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STRATEGIC CAPABILITIES AND COMPETITIVE ADVANTAGE OF MICROFINANCE BANKS IN NAIROBI CITY COUNTY, KENYA

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ABSTRACT

This study examined the influence of strategic capabilities on competitive advantage among microfinance banks in Nairobi City County, Kenya. Specifically, it investigated how managerial, marketing, technological, and networking capabilities contribute to competitive positioning in an increasingly dynamic and competitive financial services environment. The research adopted a descriptive research design and employed a census approach targeting all 156 employees from four key departments—operations, marketing, finance, and information technology—across thirteen licensed deposit-taking microfinance banks in Nairobi. Data was collected using structured questionnaires and analyzed through both descriptive and inferential statistical techniques, including correlation and multiple regression analysis using SPSS version 20.0. The study achieved a response rate of 75%, with 117 completed questionnaires. Reliability analysis confirmed excellent internal consistency (α = .959). Correlation analysis revealed strong positive relationships between all strategic capabilities and competitive advantage: marketing capabilities (r = .690, p < .01), managerial capabilities (r = .688, p < .01), networking capabilities (r = .660, p < .01), and technological capabilities (r = .610, p < .01). Multiple regression analysis indicated that the four predictors collectively explained substantial variance in competitive advantage (R^2 = .550, $F(4, 112)$ = 34.212, p < .001). Marketing capabilities emerged as the strongest significant predictor (β = .337, t = 2.996, p = .003), followed closely by managerial capabilities (β = .325, t = 2.849, p = .005). These findings support Market-Based Theory and Dynamic Capability Theory, demonstrating that market-facing competencies and leadership effectiveness are primary drivers of competitive positioning. Interestingly, while technological capabilities (β = .012, t = .103, p =

.918) and networking capabilities (β = .131, t = 1.068, p = .288) showed strong bivariate correlations with competitive advantage, they did not demonstrate significant independent effects in multivariate analysis, suggesting these capabilities function as enablers that enhance marketing and managerial effectiveness rather than serving as direct sources of competitive advantage. This pattern likely reflects technology commoditization within financial services and the indirect nature of networking benefits. The study recommends that microfinance institutions prioritize investments in marketing and managerial capability development as primary pathways to competitive advantage while ensuring technological and networking capabilities are effectively integrated to support these core competencies. Future research should employ longitudinal designs to examine temporal dynamics and explore mediating mechanisms through which technological and networking capabilities influence competitive outcomes across diverse geographical contexts.

INTRODUCTION

In today's dynamic financial landscape, competitive advantage has emerged as a critical determinant of organizational success, particularly for institutions operating in highly contested markets. Competitive advantage enables a company to distinguish itself from rivals by offering unique value propositions that resonate with customers, ultimately leading to superior market performance and sustained profitability (Rose, Abdullah & Ismad, 2020). Barney and Zajac (2021) stated that a competitive advantage can add more value to a company and its shareholders due to some of the strong points they may possess over its rivals. For microfinance banks operating in Kenya's evolving financial sector, the pursuit of competitive advantage has become increasingly urgent given the sector's pivotal role in advancing financial inclusion while simultaneously navigating significant operational and market challenges. The fundamental premise underlying this research is that strategic capabilities, encompassing managerial, marketing, technological, and networking competencies, represent critical organizational assets that can be leveraged to achieve and sustain competitive advantage in this demanding environment.

The microfinance sector in Kenya, particularly within Nairobi City County, faces an increasingly complex operating environment characterized by intensifying competition, technological disruption, and changing customer expectations. According to Ting and Lean (2019), the globalization and rising competitiveness of the market have directed banking institutions to become innovative in their operations to achieve sustainable competitive advantage. Recent performance indicators paint a concerning picture, as Kenya's

microfinance banks collectively reported a pre-tax loss of KES 2.4 billion in 2023, driven by escalating operational expenses and declining revenues (Omwakwe, 2024). Market share has contracted steadily, dropping from 1.05% in 2014 to just 0.79% in 2018 (CBK, 2019). Profitability metrics have similarly deteriorated, with return on equity declining from 27.1% in 2015 to 25% in 2016 (CBK, 2019). According to Kenya's Central Bank annual supervisory report (2021), the country's combined loss before tax as of December 31, 2021, was Ksh. 877 million, as opposed to Ksh. 2.2 billion as of the same date in 2020 (CBK, 2022). These troubling trends underscore the sector's struggle to maintain competitiveness and operational viability, despite its essential mandate to serve underbanked populations and small to medium enterprises that mainstream financial institutions have historically neglected.

The challenges confronting microfinance banks extend beyond financial performance metrics. Between 2020 and 2021, the microfinance sector closed 28 marketing offices, reducing the total number to 63 from 89 as of 2020, and according to CBK (2022), ten microfinance banks reported losses, with shareholders of Faulu, Rafiki, and Uwezo needing to make arrangements for additional infusion of equity capital. As Lusweti and Mwasiaji (2020) observe, microfinance banks in Nairobi Kenya still encounter difficulties in attaining the intended degree of performance, even after attempting a range of tactics. The sector grapples with persistent operational difficulties including high default rates resulting from lending to inherently risky borrower segments, limited technological infrastructure exposing institutions to fraud and system failures (Bii, 2023), and inadequate strategic positioning in an increasingly crowded marketplace. Omondi and Muthimi (2019) claim that microfinance firms face a variety of challenges as a result of Kenya's dynamic business climate, primarily caused by the existence of uncommon market participants and inadequate modification of novel advances in technology in finance. These multifaceted challenges have created an imperative for microfinance banks to fundamentally reassess how they deploy and leverage their strategic capabilities to create defensible competitive advantages.

Strategic capabilities represent the organizational potential to effectively utilize competitive strategies through the optimal deployment of resources, competencies, and market positioning (Lenz, 2020). According to Vesalainen and Hakala (2022), strategic capability considers assets, resources and market position of an organization, and forecasts how successful an organization will be in using strategies in the future. For microfinance institutions, these capabilities encompass the distinctive processes, routines, and intrinsic factors such as innovation abilities, brand reputation, and human resource talents that collectively distinguish one institution from another (Menganyi, Abayo & Muraguri, 2023).

The strategic capabilities examined in this research include managerial capabilities, which involve knowledge management, organizational transformation, and continuous innovation (Ocharo & Kimencu, 2019); marketing capabilities, encompassing market research, channel management, and promotional activities (Kogo & Kimencu, 2019); technological capabilities, covering information technology infrastructure, skills, and technology acceptance (Machiri, Oloko, Ngugi & Odhiambo, 2023); and networking capabilities, involving relationship building, alliance management, and information sharing (Arasti, Garousi, Mokhtarzadeh & Jafarpanah, 2022). Understanding how these capabilities individually and collectively contribute to competitive advantage holds significant implications for institutional performance, sector sustainability, and ultimately, the achievement of broader financial inclusion objectives in Kenya.

This research therefore examined the following questions. What is the influence of managerial capabilities on competitive advantage of microfinance banks in Nairobi City County, Kenya? What is the influence of marketing capabilities on competitive advantage of microfinance banks in Nairobi City County, Kenya? What is the influence of technological capabilities on competitive advantage of microfinance banks in Nairobi City County, Kenya? What is the influence of networking capabilities on competitive advantage of microfinance banks in Nairobi City County, Kenya?

Literature Review

The theoretical foundation for understanding how strategic capabilities influence competitive advantage rests on three complementary frameworks that collectively illuminate different dimensions of this relationship. Dynamic Capability Theory, originally devised by Teece et al. (1997), posits that organizational achievement is fundamentally connected to a company's capacity to disband, fuse, and reformulate its skills internally and externally to design new wellsprings of benefit over its competitors. The theory emerged as both a supplement and protest against the Resource-Based View's limited popularity in explaining resource creation and renewal in expeditiously developing environments (Boccardelli & Magnusson, 2019). According to Bruni and Verona (2021), sustainable competitive advantage is anchored on the ability of a firm to obtain valuable, rare, impossible to imitate, and non-substitutable resources, which DC theory advances by emphasizing how organizations can redesign their strategy and resources to achieve sustainable competitive advantages in rapidly changing environments. Market-Based Theory, developed by Mason and Bain (1950) and later expanded by Porter (1980), contends that organizational success is fundamentally linked to

market framework rather than internal characteristics alone. This perspective emphasizes that industry attractiveness and the organization's position within the industry structure are the two primary determinants for achieving sustainable environmental competitive advantage. The Theory of Competitive Advantage, articulated by Porter (1980), rests on the competing forces concept according to which the key to developing a competitive strategy is relating a company to its environment. A firm is described to have an economic advantage relative to its competition when it records better returns beyond the industry norm (Arend, 2016). These theoretical perspectives collectively provide a robust lens for examining how microfinance banks can leverage strategic capabilities to achieve superior market positioning.

Empirical evidence regarding managerial capabilities demonstrates strong linkages to competitive advantage across diverse contexts. Menyangi, Abayo, and Muraguri (2023) examined strategic capabilities and competitive advantages of microfinance institutions in Nairobi County, employing a descriptive research design with 128 employees as the sample size. The research indicated that management and technological capabilities enhanced the competitive capabilities of the institutions, though the study's focus on Nairobi CBD alone presents a geographical limitation. Ocharo and Kimencu (2018) found that knowledge management significantly influenced competitiveness at Numerical Machining Complex Ltd in Nairobi, using data from 50 staff members selected through stratified sampling. Ramadhan and Onyango (2021) investigated management capabilities and performance of microfinance banks in Kenya using a census method with 52 respondents, revealing a positive and significant relationship between management capabilities and firm performance, though their focus on performance rather than competitive advantage constitutes a contextual gap. Recent evidence from Syed et al. (2024) examined entrepreneurs' dynamic managerial capabilities as sources of sustained competitive advantage among SMEs, anchoring the analysis on the Resource-Based View and finding that valuable, rare, inimitable, and non-substitutable managerial capabilities significantly influenced sustained competitive advantage. Rehman et al. (2022) examined intellectual capital and knowledge management in determining competitive advantage in Pakistan's manufacturing sector using PLS-SEM on data from 387 firms, indicating that knowledge-based managerial resources significantly enhanced innovativeness and competitive advantage. These studies demonstrate consistent evidence of managerial capabilities' influence on competitive outcomes, though notable gaps persist regarding analytical depth and integration of emerging managerial dynamics.

Marketing capabilities have similarly demonstrated significant relationships with competitive advantage, though with important contextual variations. Homaid, Minai, and Al-Ansi (2018)

examined how market and entrepreneurial orientations influence microfinance institution performance in Yemen, utilizing 125 questionnaires analyzed via Partial Least Squares modeling. The study found that while entrepreneurial and learning orientations significantly drive performance, market orientation does not, though these findings may not be generalizable to the Kenyan MFI sector. Aduwo and Deya (2022) explored the nexus between dynamic capabilities and competitive advantage within Kenya's commercial banking sector using a descriptive survey design targeting all 42 licensed commercial banks. Analysis through both descriptive and inferential statistics revealed a significant positive correlation between marketing capabilities and competitive advantage, though the scope's limitation to commercial banks creates an institutional gap regarding applicability to microfinance institutions. Ejrami, Salehi, and Ahmadian (2016) examined the moderating influence of risk management on the relationship between marketing capabilities, competitive advantage, and firm performance within the Iranian import sector, sampling 80 import companies and utilizing Pearson correlation and linear regression in SPSS. Their analysis confirmed that marketing capabilities positively impact both competitive advantage and overall performance, though a significant methodological gap exists as the study's conclusions relied heavily on secondary data.

Technological capabilities have emerged as increasingly critical drivers of competitive positioning in contemporary financial markets. Ahmad and Lazim (2019) identified a significant positive relationship between technical proficiency and performance among 322 manufacturing firms in Malaysia, though the industrial and regional focus limits applicability to Kenyan financial services. Filho and Moori (2018) used an exploratory mixed-method approach in the Campinas technology hub to show how supply chain integration shapes technological capacity, though their small sample size and exploratory nature present methodological limitations. Muazu and Abdulmalik (2021) provided theoretical alignment through their review of IT capabilities and competitive strategy, synthesizing various adoption models to provide a strong conceptual foundation, though the lack of empirical testing represents a scholarly gap. Al-Mamary et al. (2020) reinforced the long-term strategic value of technology in manufacturing but explicitly noted that service-based sectors like microfinance remain significantly under-researched. Amboyi et al. (2024) provided localized evidence by linking technological capabilities to transient competitive advantages in private hospitals through structural equation modeling in Kenya, though fundamental differences between healthcare delivery and microfinance banking maintain an institutional gap.

Networking capabilities have garnered increasing attention as strategic assets for competitive positioning. Wegner, Santini, and Toigo (2021) explored networking proficiency's influence on organizational outcomes through meta-analysis of thirty academic works published between 2008 and 2020, applying meta-analytic structural equation modeling to determine that firms should prioritize internal development to maximize advantages from external connections. Tuwei, Korir, and Joyce (2022) investigated how networking capabilities bridge entrepreneurial drive and manufacturing entity success in Nairobi using Hayes Model 14, confirming that networking acts as a significant mediator in enhancing firm performance, though that research focused on general performance metrics rather than competitive advantage specifically. Olalo (2020) conducted case-based survey research revealing near-perfect correlation between strategic partnerships and market positioning among Kenya's large-scale insurance providers, though restriction to the insurance sector and large-scale enterprises creates an institutional gap. Kimaru et al. (2024) analyzed how networking impacts sustainability of competitive positions for food manufacturing SMEs in Kenya using a cross-sectional descriptive approach with 106 participants, finding that even small improvements in networking capability lead to measurable gains in competitiveness, though sectoral differences limit generalizability to financial services.

Despite substantial empirical evidence linking strategic capabilities to competitive advantage, significant research gaps persist. Geographically, many studies focus on contexts outside Kenya or within limited Kenyan regions. Methodologically, heavy reliance on secondary data and theoretical reviews rather than primary empirical investigation characterizes much existing research. Contextually, studies concentrate on manufacturing, insurance, or commercial banking sectors, leaving microfinance institutions underexplored. Conceptually, most research examines capabilities in isolation rather than comprehensively investigating multiple capabilities simultaneously within a unified framework. The current study addresses these gaps by empirically examining how managerial, marketing, technological, and networking capabilities collectively influence competitive advantage specifically among microfinance banks in Nairobi City County, utilizing primary data within a comprehensive analytical framework.

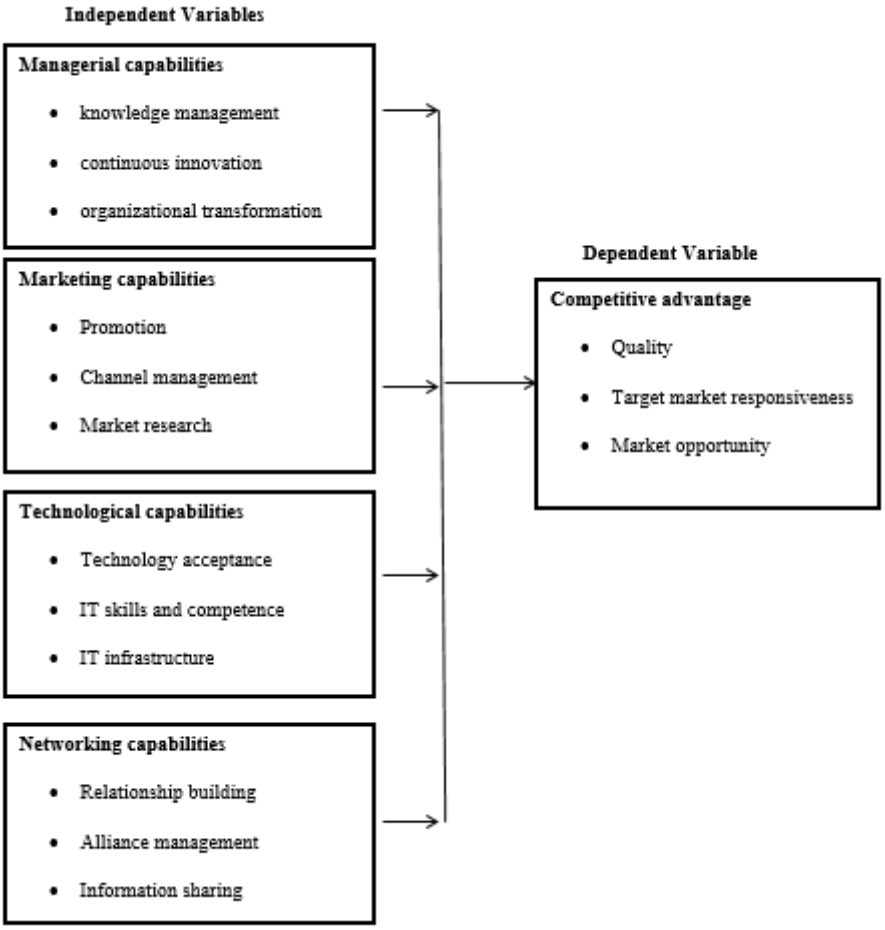

Figure 1. Conceptual framework

Research Methodology

3.1. Research Design

The study adopted a descriptive research design to comprehensively investigate the relationship between strategic capabilities and competitive advantage. Descriptive research design enables systematic description of characteristics, behaviors, and relationships as they exist naturally, without manipulation of variables (Siedlecki, 2020). This design was considered appropriate because it allowed the researcher to collect both quantitative and qualitative data from respondents within their natural organizational environments. As a result, authentic insights into managerial, marketing, technological, and networking capabilities were captured based on respondents' real experiences.

The descriptive approach facilitated objective examination of how strategic capabilities influence competitive advantage within microfinance banks by enabling standardized data collection across multiple institutions. Structured questionnaires were used to ensure consistency, comparability, and reliability of responses. Additionally, the non-interventionist

nature of the design ensured that findings reflected actual organizational dynamics rather than artificial experimental conditions, thereby enhancing the practical relevance and applicability of the study findings (Lewis, 2015).

3.2 Target Population and Sampling Approach

The target population comprised employees from thirteen licensed deposit-taking microfinance banks operating within Nairobi City County, Kenya. Creswell and Creswell (2017) define a target population as the entire group of individuals from whom conclusions are drawn. The study focused on employees from four key functional departments within each institution: operations, marketing, finance, and information technology. These departments were selected because they play a critical role in the formulation and implementation of strategic capabilities.

Three respondents were selected from each department across the thirteen microfinance banks, resulting in a total target population of 156 respondents. Given the relatively small and homogeneous nature of the population, the study employed a census approach rather than sampling. Cooper and Schindler (2014) argue that a census method enhances accuracy and eliminates sampling error when dealing with manageable populations. Consequently, all 156 respondents were included in the study to ensure comprehensive coverage and improve the robustness of the findings.

3.3 Data Collection Instruments

Primary data were collected using structured questionnaires developed specifically for this study. According to Spector (2018), well-designed questionnaires should be valid, reliable, logically structured, and aligned with research objectives. The questionnaire utilized a five-point Likert scale to measure respondents' levels of agreement or disagreement with statements related to strategic capabilities and competitive advantage.

The questionnaire was divided into six sections. Section A captured demographic information of respondents. Section B measured managerial capabilities through indicators such as knowledge management, organizational transformation, and continuous innovation. Section C assessed marketing capabilities, including market research, channel management, and promotional strategies. Section D evaluated technological capabilities by examining IT infrastructure, staff IT competence, and technology acceptance. Section E focused on networking capabilities, addressing network resources, relationship building, alliance management, and information sharing. Section F measured competitive advantage using indicators such as product quality, market focus, customer responsiveness, and exploitation of market opportunities.

3.4 Instrument Validity and Reliability

Prior to the main data collection, a pilot study was conducted among sixteen respondents from customer care departments of microfinance institutions in Nairobi County who were excluded from the final study. Mugenda and Mugenda (2003) recommend that pilot samples constitute approximately ten percent of the target population when dealing with homogeneous groups.

Content validity was established through expert review by research supervisors, who assessed whether questionnaire items adequately represented the study constructs and were clearly articulated (Gall, Borg & Gall, 2012). Instrument reliability was evaluated using Cronbach's Alpha coefficient to measure internal consistency. According to Ranjit (2015), a reliability coefficient of 0.7 or higher is considered acceptable in social science research. All measurement scales achieved Cronbach's Alpha values above the recommended threshold, confirming the reliability of the instrument.

3.5 Data Analysis Procedures

After data collection, completed questionnaires were checked for completeness, coded, and entered into the Statistical Package for Social Sciences (SPSS) version 20.0 for analysis. Both descriptive and inferential statistical techniques were employed. Descriptive statistics, including frequencies, percentages, means, and standard deviations, were used to summarize respondent characteristics and variable distributions.

Inferential analysis involved correlation and multiple regression techniques to determine the relationship between strategic capabilities and competitive advantage. The regression model was specified as:

$$CP = \beta_0 + \beta_1 MC + \beta_2 MK + \beta_3 TC + \beta_4 NC + \varepsilon$$

Where CP represents competitive advantage, MC denotes managerial capability, MK represents marketing capability, TC refers to technological capability, NC signifies networking capability, β_0 is the constant, β_1–β_4 are regression coefficients, and ε is the error term. Diagnostic tests for multicollinearity, normality, linearity, and homoscedasticity were conducted to confirm model validity. Findings were presented using tables, charts, and graphs for clarity.

3.6 Ethical Considerations

Ethical standards were strictly observed throughout the research process. The researcher obtained authorization from the university and clearance from the National Commission for Science, Technology and Innovation (NACOSTI). Respondents were informed about the purpose of the study and participated voluntarily after providing informed consent.

Confidentiality and anonymity were ensured by excluding personal identifiers from questionnaires and reports, thereby safeguarding respondents' privacy and encouraging honest responses.

Research Findings and Discussion

4.1: Demographics

A total of 156 questionnaires were distributed to respondents across the thirteen licensed deposit-taking microfinance banks in Nairobi City County. Out of these, 117 questionnaires were duly completed and returned, representing a response rate of 75%. This exceeds the acceptable response rates recommended by Wu et al. (2022) at 44%, Fincham (2008) at 60%, and Menon and Muraleedharan (2020) at 25-30%, thereby establishing the adequacy of the data for robust statistical analysis.

4.2 Demographic Characteristics of Respondents

The gender distribution revealed that males constituted 57.3% (*n* = 67) of respondents, while females represented 42.7% (n = 50), suggesting relatively balanced gender representation with slight male predominance in Nairobi's microfinance banking sector. Age distribution indicated that the majority of respondents (48.7%, n = 57) fell within the 30-39 years bracket, followed by those aged 20-29 years (35.9%, n = 42). Respondents aged 40-49 years represented 14.5% (n = 17), while only 0.9% (n = 1) were above 50 years. This age profile demonstrates that the microfinance sector predominantly employs young to middle-aged professionals, suggesting a workforce characterized by energy, contemporary skills, and career growth aspirations. Educational qualifications revealed that 43.6% (n = 51) held diploma qualifications, making this the most common educational level. University degree holders represented 35.9% (n = 42), master's degree holders constituted 18.8% (n = 22), while postgraduate degree holders represented only 1.7% (n = 2). The prevalence of diploma and degree holders indicates that microfinance banks employ relatively well-educated staff, consistent with the technical and financial knowledge requirements of the industry. Work experience distribution showed that the majority (49.6%, n = 58) possessed 2-5 years of experience, followed by those with 6-9 years (39.3%, n = 46). Only 6.8% (n = 8) had less than 2 years, while 4.3% (n = 5) had more than 10 years. This distribution suggests the sample consisted predominantly of employees with moderate to substantial experience, enhancing the credibility and reliability of their responses regarding strategic capabilities and competitive advantage.

4.3 Instrument Reliability

Reliability analysis revealed excellent internal consistency for the research instrument, which consisted of 27 items (α = .959), substantially exceeding the recommended threshold of .70 (Hussey et al., 2023). This high reliability coefficient demonstrates strong inter-item consistency, indicating that the instrument reliably measured the intended constructs and that findings can be interpreted with confidence.

4.4 Strategic Capabilities and Competitive Advantage Perceptions

Descriptive analysis of managerial capabilities revealed consistently high mean scores across all dimensions. Management's ability to create safer workplaces that enhance decision-making received the highest rating (M = 4.27, SD = .611), followed by skills in employee motivation and engagement (M = 4.26, SD = .649) and competency in identifying employee skill requirements (M = 4.26, SD = .532). These findings strongly support Ramadhan and Onyango (2021), who found positive relationships between management capabilities and microfinance bank performance in Kenya, while extending this understanding by examining competitive advantage specifically. The high scores demonstrate that managerial capabilities extend beyond traditional administrative functions to influence organizational culture and employee empowerment, consistent with Dynamic Capability Theory's assertion that organizations must continuously reorganize internal and external skills to maintain competitiveness (Teece et al., 1997). The low standard deviations indicate strong consensus among respondents, suggesting these capabilities are embedded within organizational routines rather than dependent on individual managers, making them more sustainable sources of competitive advantage.

Marketing capabilities similarly demonstrated strong perceptions across multiple dimensions. Market research enabling understanding of customer needs received the highest rating (M = 4.30, SD = .647), followed by advertisements communicating unique value propositions (M = 4.19, SD = .490) and promotional campaigns attracting customers (M = 4.10, SD = .607). These findings align with Market-Based Theory developed by Porter (1980), which emphasizes that organizational success depends on understanding customer needs and competitive positioning. The strong ratings suggest microfinance institutions have developed market-based competencies enabling them to tailor offerings to customer demands and communicate value propositions effectively, creating differentiation advantages in competitive markets. These results contrast with Homaid, Minai, and Al-Ansi (2018), who found marketing orientation did not significantly impact microfinance institution

performance in Yemen, possibly reflecting contextual differences in market maturity and competitive intensity between Yemen and Kenya.

Technological capabilities revealed high perceptions for IT infrastructure enabling performance management and strategic adaptability (M = 4.18, SD = .582) and IT infrastructure management enhancing employee productivity (M = 4.04, SD = .498). However, product design contributing to customer loyalty received relatively lower ratings (M = 3.74, SD = .684) with higher variability, indicating less consensus regarding how technological capabilities translate into customer retention. These findings support Ahmad and Lazim (2019), who found positive relationships between technological capabilities and firm performance in Malaysian manufacturing companies, while extending this understanding to Kenya's microfinance sector. The relatively lower score for product design's impact on customer loyalty suggests that while microfinance institutions possess strong IT infrastructure capabilities, translating these into differentiated products driving customer retention remains challenging, possibly reflecting difficulty in product differentiation within financial services markets where offerings are often perceived as commoditized.

Networking capabilities demonstrated strong perceptions, with networking providing competitive intelligence opportunities receiving the highest rating (M = 4.56, SD = .688), followed by network relationships enabling resource access (M = 4.13, SD = .565). These findings strongly support Wang and Gao (2020), who found that competitors can serve as valuable network partners by providing market intelligence, and Olalo (2020), who established strong correlations between strategic business networking and competitive advantage among large Kenyan insurance companies. The high ratings demonstrate that microfinance institutions leverage networks as strategic tools for understanding competitor positioning and accessing resources beyond organizational boundaries, consistent with Dynamic Capability Theory's premise that firms must access external resources to achieve competitive advantage (Teece et al., 1997).

Competitive advantage perceptions revealed consistently high ratings, with quality products and services receiving the highest score (M = 4.60, SD = .603), followed by market responsiveness (M = 4.25, SD = .730) and market opportunity exploitation (M = 4.23, SD = .563). These findings align with Porter's (1980) competitive advantage theory emphasizing superior value delivery to customers. According to Reed, Lemak, and Mero (2022), quality serves as a strategic weapon for achieving competitive advantage, and the strong ratings suggest microfinance institutions have successfully developed quality-based differentiation strategies.

4.5 Correlation and Regression Analysis

Correlation analysis revealed strong positive relationships between all strategic capabilities and competitive advantage. Marketing capabilities exhibited the strongest correlation (r = .690, p < .01), followed by managerial capabilities (r = .688, p < .01), networking capabilities (r = .660, p < .01), and technological capabilities (r = .610, p < .01). All correlations were statistically significant, indicating these strategic capabilities are important predictors of competitive advantage. These findings support Dynamic Capability Theory (Teece et al., 1997), demonstrating that integrating and reconfiguring resources enhances competitiveness in dynamic environments. The correlation matric is indicated in table 1.

Table 1

Correlation Matrix.

	Marketing capabilities	Managerial capabilities	Technology capabilities	Networking capabilities	Competitive advantage
Marketing capabilities	1				
Managerial capabilities	0.745	1			
Technology capabilities	0.749	0.754	1		
Networking capabilities	0.783	0.789	0.771	1	
Competitive advantage	0.690	0.689	0.610	0.660	1

Multiple regression analysis revealed that the four predictors collectively explained 55.0% of variance in competitive advantage (R^2 = .550, $F(4, 112) = 34.212$, p < .001), with adjusted R^2 of .534 maintaining strong explanatory power. Marketing capabilities emerged as the strongest significant predictor (β = .337, t = 2.996, p = .003), followed by managerial capabilities (β = .325, t = 2.849, p = .005). These findings corroborate Aduwo and Deya (2022), who established positive associations between marketing capabilities and competitive advantage in Kenyan commercial banks, while extending evidence to the microfinance context. The strength of marketing capabilities reflects effective customer relationship management, market intelligence generation, and service differentiation, which are critical in industries characterized by relatively homogeneous financial products. The results are shown in table 2

Table 2

Multiple Regression Results for Capability Variables.

Predictor	B	SE	β	t	p	Tolerance	VIF
Constant	0.549	0.331	—	1.66	.100	—	—
Marketing capabilities	0.382	0.128	.337	2.99	.003	.318	3.15
Managerial capabilities	0.380	0.133	.325	2.85	.005	.308	3.24
Technology capabilities	0.013	0.129	.012	0.10	.918	.322	3.11
Networking capabilities	0.149	0.140	.131	1.07	.288	.267	3.75

Model Summary

- $R = 0.742$, $R^2 = 0.550$, Adjusted $R^2 = 0.534$
- Std. Error of the Estimate = 0.364
- Durbin-Watson = 2.035

ANOVA

- $F(4, 112) = 34.212$, $p < 0.001$

Notes:

- Dependent Variable: Competitive Advantage
- Predictors: Marketing, Managerial, Technology, and Networking capabilities

The significant positive relationship for managerial capabilities underscores the critical role of leadership, strategic decision-making, and resource coordination in achieving competitive outcomes. This supports Menyangi, Abayo, and Muraguri (2023), who found managerial capabilities enhance competitive advantage among Nairobi County microfinance institutions, and Ramadhan and Onyango (2021), who reported positive relationships between management capabilities and microfinance bank performance. The close similarity between standardized coefficients for marketing (β = .337) and managerial capabilities (β = .325) suggests these capabilities contribute almost equally to competitive advantage, indicating that microfinance banks benefit most when strong managerial competencies support effective marketing execution.

Interestingly, technological capabilities did not demonstrate statistically significant independent relationships with competitive advantage (β = .012, p = .918), despite high descriptive scores and strong bivariate correlation (r = .610). This contradicts Ahmad and Lazim (2019) and Amboyi et al. (2024), suggesting that technology functions as a basic operational requirement rather than a strategic asset capable of generating competitive advantage independently. This likely reflects technology commoditization within financial

services, where digital platforms and mobile banking systems have become industry norms. Alternatively, technological capabilities may influence competitive advantage indirectly by enhancing managerial decision-making and marketing effectiveness, consistent with Muazu and Abdulmalik's (2021) suggestion that IT capabilities create value through integrated pathways.

Similarly, networking capabilities did not exhibit statistically significant independent effects (β = .131, p = .288), despite strong bivariate association (r = .660). This contrasts with Olalo (2020) and Tuwei, Korir, and Joyce (2022), possibly reflecting multicollinearity among independent variables, with tolerance values ranging between .267 and .322 and VIF values exceeding 3.0. This overlap suggests networking capabilities may operate through other capabilities rather than directly translating into competitive advantage, consistent with Wegner, Santini, and Toigo's (2021) finding that networking yields competitive benefits primarily through organizational development rather than direct market positioning. Overall, regression results suggest competitive advantage among Nairobi's microfinance banks is primarily driven by market-facing and managerial capabilities, while technological and networking capabilities play enabling and complementary roles, reinforcing the importance of integrated capability development.

5. CONCLUSION

This research examined how strategic capabilities influence competitive advantage among microfinance banks in Nairobi City County, Kenya, specifically investigating the roles of managerial, marketing, technological, and networking capabilities. The findings revealed that these strategic capabilities collectively demonstrated substantial explanatory power for competitive advantage, providing empirical support for their strategic importance in the microfinance sector. Marketing capabilities emerged as the strongest predictor of competitive advantage, followed closely by managerial capabilities, indicating that market-facing competencies and leadership effectiveness are primary drivers of competitive positioning in Nairobi's microfinance landscape. These findings align with Market-Based Theory and Dynamic Capability Theory, demonstrating that organizations achieving competitive advantage excel in understanding customer needs, communicating value propositions effectively, and coordinating resources strategically. Interestingly, while technological and networking capabilities showed strong bivariate correlations with competitive advantage, they did not demonstrate significant independent effects in regression analysis, suggesting these capabilities function as enablers that enhance marketing and managerial effectiveness

rather than serving as direct sources of competitive advantage. This pattern likely reflects technology commoditization within financial services, where digital platforms have become industry standards rather than differentiators, and networking benefits manifest indirectly through improved decision-making and market intelligence rather than direct competitive positioning.

The study's cross-sectional design limits causal inferences and temporal understanding of capability-competitive advantage relationships in this rapidly evolving sector. Geographic focus on Nairobi City County, while providing contextual depth, constrains generalizability to other Kenyan regions or international contexts where market conditions and institutional maturity may differ. Additionally, reliance on perceptual measures through self-administered questionnaires introduces potential common method bias, though reliability analysis confirmed strong internal consistency. Despite these limitations, the findings offer significant theoretical and practical contributions. For microfinance institutions, the results underscore the imperative of investing strategically in marketing and managerial capability development as primary pathways to competitive advantage, while ensuring technological and networking capabilities are effectively integrated to support these core competencies. Policymakers and regulators can utilize these insights to design capacity-building programs emphasizing customer-centric marketing practices and leadership development. Future research should employ longitudinal designs to examine how capability-competitive advantage relationships evolve over time, explore mediating mechanisms through which technological and networking capabilities influence competitive outcomes, and extend investigations to other Kenyan regions and microfinance contexts internationally to enhance generalizability and deepen theoretical understanding of strategic capabilities in financial inclusion.

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James is a Master’s student at Kenyatta University, pursuing a Master of Business Administration (Strategic Management option). He has experience and a strong interest in business strategic management in both the private and public sectors.

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research interests include entrepreneurship pedagogy, microfinance, income-generating activities in government institutions, and management of public enterprises.

Conflict of interest

The authors declare that they have no conflict of interest.

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