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DYNAMIC CAPABILITIES AND PERFORMANCE OF MICRO FINANCE INSTITUTIONS IN KENYA

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ABSTRACT

The main aim of the study was to determine effect of dynamic capabilities on performance of micro finance institutions in the Nairobi City County. Therefore, this study sought to determine the influence of dynamic capabilities and performance of micro finance institutions. The specific objectives were to analyze the effect of sensing capability on the performance, to establish the effect of integration capability on the performance, to examine the effect of reconfiguration capability on performance and to determine the effect of operational capability on the performance of micro finance institutions. The study was guided by Resource Based Theory, Dynamic Capability Theory, Knowledge Based View Theory and Relational Coordination Theory (RCT). Descriptive research design was employed in this study. The study targeted 196 respondents from 49 microfinance institutions in Kenya. The sampling frame comprised of customer service representatives, operations managers, marketing managers and credit managers. The study sampled 132 respondents using stratified random sampling technique. Primary data was collected using a well-designed semi-questionnaire. Pilot study was conducted to establish reliability and validity of research questionnaire. Quantitative data was analyzed using descriptive and inferential statistics using SPSS Version 26.0. Descriptive analysis and inferential analysis were used at a significance level of 0.05. Descriptive analysis included; frequencies, Mean, standard deviation and percentage while inferential analysis involved correlation analysis and linear regression analysis. The data was presented in form of tables and models. From the findings, this study establishes that there exists a significant effect of sensing capability, integration capability, reconfiguration capability and operational capability on performance of micro finance institutions. The study therefore concluded that dynamic capabilities have significant influence on performance of micro finance institutions. The study recommended that Microfinance institutions should implement robust systems to collect and analyze customer feedback, ensuring that insights lead to tangible improvements in products and services. Management of microfinance institutions should promote cross-functional collaboration by encouraging teamwork across different departments to align efforts with common goals. Microfinance institutions should focus on enhancing their agility by developing flexible decision-making processes that allow for quick adjustments to strategies as market conditions evolve.

Keywords: *Sensing Capability, Integration Capability, Reconfiguration Capability, Operational Capability*

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INTRODUCTION

Organizational performance constitutes all behaviors related to objectives depending on the contribution levels of individuals to the microfinance institution (Vining & Weimer, 2016). Performance is the level of target achieved by an organization. Dynamic capabilities explain how firms adapt to environmental dynamism by modifying their underlying resources and capabilities. Dynamic capabilities integrate, build, and reconfigure internal and external competencies of an organizational performance. Dynamic capabilities have a direct effect on firm's performance and competitive advantage (Zhou, Zhou, Feng & Jiang, 2017)

In Canada, the relationship between sensing capabilities and performance is evident from its origin and it is relevant in environments with varying degrees of environmental dynamism. The concept of sensing capability refers to a firm's ability to learn about its market environment, and to use this knowledge appropriately to guide its actions. Masa'deh et al., (2018) proposed the relative market share rate, relative sales value, and relative return on investment rate, relative revenue rate, and degree of target achievement as the five dimensions to measure organizational performance. The findings indicated that dynamic capabilities increase store performance, and that both knowledge resources and learning mechanisms have a positive effect on dynamic capabilities.

In Nigeria, Hilda, Hope and Ijeamaka (2016) argues that sensing capability influence organizational performance positively and thus any firm that fails to embrace them may not survive in the dynamic market environment because the possession of only unique resources is not sufficient anymore to gain competitive advantage. Study findings on post-acquisition integration processes in the banking sector; provide evidence that acquirers who invested more effort in codifying their integration processes achieve superior profitability performance compared to competitors. Similarly, dynamic capabilities such as research personnel quality or alliance formation processes are significantly related to the number of newly developed products in the biotechnology sector.

In the local perspective, organizational performance of MFIs in Kenya faces major constraints in their pursuit of effectiveness and profitably in delivery of microfinance services. Many studies have focused on the challenges faced by microfinance institutions in Africa and the world over and key success factors in the emerging markets. However, little has been done to uncover the key capabilities that drive the success of these institutions in economic environments such as is prevailing in Kenya. More so, given the increasingly dominant role played by microfinance institutions in bringing about financial inclusivity, it is imperative to synthesize the key variables needed to grow the sector. The success of dynamic capabilities practices has not fully addressed the extent to which dynamic capabilities practices contributes to organizational performance in financial institutions such as MFIS. There is also little empirical support on dynamic capabilities practiced in MFI. It also raises questions regarding the most appropriate mix of capabilities to effectively exploit dynamic capabilities implementation (Mwai, 2017).

In the Nairobi City County, organizations whose managers have superior dynamic capabilities can adapt and change more successfully than those whose managers have less effective or no DMCs. The key principle behind them is continued competitiveness, as organizations are not only competing in their ability to configure and exploit existing resources, but also in their ability to renew and develop these resources. Dynamic capabilities lie within the firm's core management such that managerial judgment influences the deployment of dynamic capabilities. It is now becoming a challenge since there is underperformance of microfinance institutions. Notably a number of organizations have merged up while others are closed since they cannot cope with the emerging dynamic capabilities (Daniel, Ithinji & Egerton, 2013). The study thus

focuses to determine effect dynamic capabilities and performance of micro finance institutions in the Nairobi City County.

Statement of the Problem

Performance of microfinance institutions is indicated by their contributions to social welfare, job creation, general economic empowerment and improvement of lives of the poor. Further organizational capabilities generate more value from resources in comparison to its competitors and enable it to achieve performance goals (Wu et al., 2015). Despite the interest in the microfinance institution sector and the subsidies that have flowed into some of the mission-oriented MFIs, it seems that most MFIs struggle with the challenge of remaining viable over the long-term.

Most financial institutions such as MFIS losses about 20% annually by failing to attend to changing customer needs (Jeske et al., 2015).Some studies demonstrate a positive influence of dynamic capabilities on performance (Haleblian et al., 2012; Tsekouras et al., 2011); others have identified insignificant relations (Drnevich & Kriauciunas, 2017). Still others have indicated no bottom-line improvements or negative relationships (Tsekouras et al., 2011). Noteworthy, the emphasis of these studies are selectively on sectors such as banking (Awasthi, 2012). Subsequently, there seem to be noticeable minimal research on dynamic capabilities in the MFIS especially in the emerging economies. Thus the study sought to determine effect of dynamic capabilities on performance of micro finance institutions in Nairobi City County.

Objectives of the Study

The general objective of the study was to determine effect of dynamic capabilities on performance of micro finance institutions in the Nairobi City County, Kenya. The study was guided by the following specific objectives:

- To establish the effect of sensing capability on performance of micro finance institutions in the Nairobi City County.
- To determine the effect of integration capability on performance of micro finance institutions in the Nairobi City County.
- To identify the effect of reconfiguration capability on performance of micro finance institutions in the Nairobi City County.
- To analyze the effect of operational capability on performance of micro finance institutions in the Nairobi City County.

Research Hypotheses

H_{01}: Sensing capability has no significant effect on performance of micro finance institutions in the Nairobi City County.

H_{02}: Integration capability has no significant effect on performance of micro finance institutions in the Nairobi City County.

H_{03}: Reconfiguration capability has no significant effect on performance of micro finance institutions in the Nairobi City County.

H_{04}: Operational capability has no significant effect on performance of micro finance institutions in the Nairobi City County.

LITERATURE REVIEW

The Dynamic Capability Theory

Teece and Pisano (1994) developed the dynamic capability theory as a response to the Resource Based View (RBV) of the firm's failure to comprehend the production and re-development of resources and capabilities to address continually changing environments. The purpose of this theory is to clarify how companies use dynamic capabilities to establish and sustain superior functioning over other organizations by responding to changes and making the right adjustments.

The theory has improved RBV by emphasizing how an organization's capabilities change in response to contextual changes and by recognizing certain organizational competences (Kirugumi, Theuri & Magu, 2021). These competencies include those used to recognize changes, grasp opportunities, and restructure the business to survive in unstable

settings in the future (Schoemaker et al., 2018), which describes this study's variables, organizational performance, managerial, technological, marketing, and resilience capabilities.

Resource Based View Theory

The effects of sensing capability resources on market performance will be examined using the resource-based view theory (RBV), which was created by Penrose (1959) to explain disparities in growth among competitive enterprises. RBV is founded on the idea that businesses have a range of resources, including different types, quantities, and qualities. It can be difficult or impossible for other businesses to copy a competitor's approach since some of these resources are hard or impossible to replace.

Technology resources are needed to design, manufacture, or offer a good or service. Machines, energy, data, tools, and, of course, people without whom none of the aforementioned would be possible are just a few examples of the diverse items that fall under the category of technological resources. Advanced technology could be utilized to tackle some of the aforementioned challenges. The strategic link produced by combining technology and business processes helps to increase efficiency in the creation of exceedingly complex products (Olumide, Zigan, John, & Satya, 2019). Thus, this theory describes integration capability of a firm.

Knowledge Based View Theory

According to the Knowledge Based Theory of the Firm, knowledge is the company's most crucial strategic asset. This viewpoint builds upon and broadens Penrose's (1959) resource-based view of the company (RBV), which was later broadened by others and has its roots in the literature on strategic management (Wernerfelt 1984, Barney 1991, Conner 1991). The firm's tangible input resources are often knowledge-based resources, entrepreneurship and innovation need the gathering, combining, and application of this knowledge.

Knowledge-based resources are frequently hard to replicate, socially complicated, and important factors in superior company performance to recognize and take advantage of environmental changes (Miaomiao & Afshar, 2018). For dynamic competence development processes, learning activities provide information (Cyfertm, Kubala, Szumowski & Miskiewicz, 2021). In fact, acquiring new knowledge is the company's new competitive advantage, ensuring productivity and improved performance (Murgor, 2018).

In the event of unanticipated market shifts, businesses must devise a customer-focused strategy, including both internal and external marketing initiatives, and adapting resources and capabilities to external changes in order to overcome risks (Zebal et al., 2019). These actions must be flexible and observant to respond to unforeseen market demands, such as the emergence of novel technology or emerging trends that are hard to predict but call for a quicker adoption of organizational and process improvements. Furthermore, Firms with strong competitiveness can take advantage of their current skills and look for new prospects (Rumanti, Sunaryo, Wiratmadja & Irianto, 2020). Consequently, this has an impact on the firm's resilience as well.

Relational Coordination Theory (RCT)

In the middle of the 1990s, Jody Hoffer Gittell created the Relational Coordination theory. According to the theory, stakeholders may successfully coordinate their work across boundaries when there are common goals, shared knowledge, and mutual respect. These factors also promote frequent, prompt, accurate problem-solving and communication. This notion is well supported by research and has been connected to a number of good outcomes. Quality, effectiveness, client satisfaction, staff well-being, and engagement are all affected by performance outcomes (Connely, Battaglia & Gilmarting, 2020).

RCT encourages management and resiliency abilities. Organizational resilience, according to Ochola and Wamalwa (2022), effectively reflects

leaders' beliefs, morals, and actions. As a result, resilience is boosted prior to a crisis by leaders' efforts that enable quicker identification and resolution of potential disturbances. Transformational leaders' actions embodied the ideals of influence, inspirational motivation, intellectual stimulation, and individual consideration, possibly laying the groundwork for organizational resilience. Relational coordination skills enable leaders to be proactive and set a good example for their team members (Yang, Dai, Yiming, Carbonell, Russ, 2019).

Conceptual Framework

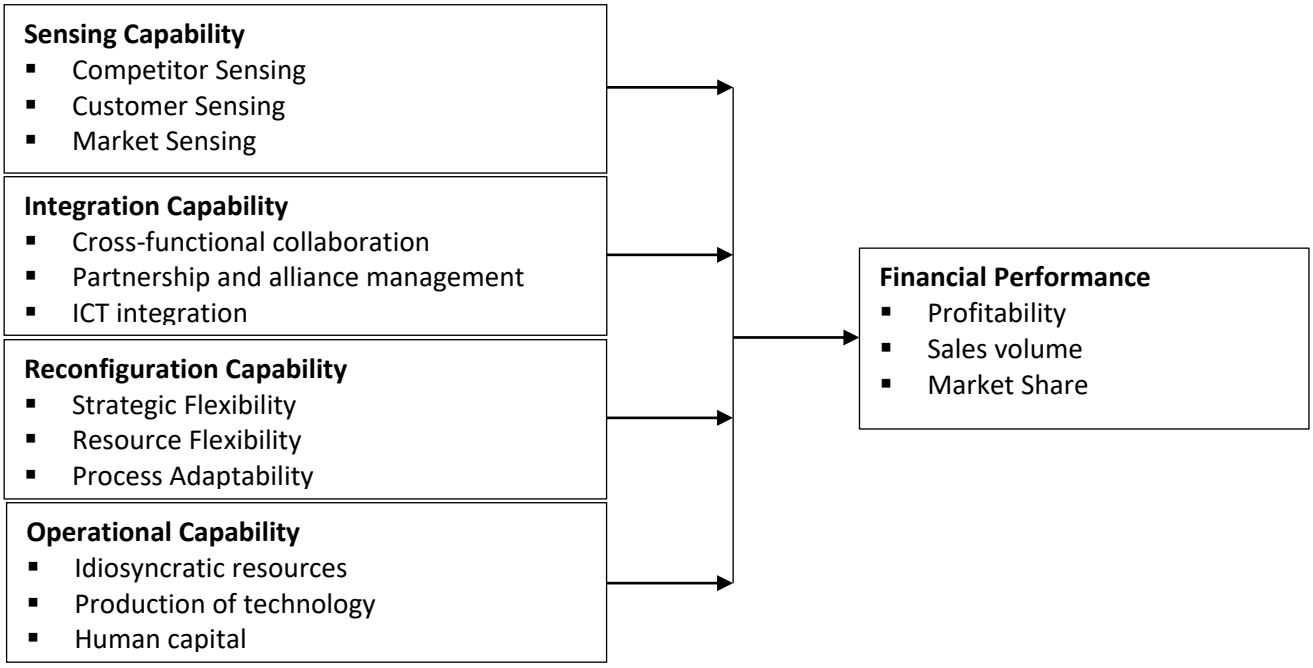

Figure 1: Conceptual Framework

Empirical Review

Sensing capability and performance

Vijande, Pérez, Gutiérrez, and Rodríguez (2020) conducted a study to analyze the organizational antecedents of sensing capability and their impact on the business performance of SMEs in Spain. Questionnaires were sent to CEOs of 1900 firms listed in the Sistema de Análisis de Balances Ibéricos (SABI) database. The firms were purposely selected based on their operating in industrial sectors characterized by intense innovation. The respondents were identified a priori as key informants because they were likely to be fully knowledgeable about their firms. The questionnaires were dispatched through the mail but only 163 valid questionnaires were returned thus achieving a response rate of 8.75%. Results of data analysis using multiple regression showed that sensing capability mediate the effect of customer satisfaction on firm performance. The study observed that Sensing capability have a significant and positive effect on clients‟ satisfaction and loyalty, and this leads to better organizational performance. One limitation of the study was that it used subjective measures of performance, due to the reluctance of firms to supply empirical data on sales, market share, and profits.

Integration Capability and Performance

Pebrianto, Suhadak, Kertahadi and Djamhur (2021) did a study on ways through which performance of the organization can be influenced by information integration capability, KM capacity and organizational learning. The study used a sample of 72 branch offices using saturated sampling

technique. The study selected head employees of the bank who have been employed for not less than three years. Information Technology Capability (ITC) significantly influenced performance. The direction of IT's influence on organizational performance is positive, implying that the greater an organization's information technology capability is, the better it performs. KM Capability significantly influenced Organizational Performance the Organizational Learning. The study used information integration capability as the independent variable. The current study used dynamic capabilities as the independent variable.

Tang, Park, Agarwal and Liu (2020) studied the impact of innovation culture, organization size and integration capability on the performance of SMEs. Three separate sets of multistage hierarchical regression analyses were employed to estimate the effects of the key explanatory variables for the dependent variable. The first set of regression models covered all 1124 firms in both the manufacturing and service industries. The study used data from 1124 SMEs in China and applied regression analysis to test hypotheses. The findings were that integration capability and organization size have a statistically positive effect on the performance of SMEs. A cross-sectional survey research design that was used does not determine the cause.

Reconfiguration Capability and Performance

Kirugumi, Theuri and Magu (2021) analyse the influence of reconfiguration capability on internationalization status of public universities in Kenya. The study was conducted in 31 Public Universities in Kenya and employed a descriptive research design. A cross-sectional survey involving both analytical and descriptive methods to address the objectives of the study was used. Regression results showed that reconfiguration capability had a significant and positive influence on internationalization status. The study found that reconfiguration capability had a significant and positive influence on internationalization status of public universities. This indicates that the decision-making abilities of managers, creating and sharing their strategic vision with the rest as well as the capacity to think strategically, to solve problems are important integration capability required in universities. However, the study focused on one aspect of performance, internationalization which was based on university ranking. Further, despite the fact the study used mixed methodology; there was no evidence of triangulation.

Kitenga (2020) examined how integration capability influences sustainable performance of selected manufacturing firms in Kenya. The study was founded on positivist research philosophy and utilized a descriptive and explanatory survey design. Primary data collected from a population of 70 food manufacturing listed in the Kenya Association of Manufacturer's directory was analysed using multiple regression. The findings showed that there is a significant direct and positive relationship between integration capability and performance of food manufacturing firms in Kenya. However, the study did not indicate unit of inquiry and therefore, it is difficult to validate the data. Further, the study focused on manufacturing firms in Kenya making it difficult for the recommendation to be generalized in public universities.

Operational Capability and Performance

Wei and Lau (2019) investigated the role of operational capability and the performance of Chinese firms. A sample of 600 firms was randomly selected from all firms registered with the local governments in China, representing all the industries in each city or province. Respondents were identified using a stratified sampling technique. Data were collected using structured questionnaires and surveys face-to-face interviews with senior managers of the selected firms. The data were analyzed using a linear regression technique. Empirical results showed that firm-level operational capability partially mediates the relationship between HR-fit and innovation and fully mediates the relationship between HR-fit and ROA. The study also found that location moderated the relationship between Operational capability and

performance. The main limitation of the study was that it did not consider the non-performance of the firms under study. The main contribution of this study presented a model that helped to explain one of the mechanisms underlying the linkage between HPWS and performance by looking at firm-level capabilities.

A study was conducted by Cabral (2020) to test whether differences operational capability is related to the performance of firms in Brazil. The study used a content analysis of literature instead of primary information collected directly from firms in Brazil. The results of data analysis using multiple linear regression showed that the effect of operational capability Performance is mediated by innovation strategy. The significance of the study was that it confirmed the view held by (Eisenhardt & Martin 2015) that operational capability affect performance indirectly. The main limitation was that it did not consider non-financial indicators of performance.

METHODOLOGY

Descriptive research design was employed in this study. The target population was categorized into organizational population and respondent population. Organizational population consisted of all the 49 microfinance institutions in Kenya as obtained Central Bank of Kenya directory. The population of interest in this study was 196 managers working for the 49 microfinance institutions being the unit of analysis, four respondents per firm (customer service representatives, operations managers, marketing managers and credit managers).

The sampling frame for this study consisted of 49 microfinance institutions operating in Kenya as at 1st January 2024. The sample size of this study was calculated from the Yamane Formula given as:

$$n = N / [1 + N(e)^2]$$

Where:

n = the sample size

N = Total population

e = Error tolerance

Since the study population (N) is 196. Error of tolerance was 0.05. Thus, the sample size was determine as shown below:

$$n = 196 / [1 + 196 (0.05)^2] = 123.5436242$$

which is 124

Therefore, 124 respondents formed the sample size and was drawn proportionately from the target population.

This study used stratified random sampling technique to collect data from the respondents. This study used primary data. A pilot study was conducted targeting 12 respondents who were not included in the final study which is 10% of the sample size. This study used both construct validity and content validity. The Cronbach alpha computation was employed in this study.

Quantitative research technique was used to code qualitative data. Both the descriptive statistics and inferential statistics were used. The descriptive statistics was mainly used to show the trend of the primary data. The researcher used descriptive statistics that included measure of central tendency (mean) and measure of variability (standard deviation), frequencies and percentages. The study used inferential statistics such as correlation analysis and regression analysis. These statistical tests were at 5% significance level (Greenland, Senn, Poole & Altman, 2016). This was done with aid of SPSS version 28. The findings were presented in form of tables, charts and models.

RESEARCH FINDINGS AND DISCUSSION

Response Rate

The researcher distributed a total number of 124 questionnaires to different respondents from 49 microfinance institutions in Kenya. Out of these 106 questionnaires were successfully filled and handed back to the researcher which gives a 85.5% response rate. According to Baruch and Holtom (2008) a minimum average level of response rate of 52.7 percent is good; with any rates above 70%

deemed to be excellent. Therefore, the response rate obtained for this study (85.5%) was adequate to draw conclusions.

Descriptive Statistics of Variables in the Study

Analysis of Sensing capability

Respondents were given items rated on a five-point likert where 5=strongly agree (SA), 4=agree (A), 3=Neutral (N), 2=disagree (D) and 1=strongly disagree (SD). The descriptive findings on sensing capability are as shown in Table 1.

Table 1: Sensing Capability

Sensing capability	5	4	3	2	1	Mean	SDV
My organization regularly monitors competitors' products and services to stay updated on their offerings.	24.5%	26.4%	30.2%	13.2%	5.7%	3.51	1.17
My organization actively seeks customer feedback to improve its products and services.	49.1%	17%	26.4%	1.9%	5.7%	4.02	1.17
We monitor market trends and shifts to capitalize on new opportunities and avoid potential threats.	28.3%	26.4%	28.3%	5.7%	11.3%	3.55	1.28
Regularly conducting market research helps us stay ahead of our competition.	32.1%	41.5%	20.8%	3.8%	1.9%	3.98	0.93
Analyzing market data helps us understand the dynamics of supply and demand in our industry.	32.1%	11.3%	30.2%	20.8%	5.7%	3.43	1.29
Anticipating customer preferences and needs helps us develop targeted and relevant products and services.	34%	22.6%	28.3%	9.4%	5.7%	3.70	1.20
Composite Mean						**3.722**	**1.0797**

The descriptive analysis of sensing capability, as presented in Table 1, reveals several key insights. The highest agreement was seen in the organization's active pursuit of customer feedback, with a mean of 4.02 and a standard deviation (SD) of 1.17. A significant 66.1% of respondents either strongly agreed or agreed that customer feedback is actively sought, suggesting a robust organizational emphasis on improving services based on direct customer input. Similarly, 73.6% of respondents agreed that regular market research helps the organization stay ahead of competitors, yielding a mean of 3.98 and a relatively low SD of 0.93, reflecting consistent perceptions among employees regarding the importance of market research.

However, perceptions around monitoring competitors' products and services, as well as analyzing market data, appear more varied. While 50.9% agreed or strongly agreed that their organization regularly monitors competitors (mean 3.51, SD 1.17), a notable 30.2% remained neutral, and 18.9% disagreed. This suggests potential inconsistencies in how comprehensively this practice is implemented or communicated across the organization. The item regarding analyzing market data to understand supply and demand dynamics showed the lowest agreement, with only 43.4% in favor and a mean of 3.43, SD 1.29, suggesting that while some employees see the value of this practice, others perceive it as less

impactful or underutilized. The overall composite mean of 3.722 and SD of 1.0797 indicates that, on average, the respondents view sensing capability positively, though there is room for improvement in certain areas.

From a theoretical standpoint, sensing capability plays a crucial role in dynamic capabilities theory, where an organization's ability to sense opportunities and threats in the environment is foundational to maintaining competitive advantage (Teece, 2007). Firms that actively monitor external trends and gather market intelligence are better positioned to adapt to changes in their environments (Barreto, 2010). Empirical studies affirm that organizations with well-developed sensing capabilities often outperform those without, particularly in fast-changing industries like hospitality and retail, where customer needs and market conditions shift rapidly (Wilden et al., 2016). However, the findings suggest that while sensing practices are valued, the variability in responses may reflect a gap in the consistent application of sensing mechanisms across the organization. Addressing these inconsistencies could enhance the firm's ability to remain competitive in dynamic environments, as highlighted by recent studies on the importance of integrated market sensing processes (Kindström et al., 2013).

Analysis of Integration capability

Respondents were given items rated on a five-point likert where 5=strongly agree (SA), 4=agree (A), 3=Neutral (N), 2=disagree (D) and 1=strongly disagree (SD). The descriptive findings on Integration capability are as shown in Table 2.

Table 2: Integration Capability

	5	4	3	2	1	Mean	SDV
Our organization encourages collaboration between different departments to enhance the delivery of microfinance services in Nairobi.	34%	22.6%	32.1%	11.3%	0%	3.79	1.04
Teamwork and cooperation across functional areas are actively promoted to achieve common goals in microfinance operations.	49.1%	15.1%	15.1%	5.7%	15.1%	3.77	1.49
Our institution actively seeks strategic partnerships with external stakeholders to expand our reach and impact in the microfinance sector.	32.1%	30.2%	22.6%	7.5%	7.5%	3.72	1.21
We effectively manage relationships with partner organizations to leverage their expertise and resources for mutual benefit	30.2%	24.5%	26.4%	9.4%	9.4%	3.57	1.28
Our institution has established effective mechanisms for monitoring and evaluating the outcomes of our partnerships and alliances.	28.3%	37.7%	15.1%	7.5%	11.3%	3.64	1.29
Our organization integrates technology seamlessly into our microfinance operations to improve efficiency and service delivery.	22.6%	45.3%	15.1%	13.2%	3.8%	3.70	1.08
Composite Mean						**3.7**	**1.23**

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The descriptive results on the collaboration and partnerships in microfinance operations provide valuable insights into the organization's current state of teamwork and strategic alliances. The highest agreement was found in the item concerning collaboration between different departments, with 34% strongly agreeing and 22.6% agreeing, yielding a mean of 3.79 and a standard deviation (SD) of 1.04. This suggests that while a majority of respondents acknowledge efforts to promote internal collaboration, some remain neutral or disagree, indicating room for improvement in fostering cross-departmental teamwork.

Similarly, the promotion of teamwork and cooperation across functional areas shows high approval, with 49.1% strongly agreeing and a mean score of 3.77, though the SD of 1.49 suggests varying perceptions among employees. Strategic partnerships with external stakeholders are also moderately supported, with 32.1% strongly agreeing and 30.2% agreeing (mean 3.72, SD 1.21). However, managing these partnerships effectively and monitoring outcomes showed a slightly lower mean score of 3.57, with 30.2% of respondents strongly agreeing. Overall, the organization demonstrates moderate integration of collaboration, partnerships, and technology into its operations, with a composite mean of 3.7, but opportunities remain for refining relationship management and monitoring mechanisms, as well as deepening technology integration into its service delivery.

Empirical studies affirm that internal collaboration and external partnerships are critical for enhancing organizational efficiency and competitiveness, especially in microfinance institutions (MFI). For instance, the integration of cross-functional teams and partnerships with external stakeholders has been shown to boost innovation, resource sharing, and service delivery (Bocken & Short, 2016). Moreover, leveraging technology in operations, as evidenced by a mean of 3.70 in this study, aligns with current trends in the microfinance sector, where digital platforms are increasingly used to expand outreach and improve operational efficiency (Goh, Razak, & Gunardi, 2020). However, the study results highlight some inconsistencies in how these practices are perceived across the organization, suggesting a need for more cohesive and structured approaches to relationship management and internal collaboration. This is supported by previous research, which shows that clear strategic guidelines and communication are essential in managing complex partnerships (Andonova & Tenev, 2019).

Analysis of Reconfiguration capability

Respondents were given items rated on a five-point likert where 5=strongly agree (SA), 4=agree (A), 3=Neutral (N), 2=disagree (D) and 1=strongly disagree (SD). The descriptive findings on Reconfiguration capability are as shown in Table 3.

Table 3: Reconfiguration Capability

Reconfiguration capability	5	4	3	2	1	Mean	SDV
Our organization is quick to adjust its strategic priorities in response to changes in the microfinance market in Nairobi.	56.6%	17%	13.2%	9.4%	3.8%	4.13	1.19
We have the ability to pivot our business strategies to seize new opportunities as they arise in Nairobi City County.	22.6%	15.1%	26.4%	20.8%	15.1%	3.09	1.38
Decision-making processes in our institution allow for agile responses to external market dynamics affecting microfinance operations in Nairobi.	26.4%	50.9%	9.4%	7.5%	5.7%	3.85	1.08
Our organization efficiently reallocates resources such as funds and personnel to respond to changing demands in the microfinance sector in Nairobi.	41.5%	7.5%	9.4%	3.8%	37.7%	3.11	1.83
We have mechanisms in place to adapt our resource allocation strategies based on fluctuations in market conditions in Nairobi City County.	34%	26.4%	18.9%	15.1%	5.7%	3.68	1.25
Our institution effectively manages resource constraints by optimizing the use of available funds and human capital in microfinance activities in Nairobi.	20.8%	9.4%	24.5%	26.4%	18.9%	2.87	1.40
Composite Mean						**3.46**	**1.36**

The descriptive findings on reconfiguration capability reveal varying levels of agreement on the organization's ability to adjust and reallocate resources in response to market changes in the microfinance sector. The highest level of agreement is observed in the item related to adjusting strategic priorities in response to market changes, with 56.6% of respondents strongly agreeing and a mean score of 4.13 (SD = 1.19). This indicates that the organization is seen as adaptive in responding to shifts in the external environment, which is a key element of dynamic capabilities.

On the other hand, the institution's ability to pivot business strategies (mean = 3.09) and efficiently reallocate resources such as funds and personnel (mean = 3.11) showed moderate agreement, with significant disagreement from respondents (37.7% disagreed with the latter). These findings suggest that while the organization demonstrates agility in strategic decision-making, there are challenges in resource reallocation and optimization, as reflected in the lower mean scores and higher standard deviations (SD = 1.83). This highlights the need for improved mechanisms to manage resources more effectively, particularly under constraints, a concern aligned with existing literature on the importance of resource flexibility for organizational resilience (Ambrosini & Bowman, 2009). The composite mean of 3.46 indicates an overall moderate reconfiguration capability, suggesting potential areas for improvement in managing dynamic market conditions.

Reconfiguration capability is a critical aspect of dynamic capabilities, which allows organizations to adjust and renew resources and strategies in response to environmental changes (Teece, Pisano, & Shuen, 1997). The findings in this study align with Ambrosini and Bowman (2009), who argue that reconfiguration is vital for maintaining competitive advantage, especially in volatile industries like

microfinance. However, the lower scores on resource reallocation and managing constraints suggest gaps in organizational agility. This is supported by Eisenhardt and Martin (2000), who emphasize that dynamic capabilities are not only about sensing opportunities but also efficiently reconfiguring resources to capitalize on those opportunities. Improving resource flexibility and optimizing human capital can further strengthen the organization's ability to respond to market fluctuations and maintain competitiveness.

Analysis of Operational Capability

Respondents were given items rated on a Five-point likert from where 5=strongly agree (SA), 4=agree (A), 3=Neutral (N), 2=disagree (D) and 1=strongly disagree (SD). The descriptive results on this parameter are as shown in Table 4.

Table 4: Operational Capability

Operational capability	5	4	3	2	1	Mean	SDV
Our institution effectively leverages unique resources and capabilities that differentiate us from other microfinance providers in Nairobi.	67.9%	9.4%	15.1%	5.7%	1.9%	4.36	1.06
We continuously invest in developing and nurturing specialized resources that contribute to our competitive advantage in the microfinance sector in Nairobi.	34%	32.1%	17%	17%	0%	3.83	1.09
Our institution invests in developing and adopting innovative technologies to enhance operational efficiency and service quality in microfinance operations in Nairobi.	60.4%	20.8%	5.7%	9.4%	3.8%	4.25	1.16
We have a structured approach to integrating new technologies into our microfinance services to keep pace with technological advancements in Nairobi City County.	43.4%	9.4%	24.5%	11.3%	11.3%	3.62	1.43
Our organization attracts and retains talented individuals with specialized skills and knowledge relevant to the microfinance industry in Nairobi.	28.3%	5.7%	22.6%	20.8%	22.6%	2.96	1.53
The expertise and dedication of our workforce are critical factors in delivering high-quality microfinance services and achieving organizational goals in Nairobi.	32.1%	15.1%	26.4%	17%	9.4%	3.43	1.35
Composite Mean						**3.74**	**1.27**

The descriptive results on operational capability show a high level of agreement among respondents regarding the effectiveness of their institution in leveraging unique resources and capabilities. Specifically, 67.9% of respondents strongly agreed that their organization effectively differentiates itself from other microfinance providers in Nairobi, yielding a mean score of 4.36 (SD = 1.06). This indicates that the institution has developed distinctive operational strengths, a key factor in maintaining a competitive advantage. Similarly, 60.4% of respondents agreed that their organization invests in innovative technologies to enhance operational efficiency, with a mean score of 4.25 (SD = 1.16), highlighting a strong commitment to technological advancement.

However, lower scores were observed in attracting and retaining talented individuals, with 28.3% strongly agreeing and a mean score of 2.96 (SD = 1.53). This suggests that talent management may be a challenge, potentially impacting the institution's overall operational capability. The composite mean of 3.74 reflects an overall positive but varied perception of operational capability, with high marks in resource leveraging and technology adoption, but room for improvement in workforce expertise and retention.

Operational capability is critical for maintaining a competitive advantage, especially in dynamic sectors like microfinance (Teece et al., 1997). The high scores on leveraging resources and adopting technology align with studies emphasizing the importance of technological innovation in enhancing operational efficiency (Barreto, 2010). However, the challenges in attracting and retaining talent, as reflected by the lower scores, highlight the importance of human capital in operational success (Helfat & Peteraf, 2003). Addressing these talent management issues could further enhance the institution's operational performance and competitive positioning.

Inferential Analysis

In this section, the study infers the sample findings to the study population through correlation analysis and linear regression analysis and the findings are as shown below.

Normality Test

To check for normality, the study adopted the Shapiro-Wilk test to test for the assumption of normal distribution of the study variables. The findings were as shown in Table 5.

Table 5: Summary of Normality test for Distribution of scores for Variables

Variable Construct		Shapiro-Wilk test		
		Statistic (W)	df	p-value
1.	Performance of micro finance institutions	.105	106	.200*
2.	Sensing capability	.109	106	.169
3.	Integration capability	.116	106	.074
4.	Reconfiguration capability	.154	106	.190
5.	Operational capability	.184	106	.264

The Shapiro-Wilk test results shown above (Table 5) indicate that the p-values for both Performance of micro finance institutions was greater than 0.05 level of significance; Performance of micro finance institutions (W=0.105, p-value=0.200>0.05). We therefore rejected the null hypothesis and concluded that Performance of micro finance institutions was significantly normally distributed. Also, Shapiro-Wilk test results indicated that the p-value for Sensing capability was greater than 0.05 level of significance; Sensing capability (W=0.109, p-value=0.169>0.05). We therefore rejected the null hypothesis and concluded that the score for Sensing capability was significantly normally distributed.

The Shapiro-Wilk test results (Table 5) shows that the p-value for Integration capability was greater than 0.05 level of significance; Integration capability (W=0.116, p-value=0.074>0.05). We therefore rejected the null hypothesis and concluded that the score for Integration capability was significantly normally distributed.

The Shapiro-Wilk test results (Table 5) shows that the p-value for Reconfiguration capability was greater than 0.05 level of significance; Reconfiguration capability (W=0.154, p-value=0.190>0.05). We therefore reject the null hypothesis and conclude that the score for Reconfiguration capability was significantly normally distributed.

The Shapiro-Wilk test results (Table 5) shows that the p-value for Operational capability was greater than 0.05 level of significance; Operational capability (W=0.184, p-value=0.264>0.05). We therefore reject the null hypothesis and conclude

that the score for Operational capability was significantly normally distributed.

Multicollinearity Test

Collinearity denotes the circumstance in which one predictor variable in a multiple regression model can be linearly predicted from the others with a substantial degree of accuracy (Brien, 2007); this phenomenon among the independent variables leads to an effect, whereby the regression model fits the data well, but none of the explanatory variables has a significant influence in forecasting the dependent variable (Brien, 2007). The study adopted the use of Variance Inflation Factor (VIF) to detect any problem of collinearity. According to Brien (2007), its recommended that independent variables with VIF higher than 10 or a tolerance value less than 0.1 should be removed from the multiple linear regression model this indicates presence of multicollinearity. The results of collinearity test were as shown in Table 6.

Table 6: Multicollinearity test using Variance Inflated Factor (VIF)

Variable	Tolerance (1/VIF)	VIF
Sensing capability	.396	2.525
Integration capability	.211	4.733
Reconfiguration capability	.609	1.641
Operational capability	.204	4.895

The findings of collinearity test as shown in Table 6 show that the tolerance values for all the four variables are above 0.10 and VIF values are below 10; this indicates that there was no collinearity among the independent variables thus all the four independent variables were included in the multiple linear regression model.

Correlation Analysis

Correlation analysis is used to determine the strength and direction of the relationship between the Dynamic capabilities and the Performance of micro finance institutions and the findings were as shown in Table 7 below.

Table 7: Correlation Analysis

		Sensing	Integration	Reconfiguration	Operational capability
Sensing capability	Pearson Correlation	1			
	Sig. (2-tailed)				
	N	106			
Integration capability	Pearson Correlation	.756**	1		
	Sig. (2-tailed)	.000			
	N	106	106		
Reconfiguration capability	Pearson Correlation	.504**	.579**	1	
	Sig. (2-tailed)	.000	.000		
	N	106	106	106	
Operational capability	Pearson Correlation	.747**	.874**	.619**	1
	Sig. (2-tailed)	.000	.000	.000	
	N	106	106	106	106
Performance of micro finance institutions	Pearson Correlation	.647**	.728**	.524**	.709**
	Sig. (2-tailed)	.000	.000	.000	.000
	N	106	106	106	106

**. Correlation is significant at the 0.01 level (2-tailed).

The results above (Table 7), all the relationships were positive, and significant (p-value=0.001) implying that dynamic capabilities are positively and significantly related with performance of micro

finance institutions. The most significant stronger relationship was between Integration capability and Performance of micro finance institutions (r= 0.728, p-value= 0.000< 0.05). This implied that increase in Integration capability would results to increase in Performance of micro finance institutions in Nairobi City County. This is consistent with recent literature, which posits that firms leveraging integration capabilities can improve coordination across functional units and partners, thereby fostering greater agility and efficiency (Shams et al., 2020; Ferreira et al., 2021). Integration capabilities enable MFIs to align operations with evolving market demands, enhancing customer satisfaction and operational outcomes.

This followed by the relationship between Performance of micro finance institutions and Operational capability, (r= 0.705, p-value = 0.000<0.05). This postulated that increase in dynamic capabilities in Operational capability would results to increase in Performance of micro finance institutions in Nairobi City County. Studies by Kor and Mesko (2013) and Wilden et al. (2016) emphasize that operational capabilities, particularly those focusing on technological adoption and innovation, are critical for maintaining competitive advantage and improving performance.

This was followed by the relationship between Performance of micro finance institutions and sensing capability, (r= 0.647, p-value = 0.000<0.05). This implied that increase in sensing capability would results increase in Performance of micro finance institutions in Nairobi City County. Firms that effectively anticipate customer needs and market changes can seize emerging opportunities (Teece, 2018).

The weakest relationship is Reconfiguration capability and Performance of micro finance institutions (r= 0.524, p-value = 0.000<0.05) indicating that there was a statistically significant moderate positive correlation between Reconfiguration capability and the performance of micro finance institutions. This suggested that there is improvement in the performance of micro finance institutions as a result of reconfiguration capability. However, reconfiguration remains essential for adapting to dynamic environments, as noted by Helfat et al. (2007), and can drive long-term success when combined with strong integration and operational processes.

Multiple Linear Regression Analysis

Multiple regression tries to figure out whether a set of variables will predict a single dependent variable (Mugenda & Mugenda, 2008). Multiple regression was used in this case since there were multiple independent variables in the sample. This study was interested in finding out whether and how sensing capability, Operational capability, Integration capability, Reconfiguration capability influence Performance of micro finance institutions in Nairobi City County. The four independent variables were considered together (one equation) as predictors of Performance of micro finance institutions in Nairobi City County. A multiple linear regression model was used to test the significance of the influence of the independent variables on the dependent variable.

Table 8: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics				
					R Square Change	F Change	df1	df2	Sig. F Change
1	.756[a]	.571	.536	.68437	.571	15.991	4	101	.000

a. Predictors: (Constant), Operational capability, Reconfiguration capability, Sensing capability, Integration capability

b. Dependent Variable: Performance of micro finance institutions in Nairobi City County

The results in Table 8, which show an R square value of 0.571, indicate that the dynamic capabilities model used in this study explains 57.1% of the variance in the performance of microfinance

institutions (MFIs) in Nairobi City County. This suggests that dynamic capabilities such as sensing, operational, integration, and reconfiguration capabilities have a substantial influence on MFI performance. Given that the remaining 42.9% of the variance is attributed to factors not covered in the study, the model can be considered robust but acknowledges the existence of other important determinants of performance that were not included in this analysis.

This finding aligns with existing literature emphasizing that dynamic capabilities are critical but not exhaustive in explaining organizational success. For instance, Teece (2018) and Wilden et al. (2016) argue that while dynamic capabilities are pivotal in adapting to changing environments, external factors like market conditions, regulatory frameworks, and technological shifts also play a significant role in determining firm performance. Thus, although the model provides a good explanation of MFI performance, future research could explore additional factors such as leadership, corporate culture, or external economic influences that could account for the remaining 42.9% of variation.

Table 9: Analysis of Variance

Model	Sum of Squares	Df	Mean Square	F	Sig.
Regression	29.958	4	7.490	15.991	.000[b]
Residual	22.482	101	.468		
Total	52.440	105			

a. Dependent Variable: Performance of micro finance institutions in Nairobi City County

b. Predictors: (Constant), Operational capability, Reconfiguration capability, Sensing capability, Integration capability

Further, ANOVA results in table 9 also shows that the F-statistical value is significant (F=15.991, *significant* at *p<.001*), thus confirming the fitness of the model. That is, from the study model, the significant F value show that the four independent variables (Operational capability, sensing capability, Integration capability, Reconfiguration capability) are indeed different from each other and that they affect the dependent variable Performance of micro finance institutions in Nairobi City County) in varied ways.

Basing on the findings in Table 10, the study observed that the Dynamic capabilities had a significant partial influence in predicting Performance of micro finance institutions as indicated by the significant unstandardized beta coefficients: Sensing capability had β = 0.204, t = 2.519, p-value = 0.001 < 0.05, Reconfiguration capability had β = 0. 112, t = 8.615, p-value = 0.000< 0.05 and Operational capability had β = 0.242, t = 2.327, p-value = 0.004 < 0.05 which were considered to be significant at 5% level of significance whereas Integration capability had β = 0.427, t = 3.028, p-value = 0.002< 0.05 which was considered significant at 5% level of significance. The constant was found to be insignificant, that is, β = -0.286, t = -0.605, p-value = 0.548> 0.05; this indicates that apart from the four Dynamic capabilities (Sensing capability, Integration capability, Reconfiguration capability and Operational capability), there are other variables, not included in the model, that could possibly influence Performance of micro finance institutions in Nairobi City County, thus paving way for further research to be done in this area.

Table 10: Regression Coefficients

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	-.286	.473		-.605	0.548
Sensing capability	0.204	0.081	0.170	2.519	0.001
Integration capability	0.427	0.141	0.364	3.028	0.003
Reconfiguration capability	0.112	0.013	0.104	8.615	0.000
Operational capability	0.242	0.104	0.200	2.327	0.004

a. Dependent Variable: Performance of micro finance institutions in Nairobi City County

Multiple Linear Regression model equation that was used to predict the Performance of micro finance institutions in Nairobi City County when given the Dynamic capabilities (Sensing capability, Integration capability, Reconfiguration capability and Operational capability) was:

Pf = -0.286+ 0.203 SC + 0.427IC + 0. 112RC + 0. 242OC

Where;

Pf = Performance of micro finance institutions

SC = Sensing capability

IC = Integration capability

RC = Reconfiguration capability

OC = Operational capability

Table 11: Results of the Hypothesis Tests

S/No	Hypothesis	Decision
H_{01}	There is no significant influence of sensing capability on performance of micro finance institutions in Kenya.	Reject H_{01}
H_{02}	There is no significant influence of Integration capability on performance of micro finance institutions in Kenya.	Reject H_{02}
H_{03}	There is no significant influence of Reconfiguration capability on performance of micro finance institutions in Kenya.	Reject H_{03}
H_{04}	There is no significant influence of Operational capability on performance of micro finance institutions in Kenya.	Reject H_{04}

CONCLUSIONS AND RECOMMENDATIONS

The study concluded that there is significant influence of sensing capability on performance of micro finance institutions in Kenya. The study reveals that sensing capability significantly affects the performance of microfinance institutions in Kenya. It was found that institutions that actively seek customer feedback and conduct regular market research are better positioned to enhance their performance. The strong positive correlation between sensing capability and performance indicates that staying attuned to customer needs and market trends is essential for maintaining a competitive edge and improving institutional outcomes.

The study concluded that there is significant influence of Integration capability on performance of micro finance institutions in Kenya. This implied that increase in Integration capability would results to improvement in performance of micro finance institutions. The research underscores the significant role of integration capability in boosting the performance of microfinance institutions. Effective integration of operational and strategic functions, along with fostering teamwork and forming strategic partnerships, has been shown to positively impact performance. Institutions that excel in integrating their operations and collaborating with external stakeholders are likely to achieve better performance outcomes.

The study concluded that there is significant influence of Reconfiguration capability on performance of micro finance institutions in Kenya. This implied that increase in Reconfiguration capability would results to improvement in performance of micro finance institutions. The study highlights that reconfiguration capability has a strong positive impact on the performance of microfinance institutions. Institutions that can swiftly adjust their strategic priorities and make agile decisions in response to market changes tend to perform better. This flexibility in adapting to external dynamics is crucial for maintaining and improving institutional performance.

The study concluded that there is significant influence of Operational capability on performance of micro finance institutions in Kenya. This implied that increase in Operational capability would results to improvement in performance of micro finance institutions. The findings demonstrate that operational capability significantly influences the performance of microfinance institutions. Leveraging unique resources, investing in specialized assets, and adopting innovative technologies are key drivers of operational efficiency and service quality, which in turn boost performance.

Microfinance institutions should implement robust systems to collect and analyze customer feedback, ensuring that insights lead to tangible improvements in products and services. Second, prioritizing regular and comprehensive market research will help institutions stay ahead of emerging trends and adjust strategies accordingly. Lastly, fostering a culture that values and utilizes market insights can drive better decision-making and strategic planning, ultimately enhancing performance.

Management of microfinance institutions should promote cross-functional collaboration by encouraging teamwork across different departments to align efforts with common goals. Strengthening partnerships with external stakeholders will expand the institution's reach and impact, enhancing overall performance. Additionally, investing in technologies that facilitate integration and coordination within the organization and with partners will further support performance improvements.

Microfinance institutions should focus on enhancing their agility by developing flexible decision-making processes that allow for quick adjustments to strategies as market conditions evolve. Investing in training and resources to build reconfiguration skills will further support the institution’s ability to adapt effectively. Monitoring market changes closely will enable institutions to respond proactively to external factors, ensuring sustained performance improvements.

Management of microfinance institutions should focus on leveraging their unique resources and capabilities to gain a competitive advantage. Continuous investment in innovative technologies will enhance operational efficiency and service quality. Implementing best practices and optimizing processes will contribute to better overall performance and institutional success.

Suggestions for Further Research

Arising from the implications and limitations of this study, recommendations for further research were made. While this study successfully established that all the dynamic capabilities parameters were important in performance of micro finance institutions and that the study underscores the need of the concept of dynamic capabilities. Further to this study, other dynamic capabilities such as learning capability, marketing capability to test their influence on performance of micro finance institutions. Additionally, since this study was undertaken among microfinance institution; a similar study can be undertaken in commercial banks to see if the same results would be obtained.

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