some employees behave innovatively: intrinsically motivated behavior such as problem solving and idea generation is sustained when employees experience competence, autonomy, and relatedness at work. Dynamic capability, which involves the ability to learn and adapt, corresponds to the need for competence. Because capability satisfies this need directly, part of its performance benefit, for example through better learning and decision making, is realized without innovation. This logic underpins the expectation that mediation will be partial rather than total.

Employee Dynamic Capability - Conceptual Alignment and Evidence

Applying a firm-level construct to employees requires conceptual care. Following the micro-foundations literature, this study treats employee dynamic capability not as a miniature of firm routines but as an individual-level cognitive and behavioral capacity that underlies, and aggregates into, organizational adaptation (Felin et al., 2012; Helfat & Peteraf, 2015; Teece, 2007). It is operationalized as employees' perceived capability to sense changes and opportunities, seize new knowledge and skills, and transform work methods (Tworek et al., 2023), so that the construct and its measurement remain at the same level of analysis. Employee dynamic capability is also distinct from IWB. Dynamic capability is a capacity, a potential to adapt, whereas IWB is the enacted and discretionary behavior of generating, promoting, and implementing new ideas (De Jong & Den Hartog, 2010). The transforming capacity and IWB therefore overlap conceptually, but capability can improve performance through faster learning and routine adjustment without any novel idea being introduced. Their empirical distinctness is examined through discriminant validity in Section 4.2.

Recent studies support the relevance of dynamic capability from an employee perspective. Tworek et al. (2023) established that employees' dynamic capabilities significantly influence organizational performance through their effects on job performance, work engagement, and job satisfaction. Al Wali et

al. (2023) found that employees' dynamic capabilities significantly influence innovative work behavior among healthcare professionals. Subramaniam et al. (2025) positioned employee dynamic capability as a micro-foundation of organizational dynamic capability and showed that it mediates the effects of personality, cognitive capability, and intrinsic motivation on employee performance in public-sector digital transformation. Collectively, this work suggests that employee dynamic capability is an important resource enabling a greater contribution to organizational goals.

Innovative Work Behavior

Innovative work behavior is the deliberate generation, adoption, and implementation of new ideas, processes, and work methods that improve on the current way of working (De Jong & Den Hartog, 2010). Unlike creativity, which focuses on idea generation, IWB spans the whole process of identifying opportunities, creating new ideas, and implementing them at work (Janssen, 2000). Established antecedents include creative self-efficacy, transformational leadership, high-performance work practices, and intrinsic motivation (Parveen & Alshehri, 2023). IWB has been shown to improve job performance across settings and industries (Putra et al., 2025; Sari et al., 2026; Jain & Sharma, 2026; Suparjo et al., 2024; Suryanto et al., 2023), and meta-analytic evidence shows that creative and innovative performance relates positively to task and citizenship performance (Harari et al., 2016). In Ethiopian banking, empirical attention has centered on the antecedents of employee creativity (Kassa, 2021) rather than on its performance consequences. Al Wali et al. (2023) concluded that IWB fully mediates the relationship between employee dynamic capabilities and job performance in Iraqi public hospitals, consistent with the expectation that capable employees are better placed to identify improvements, develop solutions, and implement them.

Job Performance

Job performance is the effectiveness with which an employee carries out assigned tasks and responsibilities and contributes to organizational goals and objectives (Schmitt & Borman, 1993). Current models treat it as a combination of task performance and contextual performance (Borman & Motowidlo, 1993). Studies across sectors show that job performance is shaped by the interplay of individual, organizational, and environmental factors (Jain & Sharma, 2026;

Prayogi et al., 2025). Ability, cognitive capacity, and skill are important determinants (Tworek et al., 2023), and employee behavior has a positive effect on performance (Putra et al., 2025; Suparjo et al., 2024).

Hypothesis Development and Conceptual Model

Direct effect. Dynamic capability theory, applied to individuals, holds that skills and knowledge create value only when employees redeploy them as tasks change (Teece et al., 1997; Tworek et al., 2023). Employees with high dynamic capability detect the failure of a routine early, learn new procedures quickly, and adjust their work accordingly, and are therefore expected to perform better in turbulent settings (Teece, 2012; Tworek et al., 2023). Consistent with this expectation, Tworek et al. (2023) report that employee dynamic capability raises job performance, and recent employee-level evidence from digital-transformation contexts points in the same direction (Subramaniam et al., 2025).

Capability and innovation. Self-determination theory holds that competence satisfaction sustains the intrinsic motivation that underlies behaviors such as idea generation (Deci & Ryan, 2013). Dynamic capability supplies this competence, and its transforming component also involves changing how work is done, so employees who can meet new challenges are likely to convert that sense of competence into innovative work behavior rather than withdraw or act conventionally. Empirically, employee dynamic capabilities relate to innovative work behavior among healthcare professionals (Al Wali et al., 2023), and sensing capability predicts it among consultants (Held & Heubeck, 2025).

Innovation and performance. Social exchange theory implies that employees who feel valued repay the organization with discretionary effort, and innovation is one form of this effort (Blau, 2017). Applied improvements raise efficiency and quality and add to task and contextual performance (Borman & Motowidlo, 1993). Prior studies, including meta-analytic evidence, report a positive link between innovative work behavior and performance (Harari et al., 2016; Putra et al., 2025; Sari et al., 2026; Jain & Sharma, 2026).

Mediation. Dynamic capability gives employees the capacity to improve their work, and innovative work behavior is the behavior through which they apply it, so innovative work behavior should carry part of the effect of dynamic capability on job performance. The mediation should be partial, because capability also improves learning, adaptation, strategic thinking, and decision

making independently of innovation; the direct effect should therefore persist alongside the indirect effect, indicating complementary partial mediation (Zhao et al., 2010). This differs from the full mediation that Al Wali et al. (2023) reported among healthcare professionals in a public setting. The present study tests partial mediation in a banking sample and quantifies the share of the total effect that is mediated. Therefore, the following hypothesis are developed:

H1: Dynamic capability has a significant positive effect on job performance.

H2: Dynamic capability has a significant positive effect on innovative work behavior.

H3: Innovative work behavior has a significant positive effect on job performance.

H4: Innovative work behavior partially mediates the relationship between dynamic capability and job performance.

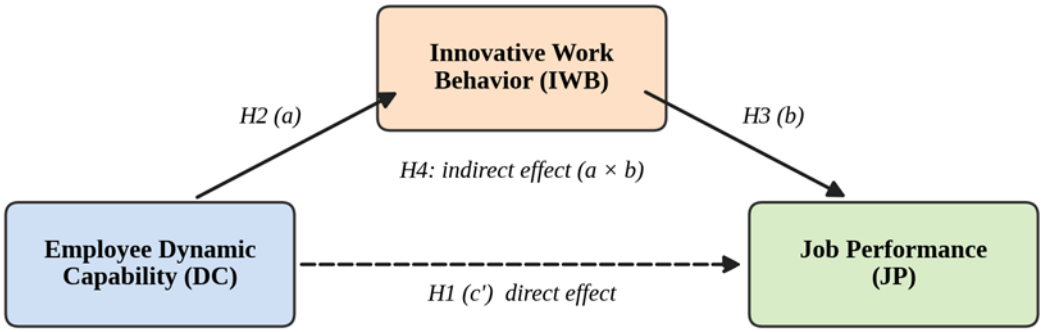


Figure 1. Conceptual model of the study

Methodology

Research Design and Context

The study adopted a quantitative, cross-sectional, explanatory survey design, consistent with its aim of testing theory-derived relationships among latent constructs. It focused on employees of commercial banks in Ethiopia, an industry comprising state-owned and private banks serving diverse customers that has grown rapidly in recent years, particularly in digital banking services (Eyo-Udo et al., 2025; FDRE, 2025).

Population, Sampling, and Participants

The target population comprised permanent employees at the head offices of two large private commercial banks, Awash Bank S.C. and Dashen Bank S.C. These banks were selected purposively because they are among the larger private banks operating in a competitive, technology-driven market. Head-office employees were selected because they are directly involved in product design, operations, risk management, and digital channel management across all bank activities. Restricting the study to two private banks and to permanent head-office staff strengthens the internal consistency of the organizational context and also defines the boundary of generalization (Section 6).

Sample size was determined with Yamane's (1967) formula, $n = N / (1 + Ne^2)$, at a 5% precision level ($e = 0.05$). The sampling frames comprised 541 permanent head-office employees at Awash Bank and 489 at Dashen Bank ($N = 1{,}030$), yielding bank-specific samples of 229.97 (rounded to 230) and 220.02 (rounded to 220), respectively, and a target of 450 respondents (43.7% of the combined population). Treating each bank as a stratum, respondents were selected by simple random sampling from each bank's staff list using random-number generation, giving every permanent employee within a bank an equal probability of selection. Adequacy was cross-checked with the inverse square root method (Kock & Hadaya, 2018): given the smallest path coefficient observed (0.360), a 5% significance level, and 80% power, the minimum sample is approximately 48, far below the 420 retained cases.

Of the 450 questionnaires distributed, 420 were usable, a usable response rate of 93.3%; the remaining 30 were not returned or were excluded because of incompleteness or patterned responding. Incomplete questionnaires were deleted listwise, so the data analyzed contain no missing values. Because the frames cover the full permanent head-office workforce of each bank and selection was random within banks, the sample represents that population; it is not representative of branch staff, state-owned banks, or smaller private banks.

Measurement Instruments

All constructs were measured with multi-item reflective scales on five-point response formats. Dynamic capability was measured with seven items adapted from Tworek et al. (2023) and Al Wali et al. (2023), capturing the capacity to recognize changes and opportunities, learn new skills, and adjust

work methods (e.g., "I can quickly learn new skills when required by my job"), from 1 (Strongly Disagree) to 5 (Strongly Agree). IWB was measured with nine items adapted from De Jong and Den Hartog (2010), covering opportunity recognition, idea generation, idea promotion, and implementation (e.g., "I often come up with new ideas for improving things at work"), from 1 (Never) to 5 (Always). Job performance was measured with an eight-item scale covering task and contextual performance (Borman & Motowidlo, 1993) (e.g., "I effectively complete my assigned tasks"; "I help colleagues when they need assistance"), from 1 (Strongly Disagree) to 5 (Strongly Agree).

The response anchors differ because the IWB instrument was validated with frequency anchors, which record how often an employee enacts each behavior, whereas capability and performance statements are naturally rated by agreement. The original anchors were retained for three reasons. First, preserving them protects the content validity of the established IWB scale; converting to agreement anchors would change what the items measure. Second, using a different response format for the mediator than for the predictor reduces artifactual covariation attributable to a common scale format (Podsakoff et al., 2003). Third, all three scales are five-point ordinal formats, PLS-SEM standardizes indicators, and each scale forms its own reflective construct, so no composite mixes anchor types; Section 4.2 shows that every construct achieved satisfactory reliability and discriminant validity. Shared agreement anchors for capability and performance remain a source of shared-format variance (Section 6).

Data Collection

Data was collected with self-administered questionnaires between January and April 2026. The questionnaire was provided in English and Amharic to increase participation. Procedural remedies for common method bias followed Podsakoff et al. (2003): respondents were told that there were no right or wrong answers, were asked to answer honestly, and were assured of anonymity and confidentiality in the cover letter and questionnaire. Informed consent was obtained from all respondents.

Data Analysis Strategy

Data was analyzed with Partial Least Squares Structural Equation Modeling (PLS-SEM) in SmartPLS 4.0. PLS-SEM was preferred to covariance-

based SEM for reasons specific to this model and dataset. First, the model estimates a mediation structure with three reflective constructs and 24 indicators simultaneously, and PLS-SEM provides direct, indirect, and total effects with bootstrap-based inference suited to mediation testing (Hair et al., 2021; Sarstedt et al., 2020). Second, all indicators are five-point Likert-type responses, which are bounded and ordinal and therefore unlikely to satisfy the multivariate normality assumed by maximum-likelihood covariance-based estimation; PLS-SEM does not require normally distributed data (Hair et al., 2021). Third, the study is explanatory and predictive in orientation: it seeks to maximize explained variance in JP and IWB and to assess predictive relevance, which PLS-SEM supports directly (Hair et al., 2019). Sample size was not the reason for the choice, since 420 cases exceed the requirements of either approach.

Analysis followed two stages (Hair et al., 2017, 2021). The measurement model was evaluated through indicator loadings (≥ 0.70 preferred; ≥ 0.50 acceptable when reliability and AVE criteria are met), internal consistency (Cronbach's alpha and composite reliability ≥ 0.70), convergent validity (AVE ≥ 0.50), and discriminant validity (HTMT < 0.85: Henseler et al., 2015) and the Fornell–Larcker criterion (Fornell & Larcker, 1981). The structural model was evaluated through collinearity (VIF), the coefficient of determination (R^2), effect sizes (f^2 and q^2, with 0.02, 0.15, and 0.35 denoting small, medium, and large effects (Cohen, 2013), predictive relevance (Q^2 from blindfolding), and approximate model fit (SRMR, conventionally below 0.08: Henseler et al., 2016). Path coefficients are original sample estimates; significance was assessed by bootstrapping (5,000 resamples) with 95% confidence intervals. Mediation was classified following Zhao et al. (2010) and Sarstedt et al. (2020): a significant indirect effect together with a significant direct effect of the same sign indicates complementary partial mediation.

Results

Sample Characteristics

The final sample consisted of 420 employees of the two banks (93.3% of the 450 targeted). The gender distribution was relatively balanced, with slightly more males than females. Most respondents were between 25 and 40 years old. By position, most were customer service representatives, followed by middle

management, operations staff, and senior management. Most respondents had between 3 and 8 years of banking experience.

Measurement Model Assessment

Table 1 reports reliability and convergent validity. All 24 outer loadings (Figure 2) ranged from 0.691 to 0.782 and exceeded the 0.50 minimum; 22 exceeded 0.70, and the two exceptions (IWB7 = 0.695 and JP3 = 0.691) were retained because reliability and AVE criteria were met (Hair et al., 2021; Sarstedt et al., 2020). Cronbach's alpha (0.879–0.893) and composite reliability (ρa = 0.881–0.895; ρc = 0.906–0.913) exceeded 0.70 without reaching the 0.95 level that signals indicator redundancy, and AVE values (0.539–0.579) exceeded 0.50 (Hair et al., 2017, 2021).

Table 1

Reliability and convergent validity of the measurement model

Construct	Items	Loading range	Cronbach's α	CR (ρa)	CR (ρc)	AVE
Dynamic capability (DC)	7	0.735–0.782	0.879	0.881	0.906	0.579
Innovative work behavior (IWB)	9	0.695–0.758	0.893	0.895	0.913	0.539
Job performance (JP)	8	0.691–0.777	0.886	0.889	0.909	0.557

Note. CR = composite reliability; AVE = average variance extracted. Thresholds: loadings ≥ 0.70 (≥ 0.50 acceptable); α and CR ≥ 0.70; AVE ≥ 0.50.

Table 2 reports discriminant validity. All HTMT ratios (0.496–0.610) were below 0.85 (Henseler et al., 2015), and the Fornell–Larcker criterion was satisfied: the square root of each construct's AVE (DC = 0.761; IWB = 0.734; JP = 0.746) exceeded its correlations with the other constructs (Fornell & Larcker, 1981). The measurement model is therefore reliable and valid, and the clear separation of DC from IWB (HTMT = 0.496) supports treating capability and its behavioral enactment as distinct constructs.

Table 2

Discriminant validity: HTMT (above diagonal) and Fornell–Larcker criterion (diagonal and below)

	DC	IWB	JP
DC	0.761	0.496	0.610
IWB	0.445	0.734	0.593
JP	0.545	0.532	0.746

Note. Diagonal entries are the square roots of AVE; entries below the diagonal are construct correlations; entries above the diagonal are HTMT ratios (criterion < 0.85).

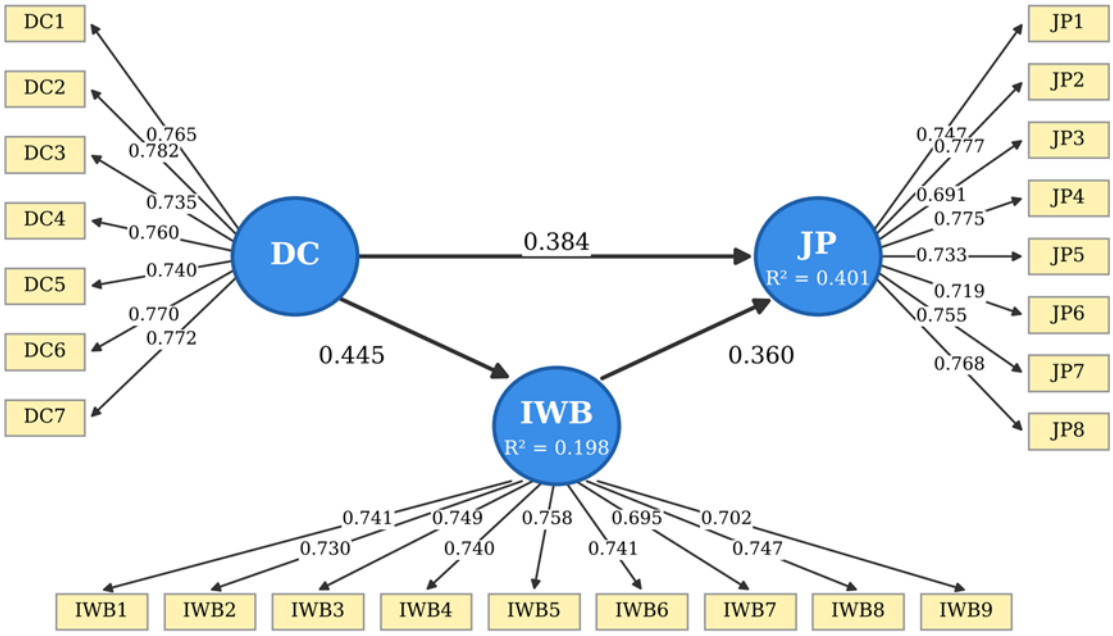


Figure 2. Estimated PLS-SEM model: outer loadings, path coefficients, and R^2 values

Structural Model Assessment

Collinearity and common method bias. VIF values were 1.000 (DC → IWB) and 1.247 (DC and IWB → JP), well below the conservative threshold of 3, indicating no problematic collinearity. Because all inner VIFs were also below 3.3, there is no indication of pathological common method variance under Kock's (2015) criterion; as this is a diagnostic rather than proof, residual common method bias is acknowledged in Section 6.

Explanatory power. DC accounts for 19.8% of the variance in IWB, and DC and IWB jointly account for 40.1% of the variance in JP (Table 3). These values indicate weak-to-moderate explanatory power under PLS-SEM benchmarks (Hair et al., 2021) but medium-to-large effects by Cohen's (2013) conventions for behavioral research (R^2 of 0.13 and 0.26 for medium and large effects). The unexplained variance (80.2% for IWB; 59.9% for JP) reflects antecedents omitted from the model, such as leadership, organizational support, and job design, together with measurement error; it is not confined to innovation-specific factors.

Effect sizes, predictive relevance, and model fit. The f^2 values ranged from 0.174 to 0.247, medium effects by Cohen's (2013) benchmarks. Q^2 values were above zero (0.199 for IWB; 0.296 for JP), indicating predictive relevance for both endogenous constructs (Hair et al., 2021). The q^2 effect sizes were (0.248) for DC → IWB, (0.188) for DC → JP, and (0.179) for IWB → JP, and the SRMR was [0.062], against a threshold of 0.08 (Henseler et al., 2016).

Table 3

Structural model diagnostics

Construct / path	R^2	Q^2	VIF	f^2	q^2
IWB	0.198	0.199			
JP	0.401	0.296			
DC → IWB			1.000	0.247	0.248
DC → JP			1.247	0.198	0.188
IWB → JP			1.247	0.174	0.179

Note. Q^2 from blindfolding; f^2 and q^2 benchmarks: 0.02 small, 0.15 medium, 0.35 large. Overall model fit: SRMR = [0.062].

Hypothesis Testing

Table 4 and Figure 2 present the structural results. Dynamic capability had a significant positive direct effect on job performance ($\beta = 0.384$, $t = 9.193$, $p < 0.001$) and on innovative work behavior ($\beta = 0.445$, $t = 11.504$, $p < 0.001$), and innovative work behavior had a significant positive effect on job performance ($\beta = 0.360$, $t = 8.657$, $p < 0.001$); the three direct-effect hypotheses were supported. The specific indirect effect of DC on JP through IWB was significant ($\beta = 0.160$, $t = 6.856$, $p < 0.001$, 95% CI [0.118, 0.211]). Because the interval excludes zero and the direct effect remains significant with the same sign, IWB complementarily and partially mediates the relationship, supporting the mediation hypothesis (Zhao et al., 2010).

The total effect of DC on JP is 0.544 (0.384 direct + 0.160 indirect). The indirect pathway carries 29.4% of the total effect (0.160 / 0.544), and the remaining 70.6% operates directly or through channels not modeled. Bootstrap means differ from original-sample estimates by no more than 0.008 (Table 4), so inferences do not depend on the estimate used.

Table 4

Structural model results (bootstrapping, 5,000 resamples)

Hypothesis	Path	β	M	SD	t	p	95% CI	Result
H1	DC → JP	0.384	0.385	0.042	9.193	< 0.001	[0.302, 0.466]	Supported
H2	DC → IWB	0.445	0.453	0.039	11.504	< 0.001	[0.369, 0.521]	Supported
H3	IWB → JP	0.360	0.362	0.042	8.657	< 0.001	[0.278, 0.442]	Supported
H4	DC → IWB → JP	0.160	0.164	0.024	6.856	< 0.001	[0.118, 0.211]	Supported (complementary partial mediation)

Note. β = original-sample path coefficient; M = bootstrap mean; SD = bootstrap standard deviation. Indirect effect 95% CI [0.118, 0.211]; total effect of DC on JP = 0.544; share of total effect mediated = 29.4%.

Discussion

Theoretical Implications

The findings support the micro-foundational premise that employee-level dynamic capability is a meaningful predictor of performance. Dynamic capability had a significant direct effect on job performance and an even stronger effect on innovative work behavior, consistent with dynamic capability theory (Teece, 2012; Teece et al., 1997) and with employee-level evidence from digital-transformation settings (Subramaniam et al., 2025; Tworek et al., 2023). Path coefficients and effect sizes answer different questions: a coefficient expresses the direction and strength of a direct effect, whereas f^2 expresses the contribution of a predictor to R^2. On the latter metric each of the three relationships is medium ($f^2 = 0.174–0.247$), so capability is a substantial but not overwhelming predictor of performance.

Innovative work behavior complementarily and partially mediated the capability–performance relationship, carrying about three-tenths of the total effect. Two inferences follow. First, capability converts into performance through two channels: a behavioral channel, in which employees enact and implement improvements, and a direct channel, in which learning, faster recognition of failing routines, and better decisions raise performance without novel ideas. This is the pattern expected when social exchange theory (reciprocity and discretionary effort) and self-determination theory (competence as the driver of intrinsic motivation) are combined with the dynamic capability

logic. Second, the significant effect of IWB on performance is consistent with meta-analytic evidence (Harari et al., 2016) and with a large body of studies (Putra et al., 2025; Sari et al., 2026).

Whereas Al Wali et al. (2023) found full mediation among healthcare professionals in Iraqi public hospitals, the direct effect here remained substantial. Two explanations are plausible and testable. First, head-office banking work is heavily regulated, so learning and adaptation improve task execution and compliance directly even when no novel idea is introduced. Second, the performance measure includes contextual performance, such as helping colleagues and contributing to team goals, which capability-driven learning may enhance without innovation. The present cross-sectional data cannot adjudicate between these explanations, and sector and measurement differences may also contribute.

Contextual Interpretation for Ethiopian Banking

Interpreted against the Ethiopian setting, the results suggest that capability is a scarce and strategically valuable asset. Liberalization under Proclamation No. 1360/2025 exposes domestic banks to prospective foreign entrants (FDRE, 2025), so advantage will depend less on adopting new systems, which can be purchased and imitated, than on employees' ability to learn, adapt, and improve processes around them. This accords with the RBV insight that value lies in reconfiguring rather than merely holding resources (Barney, 1991; Eisenhardt & Martin, 2017). The partial mediation adds two contextual points. First, because the direct pathway dominates (70.6%), investment in capability should pay off even where the organizational climate allows limited discretionary innovation, which is relevant in hierarchical, regulation-intensive institutions where deviation from standard procedures is costly. Second, the substantial IWB-to-performance path implies that returns to capability are amplified when employees are permitted to act on ideas, which places responsibility on management systems, such as approval chains, risk appetite, and recognition, rather than on employees alone. Moderation by leadership and innovation climate should be tested in future work.

Practical Implications

Table 5 links each empirical finding to a concrete mechanism that bank managers can implement, with an accountable unit and an indicator for monitoring.

Table 5

Evidence-linked managerial mechanisms for Ethiopian banks

Finding	Mechanism	Accountable unit and indicator
DC strongly predicts IWB (β = 0.445)	Cross-functional rotations of 6–12 months linking branch operations, digital channels, risk, and IT, made a prerequisite for promotion to supervisory grades	HR division; share of staff completing at least one rotation within three years
DC predicts JP directly (β = 0.384)	Annual digital-skill assessment of data, digital-channel, and process-change competencies, feeding individual learning plans and micro-credentials in the bank academy	HR and learning academy; assessment-to-training completion rate
IWB predicts JP (β = 0.360)	Head-office rapid-prototyping laboratory with a 90-day idea-to-pilot pathway, a sandbox for testing, and a ring-fenced budget for staff-initiated digital service pilots	Digital banking and strategy unit; pilots launched and pilots scaled
Direct pathway dominates (70.6% of total effect)	Blameless after-action reviews of every major system rollout (e.g., mobile banking, core-system upgrades) to institutionalize sensing, seizing, and transforming	Operations division; reviews completed and process changes adopted
Partial mediation: innovation needs enablers	Dual-criteria appraisal adding learning agility and implemented improvements to scorecards, with recognition for adopted ideas	HR and executive committee; share of scorecards with an innovation criterion

Note. Mechanisms are the authors' proposals derived from the empirical findings; they were not tested in this study.

For senior leadership, the implication is that human capital strategy should be treated as a core component of competitive positioning during liberalization: capability metrics warrant board-level oversight, learning and pilot budgets should be multi-year commitments, and recruitment should assess learning agility alongside technical qualifications. Sector-level bodies could support smaller banks through shared digital-competence frameworks.

Limitations and Future Research

Several limitations qualify the findings. First, the cross-sectional design precludes causal inference and cannot exclude reverse or reciprocal relationships; for example, high-performing employees may develop greater capability through experiences of success. Second, all data were self-reported

from a single source at a single time. Procedural remedies (anonymity, confidentiality, and differing response formats) and the inner-VIF diagnostic reduce but do not eliminate common method bias, and shared agreement anchors for capability and performance may inflate their association; supervisor ratings or objective performance records would permit stronger inference. Third, the sample comprises permanent head-office employees of two large private banks, so the findings should not be generalized to branch staff, state-owned banks, smaller private banks, other industries, or other countries without further testing. Fourth, the scales were adapted to the banking context, and alternative measures could yield different estimates. Finally, the model omits organizational support, supervisory leadership, culture, and job design, which probably explain part of the unexplained variance.

Future research should use longitudinal or cross-lagged designs to establish temporal precedence; multi-source data combining self-reports with supervisor ratings or administrative performance records; and multi-group analyses comparing public and private banks and head-office and branch staff. Moderating factors such as leadership style, organizational support, innovation climate, human resource practices, and job autonomy, and additional mediators such as self-efficacy, organizational commitment, and engagement, should be examined. Qualitative designs, including interviews and focus groups, could clarify why mediation is partial in banking.

Conclusion

This study asked whether the performance returns to employees' dynamic capability depend on innovative work behavior. The answer is partly. Capability improves performance directly, through learning and adaptation, and indirectly, by enabling employees to generate and implement improvements. Evidence from two large private Ethiopian banks shows that innovation is an important but not exclusive conduit, so organizations cannot rely on innovation programs alone to realize the value of capable employees. By showing that employee-level capability is empirically distinct from innovative behavior yet consequential for performance, the study supports the micro-foundational view that organizational adaptation is built from individual capabilities, and it demonstrates in a regulated African banking market that mediation by innovation is complementary rather than complete.

For banking leaders, the central message is that talent strategy under liberalization should pursue two mutually reinforcing investments: building capability through rotation, assessment, and structured learning, and removing the organizational barriers that prevent capable staff from acting on ideas through pilots, risk-tolerant appraisal, and recognition. Banks that pursue only the first risk capability without outlet; banks that pursue only the second risk innovation without foundation. Future research should test the boundary conditions set by leadership and climate across bank types and over time.

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