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STRATEGIC CAPABILITIES AND SUSTAINABILITY OF FAITH-BASED MICROFINANCE BANKS IN NAIROBI CITY COUNTY, KENYA

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ABSTRACT

Faith-based microfinance banks play a vital role in promoting financial inclusion and socio-economic development in Kenya. However, these institutions continue to face sustainability challenges arising from limited resources, increasing competition, regulatory pressures, and the need to balance social mission with financial viability. This study investigates the effect of strategic capabilities on the sustainability of faith-based microfinance banks in Kenya. Specifically, the study focuses on governance capability, financial management capability, risk management capability, and social responsibility capability. The study adopts a systematic literature review approach, drawing on empirical and theoretical studies anchored on the Resource-Based View, Dynamic Capabilities Theory, and Stakeholder Theory. The review further incorporates organizational learning capability as a mediating variable and operational efficiency as a moderating variable in the relationship between strategic capabilities and sustainability. Findings from the literature indicate that strategic capabilities significantly enhance sustainability by improving financial stability, operational effectiveness, and stakeholder engagement. Governance capability strengthens accountability and decision-making, financial management capability improves resource allocation and financial resilience, risk management capability enhances stability through effective risk mitigation, while social responsibility capability strengthens institutional legitimacy and stakeholder trust. The study also establishes that organizational learning capability plays a critical mediating role by enabling institutions to acquire, share, and apply knowledge, thereby translating strategic capabilities into improved sustainability outcomes. In addition, operational efficiency moderates this relationship by enhancing the effectiveness with which strategic capabilities are converted into sustainable performance outcomes through cost control, process optimization, and improved service delivery. The study concludes that strategic capabilities alone are insufficient to guarantee sustainability unless supported by strong learning systems and efficient operational structures. It recommends that faith-based microfinance banks strengthen their strategic capabilities, invest in organizational learning processes, and enhance operational efficiency to achieve long-term sustainability. The findings provide valuable insights for policymakers, regulators, and practitioners seeking to strengthen the resilience and sustainability of microfinance institutions in emerging economies.

KEYWORDS: *Strategic Capabilities; Sustainability; Organizational Learning Capability; Operational Efficiency; Microfinance Banks; Kenya; Faith-Based Institutions; Nairobi City County*

1.0 INTRODUCTION

1.1.1 Background of the Study

Strategic capabilities have increasingly been recognized as critical determinants of sustainability among financial institutions, particularly faith-based microfinance banks operating in complex and resource-constrained environments. These capabilities including including financial management capability, governance and leadership capability, relational (social capital) capability, and innovation capability, enable institutions to balance their dual mission of financial viability and social outreach. In the context of faith-based microfinance, sustainability extends beyond financial self-reliance to incorporate social impact and, in some cases, spiritual development, reflecting the unique values underpinning such institutions. Empirical evidence suggests that institutions with strong strategic capabilities are better positioned to achieve long-term sustainability through effective resource mobilization, risk management, and stakeholder engagement (Kariuki, 2018). For instance, Morse (2024) highlights that faith-based microfinance organizations that integrate sound financial practices with their mission-driven objectives are more likely to attain institutional sustainability, although tensions often arise between outreach to the poor and financial self-sufficiency. Similarly, Kariuki (2018) emphasizes that sustainability in Kenya's financial sector requires a holistic approach that integrates economic, social, and environmental considerations, supported by strong institutional frameworks and strategic alignment. In Kenya, faith-based microfinance banks operate within a dynamic regulatory and socio-economic environment, where strategic capabilities such as adaptive governance, partnerships, and ethical leadership play a vital role in ensuring resilience and long-term sustainability. However, the extent to which these capabilities translate into sustained

institutional performance varies depending on regulatory support, internal capacity, and the ability to align faith-driven objectives with market realities.

This study is anchored on three main theoretical foundations: the Resource-Based View (RBV), Dynamic Capabilities Theory, and Stakeholder Theory. The Resource-Based View explains how organizations achieve sustained advantage by leveraging valuable, rare, and inimitable resources and capabilities (Barney, 1991). This theory is useful in explaining how faith-based microfinance banks utilize strategic capabilities such as governance, financial management, and leadership to enhance sustainability. On the other hand, Dynamic Capabilities Theory explains how firms integrate and reconfigure resources to respond to changing environments (Teece et al., 1997). It provides a strong foundation for understanding how microfinance banks sustain performance through adaptation and transformation. Stakeholder Theory explains how organizations create value by balancing the interests of multiple stakeholders including clients and donors (Freeman, 1984). In addition, the study conceptualizes sustainability using the Triple Bottom Line framework (Elkington, 1997). Strategic capabilities influence sustainability, while organizational learning mediates and regulatory environment moderates this relationship.

Faith-based microfinance banks in Kenya play a critical role in promoting financial inclusion, poverty alleviation, and socio-economic development, particularly among underserved and low-income populations. These institutions, often affiliated with religious organizations, combine financial service provision with social and ethical missions, extending credit, savings, and advisory services to clients who are typically excluded from mainstream banking systems. In Kenya, microfinance institutions contribute significantly to financial sector deepening, with the sector reaching millions of borrowers and supporting micro and small enterprises across urban and rural areas (Central Bank of Kenya, 2023). Despite their importance, faith-based microfinance banks face persistent challenges including high default rates, limited capital base, regulatory pressures, and the need to balance financial sustainability with social outreach (Morse, 2024). Additionally, competition from commercial banks and digital lenders has intensified the operating environment. These challenges threaten the long-term sustainability of such institutions, particularly in dynamic markets like Nairobi. Consequently, strategic capabilities such as effective governance, financial management, innovation, and stakeholder engagement are increasingly recognized as essential for enhancing sustainability, resilience, and institutional performance in faith-based microfinance banks.

1.1.2 Strategic Capabilities

Strategic capabilities refer to the firm's ability to effectively deploy and coordinate resources, skills, and competencies to achieve sustainable performance and competitive advantage. In the context of microfinance banks, particularly faith-based institutions, strategic capabilities are critical for ensuring sustainability in dynamic and resource-constrained environments where institutions must balance financial viability with social outreach (Barney, 1991).

Strategic capabilities are commonly conceptualized as governance capability, financial management capability, risk management capability, and social responsibility capability. Governance capability involves effective leadership, strategic direction, and decision-making processes that guide organizational performance. Financial management capability refers to prudent allocation and utilization of financial resources to ensure stability and sustainability. Risk management capability entails the identification, assessment, and mitigation of financial and operational risks, while social responsibility capability reflects the institution's ability to integrate social and community-oriented initiatives into its operations (Menganyi et al., 2023).

Key indicators of strategic capabilities include strength of leadership systems, effectiveness of financial controls, robustness of risk assessment mechanisms, and extent of social responsibility initiatives. These indicators are widely applied in microfinance studies to assess institutional capacity and its influence on performance. Empirical evidence shows that strategic capabilities significantly influence competitive advantage and sustainability of microfinance institutions through improved efficiency and stakeholder trust (Njoroge & Wanyoike, 2025).

Timely development and alignment of strategic capabilities are essential, as weak or static capabilities limit institutional responsiveness and sustainability. Microfinance banks that continuously strengthen governance, risk management, and financial practices are better positioned to navigate sector instability and regulatory demands. Recent studies indicate that strategic direction and adaptive capabilities significantly enhance financial sustainability among faith-based organizations by improving long-term planning and resource utilization (Bore & Macharia, 2022). In this study, governance capability, financial management capability, risk management capability, and social responsibility capability are treated as key indicators of strategic capabilities..

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1.1.3 Sustainability of Faith-Based Microfinance Banks

Sustainability of faith-based microfinance banks refers to the ability of these institutions to maintain long-term financial viability while simultaneously achieving their social and developmental objectives. In the context of microfinance, sustainability is closely linked to the capacity of institutions to balance outreach to low-income clients with financial self-sufficiency, a challenge that has persisted in the sector for many years (Tang, 2002). Faith-based microfinance institutions play a critical role in providing financial services to underserved populations, yet they continue to face difficulties in achieving stable and sustainable operations due to competing social and financial goals.

Sustainability is commonly conceptualized as financial sustainability, operational sustainability, and social sustainability. Financial sustainability refers to the ability of institutions to cover operational costs and generate sufficient income to continue lending activities. Operational sustainability involves efficiency in service delivery, branch expansion, client reach, and credit management systems, while social sustainability reflects the institution's ability to maintain its mission of poverty alleviation and community development. Empirical studies show that factors such as client base size, financial regulation compliance, credit volume, and branch network significantly influence the sustainability of microfinance institutions (Muriithi, 2017).

Key indicators of sustainability include financial self-sufficiency, loan repayment rates, client outreach, portfolio quality, and institutional growth. Financial self-sufficiency reflects the ability of microfinance banks to operate without external donor dependence, while outreach measures the extent to which services reach low-income populations. Empirical evidence further shows that faith-based enterprises succeed when supported by strong institutional structures, including training, financial services, and monitoring systems that enhance enterprise survival and growth (Ndemo, 2006).

Timeliness in strategic decision-making and institutional responsiveness also plays a significant role in sustainability. Institutions that adapt their strategies to market demands, regulatory changes, and client needs are more likely to remain financially stable and socially relevant. Recent studies show that strategic capabilities such as strategic direction and adaptive leadership significantly enhance the financial sustainability of faith-based organizations by improving planning, resource allocation, and long-term institutional resilience (Bore & Macharia, 2022). Additionally, financial institutions that adopt strategic repositioning capabilities such as customer-focused service delivery and operational innovation are better able to sustain competitive advantage in dynamic environments (Wasike, 2020).

1.1.4 Organizational Learning Capability

Organizational learning capability refers to the ability of an institution to acquire, assimilate, transform, and exploit knowledge in order to improve decision-making, operational processes, and sustainability outcomes. In microfinance institutions, it determines how strategic capabilities are translated into improved financial and social sustainability through effective knowledge utilization and application (Zhang et al., 2025). Institutions with strong learning capability are better able to integrate new practices, improve governance systems, and adapt to changing regulatory and market environments, thereby enhancing operational efficiency and long-term sustainability (Li et al., 2022). Knowledge sharing and tacit knowledge management processes significantly improve coordination, trust, and decision-making efficiency, which in turn strengthens institutional performance and resilience (Zhang et al., 2025). Similarly, continuous learning and capability development enable microfinance banks to refine financial management, risk assessment, and service delivery processes, leading to improved sustainability outcomes (Li et al., 2022). Organizational learning capability therefore mediates the relationship between strategic capabilities and sustainability of faith-based microfinance banks by ensuring that knowledge is effectively absorbed, interpreted, and applied within the institution.

1.1.5 Operational efficiency

Operational efficiency refers to the extent to which an institution utilizes its financial, human, and operational resources in a cost-effective manner to deliver services, minimize waste, and maximize output quality. In microfinance banks, particularly faith-based institutions, operational efficiency plays a critical role in determining how effectively strategic capabilities are translated into sustainability outcomes by influencing cost control, service delivery speed, and portfolio quality. Institutions with high operational efficiency are better able to process loans faster, reduce transaction costs, and improve monitoring of repayments, thereby strengthening the impact of strategic capabilities on financial sustainability (Kariuki, 2018). Efficient operations also enable microfinance banks to expand outreach to more clients without a proportional increase in operating costs, enhancing long-term institutional viability (Muriithi, 2017). Conversely, low operational efficiency weakens the effectiveness of strategic capabilities by increasing costs, reducing service quality, and limiting financial performance. Operational efficiency therefore moderates the relationship between strategic capabilities and sustainability of faith-based

microfinance banks by strengthening or weakening the extent to which strategic resources are converted into sustainable performance outcomes.

1.1.6 Faith-based microfinance organizations in Kenya

Faith-based microfinance organizations in Kenya play a vital role in advancing financial inclusion, poverty alleviation, and enterprise development by providing savings, credit, and financial literacy services to low-income and financially excluded populations. These institutions are often affiliated with religious organizations and operate under a dual mandate of achieving financial sustainability while delivering social and community impact. According to the Central Bank of Kenya (2023), microfinance banks form an important segment of the financial sector, serving thousands of clients and supporting micro and small enterprises across the country. Faith-based microfinance institutions complement this mandate by leveraging trust, ethical lending principles, and community networks to reach underserved populations, particularly in rural and peri-urban areas. However, despite their developmental importance, these organizations face persistent challenges including limited capital base, high credit risk, and sustainability pressures arising from their social mission (Morse, 2024). The Kenya National Bureau of Statistics (2024) further highlights the importance of financial inclusion in supporting MSME growth, which remains a key driver of employment and economic development in Kenya.

1.2 Statement of the Problem

Faith-based microfinance organizations play a critical role in promoting financial inclusion, poverty reduction, and enterprise development in Kenya by providing credit and savings services to low-income and financially excluded populations. Despite their importance, these institutions continue to struggle with sustainability challenges, including limited capital base, high operational costs, credit risk exposure, and the persistent tension between social mission and financial viability (Morse, 2024; CBK, 2023). These challenges have raised concerns about their long-term ability to remain operationally stable while still achieving their developmental objectives.
Empirical studies at the regional level highlight that sustainability of microfinance institutions is influenced by internal governance and managerial factors. For instance, research on rural microfinance institutions shows that financial literacy significantly improves sustainability through strengthened governance structures, which enhance decision-making and institutional accountability (Atahau et al., 2023). Similarly, studies on micro waqf banks in Indonesia reveal that long-term sustainability is dependent on operational stability, effective risk management, and the ability to balance social and financial objectives, with technology adoption playing a key role in reducing operational costs and improving efficiency (Andayani et al., 2025). These findings suggest that sustainability is not only a financial outcome but also a function of governance, efficiency, and institutional capability.

At the local level, studies in Kenya indicate that strategic capabilities significantly influence the sustainability and competitive advantage of financial institutions. For example, research on financial institutions in Kakamega County found that strategic repositioning capabilities such as customer experience, branchless banking, and agency banking significantly predict sustainable competitive advantage in dynamic financial environments (Wasike & Kwasira, 2020). Similarly, studies on microfinance banks in Kenya show that risk assessment strategies have a direct influence on institutional sustainability, although their impact remains limited when applied through static and compliance-based approaches (Gitee et al., 2025). These studies emphasize that internal strategic and risk-related capabilities are critical determinants of sustainability in the microfinance sector.

Despite this growing body of literature, several gaps remain. First, most studies focus either on financial, governance, or risk-related factors in isolation, without integrating them into a broader strategic capability framework. Second, existing research has largely examined sustainability from a financial perspective, with limited attention to how internal capabilities such as governance, risk management, and social responsibility collectively influence sustainability outcomes in faith-based microfinance institutions. Third, few studies have explored the mediating and moderating mechanisms through which strategic capabilities translate into sustainability, particularly in the Kenyan context.

Therefore, the research problem centers on the limited understanding of how strategic capabilities influence the sustainability of faith-based microfinance banks in Kenya, and the mechanisms through which this relationship occurs. Specifically, there is a lack of comprehensive empirical evidence integrating strategic capabilities, organizational learning, and operational efficiency in explaining sustainability outcomes. This study seeks to address these gaps by examining the effect of strategic capabilities on sustainability of faith-based microfinance banks in Kenya, while incorporating mediating and moderating variables to provide a more holistic explanation of this relationship. The findings are expected to inform policy makers, regulators, and management of microfinance institutions on how to enhance sustainability through improved strategic capability development.

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1.3 Research Objectives

1.3.1 General Objective

To investigate the effect of strategic capabilities on the sustainability of faith-based microfinance banks in Kenya.

1.3.2 Specific Objectives

The study was guided by the following specific objectives:

i. To determine the effect of governance capability on sustainability of faith-based microfinance banks in Kenya.
ii. To establish the effect of financial management capability on sustainability of faith-based microfinance banks in Kenya.
iii. To assess the effect of risk management capability on sustainability of faith-based microfinance banks in Kenya.
iv. To determine the effect of social responsibility capability on sustainability of faith-based microfinance banks in Kenya.
v. To examine the mediating role of organizational learning capability in the relationship between strategic capabilities and sustainability of faith-based microfinance banks in Kenya.
vi. To evaluate the moderating role of operational efficiency in the relationship between strategic capabilities and sustainability of faith-based microfinance banks in Kenya.

1.4 Research Hypotheses

H_{01}: Governance capability has no significant effect on sustainability of faith-based microfinance banks in Kenya.
H_{02}: Financial management capability has no significant effect on sustainability of faith-based microfinance banks in Kenya.
H_{03}: Risk management capability has no significant effect on sustainability of faith-based microfinance banks in Kenya.
H_{04}: Social responsibility capability has no significant effect on sustainability of faith-based microfinance banks in Kenya.
H_{05}: Organizational learning capability does not significantly mediate the relationship between strategic capabilities and sustainability of faith-based microfinance banks in Kenya.
H_{06}: Operational efficiency does not significantly moderate the relationship between strategic capabilities and sustainability of faith-based microfinance banks in Kenya.

2.0 LITERATURE REVIEW

2.1 Introduction

This chapter presents a review of literature on strategic capabilities and sustainability of faith-based microfinance banks in Kenya. It examines key theoretical perspectives, including the Resource-Based View, Dynamic Capabilities Theory, and Stakeholder Theory, as well as empirical studies on microfinance sustainability. The chapter also identifies gaps in existing research on the relationship between strategic capabilities and sustainability. In addition, it discusses the mediating role of organizational learning capability and the moderating role of operational efficiency. Finally, it presents the conceptual framework guiding the study.

2.2 Theoretical Framework

This study is anchored on the Resource-Based View, Dynamic Capabilities Theory, and Stakeholder Theory, which explain how strategic capabilities are developed, adapted, and aligned with stakeholder needs to enhance sustainability. Together, the theories provide a framework for understanding how strategic capabilities influence sustainability outcomes through organizational learning and operational efficiency.

2.2.1 Resource-Based View Theory

This study is anchored on the Resource-Based View (RBV) to explain how strategic capabilities influence the sustainability of faith-based microfinance banks in Kenya. The theory, advanced by Barney (1991), posits that firms achieve sustained competitive advantage when they possess resources and capabilities that are valuable, rare, inimitable, and non-substitutable. These resources include both tangible assets and intangible capabilities such as governance systems, managerial expertise, financial resources, and organizational routines that are difficult for competitors to replicate.

The RBV further emphasizes that it is not merely the possession of resources that determines performance outcomes, but how effectively these resources are deployed and integrated within the organization. In the context of microfinance institutions, strategic capabilities such as financial management, risk assessment systems, leadership competence, and social responsibility structures represent critical internal resources that determine

institutional sustainability. Empirical studies have shown that firms with well-developed internal capabilities are better able to achieve long-term performance and resilience in competitive environments (Barney, 1991).

Additionally, RBV highlights the importance of capability heterogeneity among firms, explaining why some faith-based microfinance banks perform better than others despite operating under similar external conditions. This theory is therefore relevant to this study as it provides a framework for understanding how strategic capabilities create sustainable institutional advantages and enhance the long-term sustainability of faith-based microfinance banks through effective resource utilization and capability development.

2.2.2 Dynamic Capabilities Theory

This study also adopts the Dynamic Capabilities Theory to explain how faith-based microfinance banks sustain performance in changing and uncertain environments. The theory, developed by Teece, Pisano, and Shuen (1997), emphasizes an organization's ability to integrate, build, and reconfigure internal and external competencies to address rapidly changing environments. It extends the Resource-Based View by focusing not only on resource possession but also on the continuous renewal of capabilities.

Dynamic Capabilities Theory identifies three core processes: sensing opportunities and threats, seizing opportunities through strategic investments, and transforming organizational resources to maintain competitiveness (Teece, 2007). In the context of microfinance institutions, these processes are critical in enabling organizations to respond to regulatory changes, shifting client needs, and financial market dynamics. Institutions that effectively sense emerging risks, seize financial opportunities, and transform their operational structures are more likely to achieve sustainability.

Empirical evidence supports the view that dynamic capabilities enhance organizational performance by enabling firms to adapt to environmental uncertainty and technological change (Teece, 2018). In microfinance settings, these capabilities are reflected in adaptive governance systems, flexible risk management practices, and continuous improvement of financial service delivery models. Therefore, Dynamic Capabilities Theory is relevant to this study as it explains how strategic capabilities are continuously developed and reconfigured to ensure the sustainability of faith-based microfinance banks in Kenya.

2.2.3 Stakeholder Theory

This study is further anchored on Stakeholder Theory to explain how faith-based microfinance banks achieve sustainability by balancing the interests of multiple stakeholder groups. The theory, proposed by Freeman (1984), posits that organizations must create value not only for shareholders but also for all stakeholders, including customers, employees, regulators, donors, and the broader community.

Stakeholder Theory emphasizes that organizational success depends on the ability to manage and respond to diverse stakeholder expectations. In the context of faith-based microfinance institutions, stakeholders include low-income clients, religious organizations, regulatory authorities, funding partners, and community groups. These institutions are expected to deliver both financial services and social impact, making stakeholder alignment a central component of sustainability.

Empirical studies have shown that organizations that effectively manage stakeholder relationships are more likely to achieve long-term stability, legitimacy, and trust (Freeman, 1984). In microfinance, strong stakeholder engagement enhances client loyalty, repayment performance, and access to external funding. This is particularly important for faith-based institutions, which rely heavily on trust and community support to sustain their operations.

Therefore, Stakeholder Theory is relevant to this study as it provides a framework for understanding how strategic capabilities such as governance, social responsibility, and relationship management contribute to the sustainability of faith-based microfinance banks by ensuring alignment between institutional goals and stakeholder expectations.

2.3 Empirical Review

This section reviews past studies on innovation practices, specifically product innovation, process innovation, marketing innovation, and organizational (management) innovation, and their effect on organizational performance of SMEs in Nairobi City County, Kenya. It further examines organizational learning capability as a mediating variable in the relationship between innovation practices and organizational performance, and evaluates the moderating role of digital technology adoption in influencing this relationship.

2.3.1 Governance Capability and Sustainability of Microfinance Institutions

At the international level, governance capability has been widely recognized as a key determinant of microfinance sustainability. Research on microfinance governance systems shows that institutional sustainability is largely shaped by how well institutions balance financial self-reliance with their social mission. A review of microfinance institutions highlights that sustainability is achieved through effective governance structures that ensure transparency, accountability, and efficient resource allocation, particularly in balancing repayment performance with outreach to the poor (Morse, 2024). Similarly, governance studies in developing economies emphasize that inclusive governance systems that incorporate stakeholder participation and risk management significantly enhance both financial sustainability and social impact of MFIs (Uddin et al., 2024). In addition, faith-based microfinance studies show that governance practices such as ethical oversight, trust-building, and compliance with institutional values improve repayment rates and strengthen long-term sustainability (Ojone, 2024). These findings collectively indicate that governance capability is central to ensuring both financial viability and developmental impact in microfinance institutions.

Regionally, evidence from Nigeria further demonstrates the importance of governance capability in ensuring microfinance sustainability. Onyejose (2025) found that the revocation of licenses of 179 microfinance banks by the Central Bank of Nigeria was largely attributed to weak governance systems characterized by poor capital adequacy, weak risk management, and regulatory noncompliance. The study further established that governance strategies such as asset quality management, group lending models, and client-focused innovations significantly improve financial stability and sustainability. Similarly, faith-based and socially driven microfinance institutions in Nigeria show that governance practices rooted in accountability and ethical financial management improve repayment discipline and strengthen institutional resilience (Ojone, 2024). These studies demonstrate that governance capability is critical in ensuring operational stability and long-term sustainability of MFIs in African contexts.

Locally in Kenya, Muriithi (2017) in a study on microfinance institutions in Murang'a Town established that governance-related factors such as financial regulations, client base size, financial coverage, and credit volume significantly influence sustainability. The study found that institutions with stronger compliance systems and structured governance frameworks were more sustainable due to improved outreach and repayment performance. Similarly, Wasike and Kwasira (2020) found that governance-related practices in financial institutions, including regulatory adherence, strategic decision-making, and portfolio management, significantly enhance sustainable competitive advantage and operational efficiency. These studies confirm that in the Kenyan context, governance capability plays a crucial role in determining the sustainability of microfinance institutions through improved financial discipline, regulatory compliance, and effective resource management.

Bore and Macharia (2022) examined the effect of strategic direction on the financial sustainability of faith-based organizations and established that strategic direction has a significant and positive influence on financial sustainability. The study, based on data collected from organizational leaders, found that strategic direction practices—such as long-term planning, clear goal setting, and leadership-driven decision-making—were implemented at a moderately high level and were associated with improved financial stability. The findings further revealed that organizations with well-defined strategic direction are better able to align their resources, anticipate future challenges, and enhance financial performance. The study concluded that effective implementation of strategic direction strengthens the financial sustainability of faith-based organizations. These findings suggest that in the Kenyan context, strategic direction is a critical component of strategic capability that enhances sustainability by improving planning, resource utilization, and long-term organizational resilience.

2.3.2 Financial Management Capability and Sustainability

At the international level, financial management capability has been identified as a critical factor influencing the sustainability of microfinance institutions. Atahau et al. (2023) examined the role of financial literacy in enhancing the sustainability of rural microfinance institutions and found that financial literacy positively influences sustainability through governance mechanisms. The study established that institutions with strong financial knowledge and management capacity are better able to allocate resources efficiently, manage risks, and make informed financial decisions. This improves institutional performance and ensures long-term sustainability. The findings suggest that financial management capability, particularly in terms of financial literacy and governance integration, plays a vital role in strengthening the resilience and continuity of microfinance institutions.

Similarly, Wediawati et al. (2024) explored the sustainability of Islamic microfinance institutions and emphasized the importance of financial intermediation as a key component of financial management capability. The study found that sustainability is achieved when institutions effectively manage financial activities such as savings mobilization, credit provision, and cost control. It further highlights that microfinance institutions must balance

financial performance with outreach to the poor in order to remain sustainable. The study concludes that strong financial management capability enables institutions to cover operational costs, maintain financial stability, and support long-term growth.

Financial management capability plays a critical role in enhancing the sustainability of financial institutions by ensuring efficient resource allocation, risk management, and long-term financial stability. At the international level, Cao Minh et al. (2024) examined securities companies in Vietnam and established that financial capability significantly influences sustainable growth. The study identified key financial management indicators such as asset size, self-financing capacity, financial leverage, profitability, retained earnings, and financial safety ratios as major determinants of sustainability. The findings suggest that institutions with strong financial management structures—particularly those that maintain balanced capital structures and effective risk management systems—are more likely to achieve sustainable growth. Similarly, Keffala and Omrane (2025), in a study of South African banks, found that sustainable finance practices, particularly those aligned with environmental, social, and governance (ESG) principles, have a significant positive effect on financial performance over time. This implies that financial management capability extends beyond traditional financial controls to include strategic and responsible financial practices that enhance long-term institutional resilience.

At the local level in Kenya, recent studies further reinforce the importance of financial management capability in sustaining microfinance institutions. Cyprine and Jagongo (2026) highlight that financial sustainability of microfinance banks in Kenya is influenced by internal financial management factors such as cash management, credit risk control, capital adequacy, and operational efficiency. The study notes that weaknesses in these areas have contributed to declining profitability and financial instability within the sector. Additionally, Diis, Odunga, and Ayora (2024), in their study of microfinance institutions in Garissa County, found that financial accountability practices—including financial reporting, risk assessment, financial structure management, and monitoring activities—have a positive and significant effect on financial sustainability. The findings demonstrate that improved financial management systems enhance transparency, reduce risk exposure, and strengthen institutional performance. Overall, these studies indicate that financial management capability is a key driver of sustainability, as institutions that effectively manage their financial resources, risks, and accountability mechanisms are better positioned to achieve long-term viability.

These studies demonstrate that financial management capability, through financial literacy, efficient financial intermediation, and sound resource management, is a fundamental driver of sustainability in microfinance institutions. For faith-based microfinance banks, strengthening financial management capability is essential to ensure financial viability while supporting their broader social and developmental objectives.

2.3.3 Risk Management Capability and Sustainability

Risk management capability is a critical determinant of the sustainability of microfinance institutions, as it enables organizations to identify, assess, and mitigate financial and operational risks that may threaten their long-term viability. In the Kenyan context, Gitee, Macheru, and Mburu (2025) examined the influence of risk assessment strategies on the sustainability of microfinance banks and found that traditional risk assessment approaches, such as capital adequacy ratios and control of insider lending, had only a marginal and statistically insignificant effect on sustainability. The study argues that reliance on static and compliance-based risk assessment frameworks may not adequately capture the dynamic and complex risk environment faced by microfinance institutions. Consequently, the authors recommend the adoption of more proactive and outcome-based risk management approaches that can better respond to emerging financial risks and enhance sustainability.

Complementing this perspective, Bundi, Ngali, and Maina (2021) investigated the effect of financial risk management practices on the financial performance of microfinance banks in Kenya and found that credit risk, liquidity risk, operational risk, and market risk management practices have a significant positive effect on financial performance. Specifically, effective credit risk management, through proper loan appraisal, credit scoring, and debt collection mechanisms, was found to improve loan portfolio quality and reduce non-performing loans. Similarly, liquidity risk management, supported by regulatory requirements such as minimum liquidity ratios, enhances the ability of institutions to meet their financial obligations, thereby improving stability. Operational risk management practices, including well-defined internal processes and skilled personnel, were also shown to reduce errors and fraud, contributing to improved efficiency and performance.

Taken together, these studies suggest that while basic risk assessment practices alone may be insufficient, comprehensive and well-integrated risk management capabilities significantly enhance the sustainability of microfinance institutions. Institutions that adopt dynamic, multi-dimensional risk management frameworks,

covering credit, liquidity, operational, and market risks—, re better positioned to maintain financial stability, improve performance, and achieve long-term sustainability.

2.3.4 Social Responsibility Capability and Sustainability

Social responsibility capability refers to the ability of an institution to integrate social, environmental, and ethical considerations into its operations in a manner that enhances both societal welfare and institutional sustainability. At the international level, Pradnyani et al. (2024) examined sustainable banking practices and found that integrating environmental sustainability into financial operations significantly improves financial performance while simultaneously reducing credit risk. The study emphasizes that institutions that adopt socially responsible practices—such as environmental conservation and sustainable resource utilization—are better positioned to achieve long-term sustainability through improved risk management and stakeholder trust. Similarly, Yumna et al. (2025), in their study on Waqf-based microfinance institutions in Indonesia, found that social inclusion plays a significant role in improving the well-being of clients, demonstrating that institutions that actively engage in socially responsible practices enhance their developmental impact and sustainability outcomes. These findings suggest that social responsibility capability is not only a moral obligation but also a strategic tool for enhancing institutional resilience and long-term performance.

From a regional perspective, Ojone (n.d.) highlights the importance of religious principles in shaping social responsibility within microfinance institutions in Nigeria. The study found that faith-based values enhance social responsibility by promoting trust, community cohesion, and improved loan repayment behavior among clients. This strengthens institutional sustainability by fostering strong relationships between institutions and their communities. Supporting this view, Mobin, Alhabshi, and Masih (2015) established that social performance and religiosity positively influence the financial performance of microfinance institutions, indicating that a strong social responsibility orientation does not undermine financial sustainability but rather complements it. The study further suggests that focusing on outreach to the poor and maintaining social values enhances both social and financial outcomes, thereby reinforcing sustainability.

At the local level, Njoroge and Wanyoike (2025) examined corporate social responsibility strategies among microfinance banks in Nairobi County, Kenya, and found that CSR initiatives, including philanthropic, environmental, health, and educational programs, have a significant positive effect on organizational performance. The study revealed that these social responsibility practices explain a substantial proportion of performance variation, highlighting their importance in enhancing sustainability. Specifically, environmental and health-related initiatives showed stronger impacts, indicating that institutions that actively invest in community welfare and environmental stewardship are more likely to achieve sustainable growth. Overall, these studies demonstrate that social responsibility capability is a critical determinant of sustainability, as it strengthens stakeholder relationships, enhances institutional reputation, reduces risk, and improves both social and financial performance.

2.3.5 The Mediating Role of Organizational Learning Capability on Strategic Capabilities and Sustainability

Organizational learning capability plays a critical mediating role in strengthening the relationship between strategic capabilities and sustainability by enabling institutions to continuously acquire, disseminate, and apply knowledge in response to changing environments. According to Wambugu and Kising'u (2024), organizational learning capability, measured at individual, group, organizational, and inter-organizational levels, has a positive and significant influence on the performance of deposit-taking microfinance institutions in Kenya. The study found that institutions that promote continuous learning among employees, encourage knowledge sharing within teams, and facilitate learning across organizational boundaries are better able to improve performance outcomes. These findings imply that organizational learning enhances the effectiveness of strategic capabilities by transforming knowledge into actionable practices that improve institutional sustainability.

Similarly, Kising'u (2024) reinforces that organizational learning capability significantly contributes to institutional performance, highlighting that learning at multiple levels strengthens decision-making, innovation, and adaptability. The study emphasizes that organizations that invest in structured learning processes and knowledge management systems are more capable of responding to environmental changes and sustaining long-term performance. This suggests that organizational learning acts as a bridge through which strategic capabilities such as financial management, risk management, and social responsibility are effectively implemented to achieve sustainability.

Further supporting the mediating role of organizational learning, Kosiom et al. (2024) examined strategic organizational learning capability and found that it has a strong and statistically significant influence on sustainable competitive advantage among seed companies in Kenya. The study concludes that organizations that

foster a culture of continuous learning, evaluate learning outcomes, and integrate knowledge into strategic processes are more likely to achieve sustained competitive advantage. This indicates that organizational learning capability enhances the impact of strategic capabilities by improving innovation, adaptability, and strategic alignment, which are essential for sustainability.

These studies demonstrate that organizational learning capability is a key mediating mechanism that links strategic capabilities to sustainability. By enhancing knowledge acquisition, knowledge sharing, and continuous improvement, organizational learning enables institutions to effectively deploy their strategic capabilities, respond to dynamic environments, and achieve long-term sustainability.

2.3.6 The Moderating role of Operational Efficiency on Strategic Capabilities Efficiency and Sustainability

Operational efficiency plays a critical moderating role in shaping the relationship between strategic capabilities and sustainability, particularly in financial institutions where resource optimization and process effectiveness are essential for long-term viability. Operational efficiency refers to the ability of an organization to utilize its resources including financial, human, and technological in a cost-effective manner while maximizing output and service quality. In the context of microfinance institutions, operational efficiency enhances the effectiveness of strategic capabilities such as financial management, risk management, and social responsibility, thereby strengthening their contribution to sustainability outcomes.

Empirical evidence suggests that operational conditions significantly influence how organizational capabilities translate into performance and sustainability. For instance, Moderating Effect of Operating Environment on the Relationship Between Big Data Technology Capability and Performance of Commercial Banks in Kenya found that the operating environment plays a significant moderating role in the relationship between technological capabilities and bank performance. The study established that even strong internal capabilities may not yield optimal results unless supported by a conducive operational environment characterized by appropriate regulatory frameworks, infrastructure, and institutional support. This implies that operational efficiency conditions how effectively strategic capabilities can be leveraged to achieve sustainable outcomes.

Similarly, Influence of Operational Excellence Strategy on Organisations' Competitiveness among Tier III Commercial Banks in Kenya demonstrated that operational excellence has a strong positive effect on organizational competitiveness, explaining approximately 46.9% of performance variation among banks. The findings highlight that efficient internal processes, cost control mechanisms, and streamlined service delivery systems enhance the impact of strategic initiatives, thereby improving both competitiveness and sustainability. This suggests that operational efficiency strengthens the link between strategic capabilities and sustainability by ensuring that resources are effectively transformed into desired outcomes.

Further supporting this perspective, Effect of Operational Capability on the Organizational Performance in NSE Listed Firms in Kenya established that operational capability significantly influences organizational performance by improving decision-making, innovation, and resource utilization. The study emphasizes that firms with strong operational systems are better positioned to implement strategic capabilities effectively, leading to improved performance and long-term sustainability. This indicates that operational efficiency not only directly impacts performance but also enhances the effectiveness of other organizational capabilities.

In the context of faith-based microfinance institutions, operational efficiency is particularly crucial due to limited resources, dual social-financial missions, and complex stakeholder expectations. Efficient operations enable these institutions to minimize costs, improve service delivery, and enhance outreach, thereby amplifying the impact of their strategic capabilities on sustainability. Conversely, inefficiencies such as high operational costs, poor process management, and inadequate technological systems can weaken the effectiveness of strategic capabilities, limiting their contribution to sustainability.

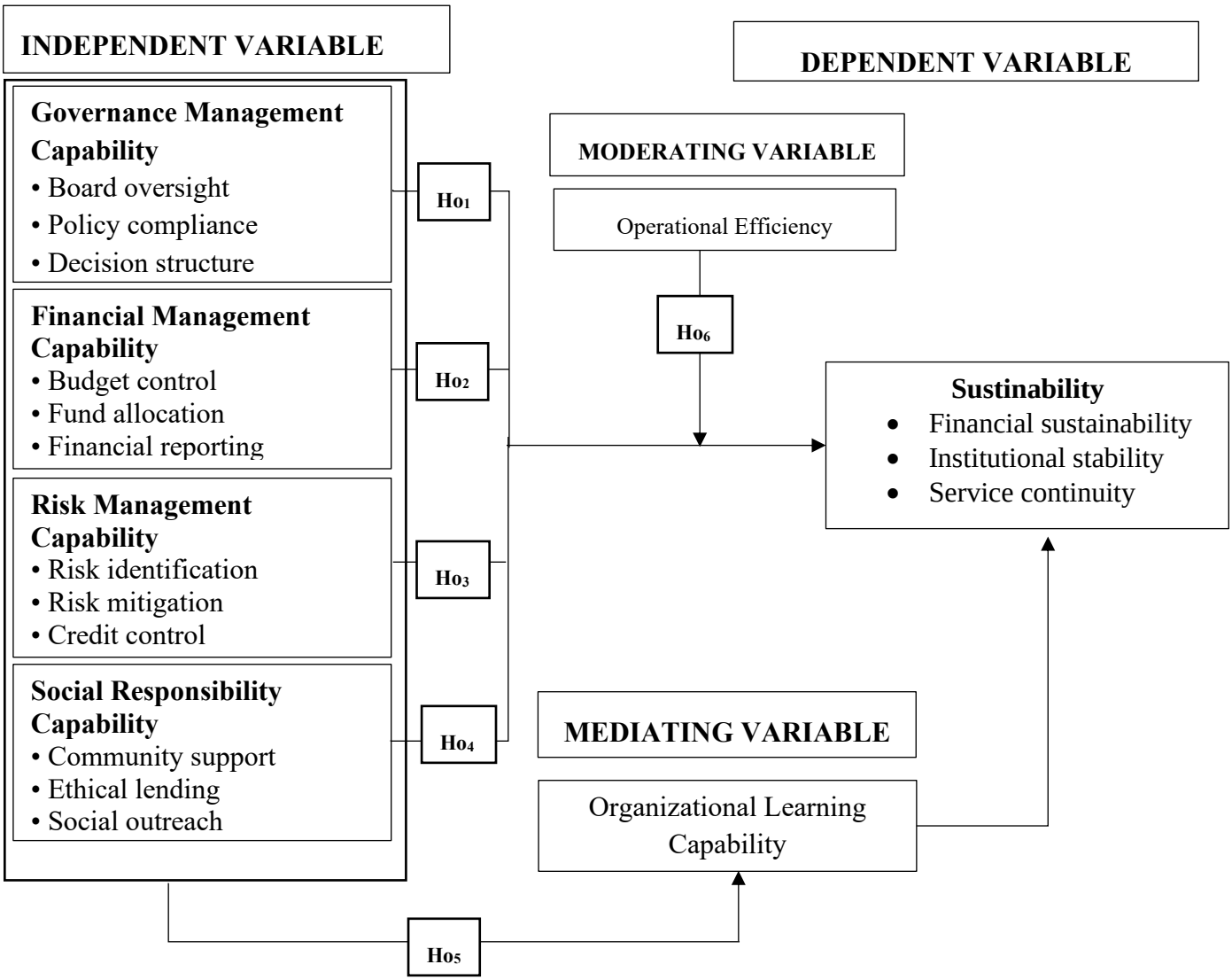
Overall, the reviewed studies demonstrate that operational efficiency acts as a key moderating variable that influences the strength and direction of the relationship between strategic capabilities and sustainability. Institutions that invest in efficient operational systems, process optimization, and performance management are more likely to translate their strategic capabilities into sustainable outcomes. Therefore, enhancing operational efficiency is essential for maximizing the sustainability benefits of strategic capabilities in microfinance institutions.

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2.4 Conceptual Framework

A conceptual framework provides a structured representation of the relationships among study variables and helps to clarify how key constructs interact within a study. Thomas and Tee (2022) emphasize that well-developed conceptual frameworks enhance theoretical clarity by linking constructs in a coherent and meaningful way. In this study, the framework illustrates the relationship between strategic capabilities and sustainability of faith-based microfinance banks in Kenya, incorporating organizational learning capability as a mediating variable and operational efficiency as a moderating variable.

Figure 2.1: Conceptual Framework



Source: Authors (2026)

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