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Dynamic Capabilities and Firm Innovation of Tier IV Microfinance Institutions in Uganda

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Abstract

Purpose: The financial services sector has undergone significant transformation due to technological advancement, regulatory changes, increased competition and evolving customer expectations. In Uganda, Tier IV microfinance institutions (MFIs) regulated by Uganda Microfinance Regulatory Authority (UMRA) play a critical role in promoting financial inclusion by serving low income populations and micro enterprises. To remain competitive and sustainable in a rapidly changing environment, these institutions must continuously innovate their products, processes and service delivery mechanisms. This study was conducted to establish the relationship between dynamic capabilities and firm innovation of Tier IV UMRA licensed MFIs in Uganda.

Methodology: the study was guided by pragmatism research paradigm that advocates for objective and subjective view of reality if conclusive decisions are to be reached. Consequently, both dynamic capabilities and firm innovation are semi structured, the study therefore used structure questionnaires and interview guides to seek responses from the target population. Qualitative data was collected from Human Resource Managers, General Managers, Credit Managers, Internal Auditors and Accountants and 17 board chairpersons took part in qualitative interviews. These take key management decisions in microfinance institutions and were selected purposively. The study employed stratified proportionate simple random sampling for the unit of analysis and inquiry. A total sample of 139 MFIs were reached for data collection out of the target sample of 151. The study used Pearson correlation to establish the relationship between the variables.

Findings: Study results revealed a significant positive relationship between dynamic capabilities and firm innovation (r = .603, p < .01). The findings suggest that an improvement in dynamic capabilities is associated with an improvement in firm innovation.

Recommendations: The study recommends that: 1) MFIs develop capabilities to monitor and sense new opportunities and threats within the environment, and develop new or improve on products, processes, or marketing strategies to improve their financial performance in order to survive. 2) Tier IV MFIs have to reconsider and transform their business models to achieve better financial outcomes.

Keywords: *Firm Innovation, Dynamic Capabilities, Microfinance Institutions, Uganda Microfinance Regulatory Authority*

JEL Codes: *G21, H57, H54, H72, D73, R5*

INTRODUCTION

Innovation has emerged as a key strategic capability that enables microfinance institutions to improve operational efficiency, expand outreach, enhance customer satisfaction and achieve financial performance and sustainability (Abera et al, 2025; Marfo et al, 2024). However, innovation does not occur automatically, it depends on an institution's ability to identify opportunities, acquire resources and adapt to environmental changes and reconfigure organisational competences (Cordeiro et al 2023; Mihu et al 2023). These abilities are collectively referred to as dynamic capabilities Cavusgil & Deligonul, 2025). The concept of dynamic capabilities emerged as an extension of the resource-based view (RBV), which emphasises the strategic importance of firm resources in achieving competitive advantage and financial performance (Kero & Bogale 2023; Sun et al, 2024). While the resource-based view focuses on valuable, unique and non-substitutable resources, dynamic capabilities explain how firms continuously renew and reconfigure these resources in response to environmental changes (Sun et al, 2024). Dynamic capabilities are commonly categorised into three dimensions: sensing capabilities defined as the firm's ability to identify market opportunities, customer needs and technological trends. Seizing capabilities that looks at the firm's ability to mobilise resources and exploit identified opportunities. Reconfiguration on the other hand which looks at the ability of a firm to renew organisational structures, processes and competences to sustain competitiveness (Joussen et al, 2025; Bornay-Barrachina). The importance of dynamic capabilities is particularly pronounced among Tier IV Microfinance Institutions (MFIs), which typically operate with limited financial, technological and human resources compared to commercial banks. These institutions face increasing competition from other financial providers, changing customer needs, regulatory requirements and rapid technological advancements in digital financial services. Given their resource constraints, Tier IV MFIs cannot rely solely on resource abundance to achieve performance. Instead they must develop dynamic capabilities that enable them adapt quickly, innovate their products, processes and effectively utilize available resources (Khan, 2024). In the Ugandan context, where the microfinance sector is characterised by intense competition and evolving market conditions, dynamic capabilities are critical for ensuring institutional survival, growth and long-term sustainability (Biswakarma, & Bohora, 2025).

In Uganda, the enactment of the Uganda Microfinance Regulatory Authority framework and the implementation of the Tier IV Microfinance Institutions and Money lenders Act have significantly transformed the operating environment of Tier IV MFIs in Uganda. The regulatory frame work introduced stricter requirements relating to governance, reporting, risk management and operational efficiency. Consequently, innovation has become more than a means of achieving financial performance, it has emerged as a compliance and survival strategy (Sakharov, 2025). To meet regulatory standards while maintaining operational efficiency Tier IV MFIs are increasingly required to adopt innovative processes and digital technologies. Institutions that fail to innovate may face difficulties complying with regulatory requirements, attracting customers and controlling costs that may weaken their performance. Therefore, the evolving regulatory landscape has made innovation a critical capability for both regulatory compliance and long-term organisational survival (Banda, 2025). As competition intensifies, and technology financial service delivery, dynamic capabilities become increasingly important for fostering innovation and organisational growth (Ul Amin, & Khan, 2024). Firm innovation, refers to the introduction of new or significantly improved products, services, processes, organisational methods or marketing

practices (Ayinaddis, 2023). Innovations in the microfinance sector include: mobile money integration, digital loan processing systems, agent banking services, customer relationship management systems and innovative savings and credit products (Omowole, 2024). Empirical studies across various sectors have consistently demonstrated that firms possessing strong dynamic capabilities are more likely to innovate successfully and sustain competitive advantage (Ul Amin, & Khan, 2024; Ortiz-Avram, 2024). Despite the growing recognition of dynamic capabilities as a driver of firm innovation, limited research has specifically examined this relationship among Tier IV UMRA licensed MFIS in Uganda, creating a knowledge gap. Tier IV MFIs play a critical role in promoting financial inclusion by providing financial services to low income households and enterprises that are excluded from formal banking systems (Kumar, S., & Kumar, V. 2025). Failure to foster effective innovation may contribute to poor financial performance, institutional failure and reduced outreach to underserved population (Fernandez-Vallado, 2025).

Problem Statement

Tier IV MFIs operate in a highly dynamic environment characterised by technological disruption, changing customer demands, regulatory reforms and increased competition from commercial banks, fintech companies and mobile money operators. To survive and remain relevant, MFIs must continuously innovate their products, services and operational processes (Abera et al, 2025). Despite the growing need for innovation, many MFIs continue to face challenges such as limited technological infrastructure, inadequate managerial capabilities, resource constraints and slow adaptation to market changes (Jjagwe, 2026; Wakibi 2025). Consequently, some institutions struggle to introduce innovative financial solutions capable of meeting evolving customer needs and achieving sustainable growth. Although dynamic capabilities have been widely recognized as drivers of firm innovation (Eisenhardt & Martin, 2017), evidence regarding their influence on firm innovation among Tier IV MFIs in Uganda remains limited and inconclusive. The absence of sufficient empirical evidence hinders the development of effective strategies aimed at enhancing innovation performance within the Tier IV MFIs in Uganda. Therefore, the study examined the relationship between dynamic capabilities and firm innovation among Tier IV MFIs in Uganda.

Review of Literature and Hypothesis Development

Theoretical Review

Dynamic Capabilities Theory

The study was guided by the dynamic capabilities theory by David Teece which posit that organisations achieve superior financial performance by sensing opportunities and threats, seizing opportunities through strategic decisions and reconfiguring their resource base in order to maintain competitiveness. Teece et al. (1997) *defined dynamic capabilities as "the firm's ability to integrate, build, and reconfigure internal and external competencies to address rapidly changing environments*. Cyfert et al. (2021) looks at dynamic capability as a process of searching for opportunities, knowledge management and learning; coordination; configuration and reconfiguration; and organizational adaptation. The dynamic capability theory explains the success and failure of firms amidst competition. Firms can compete in this changing environment through building their capacity to sense, seize and reconfigure their key resources (Denrell & Powell, 2015). Dynamic capabilities comprise sensing, seizing, and integration (Chemutai et al., 2022). Sensing capabilities enable a firm to identify favourable opportunities and potential threats to develop strategies for dealing with these external factors (Mbabazi et al, 2026). In the context of Tier IV

MFIs, dynamic capabilities may facilitate the development of innovative financial products, digital lending platforms, mobile banking solutions and customer cantered service delivery approaches. The study hypothesizes that MFIs with strong capabilities as suggested by Teece (2007) tend to exhibit sound financial performance as opposed to those without. Although dynamic capability theory provides a useful framework for understanding how organizations adapt to changing environment through sensing, seizing and reconfiguring resources (Teece, 2007), its application within resource constrained organizations remains underexplored. Tier IV MFIs often operate with limited financial, technological and managerial resources, which may influence how dynamic capabilities are developed and deployed. Consequently, while the theory offers a compelling explanation of how firms can achieve superior performance, there's limited empirical evidence on the specific mechanisms through which dynamic capabilities translate into innovation and financial performance in the context of Tier IV MFIs in Uganda (Dias & Renato, 2017). Therefore, understanding the relationship between dynamic capabilities and firm innovation is therefore essential for policy makers, regulators and MFI managers seeking to strengthen the resilience and competitiveness of Uganda's microfinance sector.

Empirical Review

Dynamic Capabilities and Firm Innovation

The concept of dynamic capabilities originates from the work of David Teece, who argued that organizations must integrate, build and reconfigure internal and external competencies to respond to rapidly changing environments (Teece et al, 1997). Dynamic capabilities are commonly operationalized through sensing, seizing and reconfiguration capabilities (Patrício, 2022). Sensing Capability and Firm Innovation: Sensing refers to an organization's ability to identify opportunities, threats, customer needs and technological changes in the environment (Dias & Lages, 2021). Empirical studies have generally reported a positive relationship between sensing capability and firm innovation (Anh & Thong, 2017; Alshanty et al, 2019). Firms that continuously scan markets and monitor customer preferences tend to develop new products, services and processes more effectively than competitors. In MFIs, sensing capabilities facilitate identification of emerging digital finance opportunities, customer demands and market gaps leading to enhanced innovation outcomes. However, some studies suggest that sensing alone may not generate innovation unless organizations possess complementary capabilities to exploit identified opportunities (Sheng, 2017). Seizing Capabilities and Firm Innovation: This involves mobilizing resources and making strategic decisions to exploit opportunities identified through sensing. Empirical evidence indicates that organizations with strong seizing capabilities exhibit higher levels of innovation because they are able to allocate resources effectively toward product development, technological investments and process improvements (Pitelis, 2024). MFIs that rapidly adopt mobile banking technologies, digital lending platforms and customer centric innovations demonstrate superior innovation performance. Studies conducted in emerging economies have found out that seizing capability significantly predicts innovation success by enabling firms to transform opportunities into marketable solutions (Bornay-Barrachina, 2025). Reconfiguration capability refers to an organizations ability to restructure resources, prosses and competencies in response to environmental changes (J Nair et al 2024). Empirical studies have established that reconfiguring capabilities enhance innovation by allowing firms to adapt organizational structures, redeploy resources and integrate new technologies (Abdelkareem 2026; Chaturvedi, & Prescott, 2022). Organizations with strong reconfiguration mechanisms are better positioned to sustain innovation because they continuously

align internal capabilities with changing market demands (Mahmood & Alam 2025; Jamil et al 2025). In MFIs, reconfiguring capabilities supports adoption of fintech solutions, digital transformation initiatives and operational innovations that improve service delivery. While innovation is widely recognized as a key driver of financial performance, it is not without costs and risks. Innovation initiatives often require substantial investments in technology, employee training and process redesign, and not all innovation efforts yield expected outcomes (Huang, 2025). This is a challenge for Tier IV MFIs which typically operate under financial and resource constraints. Unsuccessful innovation initiatives may divert scarce resources and adversely affect institutional performance. Dynamic capabilities play a critical role in mitigating these risks by enabling organizations to sense valuable opportunities, evaluate alternative courses of action and allocate resources effectively (Cavusgil., & Deligonul, 2025). Through these capabilities, Tier IV MFIs can improve the likelihood that innovation investments generate value while minimizing the costs associated with unsuccessful innovation efforts.

Although existing studies demonstrate positive association between dynamic capabilities and firm innovation, most studies focused in manufacturing firms and commercial banks rather than tier IV MFIs and concentrated on developed economies. Therefore, this study bridges these gaps by examining the influence of dynamic capabilities on firm innovation among Tier IV MFIs in Uganda. Thus, a hypothesis: *Dynamic capabilities are positive related to firm innovation among Tier IV MFIs in Uganda.*

METHODS

The study was anchored within the pragmatic research paradigm founded on premise that research should focus primarily on addressing practical problems and generating useful knowledge rather than adhering rigidly to a single philosophical worldview (Allemang, 2022; Elgeddawy, & Abouraia, 2024). Ontologically pragmatism recognizes the existence of multiple realities shaped by a firm experiences and contextual conditions (Romero-Sánchez, 2024). Epistemologically, pragmatism acknowledge that knowledge can be generated through both objective measurements and subjective interpretations (Gillespie, 2024). A mixed methods approach was therefore adopted (QUAN- QUAL) and quantitative data collected from General Managers, Accountants, Credit Managers, Internal Auditors, and Human Resource Managers) and qualitative data from MFIs' board chairmen given that they take major decisions in MFIs. The study adopted a cross-sectional research design (Cresswell; 2018) guided by methodological practical considerations since the objective was to establish the relationship between MFI's capabilities and firm innovation outcomes rather than tracking changes over time. The table below shows the sampling frame of Tier IV non-deposit taking MFIs (NDTMFIS)and SACCOs.

Table 1: The Sampling Frame of Tier IV Non-Deposit Taking MFIs (NDTMFIS)and SACCOs

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
Total	***144***	***89***	***98***	***62***
Total Population	**144+98**		**242**	
Sample	**89+62**		**151**	

The study used proportionate stratified sampling to represent regions and minimize sampling bias (Ahmed, 2024). Questionnaire and interview guides were used to collect quantitative and qualitative data respectively. Research instruments were tested to ensure validity and reliability as indicated in the tables below. The content validity index for all the items rated relevant was above the recommended threshold of 70% (CVI=>70%) (Rokeman, & Kob, 2024) and the Cronbach Alpha was also above .7. For reliability, the three tests of confirmability, credibility, and transferability (Enworo, 2023). Operationalization of variables was done as presented in table 2.

Table 2: Content Validity Index (CVI) for Variables

Construct	CVI
Dynamic Capabilities	
Sensing	.789
Seizing	.826
Configuration	.722
Firm Innovation	
Product Innovation	.731
Process Innovation	.762
Market Innovation	.841

Table 3: Reliability Analysis Results

Construct	Cronbach's Alpha	Number of Items
Dynamic Capabilities		
Sensing	.756	15
Seizing	.726	10
Configuration	.759	6
Firm Innovation		
Product Innovation	.881	11
Process Innovation	.817	11
Market Innovation	.734	7

Table 4: Operationalization of Variables

Variable	Dimensions	Citations	Sample questions
Dynamic Capabilities	*Sensing* *Seizing* *Configuration*	Teece (2012), Sivusuo (2019), Teece (2022), 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?
Firm Innovation	*Product/service* *Process* *Market*	Teece (2012), Truong & Nguyen, (2024). Driving business performance through intellectual capital, absorptive capacity, and innovation: The mediating influence of environmental compliance and innovation. *Asia Pacific Management Review*, *29*(1), 64-75. , Sharma & Rai (2015), Lowik et al. (2017), Darawong (2018), Solaimani et al. (2019)	How does internal and external knowledge contribute to the innovation process in your MFI? Explain how the MFI combines its skills and resources to meet the demands of the market How do you identify technological and market opportunities?

The researcher sought clearance from Research Ethics Committee and Uganda National Council for Science and Technology, respected the anonymity of the respondents, maintained confidentiality and sought consent from respective organisations before data collection. The researcher ensured voluntary participation during data collection. SPSS version 26 was used for quantitative data analysis and NVIVO for qualitative data (Pallant 2020). Descriptive and correlation coefficients were used for quantitative data, while thematic content analysis was used for qualitative analysis (Epoka, 2023; Kuckartz & Radiker, 2023). Data screening and cleaning was done to identify outliers and missing values. Parametric assumptions were tested to determine whether observed relationships in data are statistically significant and normally distributed as presented below (Pallant 2020). After the parametric assumptions were made, pearson correlation and regression analysis were used in this model Innov = $b_0 + b_1$DC + e… i where b_0, constant; b_1DC, coefficient of Dynamic capabilities; and e represents the error term.

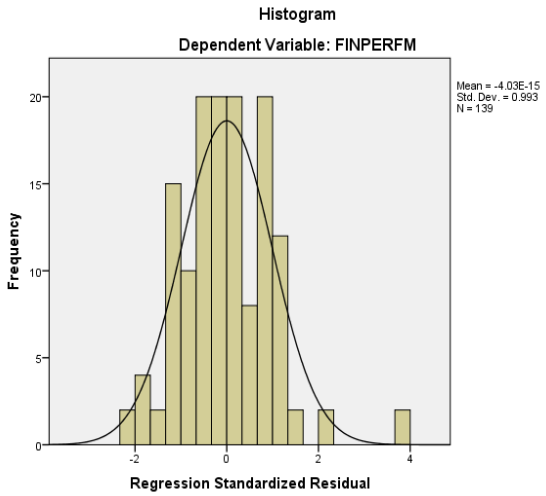

Figure 1: Test for Normality

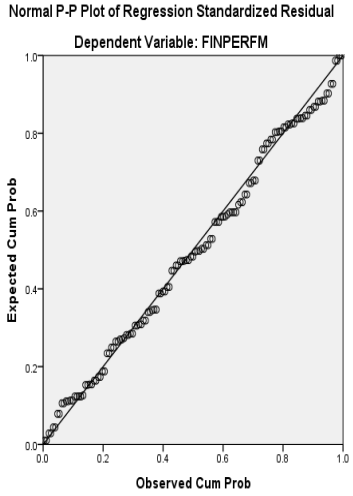

Figure 2: Test for Linearity

Table 5: Test for Homogeneity of Variance

Levene Statistic	df1	df2	Sig.
Dynamic Capabilities	0.061	1	106	.805
Firm Innovation	0.560	1	106	.456

Source: Primary Data (2025)

Table 6: Test for Multicollinearity

Model		Collinearity Statistics	
		Tolerance	VIF
1	Dynamic Capabilities	.636	1.573
	Firm Innovation	.636	1.573

a Dependent Variable: Financial Performance

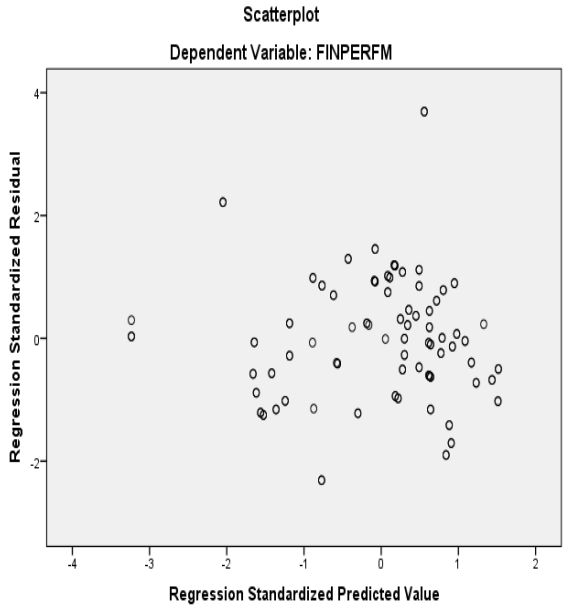

Figure 3: Test for Independence of Error

Out of the target sample 151 Tier IV MFIs, 139 firms responded and for the qualitative interviews the saturation point was reached at the 17th respondent (Mwita, 2022).

Demographic Characteristics. These relate to the age of the respondents, level of education and number of years in the current position.

Table 7: Age of 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
	Total	**604**		

Results in table 7 indicate that 97.19% of the respondents were above 30 years of age implying high level of maturity to respond to the questions.

Table 8: Level of Education

		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
Total		**604**	**100.00**	

Table 8 illustrate that more than 50% had at least attained a bachelor's degree implying high level of professional competence and knowledge hence reliable to give valid and reliable responses.

Table 9: Number of Years in 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
Total	**604**	**100.00**	

More than 60% of the respondents had spent more than 5years in their current position meaning that they had high level of experience and could therefore give reliable responses.

Empirical Findings

Effect of Dynamic Capabilities on Firm Innovation

Correlation Analysis Results

Pearson correlation was conducted in line with study hypothesis: There exist a positive relationship between dynamic capabilities and firm innovation.

Table 10: Correlation Matrix

		1	2	3	4	5	6	7	8
1	**Dynamic Capabilities**	1							
2	*Sensing Capabilities*	.331**	1.						
3	*Seizing Capabilities*	.281**	.283**	1.					
4	*Reconfiguration*	.260**	.283**	.202**	1.				
5	**Firm Innovation**	**.603****	***.243*****	***.329*****	***.365*****	1.			
6	*Product Innovation*	.160*	.374**	.150*	.185*	.107	1.		
7	*Market Innovation*	.163*	.135*	.418**	.103*	.156*	.105	1.	
8	*Process Innovation*	.189*	.456**	.201**	.253**	.128	.612**	.191*	1.

Note: **P<.01 level (1-tailed); *P<.05 level (1-tailed), *n* =139

Findings in table 10 indicate that there exists a positive relationship between dynamic capabilities and and firm innovation (r =.603, p < .01). This result implies that an improvement in dynamic capabilities is associated .603 improvements in firm innovation.

Discussion of Results

The study findings revealed a statistically significant and positive relationship between dynamic capabilities and firm innovation among Tier IV UMRA licenced MFIs in Uganda. Specifically, the results indicated that sensing capabilities positively influenced the identification of new market opportunities and customer need (r=.243, p<.01). Seizing capabilities enhanced the implementation of innovative products and services (r= .329, p<.01). Reconfiguration capabilities facilitated organizational adaptation and continuous improvement (r=.365, p<.01). Overall, MFIs

exhibiting stronger dynamic capabilities demonstrated higher levels of innovation compared to those with weaker capabilities. The regression analysis further showed that dynamic capabilities significantly predicted firm innovation, implying that improvements in sensing, seizing and reconfiguration capabilities enhances innovation performance. This is consistent with hypothesis H:2 that dynamic capabilities are positively related with firm innovation among Tier IV UMRA licenced MFIs in Uganda. These finding are consistent with the dynamic capability perspective, which posit that firms with strong capabilities to sense opportunities, seize them and reconfigure resources are better positioned to generate innovation. For instance, Pundziene et al, 2022) found that organisational dynamic capabilities significantly enhance firm innovation by enabling firms to recognise opportunities and effectively deploy resources in a changing environment. Similarly, Bornay-Barrachina et al, (2025) and Hakeem, (2023) reported that dynamic capabilities facilitate technological and managerial innovation which subsequently improves firm performance. Their findings suggest that sensing, seizing and reconfiguration capabilities provide firms with flexibility required to innovate in a dynamic business environment. The findings suggest that MFIs capable of continuously learning, adapting and reconfiguring resources are better positioned to develop innovative financial solutions and respond effectively to environmental changes. The study findings support the dynamic capability theory which argues that organisations operating in dynamic environments achieve competitive advantage through their ability to sense opportunities, seize them effectively and reconfigure organizational resources accordingly. The positive relationship between dynamic capabilities and firm innovation suggests that Tier IV MFIs that actively monitor market trends, customer preferences and technological developments are more likely to generate innovative ideas and translate them into valuable products and services. This finding aligns with previous studies that have identified dynamic capabilities as critical antecedents of organizational innovation (AL-Khatib et al, 2024; Chatterjee et al, 2023)

The significant influence of sensing capabilities demonstrates the environmental scanning and market intelligence are essential for innovation. MFIs that continuously gather information regarding customer needs and competitor actions are better able to identify opportunities for product development and service improvement. Similarly, the positive association of seizing capabilities demonstrates the importance of managerial decision making and resource mobilisation. Even when opportunities are identified, innovation can only occur when firms allocate adequate financial, technological and human resources toward implementation. The findings further highlight the critical role of reconfiguration capabilities. In a rapidly evolving financial sector, institutions must continuously adapt structures, processes and technologies to sustain innovation. MFIs capable of restructuring operations and embracing digital transformations are more likely to achieve innovation outcomes (Abera et al, 2025; Dorfleitner et al, 2022; Satpathy et al, 2025). The results further suggest that dynamic capabilities serve as strategic mechanisms through which Tier IV MFIs can overcome resource limitations and environmental uncertainties. By strengthening these capabilities, institutions can enhance innovation performance, improve customer satisfaction and achieve long-term sustainability. From a managerial perspective, findings imply that MFI leaders should invest in organisational learning, staff training, technological adoption, knowledge management systems and strategic flexibility. Such investments can strengthen dynamic capabilities and create an environment conducive for firm innovation. Policy ways, regulators and development partners should support capacity building initiatives aimed at enhancing managerial competencies, digital transformations

and innovative ecosystems within the microfinance sector. Strengthening dynamic capabilities among Tier IV MFIs may ultimately contribute to greater financial inclusion, institutional resilience and economic development in Uganda.

Conclusion

The study concludes that dynamic capabilities are significant drivers of firm innovation among Tier IV UMRA licenced MFIs in Uganda. Institutions with strong sensing, seizing and reconfiguration capabilities are more likely to introduce innovative products, services and processes that enhance competitiveness and sustainability. Therefore, strengthening dynamic capabilities should be a strategic priority for MFIs seeking to improve innovation performance and maintain relevance in Uganda's increasingly dynamic financial service environment.

Implications of the Study

Theoretical Implications

The study contributes to the dynamic capabilities theory by extending its application to Tier IV MFIs operating in a resource constrained environment. While dynamic capability theory has been widely applied in large firms and developed economies, limited evidence exists regarding how dynamic capabilities influence firm innovation and financial performance in microfinance institutions in developing countries. By examining the relationship between dynamic capabilities, firm innovation and financial performance among Tier IV MFIs in Uganda, the study empirical evidence on the operationalization of dynamic capabilities in a context characterised by limited resources, regulatory pressures and intense competition. The findings therefore enrich the growing body of literature on dynamic capabilities theory by demonstrating its relevance within the microfinance sector.

Practical Implications

The study highlights the importance of developing dynamic capabilities as a means of fostering effective innovation and improving financial performance. For managers of Tier IV MFIs, the findings suggest that innovation should not be viewed merely as introduction of new products or technologies but as strategic process supported by capabilities that enable institutions to sense opportunities, allocate resources efficiently and adapt to changing market conditions.

Policy Implications

The study suggests that regulatory framework and support programs should encourage the development of organisational capabilities that facilitate innovation, including capacity building initiatives and digital transformation programs. Strengthening innovation capabilities of Tier IV MFIs can enhance their financial sustainability, reduce institutional failure and improve delivery of financial services to undeserved populations.

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