

# American Journal of Finance (AJF)








Dynamic Capabilities and Financial Performance: A study  
on Microfinance Institutions in Uganda.

Grace Mary Mbabazi, Nixon Kamukama, Frederick  
Nsambu Kijjambu, John Rwakihembo, Preez Nimusima



## Dynamic Capabilities and Financial Performance: A study on Microfinance Institutions in Uganda

 Grace Mary Mbabazi<sup>1\*</sup>,  Nixon Kamukama<sup>2</sup>,  Frederick Nsambu Kijjambu<sup>3</sup>,  John Rwakihembo<sup>4</sup>,  Perez Nimusima<sup>5</sup>

<sup>1</sup>Department of Banking and Finance, Faculty of Business and Management Sciences, Mountains of the moon University, Uganda

<sup>2,3</sup> Faculty of Business and Management Sciences, Mbarara University of Science and Technology, Uganda

<sup>4,5</sup> Department of Business Administration, Faculty of Business and Management Sciences, Mountains of the moon University, Uganda



### Article history

Submitted 18.03.2026 Revised Version Received 15.04.2026 Accepted 17.05.2026

### Abstract

**Purpose:** Financial performance explains an organisation's ability to achieve its financial goals and continue surviving, however of late many microfinance institutions (MFIs)'s financial status has not been good. This study was conducted to examine the extent of dynamic capabilities' effect on financial performance of MFIs in Uganda.

### Methodology:

This study on MFIs adopted a pragmatism paradigm which allows for triangulation of methods thus adopted a mixed methods approach and collected cross-sectional data using questionnaires and interview guide. The unit of analysis were Tier IV UMRA licenced MFIs and unit of inquiry were senior managers (i.e., General Managers, Accountants, Credit Managers, Internal Auditors and Human Resource Managers) of Tier IV UMRA-licensed MFIs in Uganda for the quantitative study and MFIs' board chairmen for the qualitative design. After data collection which was preceded by instrument piloting and validation, data was subjected to various tests including testing its compliance to parametric assumptions, and later analysed using regression techniques.

**Findings:** This study confirmed a positive relationship between dynamic capabilities and

financial performance of MFIs in Uganda (Beta =.714,  $p < .01$ ). This finding specifically reveal that sensing, seizing and reconfiguration capabilities of a firm have a great potential in improving its financial performance. Business entities are consequently advised to attentively sense, seize and reconfigure their capabilities if they are to better their financial performance.

**Recommendations:** In view of the affirmation that dynamic capabilities influence financial performance, authors call upon organisations to allocate sufficient resources towards enhancement of their various internal and external capabilities.

**Theoretical Implications:** The power of dynamic capability theory in explaining dynamic capabilities-financial performance relationship has been exhibited in the microfinance industry. A related call is made by this study for practitioners to put much attention on sensing and seizing market and technological opportunities and reconfiguring their financial services in line with global trends.

**Keywords:** *Financial Performance, Innovation, Dynamic Capability, Microfinance Institutions, Uganda*

**JEL Codes:** H57, H54, H72, D73, R5

## INTRODUCTION

Financial performance of microfinance institutions (MFIs) has over years attracted the attention of researchers and policymakers globally because of its implications on not only survival of businesses themselves but also national economies (Bhawe & Jha., 2025 & Kamukama et al., 2017). MFIs have reportedly continued to contribute to employment creation capacity of countries, which has helped in closing the unemployment gap, poverty alleviation, and improvement on livelihoods of communities they serve; in effect contributing to the country's GDP (AMFUI 2023). They achieve this social and economic impact through increasing access to credit for the economically active poor who are voluntarily or involuntarily unbanked, thus leading to an increase in financial inclusion (Mishra., 2024 & Sahu et al., 2024). This connects to Uganda's ten-fold growth strategy of achieving 2040 vision where the size of the conomy will double through systematic implementation of National Dvelopment Plans (NDP II,III,IV), progressively achieved through attainment of sustainable development goals (SGDs; 1, 2, 3, 4 & 8) (Chigona., 2024). This study has interest in studying MFIs and specifically Tier IV UMRA licensed because they provide financial services such as loans, savings, money transfers, insurance among others to low-income clients who are excluded from the formal financial institutions (Fadikpe et al., 2022). Tier IV microfinance institutions i.e savings and credit cooperatives, village saving groups and non-deposit taking microfinance institutions operate at grassroot levels and largely serve low income individuals and small businesses (Banda et al., 2025 & Marfo et al., 2025), an area that previous studies have not given sufficient attention.

This study defines financial performance as the ability of a firm to operate efficiently, profitably, survive, grow and react to environmental opportunities and threats (Keskin et al., 2025 & Isibor et al., 2022). The big assumption here is that as MFIs utilize well their financial resources, they generate returns (Nyamache, 2024) and gain the capacity to meet their clients credit needs. However, even when worldwide over MFIs serve as critical engines for social-economic development (Kamoga, 2024 & Mensah, 2025), their financial performance is is not good which has continued to threaten their survival (Kamukama et al., 2017). For example, their loan portfolio quality has continued to deteriorate, experiencing a rise in portfolio at risk (PAR) from 6.4% in 2009 to 7% in 2018. Impact Finance Barometer, (2021) reports a 33% average increase in portfolio at risk across all MFIs worldwide. The same source reports an average decline on return on assets (ROA) by 1.4 points between 2009 and 2018 for MFIs in Africa. At regional level 75% of SMEs (MFIs) have not lived to celebrate their 3rd birth day (Shitambasi & Makori, 2025). This is not different from the experience in Kenya where 46% of SMEs have closed their doors in the second year due to poor financial performance while others experienced a decline in assets by 7% in the year 2017 (Muithya & Muathe, 2020). The Uganda scenario is also not unique from the above presented MFIs performance experiences characterised by not only declining ROA but also ROE, net interest margin, and the increase in cost-to-income above the global standard of 50% (Muhammad et al., 2024; Bank of Uganda, 2019). All these demonstrate the problem of poor financial performance of MFIs elsewhere and in Uganda necessitating interventions to save the microfinance industry from severe financial shocks, thus warranting an empirical investigation.

Quite a number of perspectives have been used in the study of financial performance including strategic management practices (Rwakasoro et al.,2025); tax incentives (Aheebwa et al., 2025); managerial competencies (Amanyire et al.,2024) and corporate board leadership structure (Rwakihembo et al., 2023). Aclose scrutiny on these studies depict context differences where

financial performance was interrogated in the NGOs sector, private limited firms, small and medium enterprises and only a few studies looked at microfinance institutions specifically Tier IV. As authors we observe differences in terms of research designs and methodologies used despite these studies lacking interest in dynamic capabilities. This is so even when scholars elsewhere have realised dynamic capabilities as a source of solutions to business collapse (Kitenga et al., 2020). As firms globally, intensify their search for lasting solutions to their financial health challenges, Kitenga et al., (2020) and Teece, (2017) appreciate the power of dynamic capabilities as strategy for surviving in the the dynamic global competition.

Dynamic capabilities in this study are used to refer to the capacity of an organization to create, extend and or modify its resource base (Pundziene et al., 2021; Kitenga et al., 2020). Dynamic capabilities reflect a firm's orientation and ability to constantly integrate, reconfigure, and renew its resources capabilities and reconstruct its core capabilities in response to the changing business environment to attain and sustain competitive advantage (Teece, 2017). Such capabilities comprise sensing, seizing, and integration (Chemutai et al., 2022) which among others enable a firm to identify favorable opportunities and potential threats to develop strategies for dealing with these external factors (Sivusuo, 2019); enable a firm to make strategic choices and investment decisions on externally sensed opportunities (Teece, 2012) and enabling a firm to combine and synchronize information, assets, routines, processes, and operations to attain competitive advantage (Chemutai et al., 2022). These definitional insights on dynamic capabilities mean that a firm is enabled to withstand market shocks and remain as a going concern.

The relationship between dynamic capabilities and financial performance has been documented in quite a number of firm performance literature (Saddam et al., 2023; Pereira-Moliner et al., 2021; Pundziene et al., 2021; van Lieshout, 2021; Kitenga et al., 2020; Teece, 2017). These studies recognize dynamic capabilities as a significant predictor of financial performance. Other streams of literature however report negative effects on these relationships (Hernández-Linares et al., 2021) making the debate on dynamic capabilities and financial performance inconclusive. The above presented perilous financial situation for MFIs despite these empirical disagreements call for a new study to examine the extent of dynamic capabilities' effect of financial performance of MFIs in Uganda. Theoretically, this study contributes to exitant financial performance literature alerting firms especially in the financial industry to leverage the potential of their dynamic capabilities as a firm-level strategy to achieving good financial health. In terms of paper organisation literature review follows next. Later methods follow, results and discussion next. Conclusion and recommendations appear last.

### **Problem statement**

The government of Uganda has done a lot towards enhancement of performance of MFIs, including giving different forms of financial aid, passing necessary legislations and establishing regulatory bodies. However weak financial performance in form of increasing operating costs and PAR, and weak ROA still haunt Uganda's microfinance industry (AMFUI report, 2023). Besides the contextual challenges surrounding MFIs, existing literature on financial performance still lacks reliable evidence on the role of dynamic capabilities in the context of MFIs in Uganda. Moreover, existing studies on the financial performance of MFIs tested other predictors like firm characteristics (Nkundabanyanga et al., 2019), social outreach (Meyer, 2019), corporate governance (Iqbal et al., 2019), and organizational culture (Joseph & Kibera, 2019), disregarding dynamic capabilities despite the theoretical support. Other streams of literature on these

relationships either concentrated on developed economies or assessed other firms, such as technological firms (Mikalef et al., 2021), commercial banks (Odwaro et al., 2022), and manufacturing firms (Dao et al., 2021). Since Tier IV MFIs exhibit distinctive structural and philosophical characteristics authors observe that there is need for an altered approach in examining their financial performance compared to conventional financial institutions. Authors observe that existing literature can hardly be generalized to Tier IV MFIs given the diversity in their regulations, blended social and commercial goals, and their focus on low-income customers who are excluded by traditional commercial banks (Malik et al., 2020). This study investigated the the relationship between dynamic capabilities and the financial performance of UMRA licensed Tier IV MFIs in Uganda.

## **Review of Literature and Hypothesis Development**

### **Theoretical Review**

#### **Dynamic Capability Theory**

Dynamic capability theory (DCT) as advanced by Teece, Pisano and Shuen, (1997) and later improved by Teece, (2007) is one of the organisational capability explanations that hinges on the assumption that for any organisation to ably compete in conditions of twenty-first-century global competition and rapid innovation, should not solely rely on traditional sources of competitive advantage such as industry structures and strategic positions; or the efficiencies of learned routines and standard operating procedures but rather aim at leveraging on building its capacity to sense, seize, and shape new market opportunities that can enable it thrive in the current market volatility and technological dynamism (Denrell & Powell, 2015). The theory contenders believe that without the organisation enhancing its ability to integrate, build, and reconfigure internal and external competencies it cannot succeed in addressing rapidly changing environments. This study strongly holds on DCT to remind the reader that the landscape of global business competition has fundamentally changed and that the new competitive environment requires new ways of thinking about competitive advantage (Chemutai et al., 2022). Congruently, microfinance institutions specifically Tier IV can enhance their financial performance by sensing market and technological opportunities and threats, seizing the market opportunities, and reconfiguring their key financial services to match the global trends in the financial sector. Therefore, the present study argues that MFIs possessing the dynamic capabilities as posited by Teece (2007) are more likely to have sound financial performance than those not possessing them. Even when there are standing criticisms on DCT regarding its ambiguity (criticising it using attributes like "vague" or "redundant") on the mechanism by which dynamic capabilities influence financial performance (Dias & Renato, 2017), there is much to appreciate the imperative of aligning all organizational activities and processes with effective implementation of dynamic capabilities (Collis & Anand, 2019). This theory strength has been supported empirically, for example by Damanpour, (2020) and affirming that firms which have abilities to sense and seize new market opportunities are 70% more likely to outwit their competition which in turn influence their financial performance.

### **Empirical Review**

#### **Dynamic Capabilities and Financial Performance**

Just like Chemutai et al., (2022)' argument especially in line with the innovation theory, "*superior competitiveness of firms in a particular industry is based on their efficiency in creating unique valuable products and services that satisfy customers*". This premise tends to emphasise

that innovation is an indispensable driver of competitiveness (Sharma & Rai, 2015) since it allows a firm to adapt to changes in its surroundings, create answers to new challenges, and take practical measures (Sabahi & Parast, 2020). The authors are made to believe through these empirical connotations that dynamic capabilities of a firm which among others explain its ability to identify favorable opportunities and potential threats to develop strategies for dealing with these external factors (Sivusuo, 2019); to make strategic choices and investment decisions on externally sensed opportunities (Teece, 2012) to combine and synchronize information, assets, routines, processes, and operations to attain competitive advantage (Chemutai et al., 2022); by and large can turn around its financial performance towards its favour. It generally means that this firm can successfully implement, create and introduce a new or significantly improved product (good/service) or process (method of delivery/practice/relationship), business models and ways of working which leads to significant outcomes, efficiency, effectiveness or quality (Vărzaru & Bocean, 2024). It explains the potential gained for the firm to continuously develop ideas that can be ultimately transformed into value (Wahl & Füller, 2022). This claim has been supported in many literature streams, for example Pereira-Moliner et al., (2021) who examined the relationship between dynamic capabilities and the performance of 3-and 5-star hotels in Spain and confirmed a positive association between dynamic capabilities and performance. A related study conducted by Saddam et al., (2023) in Malaysia basing on yearly data of 62 firms confirmed significant effects of dynamic capabilities on firm's financial performance. The study utilized secondary data from annual reports spanning 2012-2021 and observed that dynamic capabilities contributed to a positive return on these firm's performance, and consequently observed that in the current competitive era, awareness of dynamic capabilities should be prioritized and that a company must demonstrate strong financial performance as measured by ROE, ROA, profitability, capital adequacy, and liquidity. Other studies including Pundziene et al., (2021); Kitenga et al., (2020); Teece, (2017) and Van Lieshout, (2021) observed similar effects, however an attempt by Hernández-Linares et al., (2021) basing on the samples from 509 Spanish small and medium-sized enterprises (SMEs) failed to find evidence to confirm the association. This study established that not all dynamic capabilities dimensions are equally important for SME performance. Besides the aspect of disagreement that exhibit in these studies, a critical analysis on them shows that they mainly focused on other sectors like hotels (Pereira-Moliner et al., 2021), ICT industry (Santoro et al., 2019) and were also carried out in advanced economies like Spain, Italy and Malaysia. It, therefore, remains elusive whether dynamic capabilities influence financial performance in the context of Tier 4 UMRA-licensed MFIs in Uganda. On the basis of gaps in literature as presented above, this study drew a hypothesis that was later tested, thus;

*H1: Dynamic capabilities are positively associated with the financial performance of Tier 4 UMRA-licensed MFIs in Uganda.*

## **METHODS**

This study on MFIs adopted a pragmatic paradigm upon which choice of methods used based. It employed a cross-sectional design, where data were collected at a single point in time. A sequential explanatory mixed-methods design (QUAN-Qual) was used (Almeida, 2018), where quantitative data from senior managers (i.e., General Managers, Accountants, Credit Managers, Internal Auditors, and Human Resource Managers) and qualitative data from MFIs' board chairmen were collected to investigate the relationship between financial performance and dynamic capabilities. The major reasons for the selection of these respondents is that they participate in strategic

decision-making within MFIs (AMFIU Directory, 2021) thus deemed to possess relevant information on studied variables. *Table 1* below has details on the sampling frame showing regions, number of SACCOs and population studied.

**Table 1: Population and Sample size**

Regions	UMRA Category			
	Total number of NDTs	Sample	Total number of SACCOs	Sample
Central	127	79	47	29
South Western	7	4	43	28
Northern	2	1	3	2
Eastern	8	5	5	3
<b>Total</b>	<b>144</b>	<b>89</b>	<b>98</b>	<b>62</b>
<b>Total Population</b>	<b>144+98</b>			<b>242</b>
<b>Sample</b>	<b>89+62</b>			<b>151</b>

*Source: UMRA Directory (2024)*

The study used proportionate stratified sampling to ensure that each region in Uganda was represented in the sample in proportion to its size, which helped in reducing sampling bias and improving the accuracy of estimates for the entire population and for each region, enabling comparisons of characteristics across regions (Ahmed, 2024). Questionnaires and interview guides helped in collecting quantitative and qualitative data respectively. Specifically, data from the senior management team (i.e General Managers, Accountants, Credit Managers, internal auditors, and Human Resource managers) was collected using questionnaires whereas, data from board chairmen of Tier IV UMRA was collected using interview guides. It is important to note that data collection was preceded by instrument validation using industry and academic experts and the results in terms of validity and reliability of research instruments can be seen in *Tables 2 and 3* below. For the qualitative data three assessments of confirmability, credibility, and transferability were conducted, as suggested by Enworo, (2023) to establish the validity of the interview guide.

Another pertinent activity as part of methodology was operationalization of the study variables for purposes of easing measurement. As indicated in *Table 4* below, the instruments used by Teece (2012), Sivusuo (2019); and Chemutai et al., (2022) were adapted for dynamic capabilities which is the independent variable covering sensing, seizing and reconfiguration. On the other hand, for financial performance as the dependent variable, researchers modified the instruments used in previous studies by Kamukama and Sulait, (2017); Rwakihembo et al., (2020), Kule et al., (2020), and AMFUI (2023). The areas of focus were profitability (ROA, net interest margin, and cost-to-income), liquidity (current ratio and capital adequacy), the loan portfolio (nonperforming loans ratio, portfolio at risk, risk coverage ratio), and financial efficiency (operating cost ratio).

**Table 2: Reliability Analysis Results**

Construct	Cronbach's Alpha	Number of Items
<b>Dynamic Capabilities</b>		
Sensing	.756	15
Seizing	.726	10
Configuration	.759	6

Source: Primary Data (2025)

**Table 3: Content Validity Index (CVI) for Variables**

Construct	CVI
<b>Dynamic Capabilities</b>	
Sensing	.789
Seizing	.826
Configuration	.722

Source: Primary Data (2025)

**Table 4: Operationalization and Measurement of Variables**

Variable	Dimensions	Citations	Sample questions
Dynamic Capabilities	<i>Sensing</i> <i>Seizing</i> <i>Configuration</i>	Teece (2012), Sivusuo (2019), Chemutai et al., 2022	How do you define new opportunities? How do you get to know about the needs of your clients?  What are the good things clients like about your products?  What business model do you have?  How are the operations of your firm today different from those before?
Financial performance	<i>Profitability</i> (ROA, net interest margin and cost-to-income) <i>Liquidity</i> (current ratio and capital adequacy) <i>Loan portfolio</i> (nonperforming loans ratio, portfolio at risk, risk coverage ratio) <i>Financial efficiency</i> (operating cost ratio)	Kamukama and Sulait., 2017; 2018; Rwakihembo et al., 2020; Kule et al., 2020), AMFUI, (2023)	What is the MFIs return on Equity  What is MFIs return on Assets  What is MFIs profit margin

In a spirit of adherence to research ethics, the study sought permission and clearance from Mbarara University of Science and Technology (MUST) Research Ethics Committee and the Uganda National Council for Science and Technology (UNCST) before undertaking data collection. A part from seeking consent at the firm level from UMRA and the MFIs' authorities before engaging their staff in the study, efforts were made to ensure voluntary participation, explaining the purpose of the study to respondents and their rights. The study also complied with the copyright principles of all published material. Two statistical software packages were utilised to analyse data, where SPSS version 26 was used for quantitative data analysis, and NVivo for qualitative data analysis. In line with advice from Pallant (2020) data cleaning preceded hypothesis testing. Quantitative data analysis enabled extraction of descriptive statistics and correlation coefficients as evidences on the variables studied. For qualitative data analysis, the study employed inductive content analysis, which permits the identification of themes and patterns in the expressive words used in the raw data and the literature review (Epoka, 2023; Kuckartz & Radiker, 2023). Qualitative responses were transcribed into themes to support the quantitative data.

This study made efforts towards ensuring compliance of data to different parametric assumptions. Among others various tests including homogeneity of variance (*see table 5 below*), linearity and normality of data (*see figure 1 below*) and multi-collinearity (*see table 6 below*) were conducted. This all was done in accordance with recommendations by Pallant (2020) especially in regard to the direction such tests give the study in terms of helping in making choices on which data analysis

methods to use. It is not surprising therefore that pearson correlation and rgression analysis techniques were used to test the research model as specified below;

$$FP = b_0 + b_1DC + e \dots\dots\dots i$$

Where;

FP represents financial performance;  $b_0$ , constant;  $b_1DC$ , coefficient of Dynamic Capabilities; and e represents the error term.

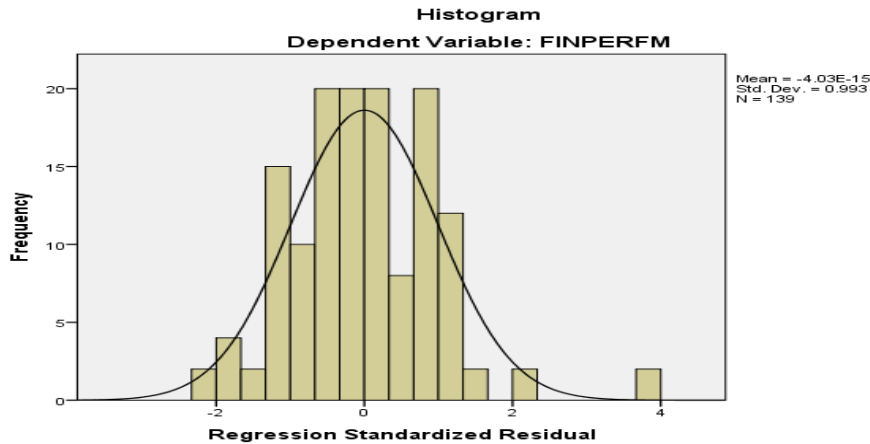


Figure 1: Test for Normality and linearity

Source: Primary Data

**Table 5: Test for Homogeneity of Variance**

	Levene Statistic	df1	df2	Sig.
Financial Performance	0.000	1	106	.993
Dynamic Capabilities	0.061	1	106	.805

Source: Primary Data

**Table 6: Test for Multicollinearity**

Model	Collinearity Statistics	
	Tolerance	VIF
1 Dynamic Capabilities	.636	1.573

a Dependent Variable: Financial Performance

Source: Primary data

**Results**

**Response rate**

Out of 151 questionnaires distributed only 139 were returned well making a response rate of 92.05%. For the qualitative design saturation was reached with the 17<sup>th</sup> respondent (Mwita, 2022).

### Demographic Characteristics of Respondents

The study investigated respondent characteristics in terms of age, level of education, position held in the organization and number of years in the current position.

#### Age of Respondents

**Table 7: Age of the Respondents**

		Frequency	Percent	Cumulative Percentage
valid	<30 years	17	2.81	2.81
	30-39 years	231	38.25	41.06
	40-49 years	220	36.42	77.48
	50-59 years	115	19.04	96.52
	>60 years	21	3.48	100.00
<b>Total</b>		<b>604</b>		

*Source: Primary Data 2025*

Table 7 shows that 97.19% of the respondents were above 30 years of age, indicating that majority were mature enough to provide informed, adequate and reliable responses to the questions. This can also be explained by the human capital theory, which emphasizes that individuals accumulate skills, knowledge and experience over time. Employees above 30 years are therefore likely to possess greater work experience and professional competence, making them more suitable for employment in microfinance institutions where financial decision making and client management require a high level of expertise.

## Education Characteristics of Respondents

**Table 8: Education Background**

		Frequency	Percent	Cumulative percentage
Valid	Diploma	20	3.31	3.31
	Degree	331	54.80	58.11
	Masters	230	38.08	96.19
	PhD	2	0.33	96.52
	Others	21	3.48	100.00
<b>Total</b>		<b>604</b>	<b>100.00</b>	

*Source: Primary Data 2025*

Table 8 illustrates the education qualification of the respondents. Findings indicate that 3.31% were diploma holders, 54.80% held bachelors' degree, 38.08% had masters' degrees, 0.33% possessed PhDs while 3.48% had other qualifications. This high level of education among the respondents suggest that they possessed adequate knowledge and the ability to understand the questionnaire items. This is because highly educated individuals are generally more capable of interpreting survey items accurately and providing informed responses, which enhances the reliability and validity of the data collected.

## Positions held by Respondents

**Table 9: Position Held in the Organization**

	Frequency	Percent	Cumulative percentage
Accountant	139	23.01	23.01
Internal Auditor	112	18.54	41.56
General manager	120	19.87	61.42
Credit officer	139	23.01	84.44
HR Manager	94	15.56	100.00
<b>Total</b>	<b>604</b>	<b>100.00</b>	

*Source: Primary Data 2025*

Table 9 illustrates the distribution of respondents according to their positions in Tier IV MFIs. The findings indicate that 23.01% were accountant, 18.54% were internal auditors, 19.87% were general managers, 23.01% were credit officers while 15.56 were human resource managers. This distribution of respondents across different positions implies that the study obtained views from various functional departments to reduce bias. This diversity enhances reliability of the information collected since most of the respondents are directly involved in key operational and

managerial activities of MFIs and therefore possess relevant knowledge about the subject under study. The diversity of positions also suggest that the responses reflect a wide range of professional perspectives that enhances the credibility of the study.

### Job Tenure of Respondents

**Table 10: Number of Years in the Current Position**

	Frequency	Percent	Cumulative percentage
1-5 years	235	38.91	38.91
6-10 years	87	14.40	53.31
11-15 years	90	14.90	68.21
16-20 years	98	16.23	84.44
21-25 years	94	15.56	100.00
<b>Total</b>	<b>604</b>	<b>100.00</b>	

*Source: Primary Data (2025)*

Results in table 10 above Indicate that 61.09% of the respondents had occupied their positions for over five years, while the remaining 38.91% had served for less than 5 years. This suggests that majority of the respondents had considerable experience and knowledge about the study. On the other hand, the 38.91% of the respondents who had served for less than five years suggest that the study captured perspectives from relatively new employees that added new insights. This combination of experienced and less experienced respondents provided a balanced representation of opinions, enhancing the quality of findings.

### Empirical Findings

#### Effect of Dynamic Capabilities on Financial Performance

#### Correlation Analysis Results

Pearson correlation analysis was conducted in accordance with our study objective and hypothesis to assess the associations between dynamic capabilities and financial performance (Pallant, 2020).

**Table 11: Correlation Matrix**

	1	2
1 Dynamic Capabilities	1	
2 Financial Performance	<b>.714**</b>	1

*Source: Primary Data (2025)*

Results in Table 11 above indicate that there exists a positive and significant relationship between Dynamic Capabilities and Financial Performance ( $r = .714, p < .01$ ). This result implies that an improvement in dynamic capabilities is associated with an improvement in financial performance.

## Factor Analysis

### Discussion of Results

The study examined the relationship between dynamic capabilities and the financial performance of Tier IV UMRA licensed MFIs in Uganda. Pearson correlation results revealed a positive relationship between Dynamic Capabilities and Financial Performance in Tier IV UMRA licensed institutions in Uganda. This is consistent with hypothesis one (H1), which predicted a positive relationship between dynamic capabilities and financial performance. This means that dynamic capabilities influences the financial performance of Tier IV UMRA licensed MFIs. Financial performance, in terms of enhanced profitability, liquidity, and loan portfolio quality, of Tier IV UMRA licensed MFIs will improve if they are able to identify opportunities in the environment, seize market opportunities, and reconfigure their activities.

The findings are consistent with earlier studies by Chemutai et al. (2022), who confirmed that dynamic capabilities help MFIs sense new opportunities and threats, seize opportunities, and reconfigure key business activities to achieve sound financial performance. They concur with Alzoraiki et al., (2024) and Sadraei et al., (2025) who contend that firms operating in dynamic and uncertain environments can achieve superior performance by effectively integrating, building and reconfiguring internal and external competencies. These results suggest that Tier IV MFIs that effectively develop and utilize dynamic capabilities by sensing market opportunities, seizing them through timely decisions and reconfiguring internal resources are more likely to achieve superior financial outcomes. It equally means that Tier IV MFIs in Uganda with such capabilities can remain resilient and competitive since they operate under intense competitive, regulatory changes and evolving customer needs. This finding also suggests that if a Tier IV UMRA licensed MFI can scan and interpret emerging opportunities and threats, capitalize on these opportunities and reconfigure its activities by redesigning its business models, it will improve its financial performance in terms of profitability, liquidity, and loan portfolio quality. This also aligns with findings by Teece, Raspin and Cox (2020), who argues that firms should build the capacity to sense and seize available opportunities and reconfigure their activities to attain superior financial performance. This is true because, given the changing business environment with advancements in technology, a firm can only remain competitive and improve its financial performance if it is able to not only sense, interpret, scan, and monitor the new opportunities and threats in the environment but also take advantage of these opportunities by seizing its market operations and reconfigure its activities. This is consistent with the findings of Kitenga et al., (2020), who reported that dynamic capabilities enable firms to achieve sound financial performance. Findings further indicate that MFIs with stronger adaptive capabilities are better positioned to respond to environmental uncertainties as supported by (Wakibi et al., 2024). For example the ability to redesign financial products, adopt digital service delivery channels and adjust lending methodologies enhances outreach and revenue generation. Findings corroborate earlier research indicating that capabilities such as strategic flexibility significantly enhance financial performance of firms (Sadraei et al., 2025). In the context of Tier IV MFIs these capabilities are critical because of the sectors dual objective of achieving financial performance and maintaining social outreach. The qualitative extracts from board chairmen of Tier IV UMRA also agreed with these quantitative results. For example respondent number 7 reported, thus

[ ] ....“....we identify new opportunities and gaps in the market through loan officer field visit reports, customer satisfaction surveys and client feedback meetings which we address to improve our financial performance”[ ].... Another respondent noted that,  
...“...we identify underserved groups like rural women and farmers who lack access to formal credit and design products that meet their demand, this increases our market share and outreach which in the end improves our financial performance”[ ].....

Despite the confinding of Kitenga et al., (2020), that dynamic capabilities enable firms to achieve financial performance, much of the contributions of existing literature were from studies conducted in developed economies and other types of organizations like technological firms (Mikalef et al., 2021), commercial banks (Odwaro et al., 2022), manufacturing firms (Dao, Minh & Ha, 2021; Eslami et al., 2024 & Li et al., 2022), and the media industry (Jantunen et al., 2018), largely ignoring the microfinance industry. This study’s contribution helps to address the above mentioned empirical gaps.

The findings align with dynamic capability theory, which posits that a firm’s success or failure in a volatile, technologically dynamic market is driven by its capacity to sense, seize, and shape emerging opportunities (De Fano et al., 2026; Denrell & Powell, 2015). This corroborates findings by Chemutai et al., (2022), who observed that the landscape of global business competition has changed profoundly and that the new competitive environment requires new ways of thinking about competitive advantage. The positive relationship observed aligns with prior empirical studies that have established that firms with well-developed dynamic capabilities tend to outperform their counterparts in terms of financial performance. Therefore, in line with this theory, MFIs can enhance financial performance by sensing and seizing market and technological opportunities and reconfiguring their financial services in line with global trends. The study therefore confirms the assumptions of dynamic capability theory, thereby establishing its relevance in this study. Thus, a conclusion that dynamic capabilities influence the financial performance of Tier IV UMRA licenced MFIs in Uganda.

## **Conclusion**

Results from the study revealed a positive relationship between dynamic capabilities and financial performance among Tier IV UMRA licensed MFIs in Uganda. The study concludes that dynamic capabilities are key drivers of financial performance. Tier IV MFIs that actively develop and apply their sensing, seizing and reconfiguration capabilities, are more likely to achieve financial performance. This is because these capabilities enable firms to adapt to the changing business environments and remain competitive.

## **Theoretical Implications**

This study findings reinforce the core proposition of dynamic capabilities theory, that in rapidly changing environments, firm performance stems from the firm’s ability to integrate, build and reconfigure internal and external competencies. This study adds another layer on other studies conducted on dynamic capabilities and financial performance. The newness is that these other studies were conducted in developed economies and selectively looked at at specific measures of dynamic capabilities and financial performance in different context, for example in technological firms (Mikalef et al., 2021), commercial banks (Odwaro et al., 2022), manufacturing firms (Dao, Minh & Ha, 2021; Eslami et al., 2024 & Li et al, 2022), and the media industry (Jantunen et al., 2018), ignoring the microfinance industry. This study explored the effects of dynamic capabilities on financial performance of Tier IV UMRA licensed MFIs in a developing country in Africa.

Managers of MFIs are reminded to attentively sense, seize and reconfigure their capabilities if they are to better their financial performance.

## REFERENCES

- Aheebwa, R.C., Benon Muhumuza B., Kansiime, N.K., Crispus Tashobya, C., Byamukama, V., Nimusima, P., (2025). Tax Incentives and Financial performance of Small and Medium Sized Enterprises in Kabale District, Uganda. *International Journal of Entrepreneurship*; Vol.8, Issue 1, pp 38-52,
- Ahmed, S. K. (2024). How to choose a sampling technique and determine sample size for research: a simplified guide for researchers. *Oral Oncology Reports*, 12, 100662.
- Almeida, F. (2018). Strategies to perform a mixed methods study. *European Journal of Education Studies*.
- Alzoraiki, M., Milhem, M., Ateeq, A., Almeer, S., & Hussein, T. M. (2024). Strategic flexibility: an essential capability for innovation and sustainable performance in times of technological uncertainty. In *Business Development via AI and Digitalization: Volume 1* (pp. 271-281). Cham: Springer Nature Switzerland.
- AMFIU (2021), Uganda Microfinance Directory, 10<sup>th</sup> Edition, 2021/2022
- AMFIU (2023), Microfinance Industry Report, The state of Microfinance in Uganda, 2021/2023
- Amanyire, A., Nimusima, P., Rwambale, K.M., Mbabazi, M.G., Muhumuza, G., (2024). Managerial competences and Financial Performance: A Study on NGOs in Central Division-Fort Portal City; *International Journal of Economics, Finance and Management Sciences*, Vol. 12, No. 3, pp. 185-195 <https://doi.org/10.11648/j.ijefm.20241203.15>
- Banda, N., Matafwali, B., & Mwange, A. (2025). Regulatory Frameworks for Village Banking and Financial Inclusion: Comparative Lessons from Africa, South Asia, and the Middle East. *East African Finance Journal*, 4(1), 76-97.
- Bhawe, N., & Jha, S. K. (2025). MFIs and financial inclusion: The role of business models. *The Journal of Development Studies*, 61(1), 133-151.
- Chemutai, P., Ogollah, K., Bolo, Z. A., & Owino, J. (2022). Dynamic capabilities, firm innovation and competitive advantage of companies listed at the Nairobi Securities Exchange.
- Chigona, W., Kabanda, S., & Seymour, L. F. (2024). Implications of Information and Digital Technologies for Development. In 18th IFIP WG 9.4 International Conference, ICT4D 2024. Springer Nature Switzerland.
- Collis, D. J., & Anand, B. N. (2019). *The limitations of dynamic capabilities*. Cambridge, MA, USA: Harvard Business School.
- Damanpour, F. (2020). *Organizational innovation: Theory, research, and direction*. Edward Elgar Publishing.

- Dao, L. T., Minh, T. Q., & Ha, D. L. H. (2021). Dynamic capabilities in apparel manufacturing firms in the context of global value chains: the case of Vietnam. In *Upgrading the Global Garment Industry* (pp. 209-234). Edward Elgar Publishing.
- De Fano, D., Schena, R., & Russo, A. (2026). Harnessing AI ambidexterity for competitive advantage: the role of dynamic capabilities in digital innovation ecosystems. *European Journal of Innovation Management*, 29(2), 490-504.
- Denrell, J., & Powell, T. C. (2015). Dynamic capability as a theory of competitive advantage: Contributions and scope conditions.
- Dias, Á., & Renato, P. (2017). Dynamic capabilities and marketing capabilities in Portugal. *Academia Revista Latinoamericana de Administración*, 30(3), 417-430.
- Enworo, O. C. (2023). Application of Guba and Lincoln's parallel criteria to assess trustworthiness of qualitative research on indigenous social protection systems. *Qualitative research journal*, 23(4), 372-384.
- Epoka, B. E. (2023). Literature Review of Qualitative Data with Natural Language Processing. *Journal of Robotics Spectrum*, 1, 056-065.
- Eslami, M. H., Jafari, H., Achtenhagen, L., Carlback, J., & Wong, A. (2024). Financial performance and supply chain dynamic capabilities: the Moderating Role of Industry 4.0 technologies. *International Journal of Production Research*, 62(22), 8092-8109.
- Fadikpe, A. A. A., Danquah, R., Aidoo, M., Chomen, D. A., Yankey, R., & Dongmei, X. (2022). Linkages between social and financial performance: Evidence from Sub-Saharan Africa microfinance institutions. *Plos one*, 17(3), e0261326.
- Hernández-Linares, R., Kellermanns, F. W., & López-Fernández, M. C. (2021). Dynamic capabilities and SME performance: The moderating effect of market orientation. *Journal of Small Business Management*, 59(1), 162-195.
- Impact Finance Barometer (2021) Financing social and environmental transitions.  
[https://www.convergences.org/wpcontent/uploads/2021/09/BFI\\_2021\\_ENG\\_VF\\_web.pdf](https://www.convergences.org/wpcontent/uploads/2021/09/BFI_2021_ENG_VF_web.pdf)
- Isibor, N. J., Ibeh, A. I., Ewim, C. P. M., Sam-Bulya, N. J., & Martha, E. (2022). A financial control and performance management framework for SMEs: Strengthening budgeting, risk mitigation, and profitability. *International Journal of Multidisciplinary Research and Growth Evaluation*, 3(1), 761-768.
- Jantunen, A., Tarkiainen, A., Chari, S., & Oghazi, P. (2018). Dynamic capabilities, operational changes, and performance outcomes in the media industry. *Journal of Business Research*, 89, 251-257.
- Kamoga, J. (2024). Assessing the Role of Microfinance in Poverty Reduction in Uganda:

- Achievements, Challenges and Prospects. *Challenges and Prospects (March 20, 2024)*.
- Kamukama, N., & Sulait, T. (2017). Intellectual capital and competitive advantage in Uganda's microfinance industry. *African Journal of Economic and Management Studies*.
- Keskin, H., Tatoglu, E., Akgün, A. E., & Balak, D. (2025). Unveiling the nexus of organizational intelligence, resilience capacity and financial performance. *Management Decision*.
- Kitenga, G., Kilika, J. M., & Muchemi, A. W. (2020). Dynamic capabilities and performance: the mediating role of firm competence. *Journal of Economics and Business*, 3(1), 450-474.
- Kuckartz, U., & Radiker, S. (2023). Qualitative content analysis: Methods, practice and software.
- Kule, B. J. M. K., Kamukama, N., & Kijjambu, N. F. (2020). Credit management systems and financial performance of savings and credit cooperatives (SACCOs) in mid-western Uganda.
- Li, L., Tong, Y., Wei, L., & Yang, S. (2022). Digital technology-enabled dynamic capabilities and their impacts on firm performance: Evidence from the COVID-19 pandemic. *Information & Management*, 59(8), 103689.
- Marfo, M., Ofei, E. F., Annan, E., Armah, A. A., Adadevoh, L., Evelyn, B. O., & Asante, C. R. (2025). The impact of competitive advantage on the sustainability of microfinance institutions in Ghana: assessing the moderating role of capacity building. *SN Business & Economics*, 5(7), 90.
- Mensah, J. K. (2025, December). From Solidarity to Sustainability: Examining the Role of Self-Help Groups in Local Economic Development in Ghana's Informal Settlements. In *Forum for Development Studies* (pp. 1-19). Routledge.
- Mikalef, P., Pateli, A., & van de Wetering, R. (2021). IT architecture flexibility and governance decentralisation as drivers of IT-enabled dynamic capabilities and competitive performance: The moderating effect of the external environment. *European Journal of Information Systems*, 30(5), 512-540.
- Mishra, D., Kandpal, V., Agarwal, N., & Srivastava, B. (2024). Financial inclusion and its ripple effects on socio-economic development: a comprehensive review. *Journal of Risk and Financial Management*, 17(3), 105.
- Muhammad, K., Salawu, R. O., Masibo, S., & Sikuku, I. (2024). The Government's Role in Nurturing Management for Sustainability Practices among Small and Medium Enterprises in Uganda. *TWIST*, 19(1), 409-416.
- Muithya, V., & Muathe, S. (2020). Dynamic capabilities and performance in the context of microfinance institutions in Kenya: An exploratory study. *Journal of Business, Economics and Management Works*, 7(08), 15-29.
- Mwita, K. (2022). Factors influencing data saturation in qualitative studies. Available at SSRN 4889752.
- Nyamache, L. M. (2024). Financial Innovations Adoption and Financial Performance of

Microfinance Institutions in Nairobi County, Kenya.

- Odwaro, N. C., Abongo, B., & Mise, J. K. (2022). Effect of Dynamic Capabilities on Performance of Commercial Banks. *European Journal of Business and Management Research*, 7(3), 209-215.
- Pallant, J. (2020). *SPSS survival manual: A step-by-step guide to data analysis using IBM SPSS*. Routledge.
- Pereira-Moliner, J., Molina-Azorín, J. F., Tarí, J. J., López-Gamero, M. D., & Pertusa-Ortega, E. M. (2021). How do dynamic capabilities explain hotel performance? *International Journal of Hospitality Management*, 98, 103023.
- Pundziene, A., Nikou, S., & Bouwman, H. (2021). The nexus between dynamic capabilities and competitive firm performance: the mediating role of open innovation. *European Journal of Innovation Management*.
- Rwakasoro P., Nimusima P., Niwaha M., Gladys A., Erem, E., Kisu Yahaya K., & Muhumuza G. (2025). Empirical Study on Strategic Management Practices and Financial Performance of SACCOs in a Local Government Context-Uganda. *Science Journal of Business and Management*,  
*Vol. 13, No. 2, pp. 58-69* <https://doi.org/10.11648/j.sjbm.20251302.11>
- Rwakihembo, J, Dr. Aryatwijuka, W, Kalinda, P. & Nimusima, P., (2023). Corporate Board Leadership Structure and Financial Performance: The Stewardship And Agency Theoretical Perspectives Of Private Limited Firms In Uganda. *American Journal of Finance*, Vol. 8, Issue 1, pp 31 - 45; <https://ajpojournals.org/journals/index.php/AJF/article/view/1474>
- Rwakihembo, J., Kamukama, N., & Nsambu Kijjambu, F. (2020). Corporate board size and financial performance of private limited companies in Uganda.
- Sabahi, S., & Parast, M. M. (2020). Firm innovation and supply chain resilience: a dynamic capability perspective. *International Journal of Logistics Research and Applications*, 23(3), 254-269.
- Sadraei, R., J. Sadeghi, V., Marvi, R., & Yoruk, E. (2025). Strategic Adaptation in a Dynamic Global Environment: Unleashing the Power of Dynamic Capabilities for International Organizational Performance. *Strategic Change*.
- Saddam, S. Z., Nizar, N., Ariffin, N. A., & Abas, N. M. (2023). The effects of dynamic capabilities on firm's financial performance. *Information Management and Business Review*, 15(1), 37-45.
- Sahu, T. N., Agarwala, V., & Maity, S. (2024). Effectiveness of microcredit in employment generation and livelihood transformation of tribal women entrepreneurs: evidence from PMMY. *Journal of Small Business & Entrepreneurship*, 36(1), 53-74.
- Santoro, G., Thrassou, A., Bresciani, S., & Del Giudice, M. (2019). Do knowledge management and dynamic capabilities affect ambidextrous entrepreneurial intensity and firms' performance? *IEEE Transactions on Engineering Management*, 68(2), 378-386.

- Sharma, S., & Rai, A. (2015). Adopting IS process innovations in organizations: The role of IS leaders' individual factors and technology perceptions in decision making. *European Journal of Information Systems*, 24(1), 23-37.
- Shitambasi, H. K., & Makori, D. (2025). Financial Risk Management Literacy and Its Effect on Financial Sustainability: Insights from Micro, Small and Medium Enterprises in Kakamega County. *Journal of Finance and Accounting*, 9(5), 12-25.
- Sivusuo, J. (2019). *Dynamic capabilities: Myth or real deal for sustaining competitive advantage*. Vaasan yliopisto.
- Teece, D. J. (2007). Explicating dynamic capabilities: the nature and micro foundations of sustainable enterprise performance. *Strategic management journal*, 28(13), 1319-1350.
- Teece, D. J. (2012). Dynamic capabilities: Routines versus entrepreneurial action. *Journal of Management Studies*, 49(8), 1395-1401.
- Teece, D. J. (2017). Dynamic capabilities and (digital) platform lifecycles. In *Entrepreneurship, innovation, and platforms*. Emerald Publishing Limited.
- Teece, D. J., Pisano, G., & Shuen, A. (1997). Dynamic capabilities and strategic management. *Strategic management journal*, 18(7), 509-533.
- Teece, J.D., Raspin, P.G. and Cox, D.R. (2020), "Plotting strategy in a dynamic world", MIT Sloan Management Review, Vol. 62 No. 1, pp. 28-33.
- UMRA directory 2024 SACCOs and Microfinance guidebook <https://umra.go.ug/sacco-and-microfinance-guidebok/>
- Van Lieshout, J. W., van der Velden, J. M., Blomme, R. J., & Peters, P. (2021). The interrelatedness of organizational ambidexterity, dynamic capabilities, and open innovation: a conceptual model towards a competitive advantage. *European Journal of Management Studies*.
- Vărzaru, A. A., & Bocean, C. G. (2024). Digital transformation and innovation: The influence of digital technologies on turnover from innovation activities and types of innovation. *Systems*, 12(9), 359.
- Wahl, J., Hutter, K., & Füller, J. (2022). How AI-supported searches through other perspectives affect ideation outcomes. *International Journal of Innovation Management*, 26(09), 2240028.
- Wakibi, A., Ntayi, J., Nkote, I., Tumwine, S., Nsereko, I., & Ngoma, M. (2024). Self-organization, networks and sustainable innovations in microfinance institutions: does organizational resilience matter?. *IIMBG Journal of Sustainable Business and Innovation*, 2(1), 1-23.

## License

Copyright (c) 2026 Grace Mary Mbabazi, Nixon Kamukama, Frederick Nsambu Kijjambu, John Rwakihembo, Perez Nimusima



This work is licensed under a [Creative Commons Attribution 4.0 International License](https://creativecommons.org/licenses/by/4.0/).

Authors retain copyright and grant the journal right of first publication with the work simultaneously licensed under a [Creative Commons Attribution \(CC-BY\) 4.0 License](https://creativecommons.org/licenses/by/4.0/) that allows others to share the work with an acknowledgment of the work's authorship and initial publication in this journal.