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**EFFECT OF ORGANIZATIONAL CAPABILITIES ON THE PERCEIVED
PERFORMANCE OF MICROFINANCE INSTITUTIONS IN KENYA**



**A RESEARCH DISSERTATION SUBMITTED IN PARTIAL FULFILMENT OF
THE AWARD OF A DEGREE OF MASTER'S IN BUSINESS ADMINISTRATION
OF STRATHMORE BUSINESS SCHOOL, STRATHMORE UNIVERSITY, KENYA**

OCTOBER 2021

DECLARATION

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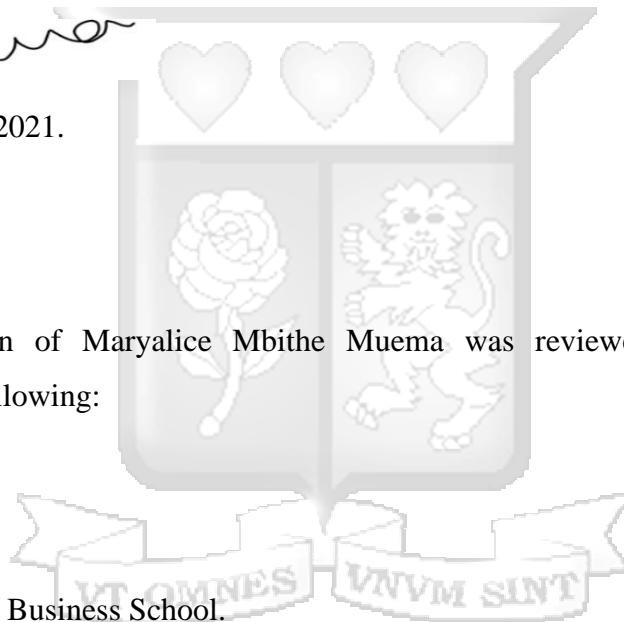
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ABSTRACT

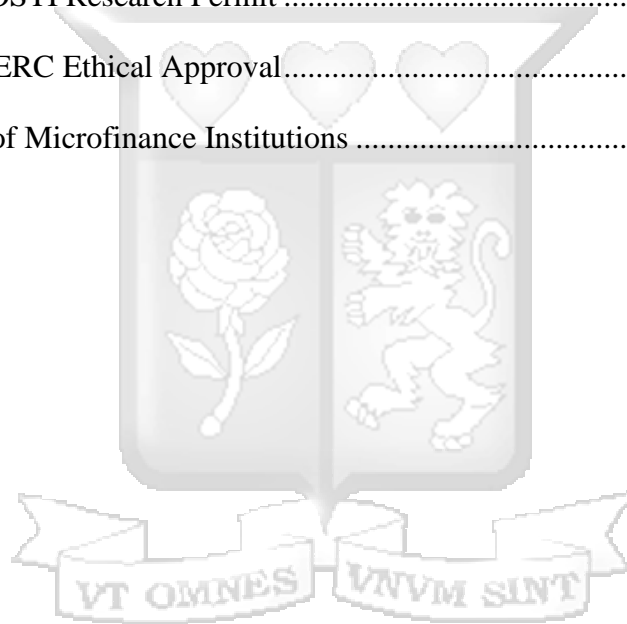
In the Kenyan market, the microfinance industry has faced increased competitive pressure arising from the growth of Saccos, Mobile Money systems and the mainstream commercial banks, which have resulted in low market share, poor profitability, lack of customer retention and high incidences of microfinance institutions failures. Despite this, there has been minimal empirical evidence examining how various organizational capabilities predict the perceived performance of microfinance institutions in Kenya. The research specifically reviewed the effect of marketing, managerial, technological and resource capabilities influence on the perceived performance of microfinance institutions. The scope of the study was focussed on the registered microfinance institutions operating within Nairobi County. Theoretically, the study was grounded on the dynamic capabilities theory with a quantitative approach being applied in the research. The target population for the study was three-senior level managers from the 52 registered microfinance institutions in Kenya. The study adopted a census sampling of the 156 respondents. The survey relied on a structured research questionnaire in the data collection process. The study instrument was pretested among 13 participants who were not considered in the final survey sample. The collected data was analyzed using quantitative techniques such as descriptive, correlation and regression tests. The survey was able to garner a 73% response rate from the sample participants. The study showed there was a moderate positive effect of marketing and managerial capabilities while technological and resource capabilities had a strong effect on the perceived performance of microfinance institutions. The regression indicated that 61.3% of the perceived performance of microfinance institutions was predicted by the organization capabilities. The study concluded that apart from marketing capabilities, the other three predictor variables had a positive and significant effect on the perceived performance of the microfinance institutions. The research thus concluded that managerial, technology and resource capabilities were satisfactory determinants of the perceived performance of microfinance institutions. It was recommended that microfinance institutions should improve their integration of new marketing tools to improve the perceived performance. More so, the microfinance institutions can continuously delegate, train and support employees to drive better perceived performance. Further, microfinance institutions should continuously innovate and adopt new technologies to ensure they offer top-notch services and can serve a larger network. Lastly, microfinance institutions should seek collaborations to enhance their resource base, which can significantly lead to better performance.

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LIST OF ABBREVIATIONS

AMFI	Association of Microfinance Institutions
ICT	Information Communication and Technology
MFI	Microfinance Institutions
NACOSTI	National Commission for Science Technology and Innovation
R&D	Research & Development



OPERATIONAL DEFINITION OF TERMS

- Managerial Capabilities** Parnell, Long and Lester (2015) defined managerial capabilities as the unique competencies and set of skills possessed by top-level management, workforce and organization members.
- Marketing Capabilities** Kamboj and Rahman (2015) indicate that marketing capabilities can be categorized into functional, operational and strategic efforts undertaken by the firm to wither market uncertainties and promote market reach.
- Organizational Capabilities** Camison (2005) views organization capabilities as the combination of various firm competencies and structural activities embedded in the firm that is independent and can be absorbed through multidimensional constructs.
- Organization Performance** Namada (2018) opines that organization performance is the ability of the organization to effectively and efficiently utilize their resources to attain stated goals and objectives.
- Resource Capabilities** Resource capabilities relate to the essential inputs in the production process or any other form of tangible resources that the organization controls and are fundamental to the operations of the organization (Chae & Olson, 2013).
- Technological Capabilities** Parnell, Long and Lester (2015) explained that technological capabilities are the firm's capacity to adopt, use and create new technologies that are geared towards improving the efficiency and effectiveness in the firm operations.

CHAPTER ONE

INTRODUCTION

This section introduces the background study. It is composed of the study background, which gives a brief description of what the study will focus on. It then discussed the main variables of the study. This comprised a section on organizational capabilities and another on the perceived performance of microfinance firms. It then presented the statement of the problem, the study objectives, research question, scope of the study, and conclude with the significance of the study to different stakeholders.

1.1 Background of the Study

Association of Microfinance Institutions (2020) defines microfinance institutions (MFI) as financial institutions in the country whose primary aim is to provide small loans to low-income groups and micro-enterprises in the county. Microfinance institutions are companies listed by the Central Bank to provide financial services such as loans, savings, deposits, and non-financial services to low-income individuals, mostly in the informal sector. Increased demand for financial services by low-income families in developing countries resulted in the creation of microfinance institutions which is an alternative way of providing financial services to these individuals. These institutions function to eradicate poverty by offering credit services to people who have little or no assets that can be accepted by traditional banks as collateral for a loan (Chowdhury, 2009). The activities of Microfinance institutions (MFIs) started in Ireland in the 1700s but gained traction across the world in the early 1970s, involving donors who provided funds to smaller Credit-lending institutions, which in turn make these funds available to farmers as a means of improving agricultural production. A series of losses in the 1980s led to the development of frameworks aimed at regulating MFI activities, resulting in their integration into the financial sector (Ledgerwood, 2013).

MFIs activities in developing countries have since mushroomed, with the Microcredit Summit Campaign committing to reach 100 million families. The microfinance industry plays a critical role in financial deepening in the country and expanding access to financial services and products to millions of Kenya. The sector is estimated to provide financial services to at least 45% of the informal sector in the country (Gathonu, Nyambegera, & Kirubi, 2018). Microfinance institutions come in four models; poverty-focused development banks, village banks, thrift and credit co-operatives, intermediary NGO programs which link low-income

groups in micro-enterprises with formal financial systems. MFIs in Kenya have declined in their overall performance with a 7% decline in assets as of 31 December 2017, contrary to a 5% growth that was witnessed in 2016. The AMFI report indicates that the main challenges in the industry have been lack of market sustainability, poor loan repayments, government regulations, financing constraints, poor innovation and accomplishment of strategic objectives (Association of Microfinance Institutions, 2020).

World Bank (2016) indicates that the microfinance industry has positioned itself as a key tool of eradicating poverty and promoting economic development. Goyal, Marsh, Narayan and Ahmed (2011) contends that the microfinance industry has been a central channel for improving the efficiency, depth, breadth and reach (access) of financial systems. Microfinance provides strength to boost the economic activities of low-income group people and thus contributes to the eradication of their poverty (Almas & Mukhtar, 2014). Research shows that MFI' depth of outreach is increasing more rapidly than public, commercial banks (Martzys, 2006). MFIs in Kenya function to provide microfinance services to the lower pyramid in society, and according to the Central Bank (2018), microfinance institutions can be classified into community-based microfinance banks and nationwide microfinance banks; they are critical to expanding financial access and services in Kenya. The Microfinance Institutions (MFIs) in developing countries, like in developed countries, have experienced unstable performance trends, which have limited the impact of the institutions in nation-building (Diar, Rotich, & Ndambiri, 2017).

Shu and Oney (2014) contend that the microfinance industry in Cameroon has been integral in supplementing financial outreach within the country. This has been achieved through low-cost strategies, lowering risk, increasing outreach to low-income communities and expanding the product range. Guinea and Tanzania have MFIs that have increased in number, yet they face the challenge of good performance through institutional constraints. In Nigeria, the industry is faced by among other challenges, lack of appropriate credit management, poor adherence to the regulatory environment and lack of sustainability (Abdulai, 2017). In Kenya, Maina and Ishmail (2014) noted that the performance of the MFI industry has been quite low, as noted by the low levels of efficiency, financial leverage and poor returns to shareholders.

However, despite the low returns, Wambugu and Ngugi (2012) note that Kenya's microfinance industry is one of the most vibrant in sub-Saharan Africa, as evidenced by the number of branches. The CBK (2017) contends that microfinance institutions have fallen behind in technology adoption; and an increasing imbalance in their financial accounts. High-interest

rates and an increasing volume of non-performing loans has significantly impacted MFI sustainability (Kathomi, Maina, & Kariuki, 2017). Mumba (2020) notes that leadership style is key to determining resource management capacity and decision making of microfinance institutions. Munnet (2018) showed that technological adoption and integration is vital to strengthening the firm's profitability. Kiswili, Amuhaya, Noor and Anaya (2019) affirms that human resource management is key to increasing customer outreach, hence increased realization of organizational goals.

The Microfinance Act (2006) defines Microfinance institutions or a deposit-taking microfinance business as a business in which the person conducting the business holds himself out as accepting deposits on a day-to-day basis. Kenya's microfinance sector comprises of nearly 250 MFIs, with only 56 of these being registered with the Association of Microfinance Institutions, an umbrella body (Bengi & Njenje, 2016). The rest of the informal MFIs are registered as self-help groups by the ministry in charge of social services. Association of Micro Finance Institutions (AFMI) report of 2020 indicated there are a total of 60 fully paid-up members serving over 6 million clients, with the majority having representation in Nairobi County, making the county a suitable location for the survey. This study will focus on exploring how organizational capabilities impact the perceived performance of the above microfinance firms.

1.1.1 Organizational Capabilities

Degravel (2011) defines organizational capabilities as the ability of the firm to deploy its resources and competencies through systematic strategic processes that are geared towards achieving optimal results efficiently. Camison (2005) views organization capabilities as the combination of various firm competencies and structural activities embedded in the firm that is independent and can be absorbed through multidimensional constructs. Thus, they can be the skills and capacities the organization possesses that can help the firm in achieving operational efficiency. Parnell, Long and Lester (2015) advocates for firms to ensure that their capabilities are effectively maintained, managed and deployed to ensure attainment of firm performance. These organizational capabilities are able to offer the firm some uniqueness and contribute to progressive performance.

Nayeemunnisa and Gomathi (2020) defined organizational capabilities as an organization's ability to effectively manage its resources by making and implementing strategic decisions. The term is highly used in strategic management research and emerged from the Resource-based Theory, with Treece et al., (1997) affirming that they are key determinants of a firm's

sustainability and level of competitiveness. The paper ascertained that developing unique and difficult to imitate capabilities will enable organizations to sustain their business models, achieve better performance and create value for customers. Kelchner (2016) argues that the various factors that combine to form unique firm capabilities are instrumental to decision making and maintaining effectiveness within the firm. Thus, ensuring they are appropriately managed will result in a competitive edge, foster differentiation and innovativeness within the firm. On the other hand, Gryger, Saar and Schaar (2010) argue that organization capabilities are critical to a business as they can help in developing leadership, improving competence, efficiency and collaborative practices that can support a firm during volatile business conditions.

Martelo, Barroso and Cepeda (2013) grouped organizational capabilities into three, namely market orientation, customer relationship management and knowledge management and noted that an effective combination of these resources results in enhanced customer value. According to Degraevl (2011), the various organization capabilities can be grouped into marketing, managerial, technological, entrepreneurial, financial, innovative and economic capabilities. *Hassan R. Hassanelnaby Woosang Hwang Mark A. Vonderembse (2012) associated implementation of ERP systems with organizational capabilities, while* Chen (2012) assessed the relationship between IT integration and attainment of competitive advantage. Kemper, Schilke and Brettel (2013) noted that improving a firm's social capital capability and its research and development capabilities will result in improved marketing capability, which significantly improves competitive positioning and improves frequency and efficiency of IT adoption into firm processes. Lee (2020) examined the relationship between organizational culture, organization capabilities and employee retention and noted that ethical organizational behavior significantly improves employee performance and retention, which enables firms to sustain competitive advantage. Rehman, Mohamed and Ayoup (2019) pointed out that planning control, cultural control, cybernetic control, administrative control and rewards and compensation control are essential firm capabilities for competitive firms.

In their research paper, Xu, Huo and Sun (2014) indicate that organization capabilities encompass the strategic architecture, innovation asset integration, differentiation and acquisition capacities. The paper argues that organization capabilities are firm-specific and dynamic in nature and are key determinants of the financial outcomes of microfinance institutions. This research adopted the capabilities highlighted by Degraevl (2011) as the main constructs of this research due to their ability to address shifting customer demands and market

composition in the microfinance industry. These capabilities encompass the ability of a firm to generate and combine a unique set of skills, processes, technologies and human competencies that differentiate a firm's operations and act as a source of competitive advantage.

Marketing capabilities are explained by Chahal and Kaur (2014) as the firm's ability to utilize the available resources to undertake marketing activities geared towards satisfying customer needs, meeting market demands, market planning, market communications and promoting business competitiveness. Kamboj and Rahman (2015) indicate that marketing capabilities can be categorized into functional, operational and strategic efforts undertaken by the firm to wither market uncertainties and promote market reach. Breznik and Hisrich (2014) suggest that marketing capabilities can be explained by the firm's ability to develop new products, enhance the market reach/share, undertake promotional activities, improve distribution capacity, enhance service quality and fulfill service delivery.

Parnell, Long and Lester (2015) defined managerial capabilities as the unique competencies and set of skills possessed by top-level management, workforce and organization members. These competencies arise from having specialized knowledge through training, organizational learning, technical know-how and personal attributes. Camison (2005) indicates that managerial capabilities can be exhibited through risk-taking, improved problem solving, tactical decision making and professional competency. Basile and Faraci (2015) note that managerial capabilities can be expressed through effective communication, exhibiting authority, involving employees and service dedication.

Parnell, Long and Lester (2015) explained that technological capabilities are the firm's capacity to adopt, use and create new technologies that are geared towards improving the efficiency and effectiveness in the firm operations. Baark, Lau, Lo and Sharif (2011) opine that technological capabilities are developed within the firm over a long span of time and are a fruit of accumulated business experiences. Zhou and Wu (2010) contend that building adequate technological capabilities involves increasing investments in research and development, diversifying product ranges, accumulating knowledge and improving the technical expertise of employees. Khalaji (2014) indicates that absorption of new technologies, digitalization of firm processes and supporting technological developments is vital to organization performance.

Resource capabilities relate to the essential inputs in the production process or any other form of tangible resources that the organization controls and are fundamental to the operations of the organization (Chae & Olson, 2013). A resource is something that a firm possesses, which

can include physical and financial assets as well as employees' skills and organizational (social) processes (Gryger, Saar, & Schaar, 2010). The competitiveness of the firm lies in the ability of the management to efficiently utilize their resource capability. These resources can take the form of financial, human, physical or organizational resources (Bamel & Bamel, 2018). Chahal and Kaur (2014) argue that exploiting the resource capability of the firm was key to yielding improved organization perceived performance due to the uniqueness offered to the firm.

1.1.2 Performance of Microfinance Institutions

Namada (2018) opines that organization performance is the ability of the organization to effectively and efficiently utilize its resources to attain stated goals and objectives. The extent and ability of the organization to achieve the set goals is deemed a measure of the performance of the organization (Katou & Budhwar, 2018). For effective assessment of the organization performance, the firm is expected to develop a range of activities that will help in setting goals and monitoring the institutions' ability in attaining them (Marinova, Platenga, & Remery, 2016). In their research paper, Shin and Konrad (2017) revealed that organizational performance could be measured using four main perspectives financial, customer, internal processes and innovativeness. Kaplan (2010) the main organization performance factors revolve around customer perspective, internal workflows and growth perspectives.

According to Corvellec (2018), the measurement of organization performance should not be limited only to financial metrics but should consider other changes in the firms' conditions, market size, employee productivity and competitive edge. The financial perspective of the organization performance measurement looks at the firm's ability to assess the profitability, assets growth, cashflow growth, leverage and ability of the firm to maintain adequate working capital. The customer perspective seeks to look at the ability of the firm to meet the brand image measures, the satisfaction retention and customer growth levels within the organization (Katou & Budhwar, 2018). Shin and Konrad (2017) further reveal that the internal processes measures look essentially at the firm's efficiency in their internal systems and operations, while innovativeness looks ideally at the firms' ease of adapting to the changing economic conditions affecting the firm. The study measures the perceived performance of the microfinance institutions in Kenya using the customer, internal, innovative/growth and financial perspectives (Kanyurhi & Akonkwa, 2016). The study will incorporate measures such as customer acquisition, market expansion, integration of new technologies, and profits generation as the

measures of firm performance. These measures are key indicators of the firm's ability to meet its main goals and objectives, according to the study by Gryger, Saar and Schaar (2010).

1.2 Statement of the Problem

The current business climate is characterized by stiff competition, globalization and rapid technological change. Organizations operating in such context are faced with the challenge of ensuring that they remain alive and relevant in business (Wanjala, 2016). To survive in such an environment, organizations have to adopt concepts geared towards improving their performance (Mokaya & Kipyegon, 2016). Microfinance services in Kenya have existed for some years, yet for a number of reasons, they have not been able to reach the majority of low-income Kenyans (Gatimu, 2014). Without the prioritization of the factors that impede the growth of these microfinance services, solutions might have no significant impact on growth in the sector if they are not correctly targeted (Owino & Kibera, 2015). Hence, there is a need to establish the right organizational capabilities that can help strengthen the perceived performance of Microfinance Institutions in Kenya.

MFI's face stringent competition from commercial banks; the growth of digital loan providers activities of commercial banks may confront MFI's with increased competition for borrowers (Gatimu, 2014). Further, the global shift towards creating and maintaining sustainable, profitable business models has caused a significant shift in how organizations gain and sustain competitive advantage (Wilden R. , Gudergan, Nielsen, & Lings, 2013). In the Kenyan market, the industry has faced increased competitive pressure arising from the growth of Saccos, Mobile Money systems and the mainstream commercial banks, which have resulted in low market share, poor profitability, lack of customer retention and high incidences of MFI failures (Okombo, 2015).

Namada (2018) opines that organization performance is determined by resource utilization capabilities. Shin and Konrad (2017) link performance to internal efficiency measures. In their research paper, Muturi (2014) established that the number of borrowers, capital adequacy and branch network had the greatest influence on the performance of microfinance institutions. Further, in an MFI study, Kimando, Kihoro and Njogu (2012) established that financial regulations, number of clients served, financial coverage and volume of credit transacted highly affected the sustainability of microfinance institutions. Njenje and Bengi (2016), in their paper reviewed the growth of MFI's and revealed that financial literacy was key to promoting the performance of the institutions. Kamukama, Ahiauzu and Ntayi (2011) linked performance to intellectual capital and innovation competencies, while Gathundu, Nyambegera and Kirubi

(2018) assessed the impact of transformational leadership on microfinance outcomes. However, none of the above studies specifically look at the link between organization capabilities and microfinance institutions' outcomes in the Kenyan market; this study seeks to fill this knowledge gap.

The above studies have shown that MFI perceived performance is a function of various factors. Further, available empirical evidence has shown that MFIs are facing a myriad of perceived performance challenges; however, there has not been exhaustive empirical knowledge showing how organization capabilities can impact their perceived performance outcomes. This created a need to carry out research to shed more light on how firms within the industry can leverage their capabilities to promote their perceived performance.

1.3 Objectives of the Study

The main aim of the research was to determine the effect of organizational capabilities on the perceived performance of Microfinance Institutions in Kenya.

1.3.1 Specific Objectives

The research specifically analyzed the following objectives;

- i. To examine the influence of marketing capabilities on the perceived Performance of Microfinance Institutions in Kenya.
- ii. To establish the effect of managerial capabilities on the perceived Performance of Microfinance Institutions in Kenya.
- iii. To determine the influence of technological capabilities on the perceived Performance of Microfinance Institutions in Kenya.
- iv. To examine the effect of resource capabilities on the perceived Performance of Microfinance Institutions in Kenya.

1.4 Research Questions

- i. What is the influence of marketing capabilities on the perceived Performance of Microfinance Institutions in Kenya?
- ii. How do managerial capabilities affect the perceived Performance of Microfinance Institutions in Kenya?
- iii. To what extent do technological capabilities influence the perceived Performance of Microfinance Institutions in Kenya?
- iv. What is the effect of resource capabilities on the perceived Performance of Microfinance Institutions in Kenya?

1.5 Scope of the Study

This study was conducted across the 52 fully paid-up members of the Association for Microfinance Institutions (AMFI) operating in Nairobi City County. The Association for Microfinance Institutions (AMFI) is a member-based organization that was established and registered in 1999 under the societies Act, with the aim to build the capacity of the Kenyan Microfinance Industry. The study contextually examined the effect of various organization capabilities; managerial, marketing, technological and resource on the perceived performance of the MFI. The theoretical scope of the study was focussed on an examination of the dynamic capability's theory which informs how unique firm capabilities can be deployed to enhance the competitiveness and performance of a business. The research methodological scope was limited to a cross-sectional quantitative approach that is deemed more suitable for this study that seeks to establish the relationship between the independent and dependent variables.

1.6 Significance of the Study

1.6.1 To Management

This study is expected to be of potential significance to managers who are continuously faced with challenges posed by constant dynamic changes and circumstances attributed to local and international organizational contexts. To Microfinance institutions management, the study will provide an insight into the various approaches towards organizational capabilities that are vital to the attainment of positive perceived performance in the microfinance sector that plays a key role in the country development.

1.6.2 To policy

The results are also expected to yield results that are vital to improving policy formulation regarding organizational capabilities and other regulatory requirements of microfinance institutions in the country. The policy makers will have a basis on how well to incorporate the sector effectively and promote organization performance through the adoption of relevant capabilities that can be central to guiding the growth of the industry.

1.6.3 To Academia

The findings of the study will also be elucidated knowledge to future scholars who are interested in examining the organization capabilities and the performance of the microfinance industry in Kenya.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter brings out the review of the literature associated with the study in terms of theoretical underpinning and the empirical review of studies. The chapter also highlights the research gaps, the conceptualization of the variables and the operationalization and measurement of variables.

2.2 Theoretical Review

A theory refers to a set of statements about interrelationships between concepts that allow us to predict and explain various processes and events (phenomena or social realities) (Kamboj & Rahman, 2015). The study was grounded on the dynamic capabilities' theory.

2.2.1 Dynamic Capabilities Theory

Dynamic Capabilities Theory was developed by Teece, Pisano and Shuen (1997) cited in Teece (2014) and is defined as the ability of organizations to integrate, reconfigure internal and external competencies to address fast-changing and uncertain business environments. The theory advantage lies in the ability to get outcomes more incisively, more unexpectedly and faster ahead of the rivals. The theoretical framework is an advancement of the resource-based view of the firm, which views resources as the key to superior organization performance (Wernerfelt, 2014). The term dynamic capabilities were used by Teece (2016) to stress the firms' ability to exploit internal and external firm-specific competencies to address the dynamic environment for realized performance.

As indicated by Teece et al. (2014) that dynamic capabilities are tough to develop and difficult to reassign because they are unspoken and are entrenched in an inimitable set of interactions and account of organizations and, once developed, are non-imitable and holds organization reputations and culture that leads to improved performance which transformational leaders need to nurture among its followers. Wilden, Gudergan, Nielsen and Lings (2013) believes that dynamic capabilities are learned practices and structures to enhance performance as the organization analytically create and adjust in doing things for it to become more effective. Teece (2018) emphasizes that strong dynamic capabilities include internal business procedures, business models, technologies, and leadership skills in place to influence high performance by sensing, seizing and transforming an organization. Strong dynamic capabilities demonstrate technical and transformational agility and are therefore able to create new knowledge and

maintain superior processes and modify structures and industry models to remain competitive (Pehrsson, et al., 2015). It is also believed that organizations stay competitive by constantly shaping and reshaping strategy in a business environment full of uncertainties (Fainshmidt, Pezeshkan, Lance Frazier, Nair, & Markowski, 2016).

According to Lin and Lei-Yu (2015), dynamic capabilities examine organizational resources by taking into account the demands of customers and market trends of particular products or services. It also emphasizes innovation as a response to changes in the operating environment and creating a link between the organization, its customers and other key participants to improve its performance (Barreto, 2010). Dynamic capabilities consider three types of managerial activities according to Girod, and Whittington (2017), sensing meaning identifying and assessing opportunities and threats outside the company, seizing, implying mobilizing resources to capture value from those opportunities and transforming creating momentum for continuous renewal. This fits well with the study variables that are deconstructed as organization capabilities in terms of resources, marketing, managerial and technological capabilities.

Managerial capability is the proficiency in rejuvenating and recreating the resources available to the company and make use of them in a different capacity (Bamel & Bamel, 2018). Marketing capability is termed as a long-term prerequisite for competitive advantage as it involves making use of relevant and previously gained information about the market to effectively deal with shifts that may occur (Girod & Whittington, 2017). Technological capability is a firm's proficiency in adapting and making use of IT through its resource base; Research & Development (R & D). Resource capability is actualized through the firm's capacity to mobilize, allocate and efficiently utilize their human, financial, capital and physical resources (Wilden R. , Gudergan, Nielsen, & Lings, 2013), (Arbussa, Bikfalvi, & Marquès, 2017). These capabilities are key to improving market position, customer attraction and enhance the quality of services and processes in an organization.

While Zollo and winter (2012) attest those dynamic capabilities are learned patterns that routinely increase a firm's effectiveness, Arend and Bromiley (2009) criticize it by stating that it fails to logically identify and explain key elements of successful change in an organization. Further critics point to the failure of finding a link between dynamic capabilities and performance outcomes. However, this study demonstrated how the theory could be used to foster effective organizational change. Fainshmidt, Pezeshkan and Markowski (2016) identified the potential of dynamic capabilities as the foundation of competitiveness. Arbussa,

Bikfalvi and Marquès (2017) dynamic capability approach examines how organizations are able to integrate, build, and reconfigure their specific competencies (internal or external) into new competencies that match changes taking place in a turbulent environment. Wang and Ahmed (2007) argue that dynamic capabilities encompass firms' tendency to continuously integrate, reconfigure, renew and recreate their resources and capabilities to upgrade and reconstruct their core capabilities in response to the changing environment to attain and sustain competitive advantage within the industry. It incorporates physical resources with human capabilities to put organizations in a position to attain and sustain competitive advantage by using accumulated resources as inputs for the firm's value chain.

This study agrees with the past study which identified dynamic capabilities as the foundation of realizing organization performance. This study assesses how various firm capabilities can be employed, resulting in the attainment of a desirable market position and enhanced competitiveness. These capabilities include marketing, managerial, technological and resource capabilities, and they are expected to enable firms to be more effective in their day-to-day activities as well as lead to superior firm performance. Marketing capabilities inform the firm's ability to position itself as the best player in the market, managerial capabilities show the management's ability to formulate and execute planned strategies to realize strategic goals, technological capabilities show the firm's ability to integrate new technologies into its operations while resource capabilities show the firm's ability to use physical resources in strategy execution and goal realization. Together, these capabilities explain why some firms are successful in meeting their core goals and objectives, while others fall short of meeting their goals. This theory is also important in informing the researcher of the resources that determine the performance of microfinance firms. It will assist in evaluating the main capabilities that drive firm performance from human resources, service diversification, the strength of the marketing strategies and techniques to enable the researcher to develop a better understanding of the main sources of competitive advantage. As such, the theory anchors how the various organization capabilities interact to determine the performance of microfinance institutions in Kenya.

2.3 Empirical Review

This section details the studies that have been conducted focusing on organization capabilities and perceived performance of microfinance institutions.

2.3.1 Marketing Capabilities and Perceived Performance

Homaid, Minai and Al-Ansi (2018) studied the effect of market and entrepreneurial orientation on the performance of microfinance institutions in the context of Yemen. The study applied a survey research method with 125 questionnaires being distributed in the data collection process. The collected data were analyzed using partial least square modeling. The findings show that entrepreneurial orientation and learning orientation had a significant influence on MFI performance while marketing orientation does not influence the MFI performance. The study noted there is a need for the firms to actively respond to customer needs, adapt quickly to environmental changes and foster their market intelligence. The study was not limited to the Kenyan MFI industry, which may limit the applicability of the findings.

Daowd, Kamal, Eldabi, Hasan, Missi and Dey (2020) focused on on developing nations in reviewing the impact of social media on the performance of microfinance institutions. The study applied a quantitative approach and used web-based questionnaires to collect data from MFI employees. The study showed that social media usage had a positive influence on the performance of the MFI. The researchers indicated that improved marketing presence, better advertising, communication and amplified sales and distribution through social media sites were instrumental to portfolio quality within MFI. The study, however does not focus on how other capabilities of the MFI influence their performance. The current study will also explore how other capabilities impact a firm's ability to meet its main objectives.

Agyapong, Osei and Akomea (2015) analyzed the relationship between marketing capability, competitive strategies and performance of micro and small family businesses in Ghana. The study applied a survey research approach with 264 micro and small firms being considered. The research applied the bootstrap method in the analysis. Findings showed that differentiation, the firms' cost leadership did not have an influence on the performance. The results indicated that competitive strategies were integral to the performance of the firms. In general, the findings established a positive relationship between marketing capability and firm performance. The research, however focuses on micro and small firms while this study reviews the performance of MFI firms in Kenya.

Kanyuthi and Akonkwa (2016) reviewed internal marketing, employee job satisfaction, and perceived organizational performance in microfinance institutions. The research was quantitative in nature, with 53 MFI firms considered in the data collection. The collected data were analyzed using structural equation modeling, and results showed that there exists a

significant relationship between internal marketing and employee satisfaction. The analysis also confirmed that internal marketing had a positive influence on the perceived performance of microfinance firms. The study showed that cost efficiency, improved promotion mechanisms and support of employees were key to achieving better outcomes from internal marketing. The study does not focus on other traits of marketing capabilities such as distribution, advertising and external promotion and how they can influence the performance of MFI.

Musyoka, Odhiambo and Kibera (2015) examined the influence of organizational culture and marketing capabilities on the performance of microfinance institutions in Kenya. The research employed a descriptive cross-sectional survey and collected data from all the registered MFIs operating in Kenya. The study applied hierarchical regression in the analysis. The findings established that marketing capabilities had a significant influence on the performance of the institutions. The research revealed that improved product development, market reach, advertising and promotional activities, as well as meeting customer needs, were vital to the MFI performance. The study was only limited to a review of marketing capabilities, while this research considered more organizational capabilities that are vital to MFI performance.

2.3.2 Managerial Capabilities and Perceived Performance

Adusei, Akomea and Poku (2017) reviewed board and management gender diversity and financial performance of microfinance institutions. The study focussed on a multiple country panel examination with 494 institutions drawn from 76 countries being considered. The study relied on panel data for the period 2010-2014. The findings showed that board gender diversity had a negative and significant influence on financial performance while top management team gender diversity did not have a significant on financial performance. The study showed that maintaining competent management teams should supersede the representation of female members in boards and management teams to maintain financial performance. The research focuses on board composition and its relationship with the financial performance of MFIs, while this study examines performance from a both financial and non-financial perspectives.

In another study on the effect of leadership styles on organization performance in Tanzanian Microfinance Institutions, Mumba (2020) adopted a descriptive approach with a population of 345 participants drawn from microfinance institutions in the country. The study showed that most managers employed an autocratic leadership style predominantly within the MFI firms. This led to most employees not being given any role in decision making concerning the

institution, and leaders exhibited high levels of control in operations and institution tasks. The study revealed that leadership styles are vital to the performance of microfinance institutions. The study also noted that having effective rewards and recognition, involvement of subordinates and formulation of supportive managerial policies are vital to the performance of MFI. The study was only focused on MFIs in Tanzania, while this study analyzed capabilities in MFI firms in Kenya.

Njue, Waiganjo and Kihoro (2016) examined the leadership development practice and the performance of microfinance institutions in Kenya. The research employed a cross-sectional design and targeted the chief executive officers of registered MFIs in Kenya. The regression results showed that coaching of the leadership team was instrumental to the performance of the MFI. The study indicated that improved leadership team competency, involvement of employees and offering mentorship programs is key to better microfinance institution performance. The study only considers the leadership aspect and does not look at how other organization capabilities impact the performance of MFI in Kenya. This was addressed in this study.

Gathundu, Nyambegera and Kirubi (2018) conducted a study on the influence of learning as an outcome of transformational leadership on the performance of staff at Kenyan Microfinance Institutions. The study considered all registered MFIs in Kenya and utilized primary data sources with staff members forming the unit of analysis. The study established that learning was positively associated with staff performance. The findings showed that high-self realization, evaluation, locus of control and stability in emotions are vital to driving staff commitment and performance within the institutions. The current study, however focuses on how organization capabilities influence the performance of the firm, not staff.

Kariuki and Wachira (2017) studied the effect of leadership styles on the performance of microfinance institutions in Nairobi, Kenya. The research adopted a descriptive research design with questionnaires employed in the data collection process. The study showed that most MFIs had adopted democratic leadership, which fosters teamwork, the delegation of duty and decision making. The study showed that the democratic style improved employee productivity but did not impact employee turnover. Regression results established that leadership styles have an effect on the performance of microfinance institutions. The study only considers leadership styles, while this study explored multiple tenets of dynamic capabilities and how they influence the performance of MFI firms.

Mutua (2018) analyzed the influence of management practices on the performance of microfinance institutions in Embu County. The research adopted a descriptive research approach with 114 respondents selected from the operational MFIs within the county. The study applied both descriptive and inferential analysis. The study found out that fixed-income investments, outreach programs, mortgage investment and risk sensitivity analysis enhanced the financial stability of the firms. The study also showed that portfolio planning had a significant and positive influence on the performance of the MFI. The study focuses on panel data approach while this review analyzed organization capabilities and performance using cross-sectional research data.

2.3.3 Technological Capabilities and Perceived Performance

Salisu and Bakar (2018) analyzed the technological collaboration, technological capability and product innovation performance. The study focussed on a review of the extant literature on small and medium enterprises, and the findings showed that there exists a positive relationship between technological capability, collaboration and product innovation within the firm. The study showed that improving knowledge management, technology transfer, open innovation, and rapidly responding to environmental changes is vital to the performance of the firm in product innovation. The research is not focused on the MFI industry and is limited to product innovation performance, while this study reviews various aspects of MFI performance such as customer acquisition and financial returns.

Mbamba and Mwashuiya (2019) studied the relationship between information communication technology adoption in microfinance institutions and access to financial services in Tanzania. The research adopted a cross-sectional survey design with questionnaires employed in data collection. The study relied on exploratory factor analysis and regression analysis. The path analysis indicated that increased ICT adoption within the firms was positively related to access to financial services within the MFI. The study showed that increased electronic delivery channels increased service reach, efficiency in service provision and geographical coverage. The research does not examine how technology usage influences the performance of MFI firms which was considered in this study.

Munnet (2018) reviewed the influence of information technology infrastructure capability and financial performance of Barclays Bank Uganda Limited. The study was cross-sectional in nature and considered 134 respondents drawn from the bank staff. The study findings indicated that IT compatibility, connectivity and application functionality had a significant influence on the financial performance of the bank. The study showed that the development of infrastructure

capabilities are vital to strengthening the profitability, sales growth, liquidity and return on investment within commercial banks. The study is limited to a single commercial bank, while this research focussed on the performance of MFI institutions in Kenya.

Njihia (2019) examined the perceived information technology integration and performance of microfinance institutions in Kenya. The study was limited to microfinance banks regulated by the Central bank, and questionnaires were applied in the data collection. The findings showed that integration of information technology significantly led to better performance of the MFI. The study showed that enhancing the use of information technology in finance, marketing and human resource departments improved institutional efficiency and market share. The findings also indicated that improved skills to effectively use IT resources and availability of effective IT solutions were vital to MFI market share, efficiency and increased profitability. The study was limited to microfinance banks while this research reviews performance of all MFIs in Kenya.

Mwai (2019) conducted a study on the effect of technological, financial innovations on the financial performance of microfinance institutions in Kenya. The study relied on both primary and secondary data sources with panel data extracted for the period 2014-2018. The study applied regression analysis, and findings showed that technological, financial innovation significantly influenced the financial performance of the firms. The study showed a strong link between financial innovation and the liquidity and firm size of MFI, while there was a weak effect on return on assets and a negative effect on credit risk. The study focuses on the financial performance of the firm while this research reviews organization capabilities and performance of MFI measured by non-financial indicators.

2.3.4 Resource Capabilities and Perceived Performance

Kamasak (2017) study reviewed the contribution of tangible and intangible resources and capabilities to a firm's profitability and market performance. The examination applied a cross-sectional survey with questionnaires utilized to collect data from 243 firms in Turkey. The data collected was analyzed by hierarchical regression analysis. The findings showed that intangible resources and capabilities had the greatest effect on firm performance as compared to tangible resources. The results showed that reputation, experience, credibility, and staff skills were significant to the profitability and market performance. The study considers Turkish businesses, which has a different operating environment to the MFI firms in Kenya, and examined organization capabilities.

In a study in Ghana, Preko (2014) reviewed the effect of human capital development in institutions of higher learning. The study applied a descriptive design, and the findings showed that developing effective training systems, improving communication and professional development opportunities were key predictors of organization performance. The study, however did not focus on the MFI industry. In Nigeria, Chigozi, Aga and Onyia (2018), focusing on manufacturing industries, revealed that continuous development, learning, sharing, mobilization, distribution, cultivation and practicing, reviewing and spreading knowledge are significantly vital to improving the performance of the firms. The studies context is not in the financial sector, which may limit the applicability of the results.

Kamukama, Ahiauzu and Ntayi (2011) examined intellectual capital and financial performance in Uganda's microfinance institutions. The research applied a descriptive research design with research data collected using primary and secondary data sources. The collected data were analyzed using hierarchical regression analysis. Findings showed that 47% of the changes in the performance of the institutions could be explained by the intellectual capital. The research showed that relational capital, structural capital and human capital were pivotal to MFI performance. The findings show that management support can help in improving understanding of intellectual capital and stimulating MFI performance. The study, however does not examine how various organization capabilities can stimulate MFI performance.

Kiswili, Amuhaya, Noor and Anaya (2019) examined the effect of human capital on the performance of deposit-taking SACCOs in Kenya. The examination used an exploratory research design with 184 managers being considered in the study. The research further applied quantitative analysis approach. The results revealed that human capital has a positive and significant effect on the performance of deposit-taking SACCOs. The analysis showed that adequacy of human capital skills, experience and number of staff were key to the performance of the institutions. The study revealed that increased training on customer service and expanding professional competency was vital to Sacco performance. The research focuses on Sacco performance while this research reviewed the link between organizational capability and performance of MFIs.

Kimaru and Kinyua (2018) studied the relationship between financial resources and the performance of credit only Microfinance Institutions in Kenya. The research employed descriptive research and considered the operational 30 MFIs within Nairobi County that were credit only. The study administered questionnaires to the top, middle and lower-level managers within the institutions. The findings established that financial resources significantly predicted

the performance of the credit only MFI. The study showed that maintain adequate cash balance, offering a wide range of loans, maintaining sound assets balance, earning and improving the firm credit rating were vital to better performance of the institutions. The study, however focuses only on financial resources and does not consider other resources such as human and physical that may influence the performance of the MFI.

2.4 Research Gaps

The section above reviewed previous researcher’s findings on the relationship between the various study variables. In the review, various gaps were identified. Although the study by Agyapong, Osei and Akomea (2015) found a positive relationship between marketing capability and firm performance, the study failed to focus on microfinance institutions, instead of assessing the performance of small and medium enterprises. The study by Kariuki and Wachira (2017) showed a positive relationship between leadership style and MFI performance in Kenya, but failed to investigate how leadership style interacts with marketing and technology capabilities to bring about desired firm performance. In examining how human resources impact a firm’s performance, Kiswili, Amuhaya, Noor and Anaya (2019) found a positive influence. However, this study focussed on deposit-taking SACCOs while the current will limit itself to exploring the performance of microfinance firms. Other studies such as Munnet (2018), Kamukama, Ahiauzu and Ntayi (2011) and Salisu and Bakar (2018) found a positive relationship between different technological aspects and MFI performance, but the studies were not carried out in the Kenyan market, which this study seeks to address. The study by Musyoka, Odhiambo and Kibera (2015) sought after the firm’s culture and marketing capabilities. The current study expounded on the findings by exploring how technological and managerial capabilities impact MFI performance. Kanyuthi and Akonkwa’s (2016) study assessed internal marketing capabilities; the current explored both internal and external marketing capabilities and their influence on MFI performance. The various gaps identified in the review of the empirical studies are summarized in this table below;

Table 2.1 Summary of Empirical Gaps

Author	Title	Findings	Gaps
Agyapong, Osei and Akomea (2015)	Marketing and capability, competitive strategies performance	The findings established a positive relationship between marketing and capability of performance	The research, however focuses on micro and small firms while this study reviews the

	family businesses in Ghana		performance of MFI firms in Kenya.
Kariuki and Wachira (2017)	Leadership styles on the performance of microfinance institutions in Nairobi, Kenya	The study showed that most MFIs had adopted democratic leadership, in which fosters teamwork, the delegation of duty and decision making	The study only considers leadership styles, while this study analyzed how various capabilities influence the performance of MFI firms
Kimaru and Kinyua (2018)	Relationship between financial resources and performance credit Microfinance Institutions in Kenya	The findings established that financial resources significantly predicted the performance of the credit only MFI	The study, however focuses only on financial resources and does not consider other resources such as human and physical that may influence the performance of the MFI
Mumba (2020)	Impact of leadership styles on organization performance in Microfinance Institutions Tanzania	The study revealed that leadership styles are vital to the performance of microfinance institution in Tanzania	The study was only focused on MFIs in Tanzania, while this study examined capabilities in MFI firms in Kenya
Musyoka, Odhiambo and Kibera (2015)	Influence of organizational culture, marketing capabilities performance of microfinance institutions in Kenya	The findings established that marketing and capabilities had a significant influence on the performance of the institutions.	The study was only limited to a review of marketing capabilities, while this research considered more organizational capabilities that are vital to MFI

Njihia (2019)	Perceived information technology integration and performance of microfinance institutions in Kenya	The study showed that enhancing the use of information technology in finance, marketing and human resource departments improved in the institutional efficiency and market share	The study was limited to microfinance banks, while this research reviewed the performance of all MFIs in Kenya
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2.5 Conceptual Framework

The conceptual framework below deconstructs the independent variables and how they relate to the dependent variable of the research. The framework conceptualized the relationship between marketing capabilities, managerial capabilities, technological capabilities and resource capabilities impact performance among microfinance institutions in Kenya.

Independent Variables

Dependent Variable

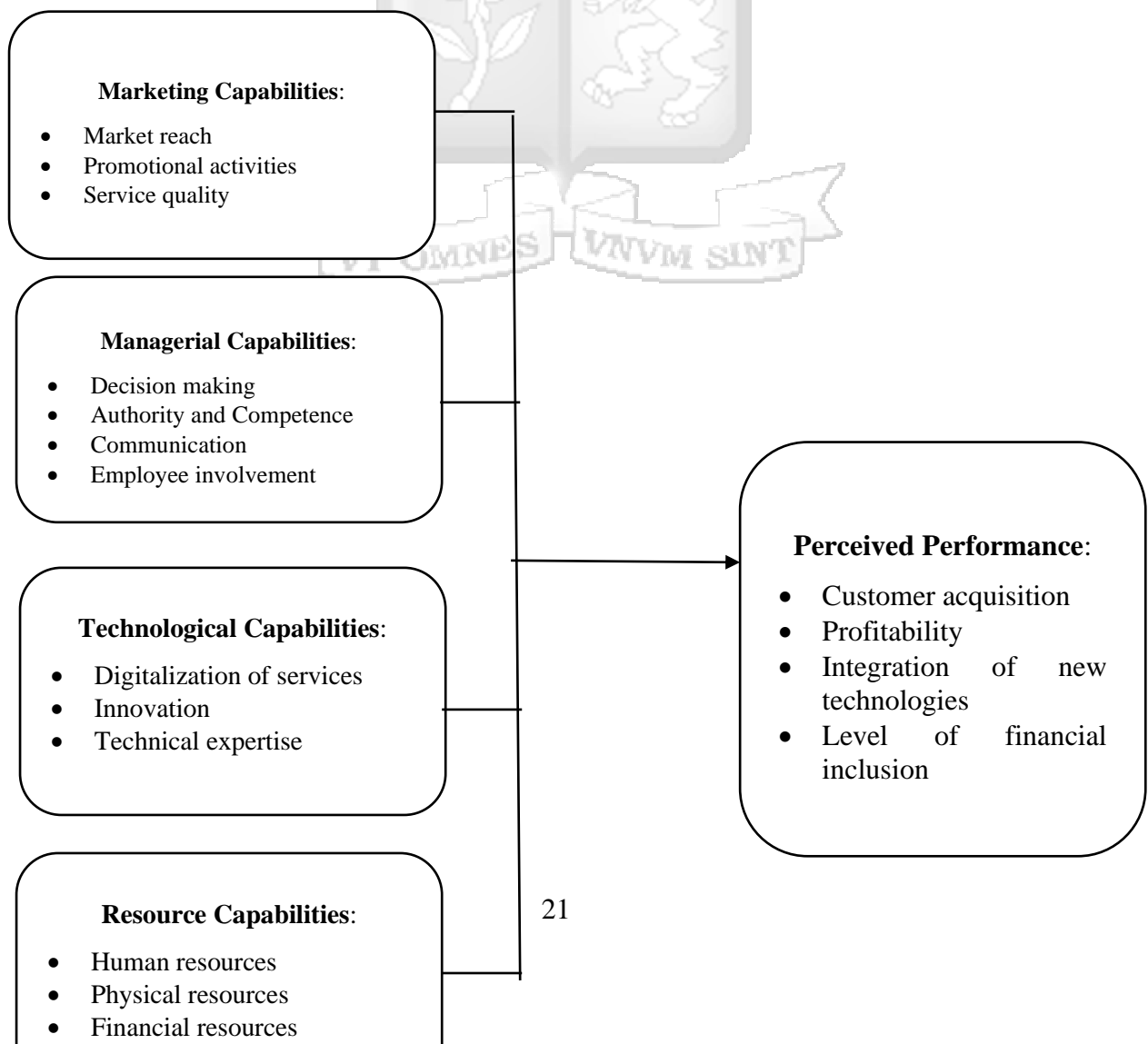


Figure 2.1 Conceptual Framework

The research conceptualized organization capabilities in terms of managerial, marketing, resources and technological capabilities. The performance of the MFI was measured using customer, internal, growth and employee perspective. The operationalization of the variables and measurement was as shown in the table below;

Table 2.2 Operationalization and Measurement of Variables

Variable	Type	Indicators	Measurement	Supporting literature	Supporting theories
Marketing	Independent	<ul style="list-style-type: none"> Market reach Promotional activities Service quality 	5-point Likert Quantitative analysis	Homaid, A. A., Minai, M. S., & Al-Ansi, A. (2018); Kanyurhi and Akonkwa (2016); Agyapong, Osei and Akomea (2015); Daowd, Kamal, Eldabi, Hasan, Missi and Dey (2020).	Resource-based view, Equity theory, Service-profit chain, information asymmetry theory
Managerial	Independent	<ul style="list-style-type: none"> Authority and competency Communication Decision making Employee involvement 	5-point Likert Quantitative analysis	Adusei, Akomea and Poku (2017); Mumba (2020); Njue, Waiganjo and Kihoro (2016); Nyambegera and Kirubi (2018).	Resource-based view, Great man theory, Resource-based theory, Social Learning Theory of Leadership, control theory, decision theory, mathematic

Technological	Independent	<ul style="list-style-type: none"> • Digitalization of services • Innovation • Technical expertise 	5-point Likert Quantitative analysis	Njihia (2019); Salisu and Bakar (2018); Mbamba and Mwashuiya (2019)	al theory of games Technology acceptance model, resource-based view theory, strategic alignment theory
Resource	Independent	<ul style="list-style-type: none"> • Human resources • Financial resources • Physical resources 	5-point Likert Quantitative analysis	Preko (2014); Kamasak (2017); Kamukama, Ahiauzu and Ntayi (2011); Kiswili, Amuhaya, Noor and Anaya (2019).	Resource-based view theory, dynamic capabilities theory, transaction cost theory
Perceived Performance	Dependent	<ul style="list-style-type: none"> • Customer acquisition • Profitability • Integration of new technologies • Level of financial inclusion 	5-point Likert Quantitative analysis		

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter discusses the methodological approaches that were integrated in conducting this study. The chapter focus is mainly on the philosophy, design, population, sampling data collection and analysis techniques.

3.2 Research Philosophy

Buddharaksa (2010) notes that positivism, one of the dominant approaches in social research, presupposes the unity of sciences through the application of scientific methods relying on objective inquiry. Due to the practical emphasis required of this research outcome, a positivism philosophy subscription was the most appropriate. This design was appropriate as this examination employed quantitative approaches to come with test techniques that can help in establishing the relationships between study variables.

3.3 Research Design

According to Bhattacharjee (2012), descriptive research studies involve particular individuals or groups of study variables that influence one another. Nardi (2018) posited that a descriptive survey design is a method of accumulating data through interviews or administration of questionnaires to sampled respondents in the study. Trobia and Lavrakas (2008) further established that descriptive survey design could easily be employed to collect relevant information on respondents' opinions, habits and attitudes, among other personality characteristics. This research design was applied in this study as it can help in examining a particular group of participants through the utilization of quantitative data collected using questionnaires. Further, the design was appropriate as its' appropriate for social studies focusing on establishing the association between two or more variables.

3.4 Target Population

According to Kothari (2012), the target population can be defined as all the items or people with characteristics one wishes to study. Bhattacharjee (2012) more simply defines a target population as composing all the units of analysis and further explains that these are the items from which one seeks to collect data. The unit of analysis for the study was the personnel working within the 52 fully paid-up members of the Association for Microfinance Institutions (AMFI) operating within Nairobi City County. The study targeted the following senior level manager; finance manager, operations manager or human resource manager. The research

ensured that the selected participants had the requisite information being sought in this survey. Hence, the population for the study was 156 senior managers drawn from the MFIs.

3.5 Sampling Design and Sample Size

Ideally, the sampling frame would be a complete list of every member of the population, but in reality, it is usually a subset of the target population to which the researcher has or can gain access (Bhattacharjee, 2012). The sample frame of the study was drawn from the senior managers from the 52 fully paid-up members of the Association for Microfinance Institutions (AMFI) operating within Nairobi City County. The sampling technique refers to the systems and processes used to select the sample size. A sample being a sub group of the bigger population (Fowler Jr, 2013). The study used stratified sampling technique, a probability sampling technique because the population was divided into three main departmental heads within the MFI. The study conducted a census survey of the 156 respondents to enhance the veracity of the collected research data and improve the response rate.

3.6 Data Collection Instruments

The researcher employed primary data because it is appropriate to the current research topic and offers accurate information sought from the participants. In this regard, a research questionnaire was used to collect the data. Nardi (2018) describes a questionnaire as a data collection tool consisting of a number of questions that is mailed or delivered to respondents who are then expected to read, understand and write down the answers on their own. The questionnaire was developed in line with the conceptualization of the variable organization capabilities and the perceived performance indicators. The first section contained background information, section two had statements on the organization capabilities, and section three had statements on the dependent variable perceived performance of MFIs in Kenya.

3.7 Data Collection Procedures

According to Bhattacharjee (2012), various procedures exist on which a researcher can rely to administer the data collection tool, including personal delivery and administration, telephone aided administration, postage as well as drop and pick-up method. Whilst personal administration and telephone aided administration affords a researcher opportunity to seek more information, it may not be efficient to cover wide coverage and suffers a high rate of non-response (Fowler Jr, 2013). As a result of the continuing pandemic, the study utilized the drop and pick method, where electronic data collection was not possible. This involved prearranging for questionnaire drop-off with the MFI management who helped in coordinating the response

collections. This was further complemented by Google forms in delivery of the study instruments and phone interviews where physical and electronic delivery was not possible. The study ensured that participants were notified of their rights to confidentiality and privacy in the conduct of the research. The research further made sure that all appropriate approvals and permits were obtained from the relevant institutions. The research instrument was pretested with 10% of the sample population to determine the reliability and validity of the tool.

3.7.1 Validity Tests

The validity of the study instrument was pretested using three main approaches. Content validity was conducted with the support of the research supervisor who guided in the development of the research instrument. Further, the study utilized construct validity in the development of the questionnaire which involved formulating the research instrument in line with the conceptualization of the variables. Lastly, the study applied face validity to ascertain that the questionnaire was in line with the objectives as such would be able to meet the aims of the study.

3.7.2 Reliability Tests

The study pretested the study instrument with 10% (n=8) of the study sample respondents. The pilot testing supported the reliability and validity tests of the research instrument. The study adopted reliability tests to measure the internal consistency of the study instruments.

Table 3.1 Reliability Test Results

Variable	Cronbach Alpha	Verdict
Marketing capabilities	0.788	Accepted
Managerial capabilities	0.868	Accepted
Technological capabilities	0.820	Accepted
Resource capabilities	0.810	Accepted
Perceived Performance of MFI	0.750	Accepted

The findings established that all the variables had an alpha score of above 0.7 which indicated the study met the reliability score threshold. The values for the study were; marketing capabilities ($\alpha = .788$), managerial capabilities ($\alpha = .868$), technological capabilities ($\alpha = .820$) and perceived performance of MFI ($\alpha = .750$).

3.8 Tests of Regression Assumptions

The study used diagnostic tests to ensure that the adopted regression model is fit to be applied in the analysis of the collected research data. According to Garson (2012), a normal distribution is assumed in many statistical procedures. Ghasemi and Zahediasl (2012) postulate that to eliminate statistical errors, estimated to exist in about 50% of published statistics, it's prerequisite to test the goodness of fit of data; normality. The study used Kurtosis and Skewness as the main tests of normality within the study model. Multicollinearity, a situation where one or more independent variable is explained by other predictor variables (Lavrakas, 2008), with a high degree of accuracy, may lead to type II error in hypothesis testing. The study performed the test of multi collinearity by calculating the Variance Inflation Factor values (VIF) and Tolerance values. The study conducted the Durbin-Watson tests to determine the autocorrelation in the residuals of the regression model.

3.9 Data Analysis and Presentation

To enable the researcher to assign meaning to the resulting data and statistics, an analysis of data was done to summarize the essential features and relationships of data in order to generalize and come up with inferences. The research adopted descriptive and inferential analysis. Descriptive statistics, according to Lavrakas (2008), enables the description of research data by analyzing the central tendency and dispersion characteristics of the data. This was done by establishing the means, mode, standard deviation, percentages and frequencies. The inferential analysis was conducted using Pearson Correlation and regression analysis. Fowler Jr (2013) notes that regression analysis is widely used in social sciences to predict the dependent variable from a known value of independent variable(s). The research used tables and charts in the presentation of results. The study implemented the following regression equation;

$$Y = \alpha + \beta_1X_1 + \beta_2X_2 + \beta_3X_3 + \beta_4X_4 + \varepsilon$$

Where;

Y = Dependent variable (Perceived performance of MFI)

α = the model intercept

β_{1-4} = Coefficient of independent variables

X_1 – marketing capabilities

X_2 – managerial capabilities

X_3 – technological capabilities

X_4 – resource capabilities

ϵ = Error Term

3.10 Ethical Considerations

Within the course of the study, the researcher made sure that the collected study data was only utilized for academic purposes. The study further ensured that participants were informed of their rights of privacy, confidentiality and anonymity throughout the course of the study. The research further sought the study approval and permits are obtained from Strathmore University and NACOSTI, respectively.



CHAPTER FOUR

PRESENTATION OF RESEARCH FINDINGS

4.1 Introduction

Primarily, the fourth chapter of the project is vital in the presentation of the research findings in line with the analysis that was conducted on the collected data. The main chapter sections include the background information, the descriptive findings, the correlation test, the diagnostic results and the regression findings. Lastly, the chapter presented a summary of the research.

4.2 Background Results

The background section presented the results on the response rate obtained in the study and the profile of the participants and the participating microfinance institutions.

4.2.1 Response Rate

The final sample for the research was 143 managers drawn from the registered microfinance institutions after involving 13 participants in the pretest of the study instrument. The study was able to obtain 105 responses which reflected a 73% response rate which was suitable for representation of the total sample in the analysis. Although meeting the threshold for a representative sample, the study postulated the 27% that did not respond may have had some communications issues considering the pandemic has limited people's movements, and some were working from home during the entirety of the research. The study also assumes that some of the firms in the target population may not be operational due to various challenges that have impacted Kenya's financial sector since the pandemic began.

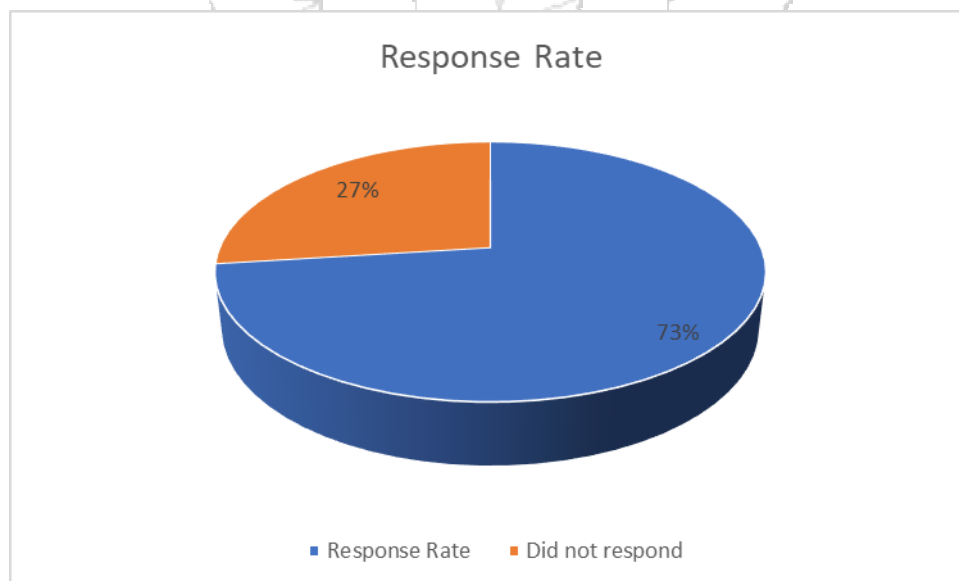


Figure 4.1 Response Rate

Source: Survey Data (2021)

4.2.2 Position held in Microfinance Institution

The respondents were queried on the position they hold within the respective MFIs that participated in the study. The analysis noted that 50% (n=53) were human resource managers, 33% (n=35) were operational managers, while only 17% identified as finance managers within the institutions. This divergence across the departments managers within the MFI was key to the study obtaining information from a diverse pool which can improve the quality of responses and veracity.

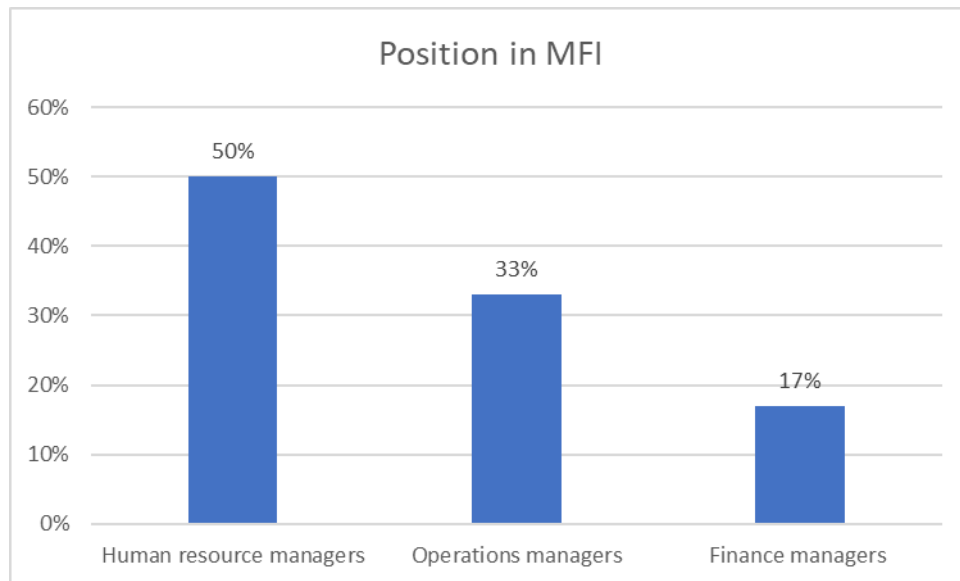


Figure 4.2 Position in Microfinance Institution

Source: Survey Data (2021)

4.2.3 Ownership of Microfinance Institutions

The study was interested in understanding the managers' perception of their MFIs' ownership structure with analysis showing that 73% of the managers opine that their MFIs were largely owned by the public, 16% by Cooperative Unions, 4% were Government-owned, and 7% were foreign-backed microfinance institutions. These findings elaborate that MFIs within the country are run by different stakeholders showing the entrenchment of the institutions in the financial landscape of the country.

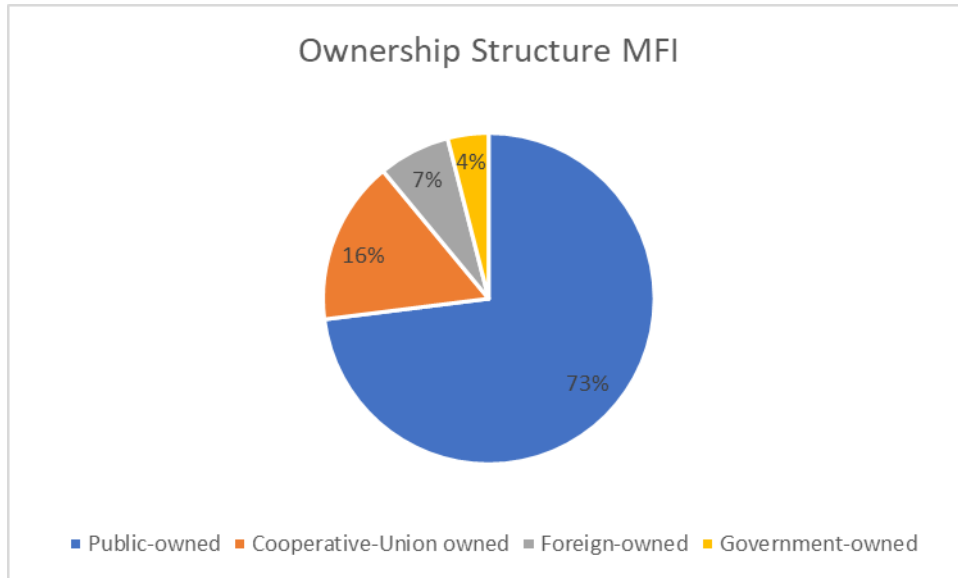


Figure 4.3 Ownership of Microfinance Institution

Source: Survey Data (2021)

4.2.4 Classification of Microfinance Institution

The research further reviewed the classification of the microfinance institutions by virtue of the services offered, and the findings indicated that majority of the respondents 56% (n=59) worked for MFIs that were deposit-taking while only 44% of the respondents were employees within microfinance institutions that were only credit only. This indicated that the deposit-taking MFI had a higher presence of employees working within the microfinance sector in Kenya.

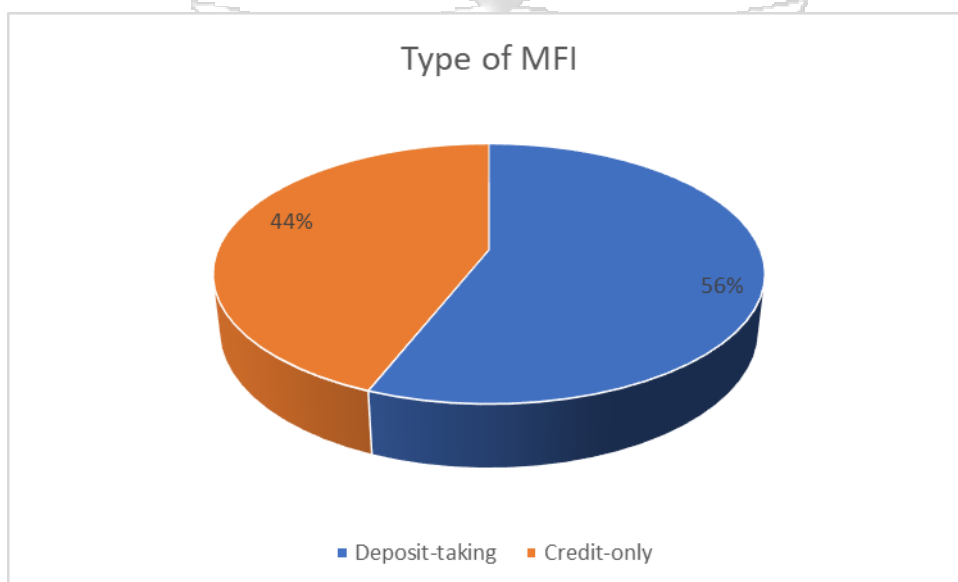


Figure 4.4 Type of Microfinance Institution

Source: Survey Data (2021)

4.3 Descriptive Results

The descriptive analysis was conducted to provide a summary of the responses obtained from the various respondents considered in the survey. The findings were presented using means, standard deviation, and sums. A 5-Likert scale interval of 1 to 5 (1= Not at all to 5= To a great extent) was employed. The means of responses are interpreted as follows; (5.00-4.21) indicates to a great extent, (4.20-3.51) indicates To a moderate extent, (3.50-2.61) indicates To some extent, (2.60-1.81) indicates To a small extent, and (1.80-1.00) indicates Not at all (Sullivan & Artino Jr, 2013).

4.3.1 Perceived Performance of Microfinance Institutions

The dependent variable analyzed the Perceived performance of microfinance institutions using Likert statements, and the responses obtained are summarized as shown below. The below responses provides information on the perception of the managers of the microfinance institutions on the perceived performance of the firms.

Table 4.1 Perceived Performance of Microfinance Institutions

	N	Mean	Std. Deviation
The institution regularly updates the service charter to ensure they meet our customer needs	105	4.1238	1.06243
The institution has witnessed an improvement in customer referrals which has expanded our customer base	105	4.0667	1.04022
The institution regularly reviews our brand management to ensure the institution is recognized by our customers	105	4.0095	.90400
The institution routinely monitors our internal operations to ensure the attainment of our strategic goals	105	4.0762	1.09803
The institution constantly reviews our internal systems to ensure there is efficiency in service provision	105	3.9714	.97524
The institution regularly reviews our product and service range to foster our growth	105	3.8476	1.03572
The institution management team receives feedback from employees on ways to improve the growth trajectory of the firm	105	3.9048	1.10527
The institution supports learning within the firm, which fosters employee productivity	105	3.7810	.95052

The institution has put in place programs to enhance employee training and development	105	3.8571	1.01364
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Source: Survey Data (2021)

The results showed to a moderate extent that the respondents agreed that their respective institutions regularly update the service charter to ensure they meet our customer needs, as indicated by a mean of 4.1238. The respondents also indicated to a moderate extent the institution regularly reviews our brand management to ensure the institution is recognized by our customers, as shown by a mean of 4.0095. The analysis noted that to a moderate extent, the institution has put in place programs to enhance employee training and development, as noted by a mean of 3.8571. To a moderate extent (mean = 3.9714), the respondents noted that the institution constantly reviews our internal systems to ensure there is efficiency in service provision. Generally, the respondents agreed to a moderate extent the organization performance was positive as recorded by mean values falling between the range 3.51-4.20.

4.4 Objective 1: Effect of Marketing Capabilities on Perceived Performance of Microfinance Institutions

The first objective of the study reviewed the marketing capabilities of the microfinance institution, and the responses are analyzed and presented in table 4.2 below. The study utilized descriptive analysis such as mean and standard deviation to compute the variable weight which was adopted in the inferential analysis.

Table 4.2 Analysis of Marketing Capabilities

	N	Mean	Std. Deviation
The institution routinely conducts market outreach campaigns to improve our market share	105	3.8190	1.09000
The institution has been leveraging on emerging technologies to drive our distribution process	105	4.0762	4.05419
The institution routinely utilizes traditional media channels to conduct promotional activities	105	3.1048	1.33679
The institution conducts targeted promotional activities to improve our market reach	105	3.6476	1.06501
The institution has developed distribution channels that meet the emerging market needs	105	3.5524	.99982

The institution regularly reviews the service quality metrics to ensure we meet the market demands	105	3.6286	.93291
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Source: Survey Data (2021)

Findings showed to a moderate extent the institution has been leveraging on emerging technologies to drive our distribution process, as denoted by a mean of 4.072. The results showed that to a moderate extent, the institution regularly reviews the service quality metrics to ensure we meet the market demands, as shown by a mean of 3.6286. The findings indicated that to some extent, the institution routinely utilizes traditional media channels to conduct promotional activities, as indicated by a mean of 3.1048.

4.4.1 Correlation between Marketing Capabilities and Perceived Performance of Microfinance Institutions

Correlation analysis was conducted to determine the direction of a relationship between the marketing capabilities and the perceived performance of the Microfinance Institutions.

Table 4.3 Correlation Test between Marketing Capabilities and Performance of Microfinance Institutions

		Performance MFI
Perceived Performance MFI	Pearson Correlation	1
	Sig. (1-tailed)	
	N	105
Marketing Capabilities	Pearson Correlation	.540**
	Sig. (1-tailed)	.000
	N	105

** . Correlation is significant at the 0.01 level (1-tailed).

Source: Survey Data (2021)

The results showed that marketing capabilities had a moderate positive effect on the perceived performance of microfinance institutions ($p = .540$, $Sig = .000$), as shown on the table above.

4.4.2 Regression between Marketing Capabilities and Perceived Performance of Microfinance Institutions

The study adopted linear regression was implemented to determine the magnitude of the relationship between organizational capabilities and the Perceived performance of microfinance institutions in Kenya.

Table 4.4 Regression between Organizational Capabilities and Performance of Microfinance Institutions

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.783 ^a	.613	.597	4.20149	1.561

a. Predictors: (Constant), Resource Capabilities, Managerial Capabilities, Marketing Capabilities, Technological Capabilities

b. Dependent Variable: Perceived Performance MFI

Source: Survey Data (2021)

The results in Table 4.4 show that organizational capabilities were found to be satisfactory in explaining the Perceived performance of microfinance institutions in Kenya. This is supported by a coefficient of determination of 0.613. This means that organizational capabilities explain 61.3% of the variations in the dependent variable, which is perceived organizational performance.

Table 4.5 ANOVA for Organizational Capabilities and Perceived Performance of Microfinance Institutions

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	2792.997	4	698.249	39.555	.000 ^b
	Residual	1765.251	100	17.653		
	Total	4558.248	104			

a. Dependent Variable: Perceived Performance MFI

b. Predictors: (Constant), Resource Capabilities, Managerial Capabilities, Marketing Capabilities, Technological Capabilities

Source: Survey Data (2021)

The study further conducted ANOVA analysis to investigate if the overall model was statistically significant. The findings above implied that organizational capabilities have a positive and significant relationship with the perceived performance of microfinance institutions. This was supported by an F statistic of 39.555 and the reported sig value (sig < 0.000).

Table 4.6 Regression Coefficients for Organizational Capabilities and Perceived Performance of Microfinance Institutions

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
1 (Constant)	8.197	2.342		3.499	.001
Marketing Capabilities	.057	.105	.052	.540	.590
Managerial Capabilities	.295	.076	.275	3.895	.000
Technological Capabilities	.292	.105	.295	2.777	.007
Resource Capabilities	.665	.145	.357	4.591	.000

a. Dependent Variable: Perceived Performance MFI

Source: Survey Data (2021)

The findings showed that marketing capabilities ($\beta_1 = .057$) did not have significant predictive power on the perceived performance of the MFI as indicated by the reported sig-value (sig>.590).

4.5 Objective 2: Effect of Managerial Capabilities on Perceived Performance of Microfinance Institutions

The second objective focussed on the managerial capabilities exhibited by the microfinance institutions, and the findings are shown in table 4.7 below. The study utilized descriptive analysis such as mean and standard deviation to compute the variable weight which was adopted in the inferential analysis.

Table 4.7 Analysis of Managerial Capabilities

	N	Mean	Std. Deviation
The institution has recruited competent top management teams, which is vital to meeting our strategic goals	105	4.1048	4.06893
The institution has decentralized authority within the firm to improve efficiency in solving problems	105	3.6762	1.02371
The institution management team has instituted clear communication channels which improve the flow of information	105	3.6476	.99982
The institution management involves the employees in decision making which leads to better teamwork	105	3.3714	1.18693

The institution management regularly delegates duty to subordinates which enhances the involvement of the staff	105	3.6571	1.09920
The institution routinely conducts meetings and seminars to hear views of employees on what can be changed within the firm.	105	3.4762	1.09277

Source: Survey Data (2021)

The analysis revealed that to a moderate extent, the institution has recruited competent top management teams, which is vital to meeting our strategic goals, as demonstrated in the mean of 4.1048. The study noted that to some extent, the institution management involves the employees in decision making, which leads to better teamwork (mean = 3.3714). The analysis revealed that to some extent, the institution routinely conducts meetings and seminars to hear views of employees on what can be changed within the firm, as indicated by a mean of 3.4762.

4.5.1 Correlation between Managerial Capabilities and Perceived Performance of Microfinance Institutions

Correlation analysis was conducted to determine the direction of a relationship between the managerial capabilities and the perceived performance of the Microfinance Institutions.

Table 4.8 Correlation Test between Managerial Capabilities and Performance of Microfinance Institutions

		Perceived Performance MFI
Perceived Performance MFI	Pearson Correlation	1
	Sig. (1-tailed)	
	N	105
Managerial Capabilities	Pearson Correlation	.561**
	Sig. (1-tailed)	.000
	N	105
	N	105

** . Correlation is significant at the 0.01 level (1-tailed).

Source: Survey Data (2021)

The results showed that managerial capabilities had moderate positive effect on the perceived performance of microfinance institutions ($p = .561$, $Sig = .000$), as shown in the table above.

4.5.2 Regression between Managerial Capabilities and Perceived Performance of Microfinance Institutions

The study adopted linear regression was implemented to determine the magnitude of the relationship between managerial capabilities and the perceived performance of microfinance institutions in Kenya. The findings in Table 4.6 above; showed that managerial capabilities (β_2

= .295, Sig = .000<.05) was a significant predictor of the perceived performance of the MFI. Thus, a change in managerial capabilities by a unit will increase the perceived performance of the MFI by a factor of .295.

4.6 Objective 3: Effect of Technological Capabilities on Perceived Performance of Microfinance Institutions

The third objective examined the technological capabilities possessed by the microfinance institutions, and the analyzed data is presented in table 4.9 below. The study utilized descriptive analysis such as mean and standard deviation to compute the variable weight which was adopted in the inferential analysis.

Table 4.9 Analysis of Technological Capabilities

	N	Mean	Std. Deviation
The institution supports employees in deploying new innovations within their work units	105	3.7524	1.13325
The institution has heavily invested in research and development, which enhances the product and service range	105	3.4286	1.18368
The institution has deployed emerging technologies within our operations to improve efficiency in our services	105	3.8190	3.08776
The institution is undertaking an overhaul of our traditional systems and embracing digital products and services in our core operations	105	3.4857	1.10170
The institution routinely undertakes process and product innovation to meet the growing needs of the modern world	105	3.5810	1.15009
The institution conducts employee sensitization on the emerging technologies	105	3.5238	1.05698
The institution motivates our employees to advance their technical expertise and skills	105	3.5619	1.10003

Source: Survey Data (2021)

To some extent, the respondents noted that the institution has heavily invested in research and development, which enhances the product and service range, as shown by a mean of 3.4286. Further, to some extent, participants revealed that the institution is undertaking an overhaul of our traditional systems and embracing digital products and services in our core operations

(mean = 3.4857). The results further indicated that to a moderate extent, the institution supports employees in deploying new innovations within their work units (mean = 3.7524).

4.6.1 Correlation between Technological Capabilities and Perceived Performance of Microfinance Institutions

Correlation analysis was conducted to determine the direction of a relationship between the technological capabilities and the perceived performance of the Microfinance Institutions.

Table 4.10 Correlation Tests between Technological Capabilities and Perceived Performance of Microfinance Institutions

		Perceived Performance MFI
Perceived Performance MFI	Pearson Correlation	1
	Sig. (1-tailed)	
	N	105
Technological Capabilities	Pearson Correlation	.662**
	Sig. (1-tailed)	.000
	N	105

** . Correlation is significant at the 0.01 level (1-tailed).

Source: Survey Data (2021)

The results showed that technological capabilities had a strong positive effect on the perceived performance of microfinance institutions ($p = .662$, $Sig = .000$), as shown in the table above.

4.6.2 Regression between Technological Capabilities and Perceived Performance of Microfinance Institutions

The study adopted linear regression was implemented to determine the magnitude of the relationship between technological capabilities and the perceived performance of microfinance institutions in Kenya. In reference to results in Table 4.6, findings indicated that technological capabilities ($\beta_3 = .292$, $Sig = .007 < .05$) was a significant predictor of the perceived performance of the MFI. Thus, a change in technological capabilities by a unit will increase the perceived performance of the MFI by a factor of .292.

4.7 Objective 4: Effect of Resource Capabilities on Perceived Performance of Microfinance Institutions

The fourth objective of the study examined the resource capabilities of the microfinance institutions, and the results of the analysis are presented in table 4.11 below. The study utilized descriptive analysis such as mean and standard deviation to compute the variable weight which was adopted in the inferential analysis.

Table 4.11 Analysis of Resource Capabilities

	N	Mean	Std. Deviation
The institution has in place adequate physical infrastructure to support continuous product and service offering	105	3.8286	1.10469
The institution has adequate human resource pool which ensures that our branches are well-manned	105	3.9810	.98039
The institution maintains an adequate capital base which cushions the firm from changes in the operating environment	105	3.7714	1.01202
The institution has been able to aggressively mobilize for deposits and investments, which improve our financial capacity	105	3.4381	1.23198
The institution has invested heavily in emerging technologies and systems which support seamless operations	105	3.6190	.98431

Source: Survey Data (2021)

The findings noted that to a moderate extent, the institution has an adequate human resource pool, which ensures that our branches are well-manned, as shown by a mean of 3.981. The respondents revealed that to a moderate extent, the institution has invested heavily in emerging technologies and systems which support seamless operations, as indicated by a mean of 3.619. The participants indicated that to some extent, the institution has been able to aggressively mobilize for deposits and investments, which improve our financial capacity, as shown by a mean of 3.4381.

4.7.1 Correlation between Resource Capabilities and Perceived Performance of Microfinance Institutions

Correlation analysis was conducted to determine the direction of a relationship between the resource's capabilities and the perceived performance of the Microfinance Institutions.

Table 4.12 Correlation Tests between Resource Capabilities and Performance of Microfinance Institutions

		Perceived Performance MFI
Perceived Performance MFI	Pearson Correlation	1
	Sig. (1-tailed)	
	N	105
Resource Capabilities	Pearson Correlation	.659**
	Sig. (1-tailed)	.000
	N	105

** . Correlation is significant at the 0.01 level (1-tailed).

Source: Survey Data (2021)

The findings revealed a strong positive effect of resource capabilities ($p = .659$) on the performance of microfinance institutions.

4.7.2 Regression between Resource Capabilities and Perceived Performance of Microfinance Institutions

The study adopted linear regression was implemented to determine the magnitude of the relationship between resource capabilities and the perceived performance of microfinance institutions in Kenya. As results in Table 4.6 showed that resource capabilities ($\beta_4 = .665$, $\text{Sig} = .000 < .05$) was a significant predictor of the perceived performance of the MFI. Thus, a change in resource capabilities by a unit will increase the performance of the MFI by a factor of .665.

4.8 Linear Regression Assumptions

This section highlights the various diagnostic tests to ensure the quality of the data used. These tests are vital to ensure that the data applied meets the requirements for linear regression analysis.

4.8.1 Normality Tests

A normality test was conducted, and results were presented in the form of a table showing the results of the Shapiro-Wilk tests.

Table 4.13 Normality Tests

	Kolmogorov-Smirnov ^a			Shapiro-Wilk		
	Statistic	df	Sig.	Statistic	df	Sig.
Performance MFI	.098	105	.016	.954	105	.051
Marketing capabilities	.148	105	.200*	.755	105	.078
Managerial capabilities	.107	105	.200*	.817	105	.056
Technological capabilities	.069	105	.200*	.936	105	.063
Resource capabilities	.112	105	.002	.977	105	.066

Source: Survey Data (2021)

The criteria for interpreting the Shapiro-Wilk with less than 2000 observations is the significance should be above .05. From the above results, all the research variables had a Shapiro-Wilk above .05, indicating that the data did not deviate from a normal distribution; hence the assumption of normality was observed.

4.8.2 Autocorrelation Tests

The autocorrelation test is conducted to examine if there is the presence of serial correlation in the regression model. The Durbin Watson tests was employed in this survey.

Table 4.14 Autocorrelation Tests

Model	Durbin-Watson
1	1.561

a. Predictors: (Constant), Resource Capabilities, Managerial Capabilities, Marketing Capabilities, Technological Capabilities

b. Dependent Variable: Perceived Performance MFI

Source: Survey Data (2021)

The Durbin-Watson for the adopted regression model was $d = 1.561$, lies between the two critical values of $1.5 < d < 2.5$. This implied that first-order linear auto-correlation in the multiple regression data used was absent.

4.8.3 Collinearity Tests

Multicollinearity refers to the presence of correlations between the predictor variables. This was tested using Tolerance values and the Variance Inflation Factor.

Table 4.15 Collinearity Tests

Model		Collinearity Statistics	
		Tolerance	VIF
1	(Constant)		
	Marketing Capabilities	.421	2.373
	Managerial Capabilities	.780	1.283
	Technological Capabilities	.343	2.913
	Resource Capabilities	.639	1.564

a. Dependent Variable: Perceived Performance MFI

Source: Survey Data (2021)

According to Field (2009), VIF values in excess of 10 and tolerance values, less than 0.2 are an indication of the presence of multicollinearity. The findings in the above table indicated that the VIF values were less than ten and Tolerance values were above 0.2, which implied that the collinearity problem was absent in the regression model.

4.9 Summary

The aim of the study was to determine the effect of organization capabilities on the perceived performance of microfinance institutions. The target population of the research was the registered MFIs operating within Nairobi County. The study sample three respondents per each of the MFI with a structured questionnaire applied in the data collection. The survey was able

to obtain a 73% response rate. The correlation tests established a positive effect of marketing capabilities, managerial capabilities, technological capabilities and resource capabilities on the perceived performance of the MFI. The multiple linear regression indicated that 61.3% of the variations in the dependent variable, which is perceived organizational performance of the MFI, could be determined by the organization capabilities. The ANOVA results affirmed there is a positive and significant relationship between organization capabilities on the perceived performance of microfinance institutions.



CHAPTER FIVE

DISCUSSION, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

This chapter presents a discussion on the findings, conclusions, recommendations and suggestions for further research.

5.2 Discussion

This section presents a discussion of the findings in accordance with the main research objectives and how they relate to previous empirical evidence

5.2.1 Marketing Capabilities and Perceived Performance of Microfinance Institutions

The study determined that marketing capabilities have an insignificant effect on microfinance perceived institutions' performance. These findings do not concur with findings in Agyapong, Osei and Akomea (2015) and Musyoka, Odhiambo and Kibera (2015), who established a positive relationship between a firm's marketing capability and performance outcomes. The respondents were in agreement that MFIs are leveraging on emerging technologies to drive distribution processes. Similarly, Daowd, Kamal, Eldabi, Hasan, Missi and Dey (2020) determined an increase in market presence through the application of emergent advertising tools, communication and marketing through social media results in amplified sales performance. The respondents were also in agreement that MFIs routinely conduct market outreach campaigns to improve market share. These sentiments are echoed by Agyapong, Osei and Akomea (2015), who determined that differentiation and targeted promotional strategies are key to promoting firm performance.

Regarding a review of service quality metrics, respondents agreed that internal development was reviewed to promote employees' capacity to meet market demands. The findings are in agreement with Kanyuthi and Akonkwa (2016), who indicated that internal development enhances employee responsiveness, quality and reliability, and customer satisfaction, which is positively related with the realization of organizational goals. Respondents agreed that the MFIs regularly conduct promotional activities to improve market reach. Kanyuthi and Akonkwa (2016) determined that improving product development, carrying out promotional activities and advertisements, as well as meeting customer needs, are key to enhancing MFI performance.

According to the Dynamic Capabilities Theory, the ability of a firm to have a superior product and market differentiation through product development, marketing and distribution is key to enhancing market presence and reach, leading to enhanced performance. The theory was key in informing the researcher about the importance of using marketing information to develop new products and improve service offering. Additionally, the theory links the ability of a firm to make use of market information to enhance service delivery is key to enhancing the levels of productivity of different organizations.

5.2.2 Managerial Capabilities and Perceived Performance of Microfinance Institutions

Findings revealed that managerial capabilities have a positive effect on the perceived performance of microfinance institutions. These findings are similar to results in the study by Adusei, Akomea and Poku (2017), who reported that while leadership capabilities' influence on performance is moderated by factors such as leadership styles and board composition. The analysis revealed that MFIs had recruited competent top management teams, which enhances attainment of strategic goals. These findings are in agreement with Mumba (2020), who noted that having visionary leadership is key to the realization of the long-term goals of an organization.

The respondents agreed that the firms had moderately attempted to decentralize authority to improve performance efficiency. These findings, although affirming the importance of decentralizing authority, were not in agreement with Njue, Waiganjo and Kihoro (2016), who noted that the competency of the leadership team, involvement of employees in decision making and in offering mentorship programs is key to improving long-term performance within microfinance institutions. In continuation, Gathodu, Nyambegera and Kirubi (2018) determined that employee involvement in decision making is a vector of transformational leadership, which is key to driving staff commitment, enhances teamwork and talent retention.

The findings showed that MFIs routinely conduct meetings and seminars to hear views of employees on what can be changed within the firm. This is a form of democratic leadership that involves employees in strategic planning. This strategic planning effort is recognized in Kariuki and Wachira's (2017) study, which showed that adoption of democratic leadership fosters teamwork, delegation to duty and enhances identification of internal leaders, which is key to improving the quality of decision making within the firm and a key aspect of leadership development.

The Dynamic Capabilities Theory, in its bid to ensure the development of organizational capabilities, advocates for internal leadership development as a means for promoting organizational sustainability. The theory was key in informing the study on how organizations are able to identify, train and develop internal human resources to achieve consistency and sustainability. Further, the experience gained from decision making freedom results in an improvement in employee self-realization, evaluation, locus of control and stability in emotions, which is vital to decision making, especially under pressure Gathondu, Nyambegera and Kirubi (2018). The theory advocates that organizations should be able to identify, train and empower competent elements within their teams and promote them to leadership positions since doing so results in increased internal managerial competency.

5.2.3 Technological Capabilities and Perceived Performance of Microfinance Institutions

The analysis revealed a positive effect of technological capabilities on the perceived performance of microfinance institutions. These results resonate with findings by Mbamba and Mwashuiya (2019), firms that incorporated new technologies in their operations were able to realize high market share and increased product demand. The study established that MFIs were deploying emerging technologies within their operations as a means of improving operational efficiency and service delivery. Similarly, Salisu and Bakar (2018) showed that product and service innovation, knowledge management, technology transfer and flexibility are key to improving performance within businesses. To some extent, the respondents noted that the institution has invested in research and development, which enhances the product and service range. These findings are in agreement with Munnet (2018), who reported that adequate research and development was necessary to enhancing IT integration, connectivity and application functionality. The study also determined that MFI firms have been undertaking an overhaul of traditional systems and are embracing digital products and services in core operations to enhance sales growth and return on investment.

The results showed that MFIs support employees in the deployment and implementation of new innovations within their departments. Mwai (2019) demonstrated that encouraging employees to become innovative, especially in the service industry, enhances service delivery and employee self-confidence. Similarly, Njihia (2019) showed that incorporation of emergent technologies in service delivery and product and service innovation is key to enhancing market outreach, operational efficiency and quality service delivery. The study established that the firms were using ICT integration to enhance technical skills and competencies. Mbamba and

Mwashuiya (2019) are of this view in their study, which affirmed that increased ICT adoption within MFIs has resulted in improved access to financial services by customers. An increase in electronic delivery channels was noted to improve the firm's efficiency and reliability in service delivery.

According to the Dynamic Capabilities Theory, enhancing technological capabilities through research and developments enables firms to determine customer preferences and, as a result, can configure their services towards meeting specific customer needs. Further, the cost and seamless ease of use of ICT devices is a means of reducing costs associated with human capital development. This theory informed the study of the importance of enhancing technological capabilities through digitization efforts and technical training.

5.2.4 Resource Capabilities and Perceived Performance of Microfinance Institutions

The analysis revealed a positive effect of resource capabilities and MFI perceived performance results. These findings are consistent with Kamasak (2017), who revealed that both tangible and intangible resources, albeit intangible resources such as brand reputation, experience, credibility, and staff skills were more influential than tangible resources. These findings are consistent with Chigozi, Aga and Onyia (2018), who revealed that continuous development, learning, sharing, mobilization, distribution, cultivation and practicing, coupled with information sharing, are indicators of healthy firm operations. The study also showed that the institutions were developing adequate human resources to promote branch management. Kiswili, Amuhaya, Noor and Anaya (2019) demonstrated that the number of staff, adequacy of human capital skills and experience are key to improving satisfaction among customers and suppliers.

The findings also showed that MFI firms had invested heavily in emerging technologies and systems to support seamless operation capabilities. In a similar fashion, Munnet (2018) showed incorporation of communication technologies impact profitability among financial institutions. The study findings demonstrated that the organizations were in the process of expanding physical infrastructure to support continuous product and service offering. These findings are in agreement with Kamukama, Ahiauzu and Ntayi (2011), who showed that relational capital, structural capital and human capital were pivotal to MFI performance. Regarding financial sourcing capabilities, the study was in agreement with Kimaru and Kinyua (2018), who showed that a firm's capacity to maintain adequate cash balance, offer a wide range of loans, maintain

sound assets balance, earning and positive credit rating are significant in improving finance firms' performance. The Dynamic Capabilities theory recognizes the impact of adequate infrastructure, human, technical and financial capital on firm performance. The theory was important when analyzing how different resources can be sources of competitive advantage for financial firms.

5.3 Conclusions

The study determined that organizational capabilities have a positive relationship with the perceived performance of MFI. The findings showed that marketing, managerial, technological and resource capabilities have a significant impact on the perceived performance of microfinance institutions in Kenya. Regarding the first objective, the results determined that marketing capabilities have an insignificant effect on the MFI performance. Based on the findings of the second objective, marketing capabilities were determined to have a positive effect on MFI perceived performance. The study findings determined that recruiting top management teams, decentralizing authority, instituting clear channels of communication, delegating duty to subordinate staff and conducting seminars with staff does not significantly improve the perceived performance of microfinance firms.

On the third objective, the study concluded a positive relationship between technological capabilities and perceived MFI performance. The study determined that investing in research and development, deploying emerging technologies in firm operations, undertaking product and service innovation, motivating employees to advance their technical skills and supporting employees in deploying new innovations in their work units significantly improves performances within microfinance firms in Kenya. Regarding the fourth objective, the study concluded that resource capability has a positive effect on the perceived performance of MFI. The findings revealed that having an adequate human resource pool, physical access facilities, an adequate capital base, aggressively mobilizing for deposits and effectively integrating emerging technologies significantly improve microfinance firms' performance.

5.4 Recommendations

The study recommends that the government of Kenya supports microfinance institutions by enforcing financial regulations that can enhance financial management within microfinance institutions in the country. Further, the study recommends that the government reduces taxes on imported technologies to make it easier for microfinance institutions to purchase and use various technologies to enhance their product and service delivery.

The study determined that marketing capabilities do not significantly influence the performance of the MFI as informed by the findings. Thus, the study recommends that MFI should re-evaluate the various marketing outreach activities and promotional activities currently in use. This will help in cushioning the MFIs from the intense competition within the financial sector by digital lending platforms, which have affected the customer base of the MFIs. Further, the MFI should deploy emerging technologies in service delivery and improving the marketing dimensions. This can be integral to driving better performance within the firms by being able to serve a larger customer base and more efficiently.

Further in line with the findings, the study recommends that MFIs carry out extensive research before deciding who to target, their specific needs and how to satisfy their needs. The study determined that while a significant number of firms were leveraging on emerging technologies to market their products and services, the study recommends the firms integrate traditional media in their marketing since these are still the preferred media for untapped people in remote markets. The results also revealed that managerial capabilities have a positive effect on the performance of MFI. The study recommends that the MFIs invest in empowering their own staff through training, delegating duties and promoting competent employees to managerial positions since this is a cheap means of ensuring leadership sustainability.

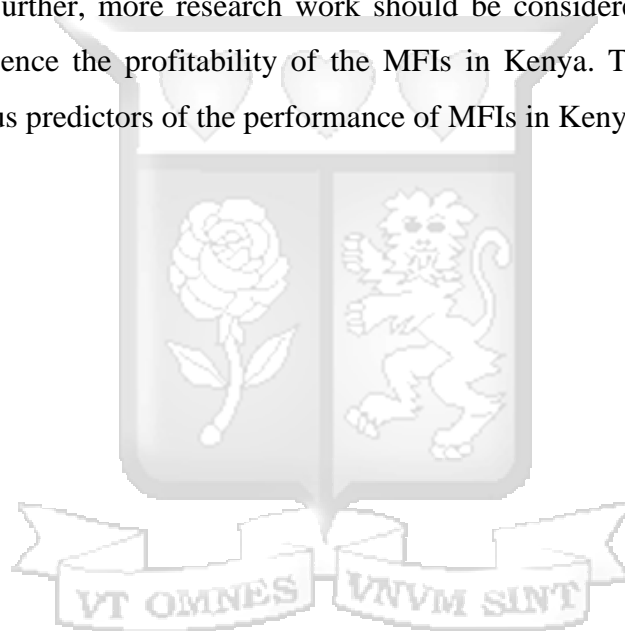
The findings showed a significant positive influence of technological capabilities on MFI performance. The study recommends effective integration of appropriate technologies to prevent constant investment in emerging technologies, which is costly for the firm. Further, the study recommends that the organizations support use-ability by providing adequate training to both employees and customers to ensure inclusivity. Further, firms have to encourage employees to become innovative in their workstations through challenges and incentive programs. The study also determined that resource capabilities significantly improve firm performance. The study recommends strategic positioning of firm branches as a means of improving market presence. Further, the study recommends that organizations transform their recruitment processes to ensure that apart from having a large number of employees, they are able to identify, train and invest in competent employees to enhance the realization of organizational goals. The study also recommends that firms aggressively mobilize financial resources to support firm activities and to ensure the firm functions effectively even when unexpected shocks occur to the economy.

5.5 Limitations of the Research

The study faced limitations in accessing participants due to the lockdowns in the wake of the Covid -19 pandemic, which meant fewer employees were physically present in the workplace. The study minimized the impact of these limitations by complementing physical data collection with Google forms. Further, the study was only conducted across Nairobi county and did not factor in performance of other MFI across different regions in the country. This may limit the utilization of the study results in other regions.

5.6 Further Research

Supported by the results of the research, its' recommended that further studies should be conducted evaluating the marketing strategies employed by MFIs to determine the gaps in their marketing capacity. Further, more research work should be considered examining how the financial factors influence the profitability of the MFIs in Kenya. This will provide more evidence on the various predictors of the performance of MFIs in Kenya.



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Operations Manager []

Human Resource Manager []

2. Kindly elaborate on the ownership of your MFI? (Tick as applicable)

Foreign owned []

Government owned []

Cooperative Unions []

Public Members []

3. What type of MFI do you work within? (Tick as applicable)

Credit-only []

Deposit-taking []

PART B: EFFECT OF ORGANIZATIONAL CAPABILITIES ON THE PERFORMANCE OF MICROFINANCE INSTITUTIONS IN KENYA

Using the below Likert Scales, please indicate the extent of your agreement or disagreement with the below statements by ticking the box that best describes your answer; 1 = Not at all 2 = To a small extent 3 = To some extent 4 = To a moderate extent 5 = To a great extent

No.	Performance of Microfinance Institutions	1	2	3	4	5
1.	The institution regularly updates the service charter to ensure they meet our customer needs					
2.	The institution has witnessed an improvement in customer referrals which has expanded our customer base					
3.	The institution regularly reviews our brand management to ensure the institution is recognized by our customers					
4.	The institution routinely monitors our internal operations to ensure attainment of our strategic goals					
5.	The institution constantly reviews our internal systems to ensure there is efficiency in service provision					
6.	The institution regularly reviews our product and service range to foster our growth					

7.	The institution management team receives feedback from employees on ways to improve the growth trajectory of the firm					
8.	The institution supports learning within the firm which fosters employee productivity					
9.	The institution has put in place programmes to enhance employee training and development					

Using the below Likert Scales, please indicate the extent of your agreement or disagreement with the below statements by ticking the box that best describes your answer; 1 = Not at all 2 = To a small extent 3 = To some extent 4 = To a moderate extent 5 = To a great extent

No.	Marketing Capabilities of Microfinance Institutions	1	2	3	4	5
10.	The institution routinely conducts market outreach campaigns to improve our market share					
11.	The institution has been leveraging on emerging technologies to drive our distribution process					
12.	The institution routinely utilizes traditional media channels to conduct promotional activities					
13.	The institution conducts targeted promotional activities to improve our market reach					
14.	The institution has developed distribution channels that meet the emerging market needs					
15.	The institution regularly reviews the service quality metrics to ensure we meeting the market demands					

Using the below Likert Scales, please indicate the extent of your agreement or disagreement with the below statements by ticking the box that best describes your answer; 1 = Not at all 2 = To a small extent 3 = To some extent 4 = To a moderate extent 5 = To a great extent

No.	Managerial Capabilities of Microfinance Institutions	1	2	3	4	5
16.	The institution has recruited competent top management teams which is vital to meeting our strategic goals					
17.	The institution has decentralized authority within the firm to improve efficiency in solving problems					

18.	The institution management team has instituted clear communication channels which improve the flow of information					
19.	The institution management involves the employees in decision making which leads to better teamwork					
20.	The institution management regularly delegates duty to subordinates which enhances the involvement of the staff					
21.	The institution routinely conducts meetings and seminars to hear views of employees on what can be changed within the firm.					

Using the below Likert Scales, please indicate the extent of your agreement or disagreement with the below statements by ticking the box that best describes your answer; 1 = Not at all 2 = To a small extent 3 = To some extent 4 = To a moderate extent 5 = To a great extent

No.	Technological Capabilities of Microfinance Institutions	1	2	3	4	5
22.	The institution supports employees in deploying new innovations within their work units					
23.	The institution has heavily invested in research and development which enhances the product and service range					
24.	The institution has deployed emerging technologies within our operations to improve efficiency in our services					
25.	The institution is undertaking an overhaul of our traditional systems and embracing digital products and services in our core operations					
26.	The institution routinely undertakes process and product innovation to meet the growing needs of the modern world					
27.	The institution conducts employee sensitization on the emerging technologies					
28.	The institution motivates our employees to advance their technical expertise and skills					

Using the below Likert Scales, please indicate the extent of your agreement or disagreement with the below statements by ticking the box that best describes your answer; 1 = Not at all 2 = To a small extent 3 = To some extent 4 = To a moderate extent 5 = To a great extent

No.	Resource Capabilities of Microfinance Institutions	1	2	3	4	5
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29.	The institution has in place adequate physical infrastructure to support continuous product and service offering					
30.	The institution has adequate human resource pool which ensures that our branches are well-manned					
31.	The institution maintains an adequate capital base which cushions the firm from changes in the operating environment					
32.	The institution has been able to aggressively mobilize for deposits and investments which improve our financial capacity					
33.	The institution has invested heavily on emerging technologies and systems which support seamless operations					

Thank you for the time responding. Keep Safe!





Appendix II: NACOSTI Research Permit



REPUBLIC OF KENYA

Ref No: **742375**



**NATIONAL COMMISSION FOR
SCIENCE, TECHNOLOGY & INNOVATION**

Date of Issue: **02/June/2021**

RESEARCH LICENSE



This is to Certify that Ms.. Mbithe Muema of Strathmore University, has been licensed to conduct research in Nairobi on the topic: EFFECT OF ORGANIZATIONAL CAPABILITIES ON THE PERFORMANCE OF MICROFINANCE INSTITUTIONS IN KENYA for the period ending : 02/June/2022.

License No: **NACOSTI/P/21/10983**

742375

Applicant Identification Number

Director General
**NATIONAL COMMISSION FOR
SCIENCE, TECHNOLOGY &
INNOVATION**

Verification QR Code



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Scan the QR Code using QR scanner application.**

Appendix III: SU-IERC Ethical Approval



25th June 2021

Ms Muema, Mbithe
mmmuema@gmail.com

Dear Ms Muema,

RE: Effect of Organizational Capabilities on The Performance of Microfinance Institutions in Kenya

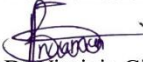
This is to inform you that SU-IERC has reviewed and **approved** your above **master's** research proposal. Your application reference number is **SU-IERC1073/21**. The approval period is **25th June 2021 to 24th June 2022**.

This approval is subject to compliance with the following requirements:

- i. Only approved documents including (informed consents, study instruments, MTA) will be used
- ii. All changes including (amendments, deviations, and violations) are submitted for review and approval by SU-IERC.
- iii. Death and life-threatening problems and serious adverse events or unexpected adverse events whether related or unrelated to the study must be reported to SU-IERC within 48 hours of notification
- iv. Any changes, anticipated or otherwise that may increase the risks or affected safety or welfare of study participants and others or affect the integrity of the research must be reported to SU-IERC within 48 hours
- v. Clearance for export of biological specimens must be obtained from relevant institutions.
- vi. Submission of a request for renewal of approval at least 60 days prior to expiry of the approval period. Attach a comprehensive progress report to support the renewal.
- vii. Submission of an executive summary report within 90 days upon completion of the study to SU-IERC.

Prior to commencing your study, you will be expected to obtain a research license from National Commission for Science, Technology and Innovation (NACOSTI) <https://research-portal.nacosti.go.ke/> and also obtain other clearances needed

Yours sincerely,


for: Dr Virginia Gichuru,
Secretary; SU-IERC

**Cc: Prof Fred Were,
Chairperson; SU-IERC**



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Appendix IV: List of Microfinance Institutions

1. Caritas Microfinance Bank Limited
2. Century Microfinance Bank Limited
3. Choice Microfinance Bank Limited
4. Daraja Microfinance Bank Limited
5. Faulu Microfinance Bank Limited
6. Kenya Women Microfinance Bank Limited
7. Rafiki Microfinance Bank Limited
8. Remu Microfinance Bank Limited
9. SMEP Microfinance Bank Limited
10. Sumac Microfinance Bank Limited
11. U & I Microfinance Bank Limited
12. Uwezo Microfinance Bank Ltd
13. Maisha Microfinance Bank Limited
14. MESPT Kenya
15. Solution Finance East Africa Ltd
16. Oiko Credit
17. Eclof Kenya
18. Vision Fund Kenya Limited
19. BIMAS
20. Letshego Kenya Ltd
21. Zenka Finance Ltd
22. YEHU Microfinance Trust
23. Jitegemea Credit Scheme
24. Fincredit Services Ltd
25. Juhudi Kilimo Co.Ltd
26. Musoni Kenya Ltd
27. Select Management Services Ltd
28. Greenland Fedha Ltd
29. Platinum Credit Limited
30. Real People Ltd
31. Habitat for Humanity International
32. Neema Health Educational & Empowerment Programme
33. Ushindi Bora Ltd
34. Hand in Hand Eastern Africa
35. Nyali Capital Limited
36. Premier Credit Limited
37. MoneyWorth Investment Limited
38. Hazina Development Trust Limited
39. SpringBoard Capital
40. Progressive Credit Ltd
41. Longitude Finance
42. Jiweze Ltd
43. ASA Ltd
44. Kipepeo Microcredit Limited
45. Liberty Afrika Technologies Limited
46. Diversity Microcredit Ltd
47. My Credit Ltd
48. PAWDEP
49. Momentum Credit



- 50. Weighbridge Ventures Ltd
- 51. Eclof Kenya
- 52. Stima Sacco Society Ltd

