INFLUENCE OF STRATEGIC CAPABILITIES ON COMPETITIVE ADVANTAGE OF MICROFINANCE INSTITUTIONS IN NAIROBI COUNTY, KENYA

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ABSTRACT

Microfinance Institutions services have continued to play an important role in Kenyan economy. Microfinance Institutions in Kenya have gained wide recognition since 1990's for the role they play in providing financial services to the low-income households, and their contribution to poverty alleviation. While achieving this poverty reduction goal, MFIs should also be financially sustainable. The issue of sustainability of MFIs has attracted the attention of many researchers and academicians on how MFIs can fulfill their social obligations and remain sustainable. The research assessed the influence strategic capabilities on competitive advantage of microfinance in Nairobi County, Kenya. The research was guided by Resource Based View, Ansoff Market Development Model and Dynamic Capabilities Theory. The study employed descriptive research design. The target population for this study was microfinance Banks and Credit only Micro Finance Institutions in Nairobi, Kenya that are members of the Association of Microfinance Institutions hence 32 MFIs. The study relied on primary and secondary data. Primary data was collected using semi – structured questionnaires with both open and closed ended. Secondary data was collected from published sources. Pretesting of research tools was used to test reliability and validity of the questionnaires. All 128 sampled employees of microfinance institutions in Nairobi, Kenya that are members of the Association of Microfinance Institutions (AMFI) were included in the study. Only 117 of the 128 questionnaires were filled out and returned by the respondents. A 91.41 percent favorable response rate was achieved. Data was cleaned, coded, edited, classified and analyzed using Statistical Package for Social Science. The descriptive statistics tools used were mean, standard deviation, mode and variance to analyze quantitative data. The study determined the manifestation of competitive advantage in the Microfinance Institutions of Kenya (MFI) under study. The average statements regarding the competitive advantage of the studied, MFI are 3.0442 implying that surveyed Microfinance Institutions of Kenya (MFI) perform on average scale. Each firm desire is to perform and meet its objectives and goals and therefore competitive advantage aspects are to be met in order for the firm to remain in continuity and gain competitiveness.

Keywords: Strategic Capabilities, Marketing Capabilities, Technology Capabilities and Competitive Advantage

INTRODUCTION

Firms transact in a market engulfed by speedy changes developed by technological advancements and globalization of the world. In order to be competitive over the competition, firms are therefore advised to swiftly align their operations if they are to maintain their competitive position (Imbambi, 2018). Porter's (2014) proposition is that a firm must develop a game plan in order to achieve competitive advantage in a market environment. An organizations game plan is centered on the keen assessment of its resource and capability portfolios and denotes its market strength (Chuang, Liu & Chen, 2016). A firm's competitive advantages are assets that are deemed as valuable, inimitable, rare and non-substitutable.

Strategic Capabilities entail the processes, routines and factors such as the brand name, innovation, reputation and human resource expertise among others. That distinguishes an organization from its competitors and allows the firm to develop a sustainable competitive edge. To compete effectively firms, need to develop distinctive strategic capabilities, which the competition finds hard to duplicate and clients consider key in the marketplace. Competitive advantage is key to a business hence the fact that it is what a firm does beyond what the competition is doing or has. Strategic capabilities that denote the value denoted by the market or customers are core competencies (Mutunga, Minja & Gachanja, 2016). A core competence is a capacity that differentiates the company from its competition.

Recently; Microfinance Institutions (MFIs) have seen transformation and change. This is brought about by push for profits and sustainability of microfinance institutions. MFIs became self sufficient due to the ability to raise capital from the capital market and funding from donors. This allowed MFIs to expand their level of outreach (Drake & Rhyne, 2016). The increment of competition in between institutions in an industry denotes a decrease in their profits. Intense rivalry reduces profit margins by increasing cost of competition. Companies compete away the value they create. The competition tends to be cut throat if the competitors are numerous or are homogenous. The firms that do not respond to this threat of rivalry amongst existing competitors are less likely to succeed in business (Porter, 2014).

Micro-financing is a way of advancing the capacities of the unfortunate who are mainly ignored by commercial banks and other loaning institutions and advancing them to sustainable self-employment undertakings. Through Micro-financing they gain access to financial services like credit, savings and insurance (Bashabe, Kalu, & Christian, 2018). It is through Micro-financing programs that people with serious existence problems in developing countries benefit (Diar, 2017). Nzewi (2016) noted that in the 21st century the financial institutions have experienced tough competition. Kariuki (2017) outlined that turbulent business environment, coupled with volatile market environment, leaves firms with no option but to rethink on how to strategically reposition themselves.

Statement of the Problem

The overall performance of the microfinance banks declined significantly by 131 percent, with a combined loss before tax of Ksh.1.4 billion for the year ended December 31, 2018. The microfinance banks reported a combined loss before tax of Ksh. 622 million in December 31, 2017. Three institutions reported profits, while the remaining ten institutions registered losses. The main contributor to the loss-making position was Kenya Women Microfinance Bank, which reported a loss before tax of Ksh.1.0 billion. The poor performance of the sector was largely attributed to the reduction in financial income by 7.6 percent or Ksh.0.85 billion, with a corresponding increase in expenses by 3.0 percent or Ksh.382 million. Consequently, the sector reported a lower return on assets and equity ratio at negative 2.0 percent and negative 13.8 percent, comparing unfavorably with negative 0.9 percent and negative 5.5 percent as reported in the previous year, respectively. (Central Bank of Kenya, 2018).

Despite the importance and reforms in the growth of microfinance institutions in Kenya, Microfinance institutions have reported poor financial performance (Central Bank of Kenya, 2019). In 2019, the sector reported a combined loss before tax of Ksh. 339 million as at December 31, 2019 and Kenya Women Microfinance Bank, which reported a loss before tax of Ksh. 525 million, (Central Bank of Kenya, 2019). Omondi (2019) noted that microfinance institutions in Kenya are faced with many challenges caused by the changing business environment. Those challenges are driven by emerging financial technologies and the existence of unconventional players in the market. The hard economic conditions have resulted in little customer savings and the MFIs are left with relying on high-interest loans from commercial banks which have affected their financial performances.

From the reports, it is evident that MFIs are finding it difficult to experience optimal growth, a gap that motivated this study to examine the influence of strategic capabilities on competitive advantage of Micro-finance institutions in Nairobi County. A number of studies which have been done including: Allen and Carletti (2017); Ozturk and Coskun (2017); Mulonzi, Namusonge and Mugambi (2017) and Lwova (2014), do not discuss the effect of strategic capabilities on competitive advantage. It is this gap which this study seeks to bridge by examining how strategic capabilities affect competitive advantage in microfinance institutions in Nairobi. Despite the fact that MFIs are very helpful to the less privileged population, many of these institutions face challenges that affect their operational and productivity (Ousoombangi, 2018).

Objectives of the Study

i. To determine the influence of marketing capabilities on competitive advantage of microfinance firms in Nairobi.
ii. To determine the effect of technology capabilities on competitive advantage of microfinance firms in Nairobi.

LITERATURE REVIEW

Since the 1960's a single model, known as SWOT analysis, has been dominantly present in this research area. This model suggests that firms which use their internal strengths in exploiting environmental opportunities and neutralizing external threats, while avoiding internal weaknesses, are more likely to gain competitive advantage than other firms (Barney, 2017). According to Day (2018) as cited by Almeida, Lisboa, Augusto and Batista (2017) capabilities are a complex bundle of skills and know how that enable firms to make use of their assets to create economic value and sustain competitive advantage. This study will consider four strategic capabilities which include; marketing capabilities, technology capabilities, human resource capabilities and financial capabilities.

Carraresi (2016) viewed that marketing and innovative capabilities directly affect performance. The consumer related information is extremely of value in enhancing the marketing capability and improving performance. Nieves (2018) viewed that human capital is considered a key resource to ensure achievement of a series of essential capabilities that permit sustainability of advantage over rivals. Cross and Baird (2017) stated that both explicit and tacit knowledge, will determine the ability of an organization to solve problems or create new knowledge. Augier and Teece (2017) argued that a firm's success depends on having highly skilled employees with capacities to coordinate, combine and integrate the firm's resources.

A review of empirical research has shown that generic competitive strategies are largely pursued by MFIs. Cost leadership, focus and differentiation strategies have been employed by various institutions to achieve a competitive advantage (Lengewa, 2003; Wangure, 2012; Mutai, 2012; Wambugu, 2013; Ngigi & Njeru, 2014; Tomno, 2014).

The various studies have also focused on different variables, methodology and contexts. Lengewa (2003) studied competitive strategies used by NGO-MFIs in Nairobi using a survey research design; Wangure (2012) examined the influence of product differentiation in achieving a sustained competitive advantage in DTM institutions in Kenya using a survey design; Mutai (2012) investigated competitive strategies adopted by MFIs in Kenya using a cross-sectional survey; Wambugu (2013) examined factors influencing sustainability of MFIs in Kenya using a case study of KWFT; Ngigi and Njeru (2014) investigated the influence of competitive generic strategies on customer base in DTMs in Nairobi using a cross-sectional survey; while Tomno (2014) studied the relationship between competitive strategies and performance of MFIs in Kenya.

From the literature reviewed, it is evident that limited attention has been placed on examining the relationship between influences of strategic capabilities on competitive advantage among Microfinance institutions in Nairobi County, Kenya. Hence there was the need for this study to help fill the gap.

Marketing Capabilities

Market competencies refer to the corporation's capacity to apply the obtained knowledge information and skills to match the market's demands and customer needs by adding value to their products and services (Acikdilli, 2020). Several studies show that market orientation is positively related to competitive advantage (Jaworski & Kohli, 2017). The enablement to generate superior customer value is dependent on the availability of distinctive marketing capabilities. Factors including market sector quality of work, the size of the firm, the image, graphical reach, involvement in client organizations, product, delivery system, and the marketing approach have been suggested to differentiate a firm (McCracken, 2016).

Numa (2013) conducted a study on the relationship between product diversification and business growth in the banking industry in Kenya using a case study of Co-operative Bank. The findings showed that product modification strategies such as modification and rebranding of existing products and re-launching into the markets, addition of new product features to existing products and launch of new products were employed to a great extent. Technology was also highly used in product modification. The study further found out that development of products was highly embraced in an attempt to increase growth.

Several studies show that market orientation is positively related to competitive advantage (Jaworski & Kohli, 2017). The enablement to generate superior customer value is dependent on the availability of distinctive marketing capabilities. Alengo, Okello and Malenya (2019) examined the influence of product diversification on the operational performance of commercial banks in Kakamega County, Kenya. The investigation tested 26 business banks and used polls in information collection. The outcomes demonstrate that differentiating the bank items prompted an expansion in the quantity of clients, advertise outreach and institutional execution. The examination further shows that item advancement was an indicator of operational execution.

Nguru, Ombui and Iravo (2017) examined the effects of marketing strategies on the performance of Equity Bank. The investigation employed an exploratory, research design with research data being employed from bank employees using structured questionnaires. The investigation shows that client relationship advertising, consumer loyalty, correspondence, and client unwaveringness decidedly added to the exhibition of business banks. The examination noticed that improving marketing procedures, for example, division, focusing on and advertisements will bring about better bank performance.

Gituma, Kimencu and Muchemi (2018) studied the association between marketing outsourcing and the performance of business banks in Kenya. The examination utilized a cross-sectional exploratory examination plan with the investigation using structured research questionnaires. The investigation demonstrates that there is a positive connection between redistributing promoting forms and the presentation of business banks. The investigation demonstrates that advertise advancement, marking and statistical surveying improved the presentation of banks.

Technology Capabilities

Kimani (2016) refers to technological capabilities as the ability to make effective use of technological knowledge in production, engineering and innovation in order to sustain competitiveness in price and quality. Of all the factors contributing to achieving better competitive position, technological developments play the most important role. Vitorino and Moori (2018) indicates that technological innovation capabilities enhanced the competitive advantage of the companies as it gave them learning capability, market capability, resource allocation capability, manufacturing capability and strategic planning capability. Technical competencies refer to firms' ability to combine and integrate several applications to develop and design unique products, upgrade processes that lead to new knowledge and routines (Zoia, 2018). Information technology is recognized as a critical factor that enables a firm's core competency by improving operational efficiencies, minimizing cost and automation (Ashrafi & Mueller, 2015; Chen, 2017). The IT infrastructure flexibility and IT strategic planning, empower advanced computing capabilities, effective information processing, business analytics effectiveness, tracking customers' needs and anticipated preferences, competitors' actions and reactions and law regulations of new markets (Al-Surmi, 2020).

An organization must determine its core strengths and focus on it to leverage IT capability and flexibility to respond to customer needs, competitor's actions or reactions, market regulations and other factors that might be able to affect the critical determining core strengths (Behnam & Cagliano, 2019; Hsiao & Hsu, 2018), which leads to creating business opportunities and acquiring prediction capabilities to estimate business changes (Chen, 2017).

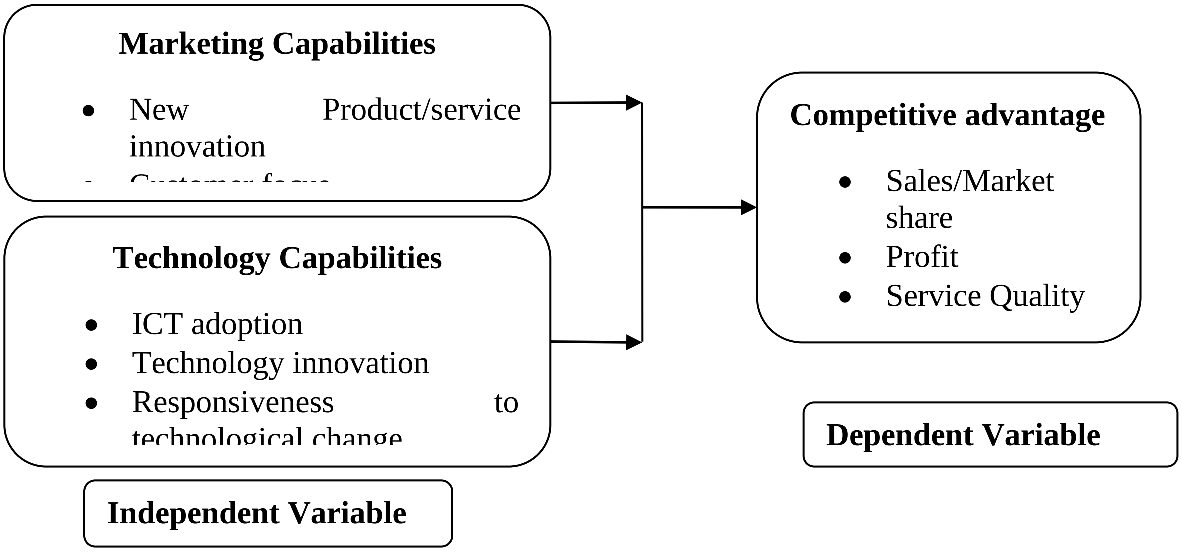
Theoretical Framework

This study was anchored on the following the Dynamic Capabilities Theory developed by Teese, Pisano, and Shuen's in 1997 which is a process that enables the organization to reconfigure its strategy and resources to achieve sustainable competitive advantage and to achieve superior performance in a rapidly changing environment (Bleady, 2018). According to Pavlou and El Sawy (2014), the dynamic capabilities view originates from Schumpeters innovative-based competition where competitive advantage is based on the dismantling of existing resources and recombination into new operational capabilities. It centers on adaptability and survival rather than sustainability of firms. According to Teece (2017) the success of firms is dependent on product innovation, timely responsiveness and a management capability to effectively control and redeploy internal and external competences rather than accumulation of valuable resources. Essentially, it argues that the value of resources is likely to be eroded through substitution or competitor imitation (Barney, 2017). Therefore, to remain competitive, Teece (2017) alludes that, firms have to continuously create new forms of competitive advantage through their flexible capabilities.

Pateli (2017), dynamic capabilities facilitate as well as enhance competitive performance strategy in organizations. They form the identity and personality of the organization by defining what it is good at doing and in the end, what it is. Other studies also established the existence of a significant impact of a firm's dynamic capabilities on the level of a firm's competitiveness (Ali, 2020) and dynamic capabilities and innovation capability are important to changing the competition game (Vu, 2020). To achieve competitive advantage from dynamic capabilities empowerment, both established companies and new business ventures face intense competition and rapid environmental changes. A study on new business ventures shows that both stabilizing and pioneering approaches to creating new capabilities in managing environmental changes and resource integration positively influence new ventures' competitive advantage. The stabilization approach is more appropriate to be applied in an environment that is less competitive and less dynamic. On the contrary, a pioneering approach is best to be used in a very tight and dynamic competition (Cai, 2016).

Empowerment of a firm's dynamic capabilities is important to generate a competitive advantage and to maintain the survival of the company. Previous empirical studies showed that dynamic capabilities had a significant effect on competitive advantage (Chukwuemeka & Onuoha, 2018; Kuo, 2017).

Conceptual Framework



RESEARCH METHODOLOGY

The study used a descriptive research design. Descriptive studies are concerned with description of phenomena or characteristics associated with a subject population (Yin, 2014). Descriptive studies determine the direction and strength of relationships between or among variables. The target population for this study was Microfinance Banks and Credit only Micro Finance Institutions in Nairobi, Kenya that are members of the Association of Microfinance Institutions hence 32 (Association of Microfinance Institutions, 2022). Out of the 32 MFIs, 11 are Microfinance Banks, 2 are wholesale microfinance lenders and 19 are credit only microfinance. The study will target 4 employees in each microfinance institution which will include a Chief Executive Officer, a senior manager, a middle level manager and a Junior Manager. Four employees per institution were targeted; hence a total of 128 respondents in this category were sought, stratified random sampling was used. A questionnaire was used to collect primary data. Quantitative data was analyzed by using descriptive statistics and inferential analysis using statistical package for social science (SPSS). Correlation analysis was used to establish the relationship between the independent and dependent variables. The data was the presented using frequency distribution tables, for in-depth know how.

RESULTS AND FINDINGS

All 128 sampled employees of microfinance institutions in Nairobi, Kenya that are members of the Association of Microfinance Institutions (AMFI) were included in the study. Only 117 of the

128 questionnaires were filled out and returned by the respondents. A 91.41 percent favorable response rate was achieved. On the educational levels associated with the respondents, majority indicated having diploma certificate at 55.63 % followed by university first degree at 31.13 % and post graduate at 13.24 %. On gender distribution, male comprised 42% of all the respondents with females being at 58.0%. On the years worked in the institution, members who had worked for more than 10 years comprised of 49.0%, followed by 8-10 years with 31.8%, 9.9% and 9.3% for 1-4 years and 5-7 years.

Marketing Capabilities

The study looked at how Marketing Capabilities was implemented in the Microfinance Institutions (MFI) that were assessed. Table 4.8 shows the outcomes of statements reflecting Marketing Capabilities that were formulated and responded to on a five-point Likert scale.

Table 1: Manifestations of Marketing Capabilities

	Mean	Std. Deviation
We quickly respond to competitors' actions that threaten us	3.0066	.735
Meeting our customers' needs is the most important objective of our business	3.1325	.885
We target customers and customer groups where we have or can develop a competitive advantage	2.8808	.832
Our staff members regularly share information within the firm concerning competitors' strategies	3.0132	.887
The top management team regularly discusses competitors' strengths and strategies	3.1656	.955
We constantly monitor our level of commitment and orientation to customers' needs	2.9272	.857
Our strategy for competitive advantage is based on clear understanding of our customers' needs	3.3775	.964
We freely communicate information about our successful customer experiences across all business functions	3.4636	1.0378
Our managers understand how everyone in our business can contribute to creating customer value	2.9139	.8322
Our functional areas are integrated in ways that meet needs of target markets	3.3444	.817

Our strategies are driven by our beliefs on how we can create greater value for our customers	3.4305	.89822
Managers from every functional area regularly interact with our current and prospective customers	2.6026	.93865
All functional departments work hard to thoroughly and jointly solve customer problems	2.6556	1.00031
We give close attention to after sales service	2.8411	1.07781
Average Mean score	**3.0539**	**0.9083**

The average mean score of Marketing Capabilities is 3.0540 and standard deviation of 0.9083. This is a moderate mean score implying that majority of the studied Microfinance Institutions (MFI) manifests their training as far as entrepreneurship is concerned moderately. The statement with the highest mean score shows that our members are well versed with entrepreneur skills (Mean=3.4636, SD=1.03779). Further the statement that manifested the lowest mean score was that Managers from every functional area regularly interact with our current and prospective customers (Mean=2.6026, SD=.93865). This is an indication that although training on how to operate the Microfinance Institutions (MFI) is available, the specific on entrepreneurship is minimal or lacking in some firms at all. Other statements that showed high mean score includes; Our strategies are driven by our beliefs on how we can create greater value for our customers (Mean=3.4305, SD=.89822), Our strategy for competitive advantage is based on clear understanding of our customers' needs (Mean=3.3775, SD=.96431) and our functional areas are integrated in ways that meet needs of target markets (Mean=3.3444 and SD=.81688). Learners' business experiences and expertise should be included into training approaches.

Technology Capabilities

The study determined the manifestation of Technology Capabilities in the Microfinance Institutions (MFI) studied. Table 4.9 shows the outcomes of statements indicating Technology Capabilities that were formulated and responded to on a 5-point Likert scale.

Table 2: Manifestations of Technology Capabilities

	Mean	**Std. Deviation**
Our firm's policy is to adopt up-to-date technologies	2.3113	.91057
Our firm purchases and uses technologies to position itself ahead of competitors	2.4437	.90654
Our firm is often to be first to try out new methods and technologies	2.5364	.94357
Our firm frequently improves internal processes such as speed, reliability, and information management	2.5629	.97691
Our firm allocates resources for investments in latest technologies and future forecasted technological changes	2.6159	.97885
Average Mean Score	**2.49404**	**0.943288**

The average mean score of the statements relevant to Technology Capabilities is 2.4940 with a standard deviation of 0.9433, as shown in Table 4.9. All the statements had a mean score above 2.0 which indicates some extent of adoption. The statement with the highest mean score was that our firm allocates resources for investments in latest technologies and future forecasted technological changes (Mean=2.6159, SD=.97885). Further the statement that showed lowest mean score was that our firm's policy is to adopt up-to-date technologies (Mean=2.3113 and SD=.91057). Other statements are; our firm purchases and uses technologies to position itself ahead of competitors (Mean=2.4437, SD=.90654), our firm is often to be first to try out new methods and technologies (Mean=2.5364, SD=.94357) and our firm frequently improves internal processes such as speed, reliability and information management (Mean=2.5629, SD=.97691). The results depict that technology capabilities are manifested on a moderate scale within the surveyed Microfinance Institutions (MFI) in Nairobi.

Kabanda and Brown (2017) found that the (MFI) utilized technologies that they can easily access in terms of cost and applicability in their areas of operation as they cannot afford the advanced and comprehensive technologies that are more effective. Vilaseca (2013) contends that because of the need to improve technologies, redistributing of innovation is getting reasonable and is rising as an effective variable for some (MFI).

This result is consistent with Apulu and Latham (2011), who found that the introduction of Information and Communication Technology improved the competitiveness of (MFI) in a previous study. They came to the conclusion that (MFI) that were technologically innovative grew faster than (MFI) than those that were not as innovative. Sajuyigbe and Alabi (2012) said that technology was being used for; communication; strategic management and collaboration, managerial decision making, data management, and customer access and information management because it helped to provide an efficient means of improving organizational efficiency and service delivery.

Correlation Analysis

The degree of relationship between the variables under examination was measured using Pearson correlation i.e., predictor variables (marketing capabilities, technology capabilities, human resource capabilities and financial capabilities) and the dependent variable (competitive advantage). Pearson correlation coefficients range between -1 and +1. Where a Pearson coefficient of 0.3 indicates a weak correlation, a Pearson coefficient of >0.3-0.5 indicates a moderate correlation and a Pearson coefficient of >0.5 indicates a strong correlation. Negative values indicate negative correlation and positive values indicate positive correlation. Pearson coefficient 0.3 denotes a weak correlation, Pearson coefficient >0.3-0.5 denotes a moderate association and Pearson coefficient >0.5 denotes a significant correlation. The findings are summarized in Table 3.

Table 3: Correlation Analysis Results

		Marketing capabilities	Technology capabilities	Competitive advantage
Marketing capabilities	Pearson. Correlation.	1		
	Sig. (2-tailed)			
	N.	117		
Technology capabilities	Pearson. Correlation.	.402**	1	
	Sig. (2-tailed)	.000		
	N.	117	117	
Competitive advantage	Pearson. Correlation.	.635**	.742**	1
	Sig. (2-tailed)	.000	.000	
	N.	117	117	117

According to Table 3, financial capability has the greatest beneficial impact on competitive advantage (Pearson correlation coefficient =.828 and P0.05), showing that the link is statistically significant. Furthermore, competitive advantage is positively connected with technology capabilities (Pearson correlation coefficient =.742 and P0.05), signifying a statistically meaningful and strong association. Further marketing capabilities had a substantial and statistically significant link to competitive advantage (Pearson correlation coefficient =.635 and P0.05). Finally, there was a strong and statistically significant association between human resource capability and competitive advantage (Pearson correlation coefficient =.564 and P0.05). As a result, the findings suggest that all variables have a role in explaining the relationship of the variables.

CONCLUSIONS AND RECOMMENDATIONS

Conclusions

The predictor variables were marketing capabilities and technological capabilities and the dependent variable was competitive advantage. According to the findings, financial capabilities have the most positive impact on competitive advantage. As a result, the findings imply that all variables are important in influencing Microfinance Institutions of Kenya (AMFI) performance in Nairobi. The results further shows that the independent variables (marketing capabilities and technological capabilities) combined influences competitive advantage).

The results also show the contribution of each independent variable (marketing capabilities, and technological capabilities) on competitive advantage. The significant relationship is manifested by the β and t-values in the coefficient table. Marketing capabilities (β=.205, t=5.393, $p<0.05$), and technological capabilities (β=.226, t=4.383, $p<0.05$). This therefore depicts that these variables contribute positively and significantly to competitive advantage and thus are key in determining competitiveness of Microfinance Institutions (MFI) in Nairobi County.

Recommendations on Research Findings

As a result, the findings imply that all variables are important in influencing Microfinance Institutions (MFI) competitive advantage in Nairobi. The firms therefore should consider these factors for better identification of viable opportunities and translating such opportunities to profitable firms. Further technological capabilities have basically become irreplaceable apparatus for everyday activities of business operations. Microfinance Institutions (MFI) should consider putting noteworthy measure of resources in innovation, such as Loan Management Software's, Customer Relationship Management Software's to reinforce their competitive positions because high utilization of technology among (MFI), as they have few risks associated with them unlike manual and traditional form of operations thus increasing their returns. Earlier studies on technology appropriation in (MFI) show that technologies have increased the efficiency of (MFI) necessary for survival and growth.

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