

THE RESOURCE CAPABILITIES-PERFORMANCE NEXUS: EMPIRICAL EVIDENCE FROM MICROFINANCE BANKS IN KENYA

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ABSTRACT

Microfinance banks play a critical role in advancing financial inclusion and supporting economic development in Kenya, yet many continue to experience performance constraints reflected in operational inefficiencies, limited outreach, and declining profitability. These challenges underscore the need to examine how internal capability configurations can be leveraged to enhance organizational outcomes. This study therefore examined the influence of resource capabilities on the performance of microfinance banks in Kenya. Anchored on the resource-based view and dynamic capabilities theory, the study adopted an explanatory research design targeting managerial staff across licensed microfinance banks. A structured questionnaire was used to collect primary data from managers in key functional areas, including finance, operations, and human resource management. The instrument's validity was established through expert evaluation, while reliability was confirmed using Cronbach's alpha coefficients exceeding the acceptable threshold. Descriptive statistics were employed to summarize the data, and multiple linear regression analysis was used to determine

the effect of resource capabilities on firm performance. The findings revealed that resource capabilities exert a significant positive influence on performance, indicating that the availability, allocation, and effective utilization of financial, human, and physical resources enhance operational efficiency, service delivery, and profitability. The results further demonstrate that microfinance banks with stronger resource bases are better positioned to respond to market dynamics, optimize internal processes, and sustain competitive advantage. The study recommends that management of microfinance banks prioritize strategic resource mobilization, strengthen resource allocation frameworks, and invest in capacity development to enhance performance outcomes. Strengthening resource capabilities provides a foundation for resilience and long-term sustainability in an increasingly competitive and regulated financial environment.

Keywords: Resource Capabilities, Firm Performance, and Microfinance Banks, Resource-Based View.

INTRODUCTION

Organizational performance remains a central indicator of institutional success, reflecting not only financial outcomes but also operational efficiency, customer satisfaction, innovation, and long-term sustainability. Scholars such as Taouab and Issor (2019) and Dzomonda (2020) emphasize that consistent performance evaluation enables organizations to align their strategies with dynamic market conditions while sustaining competitiveness. In the financial services sector, performance is particularly critical because it determines the sector's ability to mobilize savings, allocate credit efficiently, and support broader economic development. As noted by

Brigham (2017), performance assessment frameworks typically integrate financial indicators such as profitability and return on investment with non-financial metrics including service quality, customer retention, and operational effectiveness.

Globally, the performance of financial institutions has exhibited mixed trends, shaped by macroeconomic conditions, regulatory environments, and internal organizational capabilities. Studies across regions indicate that while some financial institutions have achieved growth in assets and revenue, others continue to struggle with declining profitability, inefficiencies, and increased competition. For instance, research by Nguyen (2020) highlights that microfinance institutions (MFIs) in Asia have made notable progress in financial outreach and inclusion, though challenges persist in reaching the poorest segments of the population. Similarly, Diaz-Martinez (2022) found that while MFIs in Latin America benefit from improved loan repayment rates among female borrowers, profitability remains constrained. These global perspectives underscore the complex balance between social outreach and financial sustainability that characterizes microfinance performance.

Within the African context, microfinance institutions continue to play a transformative role in promoting financial inclusion and supporting small-scale enterprises, yet their performance remains uneven. Evidence from countries such as Cameroon and Rwanda suggests that while MFIs have successfully expanded access to financial services through low-cost models, they face persistent challenges including weak credit management systems, regulatory constraints, and sustainability concerns (Abdulai, 2017; Ishmaili, 2014). More broadly, the African financial sector is affected by structural issues such as limited access to capital, economic volatility, and institutional inefficiencies, all of which influence organizational outcomes and long-term viability.

In Kenya, the microfinance sector is among the most vibrant in Sub-Saharan Africa, significantly contributing to financial inclusion and the growth of micro and small enterprises. According to reports by the Central Bank of Kenya (2017), microfinance banks have expanded their outreach and diversified their product offerings, yet they continue to experience performance challenges related to resource constraints, operational inefficiencies, and increasing competition from fintech firms. While some institutions have recorded improvements in outreach and service delivery, others struggle with declining asset quality, rising operational costs, and limited technological integration. Empirical evidence by Tanui (2021) further demonstrates that although microfinance services enhance access to credit and improve financial management among small enterprises, institutional performance is still constrained by internal capability gaps.

Statement of the Problem

Microfinance banks (MFBs) play a pivotal role in advancing financial inclusion and supporting Kenya's broader socio-economic transformation agenda, particularly under the Kenya Vision 2030. By extending financial services to low-income households and micro-enterprises, these institutions are expected to alleviate poverty, stimulate entrepreneurship, and enhance economic participation among marginalized populations. Despite this strategic importance, the

performance of microfinance banks in Kenya has remained a growing concern among policymakers, regulators, and industry stakeholders. Evidence indicates persistent challenges in both financial and non-financial performance dimensions, including declining profitability, reduced operational efficiency, and weakening customer confidence (Ngumo, Collins, & David, 2020; Mwangi, 2021).

Recent sectoral statistics further illustrate the gravity of the problem. Microfinance banks have experienced fluctuating and, in some instances, declining returns, with Return on Assets and Return on Equity exhibiting unstable trends over time. Additionally, the sector has recorded rising levels of non-performing loans, signaling inefficiencies in credit risk management and reduced client repayment capacity. Reports by the Central Bank of Kenya (2020) reveal that the industry registered a pre-tax loss of approximately KSh 1.0 billion between 2019 and 2020, alongside a significant contraction in workforce levels. Similarly, industry data from Augusto & Co. (2022) shows a decline in total asset base, reflecting shrinking loan portfolios and deposit mobilization challenges. Macroeconomic pressures, including high inflation and rising interest rates reported by the Kenya National Bureau of Statistics (2022), have further constrained both borrowers' repayment ability and the lending capacity of microfinance institutions.

From a theoretical and empirical standpoint, organizational capabilities have been widely recognized as critical drivers of firm performance, particularly in dynamic and resource-constrained environments. Studies such as Xu et al. (2022) and Boateng (2019) affirm that capabilities significantly influence organizational outcomes; however, these studies largely focus on generalized capability constructs or are conducted in different contextual settings, limiting their applicability to the Kenyan microfinance sector. Similarly, foundational work by Teece et al. (2010) establishes the importance of capabilities in enhancing performance under turbulent conditions but does not sufficiently explain the specific mechanisms through which individual capability dimensions, such as resource capabilities, translate into improved organizational outcomes.

Locally, empirical studies such as Mbithe (2021) have examined the influence of organizational capabilities on microfinance performance; however, such studies are constrained by methodological limitations, including reliance on cross-sectional designs and limited exploration of specific capability dimensions. Moreover, much of the existing literature treats organizational capabilities as a composite construct, thereby overlooking the distinct contribution of resource capabilities, which are fundamental in determining how effectively financial, human, and physical resources are mobilized and utilized within institutions.

Consequently, despite the documented performance challenges facing microfinance banks and the recognized importance of organizational capabilities, there remains inadequate empirical evidence on how resource capabilities specifically influence the performance of microfinance banks in Kenya. This gap limits the ability of practitioners and policymakers to design targeted interventions that enhance institutional efficiency and sustainability. It is against this backdrop that the present study sought to examine the effect of resource capabilities on the performance

of microfinance banks in Kenya, with the aim of providing context-specific and empirically grounded insights to inform both theory and practice.

Research Objective

The study sought to determine the effect of resource capabilities on performance of Kenyan microfinance banks in Kenya.

Research Hypotheses

The research hypotheses for this survey were:

H₀: Resource Capabilities has no statistically significant effect on performance of microfinance banks in Kenya.

H_a: Resource Capabilities has statistically significant effect on performance of microfinance banks in Kenya.

THEORETICAL LITERATURE REVIEW

The study was anchored on the balanced scorecard, and dynamic capabilities theory, which collectively offered the theoretical basis for linking and explaining the research variables.

Balanced Scorecard

The Balanced Scorecard (BSC) Theory, developed by Robert Kaplan and David Norton, provides a multidimensional framework for measuring organizational performance beyond traditional financial indicators. The theory emerged from the recognition that reliance solely on financial metrics offers a backward-looking assessment that fails to capture the drivers of future performance. As such, the BSC integrates both financial and non-financial perspectives, enabling organizations to align strategic objectives with performance outcomes in a more comprehensive and forward-looking manner (Kaplan & Norton, 1992).

The framework evaluates performance across four interrelated dimensions: financial perspective, customer perspective, internal business processes, and learning and growth. The financial perspective focuses on profitability, return on investment, and revenue growth, reflecting the economic outcomes of strategic actions. The customer perspective assesses customer satisfaction, retention, and market share, which are critical indicators of competitive positioning. Internal business processes emphasize operational efficiency, quality improvement, and innovation in service delivery, while the learning and growth perspective examines the organization's capacity to enhance employee skills, organizational culture, and knowledge systems necessary for long-term sustainability. These perspectives are causally linked such that improvements in learning and growth drive internal process efficiency, which in turn enhances customer satisfaction and ultimately leads to improved financial performance (Kaplan & Norton, 1996; Tawse & Tabesh, 2023).

In the context of microfinance banks in Kenya, the Balanced Scorecard Theory provides a robust framework for assessing performance holistically. Microfinance institutions operate in a dual mandate environment where both financial sustainability and social outreach are critical.

The BSC is particularly relevant as it captures not only financial outcomes such as profitability and asset growth but also non-financial indicators including customer outreach, service quality, operational efficiency, and institutional learning. This multidimensional approach is essential in evaluating the true performance of microfinance banks, which must balance commercial viability with social impact (Low & Siesfeld, 1998; Lyons & Gumbus, 2004). Therefore, the theory underpins the dependent variable of this study by offering a comprehensive lens through which the performance of microfinance banks can be measured and analyzed.

Dynamic Capabilities Theory

The Dynamic Capabilities Theory, advanced by Teece, Pisano, and Shuen, explains how organizations achieve and sustain competitive advantage in rapidly changing environments through the continuous reconfiguration of internal and external resources. Building on the resource-based view, the theory emphasizes that it is not merely the possession of resources that drives performance, but the firm's ability to integrate, build, and reconfigure these resources in response to environmental changes (Teece, Pisano, & Shuen, 1997).

Dynamic capabilities are commonly conceptualized through three core processes: sensing opportunities and threats, seizing opportunities through strategic investments, and transforming or reconfiguring organizational resources to maintain competitiveness. These processes enable firms to adapt proactively to market dynamics, technological shifts, and regulatory changes. Subsequent scholars have expanded the theory by highlighting the role of organizational routines, learning mechanisms, and innovation in shaping dynamic capabilities (Teece, 2007; Helfat et al., 2007; Winter, 2003). In relation to this study, dynamic capabilities theory provides a strong theoretical foundation for understanding resource capabilities within microfinance banks. Resource capabilities refer to the institution's ability to effectively mobilize, allocate, and utilize financial, human, and physical resources in a manner that supports strategic objectives. Within a dynamic and highly competitive financial sector, microfinance banks must continuously reconfigure their resource base to respond to shifting customer needs, regulatory pressures, and technological advancements. The ability to reallocate financial capital, develop skilled human resources, and optimize infrastructure directly influences operational efficiency and service delivery (Wernerfelt, 2014; Teece et al., 2014).

The relevance of this theory to the Kenyan microfinance sector lies in its emphasis on adaptability and strategic resource orchestration. Microfinance banks operate in an environment characterized by economic volatility, rising competition, and evolving customer expectations. Dynamic capabilities enable these institutions to remain resilient by enhancing their capacity to sense market changes, seize emerging opportunities, and transform their resource configurations accordingly. Thus, the theory anchors the independent variable of this study by explaining how resource capabilities can be leveraged to drive superior organizational performance (Kahingo & Muchemi, 2020; Eggers & Bamford, 2015).

Empirical Review

Mmari (2013) examined the performance, capabilities and relationship of Tanzanian microfinance banks by administering descriptive research methodologies on 30 banks

surveyed. The purpose of the study was to test the existence of the relationships between the resource capability and the performance and to determine the factors that change the performance and suggest the strategies that can be used to improve the resource capability. The evidence presented in the research points out that a lack of resources is a performance constraint to microfinance banks. Microfinance banks within Tanzania perform based on the level of human resources, financial resources, quality of information system, and efficiency in operations. Performance measures are defined by organisations depending on the duration of their existence as a firm (Kitenga et al., 2020). As per the research, microfinance banks that cater to Tanzania ought to increase their resource capabilities. They should be assisted by the government and other stakeholders in the process. The research was limited because it was restricted to a geographical area in Tanzania and utilised a narrow survey design, as well as uncontrolled variables that could have influenced the performance indicators.

The study conducted by Njuguna (2013) examined the resource capabilities and the performance indicators of 100 microfinance banks in Kenya. The research design was a description and a single point in time was recorded using surveys, and resources and the performance outputs of these banks were analysed. The study was aimed at achieving three key objectives which included the evaluation of resource strengths and the comparison of performance of urban and rural microfinance banks. The rural micro finance banks had higher loan repayment performance despite the fact that their resource capacity reduced compared to the urban banking units. The 27 report suggests that the government stakeholders and other organisations should increase their support to rural microfinance banks in order to build their resource bases. The results provided are limited since the study was based on a limited number of participants and the participants were expected to provide his or her information.

In his study, Sonia (2015) used resource capabilities to influence performance in Asian microfinance institutions. It was found that, resource capabilities were clearly associated with MFI performance with financial capabilities, and human, information and technology resources showing the most significance. The study will suggest that Asian MFIs need to focus on improving their resource capacity to enhance their operational performance. There are two key limitations of the study: the authors relied on the information provided by MIX database that may not be reflective of all Asian MFIs, and he/she has not considered other performance determining variables. In their case-based analysis of the effects of resource capabilities on microfinance institutions (MFIs), Suresh et al. (2016) have studied the implications of resource capabilities on MFIs in Asia. The authors also conducted a qualitative analysis based on four microfinance institutions in India, Indonesia, and the Philippines. The sources of the required research information were interviews with the MFI leaders and a review of the documentation. The population group of interest in this study was the MFIs in Asia that had resource scarcity.

This analysis has found out that Asian microfinance institutions (MFIs) are facing various challenges and these are; financial resources, human resources, information and technology constraints, regulatory barriers, and political goodwill barriers. The research proposes that MFIs are advised to transcend the existing constraints so that they can perform at a higher level and require increased assistance by donors 28 and governments. The research has two major

constraints in that it investigates a number of MFIs in Asia through qualitative research and this does not enable the generalization of this research to the entire MFIs in this region of the world.

Rugemalira and Mmari (2016) evaluated resource capabilities of microfinance banks and bank performance in Tanzania through the prism of resource-based approach. This research involved three microfinance banks in Tanzania and data were collected using interviews and documents. The study was intended to examine the current resource endowments of these organisations, assess the relationship between capabilities and performance outcomes, and identify variables that affected performances. The study established that microfinance banks in Tanzania build resource competencies both internally and in the external environments. The study performance evaluation showed that the resource capabilities had a positive correlation, and the uniqueness, imitability, substitutability, and value were identified as significant performance factors. Microfinance banks in Tanzania need to aim at building distinctive resources that cannot be easily copied by the competitors hence improving operational success. These banks require government organisations and other stakeholders to help them develop their resources. The limitations of this research were that it only focused on Tanzania using case studies, not taking into consideration of potential external factors that can influence the performance of microfinance banks.

Edwin (2016) evaluated the impact of resource capacities on Kenyan microfinance institutions' performance. Managers of 150 Kenyan microfinance banks were given questionnaires as part of a quantitative study design. The study analysed the resource endowment of microfinance banks, their performance, and also established how these endowment affected the Kenyan banking 29 performance. The analysis's findings showed that Kenyan microfinance banks' operational effectiveness is positively impacted by their resource capabilities. According to the study, Kenyan microfinance institutions should bolster their resource bases in order to improve their operational efficiency. The research has challenges in demonstrating cause-and-effect relationship since it utilises data at a single time only.

Conceptual Framework

Figure 1 illustrates the conceptual framework that outlines the relationship between the independent and dependent variables.

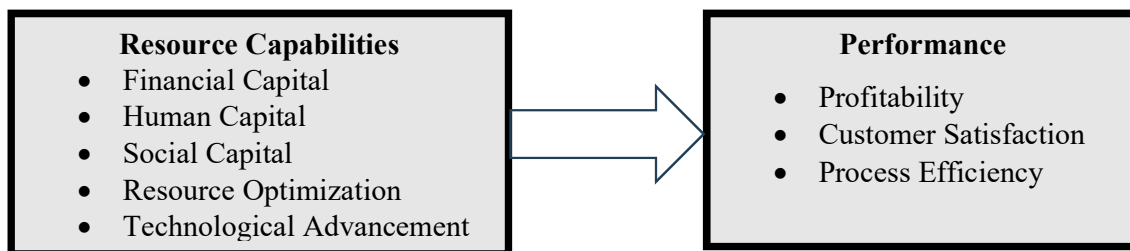


Figure 1: Conceptual Framework

Source: Researcher (2026)

In this study, resource capabilities constitute the independent variable, conceptualized through financial capital, human capital, social capital, resource optimization, and technological advancement, while organizational performance is the dependent variable, measured using profitability, customer satisfaction, and process efficiency. Resource capabilities provide the foundation through which microfinance banks mobilize, allocate, and utilize their assets to achieve strategic objectives and sustain competitiveness. Financial capital supports lending capacity, operational expansion, and financial stability, thereby influencing profitability, whereas human capital enhances service delivery, decision-making, and operational effectiveness, contributing to both customer satisfaction and efficiency. Social capital strengthens relationships with clients and stakeholders, fostering trust and improving access to information and resources that support performance outcomes. Resource optimization ensures efficient utilization of available assets, reducing waste and improving internal processes, while technological advancement enables innovation, automation, and data-driven operations that enhance service quality and responsiveness. When effectively integrated, these indicators of resource capabilities enable microfinance banks to improve profitability through prudent resource utilization, enhance customer satisfaction by delivering timely and tailored services, and achieve greater process efficiency through streamlined operations, thus demonstrating how resource capabilities drive measurable improvements in organizational performance.

RESEARCH METHODOLOGY

The techniques for data collection, measurement, and subsequent analysis that ought to be employed in answering a given research question are referred to as the research design (Mugenda & Mugenda, 2013). The approach used in this study was descriptive, as it involves defining precisely the aspects and features of a population or area of interest to discover new meaning, describe existing conditions, identify frequencies, and categorize the information. This explanatory approach aims to explain and account for the descriptive data. The chosen method of descriptive research allows the researcher to demonstrate the individual characteristics, situational factors, or groups, and the frequency of the studied phenomenon. This contrast can highlight the difference between explanatory design, which helps explain why phenomena work in a certain way.

They use the target population as a subset of a larger cohort with the same characteristics as those of the one interested in the research objectives (Alvi, 2016). It allows researchers to understand some of the demographic or institutional environment of the study as a whole. All MFIs located within Nairobi County comprised the target population. According to the 2023 Microfinance Institution Association, there are 46 MFIs in Kenya, all with their headquarters in Nairobi (Kiprono, 2023). This means that the unit of observation would be more manageable for finance managers, operations officers, human resource managers, marketing personnel, and ICT managers because they are more knowledgeable and experienced in operations. Thus, they provided closer, more accurate, and more relevant data for analysis.

The study adopted Yamane's formula (1967). This formula was helpful in determining the sample size of the study. Yamane's formula presumes that the study population is homogenous

and therefore it offers a method that is efficient and simple for sample size estimation (Yamane, 1967).

$$n = \frac{N}{(1 + N(e^2))}$$

Where;

n= Sample size

N=Total population

e= Margin of error

$$n = \frac{230}{(1 + 230(0.05^2))}$$

$$= 146$$

The study adopted stratified proportionate sampling for selection of 146 subjects as a fair representation of commercial banks from total population of 46 MFI's in Kenya. The sampling factor was calculated as follows;

Sampling factor (k) = Sample size/Target population

Hence;

$$K = 146/230$$

$$K = 0.635$$

Table 1: Distribution of the Sample Size

Category	Target Population(N)	Sampling Factor (k=n/N)	Sample Size	Percentage
Finance Manager	46	0.635	29.21	20%
Operations Officer	46	0.635	29.21	20%
Human Resource Manager	46	0.635	29.21	20%
Marketing Personnel	46	0.635	29.21	20%
ICT Manager	46	0.635	29.21	20%
Total	230		146	100%

Source: Researcher (2025)

Table 1 presents the distribution of the sample size across key functional categories within microfinance banks in Kenya, ensuring balanced representation of managerial roles involved in organizational decision-making. The study adopted a proportionate stratified random sampling technique to enhance representativeness and minimize sampling bias across the identified strata. Using Yamane’s (1967) formula at a 5% margin of error, a sample size of 146 respondents was derived from a total target population of 230 staff. A sampling factor (k) of 0.635 (146/230) was computed and consistently applied across each category, resulting in an equal allocation of approximately 29 respondents per group. Consequently, finance managers, operations officers, human resource managers, marketing personnel, and ICT managers each constituted 20% of the total sample. This proportional allocation ensures that all critical functional units are adequately represented in the study, thereby improving the reliability, generalizability, and analytical robustness of the findings regarding organizational capabilities and performance.

In keeping with the propensity for closed-ended questions, the study used more primary data and both open-ended and closed-ended questionnaires. Because primary data has been arranged to achieve a specific study goal, it has an advantage (Bryman, 2005). According to Creswell (2020), open-ended questions allow the respondent to express himself in any way he chooses, while closed-ended questions are meant to elicit specific information. We would prefer said 48 questionnaires because they can serve as a source of reference and can be used later on to show that the study took place. So, it is planned to have the questionnaire structured as follows: Section A asked for demographic information: the name, which was optional, sex, age range, religion, and experience. This research collected the required secondary data from various books, journals, and magazines.

Validity of the research instrument is achieved through measuring what the researcher intends to measure (Mugenda & Mugenda, 2019). The researchers critically analysed the construct and content of the questionnaires and then presented them to the target respondents. An evaluation of theoretical and empirical literature on research variables formulated questions that meet the construct validity and content relevance criteria to all the stakeholders. The questionnaires were checked by professionals in the field of the research and supervisors on their accuracy and correctness.

Reliability was assessed by examining the internal consistency of the research instrument using Cronbach’s alpha coefficient. A Cronbach’s alpha value of 0.70 or above was considered acceptable for demonstrating adequate reliability (Field, 2009; Nunnally & Bernstein, 1994). Table 2 presents the Cronbach’s alpha results for the pilot study.

Table 2: Reliability Statistic

Constructs	No. of Items	Alpha Score	Remarks
Resource Capabilities	10	0.824	Reliable
Firm Performance	9	0.758	Reliable

Source: Pilot Study Observations (2025)

All constructs yielded Cronbach’s alpha coefficients above the recommended threshold of 0.7, indicating strong internal consistency. Specifically, resource capabilities ($\alpha = 0.824$), and firm performance ($\alpha = 0.758$) demonstrating that the measurement items captured reliably the study variables intended.

A systematic questionnaire survey was utilized to collect quantitative data on all microfinance institutions that are members of the Microfinance Institution Association as part of the study's principal methodology. Before distributing the questionnaire to every participant, the researcher pre-tested it to see how long responders needed to complete the questions. This process is the quality evaluation of the formulated questions and objectivity validation. The drop-and-drop-and-pick methodology administration period was two weeks, so the respondents had enough time to give sufficient answers to the questionnaire.

The data was, as usual, checked on accuracy, completeness and inconsistencies. The data were put into categories using the number of categories that were expected to be used. The data in the report is analysed using the SPSS Version 22.0, ANOVA, and descriptive statistics, through the use of tables, bar charts and graphs. We performed a regression analysis to establish the correlation among the variables of the study. The multiple regression model is,

The regression model adopted for the study is presented as:

$$Y = \beta_0 + \beta_1 X + \varepsilon \dots\dots\dots (i)$$

Where:

Y	=		Performance
X	=	Resource	Capabilities
$\beta_0,$	$\beta_1 =$	Beta	Coefficients
ε			= Error Term

The regression decision criteria were assessed at a 5% significance threshold ($p < 0.05$). The findings were organized and displayed using tables, figures, and charts to enhance clarity and support accurate interpretation.

The research was conducted in strict accordance with recognized ethical standards at every stage of the process. All participants were clearly briefed on the purpose of the study, assured that their responses would remain confidential, and informed of their right to withdraw at any point without facing any repercussions. Prior to data collection, informed consent was obtained, and the information gathered was handled anonymously and used exclusively for academic purposes. Necessary approvals were secured before commencing data collection, and the analysis was undertaken with utmost honesty, ensuring that the results were presented accurately and without any form of distortion or bias.

Descriptive Results

This section outlines the analysis and interpretation of the response rate, highlighting the mean scores recorded from the sample alongside their associated standard deviations.

Response Rate

A total of 123 questionnaires were administered to respondents drawn from various functional areas within microfinance banks in Kenya. Out of these, 100 questionnaires were duly completed and returned, while 23 were not returned or were incomplete, resulting in a response rate of 80% and a non-response rate of 20%, as presented in Table 3. This level of response is considered adequate for statistical analysis and provides a reliable basis for drawing conclusions from the study.

Table 3: Response Rate

<u>Rates</u>	<u>F</u>	<u>%</u>
Response	100	80%
Non-Response	23	20%
Total	123	100

Source: Field Survey (2025)

The findings in Table 4.1 indicate that out of the 123 questionnaires administered, 100 were successfully completed and returned, yielding a response rate of 80%, while 23 questionnaires, representing 20%, were not returned. This level of response is considered sufficiently robust for empirical analysis. As noted by Fincham (2008), higher response rates enhance the representativeness of a sample and reduce the risk of non-response bias. Given that a response rate exceeding 60% is generally regarded as acceptable for drawing reliable conclusions, the 80% achieved in this study provides a strong foundation for making valid and generalizable inferences regarding organizational capabilities and performance among microfinance banks in Kenya.

Descriptive Results for Resource Capabilities

Resource capabilities refer to tangible and intangible resources possessed by institutions and which are used in their efforts to accomplish the strategic objectives of the institutions that include financial resources, human resources, technology, and organisational processes. Thus, these capabilities should be known in order to evaluate the ability of microfinance banks to react to market needs, pioneer in services provided and increase the efficiency of their operations in accordance with Table 4.

Table 4: Descriptive Results on Resource Capabilities

Statements	n	Mean	Std. Deviation	Coefficient of Variation
Financial Capital				
Financial capital is an essential measure of resource capability	100	3.95	0.83	0.210
Aggregate Scores for Financial Capital		3.95	0.83	0.210
Human Capital				
The organization implements the utilization of human capital to boost performance	100	3.95	0.88	0.223
Human capital is encouraged in the industry	100	3.93	0.91	0.232
Aggregate Scores for Intercultural Competence		3.94	0.90	0.228
Social Capital				
The organization utilizes social capital to improve performance	100	4.01	0.82	0.204
Social capital is an essential measure of resource capability	100	4.23	0.66	0.156
Aggregate Scores for Social Capital		4.12	0.74	0.180
Resource Optimization				
Resource capabilities determine performance of the industry	100	4.07	0.81	0.199
Aggregate Scores for Resource Optimization		4.07	0.81	0.199
Overall Aggregate scores for Resource Capabilities		4.02	0.82	0.204

Source: Field Observations (2025)

The descriptive results presented in Table 4 provide a comprehensive basis for understanding how resource capabilities are manifested within microfinance banks and how they can be aggregated for further statistical analysis. The overall mean score of 4.02 indicates that respondents generally agreed to a high extent that resource capabilities are well established and actively leveraged within their institutions. This suggests that financial, human, and social resources are not only available but are also being strategically utilized to support organizational performance. The relatively low average standard deviation of 0.82 further implies a reasonable level of consensus among respondents, although slight variations in perception still exist across different capability dimensions.

At the dimensional level, social capital recorded the highest aggregate mean of 4.12 with a comparatively lower standard deviation, indicating strong agreement among respondents that networks, relationships, and collaborative linkages significantly contribute to performance improvement. This consistency suggests that microfinance banks increasingly rely on stakeholder relationships and trust-based interactions to enhance service delivery and competitiveness. Financial capital also demonstrated a strong mean score of 3.95, reflecting its recognized importance as a foundational resource for operational sustainability and growth.

Similarly, human capital yielded an aggregate mean of 3.94, indicating that employee skills, knowledge, and competencies are adequately harnessed to drive performance, although the slightly higher variability suggests differing experiences across institutions in terms of staff development and utilization. Resource optimization, with a mean of 4.07, further reinforces the view that efficient allocation and deployment of resources play a critical role in influencing institutional outcomes.

Overall, these findings are consistent with recent empirical literature that underscores the critical role of organizational capabilities in enhancing performance within the microfinance sector. For instance, Wambugu and Kising’u (2024) found that organizational learning capabilities significantly improve the performance of deposit-taking microfinance institutions in Kenya by strengthening knowledge integration and adaptability. In a global context, a study by Mikalef and Gupta (2021) demonstrated that firms with strong resource orchestration capabilities, particularly in leveraging data, technology, and human expertise, achieve superior performance outcomes due to their ability to respond swiftly to dynamic market conditions. Similarly, Ngatia (2025) established that managerial capability positively influences growth and performance through improved strategic decision-making and effective resource utilization. Collectively, these studies affirm that resource capabilities, including financial strength, human expertise, and relational networks, serve as key drivers of organizational success when effectively mobilized. In line with the Dynamic Capabilities Theory, the ability of microfinance banks to continuously reconfigure and deploy these resources in response to evolving environmental conditions remains central to achieving sustained competitive advantage and superior performance outcomes.

Descriptive Results for Performance

Organizational performance is a multidimensional concept that reflects how well an institution achieves its strategic objectives through efficient and effective use of resources. In this study, performance is measured using Balanced Scorecard dimensions, profitability, customer satisfaction, process efficiency, and learning and innovation. These indicators collectively capture financial outcomes, service quality, operational effectiveness, and the institution’s capacity to adapt and improve. Together, they provide a comprehensive assessment of performance among microfinance banks, as presented in Table 5.

Table 5: Descriptive Results on Performance

Statement	n	Mean	Std. Deviation	Coefficient of Variation
Profitability				
Return on Assets (ROA) has increased in the organization	100	3.88	0.76	0.20

Return on Equity (ROE) has improved due to strategic capabilities	100	3.74	0.91	0.24
Liquidity levels have improved over time	100	3.08	1.21	0.39
Aggregate Scores on profitability		3.57	0.96	0.27
Process Efficiency				
Resource utilization has improved operational efficiency	100	3.95	0.83	0.21
The organization leverages social capital to enhance efficiency	100	4.01	0.82	0.21
Human capital utilization improves operational processes	100	3.95	0.88	0.22
Aggregate Scores on process efficiency		3.97	0.85	0.21
Learning and Innovation				
Social capital enhances innovation and knowledge sharing	100	4.23	0.66	0.16
Human capital development is encouraged in the organization	100	3.93	0.91	0.23
Resource capabilities drive innovation and adaptability	100	4.07	0.81	0.20
Aggregate Scores on Learning and Innovation		4.08	0.79	0.20
Overall Scores on Performance		3.91	0.80	0.21

Source: Field Survey(2025)

The descriptive findings in Table 5 present a comprehensive evaluation of organizational performance based on the Balanced Scorecard dimensions, profitability, customer satisfaction, process efficiency, and learning and innovation. The overall mean score of 3.91 with a standard deviation of 0.801 indicates that performance among microfinance banks in Kenya is generally positive, with relatively low variability suggesting consistency in responses across institutions. This implies that while performance is favorable, some differences still exist in how institutions experience outcomes across the key dimensions. Learning and innovation recorded the highest aggregate mean (4.08), reflecting strong agreement that investments in human and social capital are enhancing adaptability, knowledge development, and innovation. Customer satisfaction also ranked highly (mean = 4.01), suggesting that improved organizational capabilities are positively influencing service delivery and outreach. These findings align with recent studies emphasizing that capability development and customer-focused strategies are central to performance in financial institutions (Mwangi & Ngugi, 2022; Kimani & Kariuki, 2023).

Process efficiency similarly demonstrated strong performance (mean = 3.97), indicating effective utilization of resources in improving operational processes. However, moderate variation suggests differences in how institutions translate resources into efficiency gains. This is consistent with evidence showing that operational performance often varies depending on managerial effectiveness and resource deployment (Omondi & Muturi, 2021; World Bank, 2022). Profitability, however, recorded the lowest aggregate mean (3.57) and the highest variability, indicating inconsistencies in financial outcomes across institutions. While improvements in ROA and ROE were noted, liquidity challenges remain evident. This reflects broader sectoral pressures such as inflation and regulatory constraints affecting microfinance performance in Kenya (CBK, 2023; KNBS, 2022). Overall, the findings support the Balanced Scorecard view that strong non-financial capabilities are key drivers of sustainable organizational performance.

Inferential Analysis

The influence of resource competencies on performance was examined through a simple regression model, and the results are presented in Table 6

Table 5: Regression Results

Model	R	R Square	Adjusted R Squared	Std. Error of Estimate
1	0.597 ^a	0.357	0.330	0.462

F-Statistics						
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	11.220	4	2.805	13.16	.000 ^b
	Residual	20.244	95	0.213		
Total		31.464	99			

a. Dependent Variable: Performance
 b. Predictor: (Constant), Resource Capabilities

Source: Field Survey (2025)

The regression results presented in Table 5 indicate a moderate and positive relationship between resource capabilities and the performance of microfinance banks in Kenya, as reflected by a correlation coefficient of $R = 0.597$. The coefficient of determination ($R^2 = 0.357$) shows that approximately 35.7% of the variation in organizational performance can be explained by resource capabilities, while the adjusted R^2 of 0.330 confirms that the model retains reasonable explanatory power even after accounting for model adjustments. The standard error of estimate (0.462) suggests an acceptable level of prediction accuracy, indicating that the model provides a fairly reliable estimation of performance outcomes.

Further, the ANOVA results demonstrate that the regression model is statistically significant, with an F-statistic of 13.16 and a p-value of less than 0.001. This implies that resource capabilities have a meaningful and significant effect on the performance of microfinance banks. The comparison between the regression sum of squares (11.220) and the residual sum of squares (20.244) indicates that a notable proportion of performance variation is explained by

the predictor variable. Overall, these findings affirm that resource capabilities are an important determinant of performance, supporting the argument that effective deployment of financial, human, and physical resources enhances organizational outcomes within the microfinance banking sector.

Table 8: Coefficients of Regression Analysis

	Unstructured Coefficients		Standardized Coefficients	T	Sig.
	β	Std. Error	Beta		
Constant	1.115	.752		1.483	.141
Resource Capabilities	.237	.092	.289	2.571	.012

a. Dependent Variable: Performance

b. Predictor: (Constant), Resource Capabilities

Source: Field Survey (2025)

The statistical results of the regression analysis reveal that the parameters obtained from the unstandardized coefficient values produced the estimated model presented.

$$Performance = 1.115 + 0.237 \text{ Resource Capabilities}$$

The constant term of 1.115 represents the baseline level of performance when resource capabilities are held constant. Although the constant is not statistically significant ($p = 0.141$), it serves as a reference point, suggesting that performance outcomes in the absence of strong resource capabilities remain modest and less stable. This highlights the importance of internal resource endowment in driving meaningful organizational outcomes.

The findings further indicate that resource capabilities have a positive and statistically significant effect on performance ($\beta = 0.237$, $p = 0.012$). This implies that a unit increase in resource capabilities, such as financial, human, and physical resources, leads to a corresponding improvement of 0.237 units in organizational performance. The standardized beta coefficient ($\beta = 0.289$) and the significant t-value ($t = 2.571$) confirm that resource capabilities are a meaningful predictor of performance among microfinance banks. This suggests that institutions with stronger resource bases are better positioned to enhance profitability, improve service delivery, streamline internal processes, and foster innovation.

These findings are consistent with recent empirical studies which emphasize that effective mobilization and deployment of organizational resources significantly enhance performance outcomes in financial institutions (Omondi & Muturi, 2021; Mwangi & Ngugi, 2022; World Bank, 2022). Within the context of the Balanced Scorecard, resource capabilities underpin improvements across both financial and non-financial dimensions, reinforcing the view that internal capabilities are critical drivers of sustainable organizational success.

Conclusion

The primary objective of this study was to determine whether resource capabilities can significantly predict the performance of microfinance banks in Kenya. The findings from the analysis revealed that resource capabilities have a direct and statistically significant influence on organizational performance. In terms of contribution, resource capabilities emerged as a key driver, indicating their critical role in shaping performance outcomes. Consequently, the study concludes that resource capabilities are a strong determinant of performance among microfinance banks.

Recommendation

To enhance performance, management in microfinance banks should formulate policies that position resource capabilities as a central driver of organizational success. This can be achieved by investing in the development and effective utilization of financial, human, and physical resources to support strategic objectives. Institutions should also prioritize continuous capacity-building programs to strengthen staff competencies and improve resource deployment efficiency. Additionally, management should adopt appropriate technological and operational systems that promote optimal resource allocation, transparency, and accountability in decision-making. Emphasis should be placed on aligning resource utilization strategies with organizational goals to improve service delivery and operational outcomes. Such initiatives are likely to enhance efficiency, strengthen institutional performance, and reinforce competitive advantage within the microfinance sector.

Limitations and Suggestions for Further Research

This study investigated how resource capabilities specifically influence the performance of microfinance banks in Kenya. Given that certain organizational practices and internal processes are sensitive, respondents may have been cautious in providing detailed information; to address this, the study upheld strict confidentiality and clarified that all data collected was solely for academic purposes. Additionally, since the study focused on licensed microfinance banks within Kenya, the findings are context-specific and may have limited generalizability to other sectors or geographical settings.

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