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Musau, M. M., & Kavale, S.

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DYNAMIC CAPABILITIES AND PERFORMANCE OF MICRO-FINANCE INSTITUTIONS IN MOMBASA COUNTY, KENYA

[1] Musau, M. M., & [2] Kavale, S.

[1] MBA Student, Jomo Kenyatta University of Agriculture and Technology [JKUAT], Kenya
[2] Doctor, Lecturer, School of Business & Economics, Moi University, Kenya

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ABSTRACT

The general objective of the study is to establish the effect of dynamic capabilities on performance of micro-finance institutions in Mombasa County. This study adopted an explanatory research design. The target population for the study comprises of top-level management, middle level management and employees who were 397 employees working in the micro-finance institutions. The study top-level management, middle level management and employees who were 80 working at the micro-finance institutions within Mombasa County was calculated based on Yamane (1967) formula at 95% confidence level. Structured questionnaires were used to collect data from the employees of micro-finance institutions based in Mombasa County. The data collected was edited, cleaned, coded and analyzed using both descriptive and inferential statistics with the help of IBM SPSS Statistics for Windows, Version 25.0. The results were summarized and presented in form of tables, figures and charts, and interpretations provided. The study established that substantial resources is committed by the MFIs for opportunities identification through environmental scanning. The MFIs also uses resources to identify trending financial technologies with a view to upgrading. They also make changes to their strategies continually informed by the information they obtain form the market and adjust its offerings. The study found that the micro-finance institutions are not always able to respond to market disruption faster. The study concluded that the micro-finance institutions explicitly identifies strategic learning capabilities as a key element in planning and hence provides orientation towards the development, transfer and protection of strategic learning capabilities. The MFIs also acquires learning capabilities from external sources for developing new products and uses the obtained learning capabilities to respond to consumer needs and preferences. The study recommended that MFIs should develop flexible structures that could make the institutions to respond to management actions faster. In addition, the MFIs should adopt marketing information capable of strengthening relationship with customers. The marketing team of MFIs should be tasked with creation, maintenance and enhancement of customer relations. In addition, the MFIs marketing team should be in a position to respond to competitive actions that threatens the micro-finance.

Key Word: *Dynamic Innovation, Dynamic Learning, Dynamic Marketing, Dynamic Managerial Capabilities*

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INTRODUCTION

In the present day business environment that is characterized by a high degree of uncertainty, organizational managers face increasingly dynamic, complex and unpredictable environment, where technology, globalization, knowledge and changing competitive approaches impact on overall performance of the firm (Muhura, 2014). Thus as Jensen (2017) point out, due to this complex and changing environment, managers in both small and large firms are ever in the process of seeking new ways of conducting business to create wealth and increase the shareholder value. Thus, a key concern to any present day shareholder of a firm is the need of the management to develop systems and frameworks that not only deliver performance, but also the ability to control these systems against top level targets (Maher & Andersson, 2017). As a result, they note that more and more firms are turning to strategic approaches and internal resources that are valuable, scarce, inimitable and irreplaceable.

Employment of dynamic capabilities effectively leads to organizational performance (Rabah, 2015). According to Dubihlela (2013) strategic organizational capabilities, helps to build up capabilities the firm may use to differentiate itself in the market in order to achieve customer satisfaction. They are very important, particularly in the dynamic business environment with volatile markets and the environmental uncertainties. The ability to change, harness and develop new organizational capabilities to counter and control the dynamic business environment form the basis for sustainable competitive advantage for firms (Franklin & Martinette, 2013). The capabilities allow the managers to cost effectively exploit the available opportunities in the market and to neutralize the threats in the external environment (Peters and Pearce, 2012). Similarly, the firm capabilities enable the firm to readjust its competencies to adapt to the environmental changes (Pisano & Shuen, 2017).

There are few studies in Kenya on strategic organizational capabilities for example Nyangi, Wanjere and Egessa (2015) indicated that there exists a statistically significant correlation between organizational capability and performance of sugar manufacturing firms in western Kenya. Organizational capabilities adapted for the study included entrepreneurship, relationship building, product development, culture and learning. Similarly, Hassan (2016) found a strong positive relationship between strategy implementation and communication process and organizational capability. The evaluation of effect of strategic capability in the corporation established that the variable supported strategy implementation in the corporation. In addition, the study found that strategic flexibility supported strategy implementation at Agricultural Development Corporation.

The publication of AMFI (2018) sector report revealed that microfinance industry is composed of about 250 Microfinance Institutions (MFIs) where 54 are registered. Included in the list of 54 MFIs are three (3) wholesale MFIs, one (1) development bank, one (1) SACCO, thirty-six (36) providers of credit, eleven (11) MFI banks and two (2) commercial banks. Out of 54 MFIs registered, 13 have been given licenses by Central Bank of Kenya (CBK), which allows them to take deposits from the public. Mombasa County being the context of this study has only four licensed MFIs with active branches. To ensure stability CBK normally regulates DTMIs. By end of December 2018 there were 13 DTMIs licensed by the CBK with only four, which are Rafiki, Kenya Women, SMEP and Faulu having operational branches in Mombasa County. DTMIs reported 303,675 loans with 26.4 billion shillings being the portfolio outstanding. Of the 26.4 portfolio, which was outstanding, 16.9 were performing while 9.5 were none performing which was according to AMFI, (2018) report.

Statement of the Problem

The micro-finance industry is a very important factor in the growth of an economy as it leads to job

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creation, brings about foreign exchange, expands trade and commerce and therefore its performance is of paramount importance as well. Therefore, the profitability of micro-finance institutions, efficiency and effectiveness in its operations and the adaptability should be increasing to ensure stability. According to CBK regulation annual report of (2018), the banking sector in Kenya faced a perfect storm stemming from a number of challenges that affected the efficiency of the industry. Key among these were the impact of the Banking (Amendment) Act 2016 interest rate caps, 2017 is the first complete year under the cost limits. A persistent drought, which disrupted agricultural activity for a significant part of the year. Long running of elections in the second half of the year, and its accompanying uncertainty. The negative impact of the difficulties was seen in the decline in overall productivity before taxes in 2017 from Ksh.147.4 billion in 2016 by 9.6 per cent to over Ksh.133 billion in 2017, among other indicators. The hostile business and banking climate reduced lending, with gross lending declining from Ksh.2.29 trillion in 2016 by 5 per cent to Ksh.2.16 trillion in 2017.

Several nations have endured financial distress to varying degrees in recent decades, and some have suffered chronic distress. Pazarbasioglu (2015) argues that ties to the micro-finance sector vulnerability are the strongest early signs of financial crises. In Kenya, the micro-finance sector has changed into a highly competitive market, drastically. In reaction to economic and financial changes, micro-finance sector in Kenya are transcending their normal business practices and diversifying their activities (Muchemi, 2017). The deregulation, disintegration, emergence of advanced technologies along with the consolidation wave in the micro-finance institutions have been instrumental in allowing microfinance institutions to diversify their operations (Arora and Kaur, 2009).However, the industry has continued to experience expanding capital spending in the area and expected diminished benefits because of the presentation of the Banking (Amendment) Act 2015, 11 banks reported designs for scaling back, around 1,470 micro-finance representatives were laid off and 39 branches were closed, with the general number of branches in the area expanding from 1,056 in Q3'2016 to 1,163 in Q3'2017.

An analysis in the literature shows that several local and international research studies centered on individual causes. Obamuyi (2015) conducted a study aimed at determining the factors contributing to micro-finance profits in developing countries, and noted that expense control and increasing interests on income affect the micro-finance profits. Furthermore, he noted that favorable economic situations increase micro-finance profits. Another recent study by Ongore and Kusa (2015) found that the board decisions affect Kenya's micro-finance performance, and that macroeconomic factors impart little on the performance of a micro-finance. The research did, however, omit the impact of industry-specific issues on the performance of specific micro-finance institutions in the country. There is limited literature available in Mombasa County on the effect of dynamic capabilities on performance of micro-finance institutions. This research pursued to fill this gap.

Objectives of the Study

The general objective of this study was to establish the dynamic capabilities on performance of micro-finance institutions in Mombasa County. The study was guided by the following specific objectives:

- To determine the dynamic innovation capabilities on performance of micro-finance institutions in Mombasa County.
- To establish the dynamic learning capabilities on performance of micro-finance institutions in Mombasa County.
- To examine the dynamic marketing capabilities on performance of micro-finance institutions in Mombasa County.
- To assess the dynamic managerial capabilities on performance of micro-finance institutions in Mombasa County.

The study sought to test the following null hypotheses;

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- **Ho_1:** Dynamic innovation capabilities has no significant on performance of micro-finance institutions in Mombasa County.
- **Ho_2:** Dynamic learning capabilities has no significant on performance of micro-finance institutions in Mombasa County.
- **Ho_3:** Dynamic marketing capabilities has no significant on performance of micro-finance institutions in Mombasa County.
- **Ho_4:** Dynamic managerial capabilities have no significant on performance of micro-finance institutions in Mombasa County.

LITERATURE REVIEW

Theoretical Review

Resource Based View Theory

According to Grant (2011), strategy has been defined as "the match an organization makes between its internal resources and skills; the opportunities and risks created by its external environment". Most research into the strategic implication of the firm's internal environment and resources has been concerned with issues of strategy implementation and analysis of the organization processes through which strategy emerge. The theory proposes a framework for a resource-based approach to strategy formulation, which integrates a number of the key themes. This is a five-stage procedure for strategy formulation, analyzing the firm's resource based; appraising the firm's capabilities; analyzing the profit earning potential of firm's resources and capabilities; selecting a strategy; and extending and upgrading the firm's pool of resources and capabilities.

The theory is one of the concepts applied by modern competitive firms in the dynamic business environment when formulating, implementing and monitoring strategies (Thompson *et al*., 2012). According to Pearce and Robinson (2013) Resource Based View is a method of analyzing and identifying a firm's strategic advantages based on examining its distinct combination of assets, skills, capabilities and intangibles as an organization. Ngau and Kumssa (2006) define resources as stocks of available factors that are owned or controlled by the firm, which are converted into final products or services. Capabilities, in contrast, refer to a firm's capacity to deploy resources, usually in combination, using organizational processes, to produce a desired effect. Hence, the presence of capability enables resources to begin to be utilized, and the potential for the creation of output arises. Whereas resources are the source of a firm's capabilities, capabilities are the main source of its competitive advantage (Thompson *et al*., 2012).

Dynamic Capabilities Theory

Teece, Pisano and Shuen (2007) developed the dynamic capabilities theory. Teece *et al*. (2007) defines it as the firm's ability to integrate, build and reconfigure internal and external competences to address rapidly changing environments hence it reflects a firm's ability to achieve new and innovative forms of competitive advantage given market positions. It explains how firms must recognize, adapt and exploit critical opportunities. It shows how firms must have information processing routines capable of recognizing, adapting and exploiting critical opportunities, which emphasizes the role of management in reconfiguring resources (Teece *et al*, 2007).

Knowledge Based Capability Theory

The knowledge based capability theory extends the resource-based view of the firm by Penrose (1959). Originating from the strategic management literature, this perspective builds upon and extends the resource-based view of the firm (RBV) initially promoted by Penrose (1959) and later expanded by Day (2011).

The transfer of knowledge within organizations is not a trivial problem as the same complex technologies that are proof against imitation are also difficult to codify and teach to others (Kogut & Zander, 2013). External knowledge transfer challenges include different levels of knowledge transfer abilities between alliance partners, where those more effective at transferring knowledge outperform those less adept (Dyer & Singh, 2008). Knowledge is embedded and carried through

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multiple entities including organizational culture and identity, policies, routines, documents, systems, and employees. Originating from the strategic management literature, this perspective builds upon and extends the resource-based view of the firm (RBV) initially promoted by Penrose (1959) and later expanded by others (Day, 2011).

Conceptual Framework

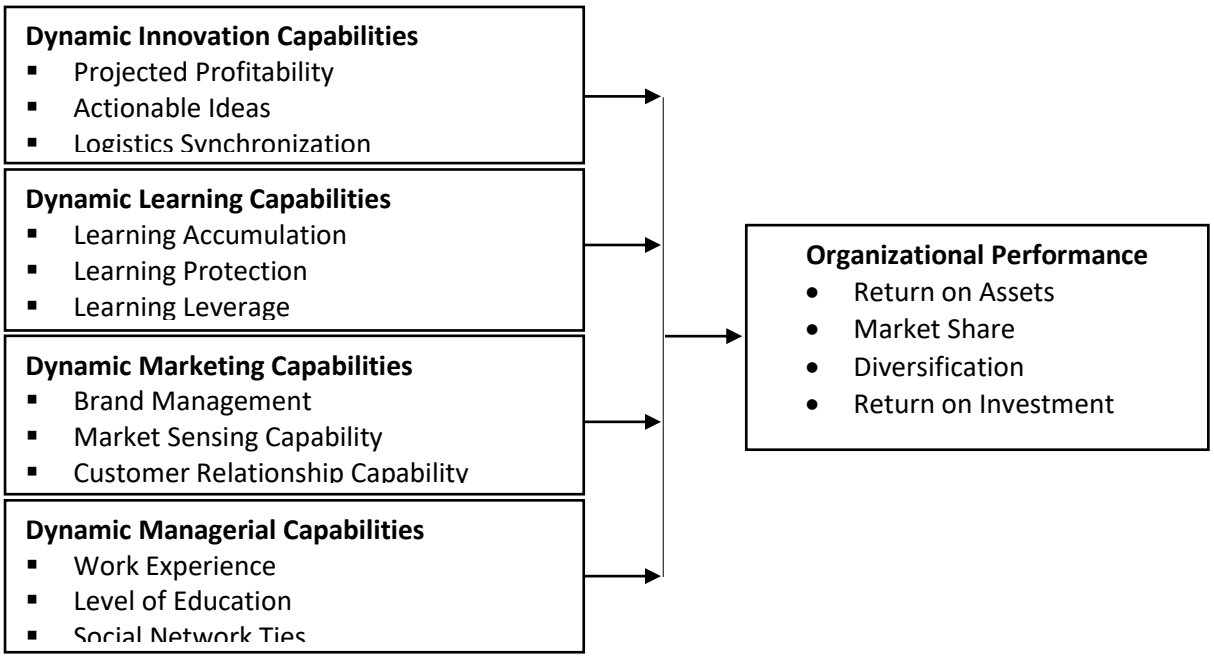

Figure 1: Conceptual Framework

Dynamic Innovation Capabilities:

This is the innovated utilization of firm resources in creating superior value for target customers and is closely tied to both customer orientation and competitor orientation (Bidin & Ismail, 2015). It originates from management concept, which advocates that firms require coordinated efforts of different departments to create superior value for customers. It is a coordinated utilization of company resources in creating superior value for target customers (Tiantian & Yezhuang, 2015). It focuses on the coordinated utilization of personnel and other resources throughout the firm to create value for the target customers. Firms that seek innovation by understanding that synergy among company members are required to create value for customers. Protogerou Caloghirou and Lioukas (2015) argue that every department or organization unit must be well defined and understood by all employees and know their role to sustain competitive advantage. Udoyi (2014) stressed the need for interaction; cooperation and form a relationship to satisfy customer needs through horizontal communication among members hence understand marketing information.

Dynamic Leaning Capabilities

Learning is the process of developing, transferring, transmitting, storing, identifying, acquisition, and implementing learning in an organization (Gholami *et al*, 2016). According to Bollinger and Smith (2015), learning management is perceived as a strategic organizational asset. Darroch and McNaughton (2013) suggest that learning management is a process that creates or locates learning and manages the sharing, dissemination and use of learning in the organization. The recognition of learning as a key resource for firms in the current business environment confirms the need for processes that facilitates individual and collective learning creation, transfer and leverage.

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Dynamic Marketing Capabilities

Marketing capabilities determine how well the organization is equipped to continuously sense changes in its market and to anticipate the responses to marketing actions (Al-Aali, Lim, Khan, & Khurshid, 2013). Karanja, Muathe and Thuo (2014) equated customer focus with market sensing capabilities which are capabilities manifested via organizational processes and values (customer orientation) and this allows the voice of the customer to be heard through the firm. It can be expressed in terms of knowledge competences outside an organization culture (Dubihlela, 2013). Success of firms depends on the capabilities that will help identify and exploit opportunities in the environment (Murgor, 2014). Market sensing capabilities are anticipatory capabilities which enables the firm to track the way that the market is moving in advance of competitors through an open approach to market information, development and interpretation and capture of market insights (Odhiambo, 2014) and also by seeking insights beyond the sources (Vorhies, Harker & Rao, 2015). Market sensing is a superior market learning capability which plays a potential significant role in integrating a broader model of management while market capabilities is a dynamic capability. Management emerges from full decomposition of market sensing capability (Kehagias & Katsikea, 2016).

Dynamic Managerial Capabilities

According to Parnell, Long and Lester (2015) managerial capabilities prevail as a result of distinctive capabilities and core competencies possessed by organizational members, workforce and employees especially senior or top level management. This arises because of specialized knowledgeable skills of experience through training and learning. Superior managerial capabilities have long been acknowledged as an important source to generate above normal rent for its organization (Long & Lester, 2015). Management capabilities in an organization are usually required for communicating and implementing strategy, maintaining beneficial relationships with internal and external stakeholders and participating in organizational resource allocation and deployment such as, innovation and entrepreneurial systems, and incentive systems (Simon, Klobas & Sohal, 2015). Specifically, several researchers claim that, in order for managers to perform their managerial tasks adequately, they must possess firm-specific knowledge, which is history-dependent or acquired through learning by doing (Sandberg & Jorgen, 2016).

Organizational Performance

Organizational performance is the actual productivity of an organization measured against its projected goals and objectives (Upadhaya, Munir, & Blount, 2014). The performance of an organizational is based on the perception that the organization is comprised of valuable resources that include personnel, physical and capital assets that are used to achieve a shared goal. The performance can be measured in terms of productivity and outcome, profit, effectiveness of internal processes and procedures, staff attitudes and organizational responsiveness to the environment (William, 2016). These diverse constituents result in many different interpretations of 'successful or poor performance' of organizations. Organizational performance is measured not only limited to economic outcomes governed by financial indicators such as accounting returns, stock market and growth measures, but also non-financial indicators such as customer contentment, personnel satisfaction and social performance (Combs *et al*, 2015). Therefore, organizational performance is the measure of internal performance results normally linked with more efficient or effective processes and other external measures such as corporate social responsibility that relate to considerations that are broader than economic valuation (Yip, & Johnson, 2013).

Empirical Review

Drawing on the DMC theory, Mostafiz *et al.* (2021) empirically investigated the relationships between managerial human capital and international

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performance in manufacturing firms in apparel industry operating in an emerging economy in Bangladesh. The study utilized a survey-based approach to collect data. Structural equation modelling analysis was used to test the hypothesized model. With an empirical study of 329 export-manufacturing firms from an emerging economy in the apparel industry in Bangladesh, results suggested that the direct effect of managerial human capital on financial and non-financial performances were significant.

Anchored on the RBV theory and DCV theory, Khan *et al.* (2020) conducted an empirical study on the influence of managerial human capital and innovation performance in small and medium sized enterprises in Hefei, Anhui province in China. The study used a cross-sectional survey research design. Approximately 498 questionnaires were distributed among different small and medium sized enterprises in Hefei, of which around 429 responses were received. Structural equation modelling was employed to test the proposed hypotheses. Results also indicated that managerial human capital had a positive and significant influence on innovation performance in small and medium sized enterprises.

Margarida, Maria and Madalena (2016) examined the impact of technological capabilities on organizational innovation and the influence of organizational innovation on export performance. Survey data of 471 exporting manufacturing firms based in Portugal was used to test the relationships between the constructs analyzed in this study. These were randomly from 3000 manufacturing firms. An online questionnaire, developed from the open source software Lime Survey, was the basis of the data used to test the model. The findings demonstrate that technological capabilities have a significant effect on organizational innovation intensity, which in turn has a positive impact on export performance.

Another study was conducted by Zawislak Cherubini Alves, Tello-Gamarra, Barbieux and Reichert (2012), investigated the relationship between investments in technological capability and economic performance in Brazilian firms. The study analyzed 133 Brazilian industrial firms that were listed in the major national stock market between 2008 and 2010. The study collected secondary data through these companies' annual reports and profit and loss statements, their websites. The relationship between investments in technological capability and firm performance was found to be positive and significant.

Furthermore, Ahmed (2017) sought to examine the relationship between development, managerial capabilities and managerial performance and its influence on the overall organizational performance: in the context of size of the organization and ownership. The random sampling technique was used in selection of the sample organizations that included the organizations from manufacturing and service sector. The structured questionnaire was adopted to get the structured and standardized responses for statistical analysis purposes. The survey method and face-to-face interview approach was used. The findings revealed that there is a relationship between managerial capabilities, managerial performance and organizational performance.

Another study by Aduloju (2014) sought to find out whether IT investments and IT managerial capabilities can account for variations in customer service performance among insurance companies in Nigeria. Using survey research design, the three formulated hypotheses were tested with data gathered from 402 staff at the managerial level drawn from the insurance companies in Nigeria, which have been among the largest investors in IT, and where customer service is widely perceived as strategically important. Responses were analyzed using linear regression. A major finding of this study was that IT is a necessary, but not sufficient, condition for sustainable competitive advantage in customer service. Results showed that the interaction of IT investments and tacit, path-dependent, and firm-specific IT managerial

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capabilities significantly explains variations in customer service performance.

In addition, Odhiambo (2014) sought to assess the influence of organizational culture, marketing capabilities, market orientation and industry competition on performance of microfinance institutions in Kenya. A descriptive cross-sectional survey was used. Secondary data were collected from annual industry performance reports. Primary data were collected through structured questionnaire. Data were analyzed through descriptive statistics, contingency tables, Chi-square tests, factor analysis and regression analysis. Results of Cronbach's alpha test confirmed reliability of all the measurement scales used in the study. Results revealed that the influence of organizational culture was stronger on non-financial performance than financial performance. The results also revealed that marketing capabilities had strong statistical predictability of firm performance.

Vecchiato, Favato, Di Maddaloni, and Do (2020) explored the relationship between foresight and managerial cognition and the contribution of foresight to the long-term performance of organizations facing major sources of uncertainty. The research setting was the automotive industry, a compelling research setting for illustrating and reflecting upon the role of foresight in strategic decision-making, as the industry was currently experiencing major drivers of change and technological discontinuities. The researchers carefully examined the most recent empirical and theoretical works in the field of foresight, by conducting a thorough literature review. The study found that scholars and practitioners increasingly emphasized the ability of foresight to change the mental models of senior managers and the role of such ability in the long-term adaptation to external changes. Overall, our study contributed to the development of a programmatic stream of research in the domain of foresight and future studies.

METHODOLOGY

This study adopted descriptive research design. The target population for the study comprised of top level management, middle level management and employees who are 397 employees working in the micro-finance institutions in the following departments; management, treasury & business development, human resource, operations, marketing & product development, information technology, finance and customer service respectively. The sampling frame was top-level management, middle level management and employees who were 397 employees working in the micro-finance institutions in the following departments; management, treasury & business development, human resource, operations, marketing & product development, information technology, finance and customer service respectively.

The study used the Yamane (1967)'s formula to determine the sample size and verify that the sample size is sufficiently large (Ghauri *et al.*, 2020). Structured questionnaires were used to collect data from the employees of micro-finance institutions based in Mombasa County. The data collected was edited, cleaned, coded and analyzed using both descriptive and inferential statistics with the help of IBM SPSS Statistics for Windows, Version 25.0 (IBM Corp, 2015). The results were summarized and presented in form of tables.

The regression model tested by the study is as follows;

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \varepsilon$$

Where: Y = organizational performance;
β_0 = constant;
β_i = regression coefficients;
X_1 = dynamic innovation capabilities;
X_2 = dynamic learning capabilities;
X_3 = dynamic marketing capabilities;
X_4 = dynamic managerial capabilities;
ε = error term.

FINDINGS AND DISCUSSIONS

Descriptive Analysis

This study carried out the following descriptive statistics; mean, standard deviation of all the study variables. In the research analysis, the researcher used a tool rating scale of 5 to 1; where 5 were the highest and 1 the lowest. Opinions given by the respondents were rated as follows, five=Strongly Agree, 4=Agree, 3=Uncertain, 2=Disagree and one=Strongly Disagree. The analysis for mean was based on the rating scale that showed interval lengths between lower limit and upper limit.

Dynamic Innovation Capabilities

The study sought to determine the extent of dynamic innovation capabilities in microfinance institutions. Table 1 summarizes respondents' level of agreement on the aspects of dynamic innovation capabilities.

Table 1: Dynamic Innovation Capabilities

	Mean	Std. deviation
The micro-finance commits substantial resources to scan the environment to identify new opportunities	4.59	.695
The micro-finance commit substantial resources to scan the environment to identify recent technologies	4.87	.860
The micro-finance continually adjust its strategies based on information it obtains from the market	4.94	.716
The micro-finance continually adjust its product mix based on information it obtains from the market	4.70	.699
The micro-finance is always able to respond to market disruption faster than its competitors	3.19	.492

The results in Table 1 have shown that respondents agreed to the statement that the micro-finance commits substantial resources to scan the environment to identify new opportunities and to identify recent technologies as indicated by a mean of 4.59 and mean of 4.87 respectively. Respondents also agreed that the micro-finance continually adjust its strategies based on information it obtains from the market (mean=4.94) and that the micro-finance continually adjust its product mix based on information it obtains from the market jobs (mean=4.70). The respondents were indifferent to the statement that the micro-finance is always able to respond to market disruption faster than its competitors as indicated by a mean of 3.19.

Dynamic Learning Capabilities

The study sought to investigate the extent of dynamic learning capabilities in microfinance institutions. Table 2 summarizes respondents' level of agreement on the aspects of dynamic learning capabilities.

Table 2: Dynamic Learning Capabilities

	Mean	Std. Deviation
The micro-finance gives orientation towards the development, transfer and protection of strategic learning capabilities	4.69	.497
The micro-finance explicitly identifies strategic learning capabilities as a key element in planning	4.80	.634
The micro-finance acquires learning capabilities from external sources for developing new products	4.22	1.159
The micro-finance uses learning capabilities to respond to consumer needs and preferences	4.73	.250
The management encourages high levels of participation in capturing and transferring learning capabilities	2.58	.961

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The results in Table 2 have shown that respondents agreed to the statement that the micro-finance gives orientation towards the development, transfer and protection of strategic learning capabilities and that it explicitly identifies strategic learning capabilities as a key element in planning as indicated by a mean of 4.69 and mean of 4.80 respectively. Respondents agreed to the statement that the micro-finance acquires learning capabilities from external sources for developing new products (mean=4.22). Respondents were indifferent to the statement that the micro-finance uses learning capabilities to respond to consumer needs and preferences (mean=4.73). Finally, respondents disagreed to the statement that the management encourages high levels of participation in capturing and transferring learning capabilities (mean of 2.58).

Dynamic Marketing Capabilities

The study sought to determine the extent of dynamic marketing capabilities in microfinance institutions. Table 3 summarizes respondents' level of agreement on the aspects of dynamic marketing capabilities.

Table 3: Dynamic Marketing Capabilities

	Mean	Std. Deviation
There are flexible structures that makes the micro-finance to respond to management better than competitors	4.07	.550
There is adoption of marketing information that enables the micro-finance to maintain relationship with customers	4.26	.600
The marketing team is good at creating, maintaining and enhancing relationships with customers	3.88	.237
The Marketing team responds to competitive actions that threatens micro-finance	4.91	.881
The marketing team is good at ascertaining customers' current needs and what products they will need in the future	4.10	1.121

The results in Table 3 have shown that respondents agreed to the statement that there are flexible structures that makes the micro-finance to respond to management better than competitors and that there is adoption of marketing information that enables the micro-finance to maintain relationship with customers as indicated by a mean of 4.07 and mean of 4.26 respectively.

Respondents were indifferent to the statement that the marketing team is good at creating, maintaining and enhancing relationships with customers (mean=3.88). However, they agreed to the statement that the marketing team responds to competitive actions that threatens the micro-finance (mean=4.91) and that the marketing team is good at ascertaining customers' current needs and what products they will need in the future (mean=4.10).

Dynamic Managerial Capabilities

The study sought to determine the extent of dynamic managerial capabilities in microfinance institutions. Table 4 summarizes respondents' level of agreement on the aspects of dynamic managerial capabilities.

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Table 4: Dynamic Managerial Capabilities

	Mean	Std. Deviation
The management at the micro-finance have the rightful education for their positions and therefore have gained the needed skills	4.71	.437
The management at the micro-finance have achieved high level of education which imparts them with the knowledge and skills required to run the company	4.01	.953
During the appointment of managers at the micro-finance, their level of experience for managerial positions is put into consideration so that those with highest experience are considered	4.98	.445
The management at the micro-finance is able to form strong social network ties both with employees and other stakeholders and customers	4.09	.610
The social network ties between the management and the company stakeholders and customers is closely knit	2.87	.872

The results in Table 4 have revealed that respondents agreed to the statement that the management at the micro-finance have the rightful education for their positions and therefore have gained the needed skills and that the management has achieved high level of education which imparts them with the knowledge and skills required to run the company as indicated by a mean of 4.71 and mean of 4.01 respectively. Respondents also agreed to the statement that during the appointment of managers at the micro-finance, their level of experience for managerial positions is put into consideration so that those with highest experience are considered (mean=4.98) and that the management at the micro-finance is able to form strong social network ties both with employees and other stakeholders and customers (mean=4.09). However, the respondents disagreed to the statement that the social network ties between the management and the company stakeholders and customers is closely knit (2.87).

Correlation Analysis

The researcher further sought to establish the bivariate correlation between the variables. According to Sekaran and Bougie (2010), Pearson correlation analysis indicates the strength, direction, and significance of bivariate relationship among the variables. The results are shown in Table 5.

Table 5: Correlation Coefficient

		DIC	DLC	DMC	DMgC	OP
Dynamic innovation capabilities	Pearson Correlation	1				
	Sig. (2-tailed)					
	N	153				
Dynamic learning capabilities	Pearson Correlation	.679**	1			
	Sig. (2-tailed)	.000				
	N	153	153			
Dynamic marketing capabilities	Pearson Correlation	.605**	.716**	1		
	Sig. (2-tailed)	.000	.000			
	N	153	153	153		
Dynamic managerial capabilities	Pearson Correlation	.609**	.499**	.518**	1	
	Sig. (2-tailed)	.000	.000	.000		
	N	153	153	153	153	
Organizational performance	Pearson Correlation	.577**	.462**	.498**	.398	1
	Sig. (2-tailed)	.002	.000	.000	.000	

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

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Correlation results showed that there is a positive linear relationship between dynamic innovation capabilities and organizational performance (r=0.577, P=0.002). Further, correlation results indicated a moderate, positive linear relationship between dynamic learning capabilities and organizational performance (r=0.462, P=0.000). The correlation results showed a moderate, positive linear relationship between dynamic marketing capabilities and organizational performance (r=0.498, P=0.000). Finally, correlation results indicated a positive linear relationship between dynamic managerial capabilities and organizational performance (r=0.398, P=0.000).

Multiple Regression Analysis

A multiple regression model was adopted in the study to establish the statistical relationship between the independent and the dependent variables.

Table 6: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.723[a]	.523	.423	.46624	2.629

a. Predictors: (Constant), Dynamic innovation capabilities, Dynamic learning capabilities, Dynamic marketing capabilities, Dynamic managerial capabilities
b. Dependent Variable: Organizational performance

The model summary results in Table 6 showed a moderate regression between the dynamic capabilities and organizational performance. In the model summary, the R^2 is 0.523, which indicates that independent variables (dynamic innovation capabilities, dynamic learning capabilities, dynamic marketing capabilities and dynamic managerial capabilities) explain 52.3 per cent variation in organizational performance, while the remaining 47.7% are un-modelled determinants.

Table 7: ANOVA

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	4.536	4	1.134	40.50	.001[b]
	Residual	4.130	148	.028		
	Total	8.667	152			

a. Dependent Variable: Organizational performance
b. Predictors: (Constant), Dynamic innovation capabilities, Dynamic learning capabilities, Dynamic marketing capabilities, Dynamic managerial capabilities

The study used ANOVA to establish the significance of the regression model. In testing the significance level, the statistical significance was considered significant if the p-value was less or equal to 0.05. From Table 8, it can be observed that the p value (0.001) is less than the level of significance (0.05) implying that the overall model is significant.

Table 8: Regression Coefficients

	Unstandardized Coefficients		Standardized Coefficients		
Model	B	Std. Error	Beta	t	Sig.
(Constant)	.845	.947		.893	.029
Dynamic innovation capabilities	.519	.216	.483	2.403	.041
Dynamic learning capabilities	.406	.201	.399	2.019	.006
Dynamic Marketing capabilities	.438	.199	.175	2.201	.035
Dynamic managerial capabilities	.341	.170	.270	2.006	.001

a. Dependent Variable: Organizational performance

The derived regression coefficients of the model are:

$Y = .845 + .483X_1 + .399X_2 + .175X_3 + .270X_4$

The regression results showed that independent variables had significant value below 0.05 meaning that they were all significant. From the results, it showed that holding all factors constant at zero, the change in organizational performance would be .845. Further, the regression results showed that a unit change in dynamic innovation capabilities would lead to 0.483 unit change in organizational performance. A unit change in dynamic learning capabilities would lead to 0.399 unit change in organizational performance. Further, a unit change in dynamic marketing capabilities would lead to 0.175-unit change in organizational performance and finally, a unit change in dynamic managerial capabilities would lead to 0.270 unit change in organizational performance.

Discussion of Key Findings and Hypothesis Testing

Based on dynamic innovation capabilities, the correlation results showed a significant positive correlation between dynamic innovation capabilities and performance of MFIs. Standard multiple regression was conducted and there was positive and statistically significant effect of dynamic innovation capabilities on performance of microfinance institutions in Mombasa County ($\beta = 0.483$; $t = 2.403$; $p < 0.05$). These findings show that a positive change in dynamic innovation capabilities would result to a positive change in performance of MFIs in Mombasa. After testing the hypothesis by comparing the scores of calculated t-value and critical t calculated t-values was 2.403 for dynamic innovation capabilities, which is greater than the critical t_{153-1} (0.05) = 2.0, the study rejected the null hypothesis that there is no effect of dynamic innovation capabilities on performance of MFIs.

The correlation results on dynamic learning capabilities revealed a positive significant correlation between dynamic learning capabilities and MFIs performance. Standard multiple regression was conducted and showed a positive and statistically significant effect of dynamic learning capabilities on performance of microfinance institutions in Mombasa County ($\beta = 0.399$; $t = 2.019$; $p < 0.05$). These findings show that a positive change in dynamic learning capabilities would result to a positive change in performance of MFIs in Mombasa. After testing the hypothesis by comparing the scores of calculated t-value and critical t calculated t-values was 2.019 for dynamic learning capabilities, which is greater than the critical t_{153-1} (0.05) = 2.0, the study rejected the null hypothesis that there is no effect of dynamic learning capabilities on performance of MFIs.

Based on dynamic marketing capabilities, the correlation results showed a significant positive correlation between dynamic marketing capabilities and performance of MFIs. Standard multiple regression was conducted and there was positive and statistically significant effect of dynamic marketing capabilities on performance of microfinance institutions in Mombasa County ($\beta = 0.175$; $t = 2.201$; $p < 0.05$). These findings show that a positive change in dynamic marketing capabilities would result to a positive change in performance of MFIs in Mombasa. After testing the hypothesis by comparing the scores of calculated t-value and critical t calculated t-values was 2.201 for dynamic marketing capabilities, which is greater than the critical t_{153-1} (0.05) = 2.0, the study rejected the null hypothesis that there is no effect of dynamic marketing capabilities on performance of MFIs.

Based on dynamic managerial capabilities, the correlation results showed a significant positive correlation between dynamic managerial capabilities and performance of MFIs. Standard multiple regression was conducted and there was positive and statistically significant effect of dynamic managerial capabilities on performance of microfinance institutions in Mombasa County ($\beta = 0.270$; $t = 2.006$; $p < 0.05$). These findings show that a positive change in dynamic managerial capabilities would result to a positive change in performance of

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MFIs in Mombasa. After testing the hypothesis by comparing the scores of calculated t-value and critical t calculated t-values was 2.006 for dynamic managerial capabilities, which is greater than the critical t_{153-1} (0.05) = 2.0, the study rejected the null hypothesis that there is no effect of dynamic managerial capabilities on performance of MFIs.

CONCLUSIONS AND RECOMMENDATIONS

The study concluded that substantial resources is committed by the MFIs for opportunities identification through environmental scanning. The MFIs also uses resources to identify trending financial technologies with a view to upgrading. The MFIs also make changes to their strategies continually informed by the information they obtain form the market and adjust its offerings. The study concludes that the micro-finance institutions are not always able to respond to market disruption faster.

The study concluded that the micro-finance institutions explicitly identifies strategic learning capabilities as a key element in planning and hence provides orientation towards the development, transfer and protection of strategic learning capabilities. The MFIs also acquires learning capabilities from external sources for developing new products and uses the obtained learning capabilities to respond to consumer needs and preferences. The management, however, does not always encourage high levels of participation in capturing and transferring learning capabilities.

The study concluded that MFIs have flexible structures that makes the institutions to respond to management actions faster. There is adoption of marketing information that enables the micro-finance to maintain relationship with customers and the current marketing team is good at creating, maintaining and enhancing relationships with customers. Further, the marketing team responds to competitive actions that threatens the micro-finance and the team is good at ascertaining customers' current needs and what products they will need in the future.

The study concluded that the micro-finance institutions boast of educated management and the managers possess the much-needed skills to steer the MFIs. In addition, it is concluded that during the appointment of managers at the micro-finance, their level of experience for managerial positions is put into consideration so that those with highest experience are considered and that the management at the micro-finance is able to form strong social network ties with both employees and other stakeholders and customers. The social network ties between the management and the company stakeholders and customers is adversarial.

The study recommended that the Microfinance institutions should commit sufficient resources to enable them to effectively scan the business environment for opportunities to exploit them and threats to mitigate them. The resources should also be committed to look for and adopt the current technologies in the financial market to gain competitive advantage. The MFIs management should only make operational changes based on the information obtained from the environment and the MFIs should be proactive and timely in responding to market disruptions.

The study recommended that micro-finance institutions should explicitly identify strategic learning capabilities as a key element in planning. The quest for strategic learning capabilities by MFIs should provide orientation towards the development, transfer and protection of strategic learning capabilities. These learning capabilities should be acquired from all available avenue including from external sources for developing new products and uses the obtained learning capabilities to respond to consumer needs and preferences. The MFIs management should encourage high levels of participation in capturing and transferring learning capabilities.

The study recommended that MFIs should develop flexible structures that could make the institutions to respond to management actions faster. In addition, the MFIs should adopt marketing information capable of strengthening relationship

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with customers. The marketing team of MFIs should be tasked with creation, maintenance and enhancement of customer relations. In addition, the MFIs marketing team should be in a position to respond to competitive actions that threatens the micro-finance.

The study recommended that the micro-finance institutions should hire management staff with good knowledge base on finance and strategic management, as they are core skills necessary in steering the MFIs to success. The managers' appointment should be informed by skill level of the candidates and those with considerable experience should be absolved to bring expertise to the MFI. The management of MFIs should be able to form strong social network ties with both employees and other stakeholders and customers.

Areas of Further Study

The study was limited on dynamic capabilities and performance in the context of Microfinance institutions. However, the aspects of dynamic capabilities only explained 52.3 percent change on performance of MFIs there is need to study other dynamic capabilities not included in the study to ascertain their effect on not only performance of MFIs but also growth of MFIs in Kenya.

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