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Research Article

Reconfiguring Performance through Outsourcing Capability: Empirical Evidence from Microfinance Institutions in Kenya

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Abstract

Microfinance institutions play a critical role in promoting financial inclusion and supporting socio-economic development by providing financial services to underserved populations. Despite their importance, many microfinance institutions in Kenya continue to face operational inefficiencies, high operating costs, declining profitability, and sustainability challenges. These challenges have heightened the need for strategic approaches that can enhance institutional performance in a dynamic financial environment. This study examined the effect of outsourcing capability on the performance of microfinance institutions in Kenya. The study was anchored on the Resource-Based View theory and the Theory of Learning Organization, which provided the theoretical basis for explaining the relationship between outsourcing capability and organizational performance. An explanatory research design was adopted, targeting senior employees of registered microfinance institutions in Kenya. Data were collected using structured questionnaires based on a five-point Likert scale. The validity and reliability of the research instrument were established through expert evaluation and pilot testing. Quantitative data were analyzed using descriptive statistics and multiple linear regression analysis. The findings revealed that outsourcing capability had a statistically significant positive effect on organizational performance. Specifically, effective outsourcing enhanced operational efficiency, improved service quality, increased institutional flexibility, and facilitated more effective allocation of resources to core organizational functions. The study recommends that management of microfinance institutions strengthen outsourcing policies and practices by improving vendor selection procedures, cost-monitoring mechanisms, and quality-assurance systems. Enhancing outsourcing capability can enable microfinance institutions to improve competitiveness, create greater customer value, and achieve sustainable organizational performance in Kenya's dynamic financial sector.

Keywords

Outsourcing Capability, Organizational Performance, Strategic Response, Microfinance Institutions

1. Introduction

Organizational performance remains a critical concern among firms operating in highly dynamic and competitive business environments. It reflects the extent to which an organization achieves its strategic objectives while meeting stakeholder expectations through the effective utilization of

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available resources [41, 48]. In contemporary business environments, firms increasingly pursue strategic mechanisms that enhance efficiency, improve service quality, optimize costs, and strengthen competitiveness. One such mechanism is outsourcing capability, which enables organizations to strategically delegate selected activities to specialized external service providers while concentrating internal resources on core competencies and strategic priorities.

Globally, outsourcing capability has become an increasingly important strategic practice among financial institutions seeking greater operational flexibility, cost efficiency, innovation, and service responsiveness. Financial institutions in developed economies increasingly outsource non-core functions, including information technology support, customer care, payroll administration, and security services, to specialized external providers to enhance efficiency and responsiveness [24]. In Europe and North America, outsourcing has contributed to improved operational effectiveness, accelerated digital transformation, and enhanced customer service delivery. However, the performance benefits of outsourcing are not automatic. Organizations with limited outsourcing capability may encounter challenges related to vendor selection, coordination, cost control, service quality, and operational risk, which can undermine the expected benefits of outsourcing and ultimately constrain organizational performance.

In Africa, the financial services sector continues to undergo significant transformation, driven by technological advancement, financial inclusion initiatives, regulatory developments, and changing customer expectations. Within this context, microfinance institutions have increasingly sought strategies to improve operational efficiency, manage costs, and enhance service delivery. Despite the important role of microfinance in expanding access to financial services, African microfinance institutions continue to face challenges related to operational efficiency, institutional capacity, and sustainability [47]. At the same time, the growing use of digital financial services is reshaping the delivery of financial services across the continent and creating new opportunities for financial institutions to extend their reach and improve service delivery [1].

In Kenya, microfinance institutions constitute an important component of the financial sector by extending financial services to low-income earners, small enterprises, and other underserved populations that may have limited access to mainstream banking services [2]. Despite the continued development of the sector, many institutions face performance challenges, including rising operating costs, declining profitability, loan default risks, and limited outreach capacity. At the same time, increasingly diverse customer needs, rapid technological developments, and intensifying competition have placed additional pressure on microfinance institutions to adopt strategic approaches that enhance efficiency and competitiveness. Outsourcing capability has consequently emerged as a potentially important strategic mechanism through which microfinance institutions can access specialized expertise, optimize resource utilization, improve service quality, and strengthen organizational performance.

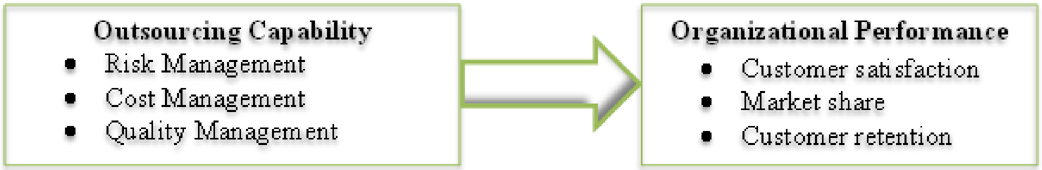
2. Statement of the Problem

Microfinance institutions in Kenya continue to experience significant operational and performance challenges despite their critical contribution to financial inclusion and economic empowerment. The sector faces persistent concerns relating to high operating costs, inadequate technological capabilities, limited organizational flexibility, changing customer expectations, and sustainability pressures. Rising loan defaults, liquidity constraints, and intensified competition from commercial banks, SACCOs, and digital financial service providers have further increased the pressure on microfinance institutions to improve their performance [37]. Against this backdrop, outsourcing capability has emerged as a potentially important strategic approach for enhancing organizational efficiency, managing operating costs, improving service quality, and enabling firms to concentrate resources on their core competencies. Through effective outsourcing, organizations can access specialized expertise and advanced technologies, enhance operational flexibility, and optimize resource allocation. However, the benefits of outsourcing are not automatic, as ineffective outsourcing practices may expose organizations to risks associated with inadequate quality control, vendor dependency, communication breakdowns, and operational inefficiencies.

Empirical studies examining the relationship between outsourcing capability and organizational performance have reported varying findings across sectors and geographical contexts. Kigwe and Maina [17], for instance, examined outsourcing capability among commercial banks in Mombasa County and established a positive effect on organizational performance. However, their focus on commercial banks limits the applicability of the findings to microfinance institutions, which operate under different institutional, regulatory, and operational conditions. Similarly, studies conducted in Ghana, India, and Albania have reported positive associations between outsourcing practices and organizational performance. Nevertheless, differences in institutional environments, industry characteristics, and outsourcing practices limit the generalizability of these findings to microfinance institutions in Kenya. Moreover, some previous studies employed descriptive or correlational research designs, which provided evidence of association but offered limited capacity to establish the predictive or causal effect of outsourcing capability on organizational performance. Consequently, there remains limited empirical evidence on the effect of outsourcing capability on the performance of microfinance institutions in Kenya, creating a contextual and methodological gap that this study seeks to address.

3. Conceptual Framework

According to Mugenda and Mugenda [31], a conceptual framework illustrates the relationships among the variables of a study. In the present study, organizational performance constitutes the dependent variable, while outsourcing capability constitutes the independent variable. The conceptual framework therefore proposes that outsourcing capability influences the performance of microfinance institutions in Kenya.



Source: Author (2025)

Figure 1. *Conceptual Framework.*

As the independent variable, outsourcing capability was operationalized in terms of risk management, cost management, and quality management. Organizational performance, the dependent variable, was measured using customer satisfaction, market share, and customer retention. The framework therefore illustrates the proposed relationship between the dimensions of outsourcing capability and organizational performance.

3.1. Research Objective

The study sought to determine the effect of outsourcing capability on the performance of microfinance institutions in Kenya.

3.2. Research Hypotheses

The study tested the following hypotheses:

H_0: Outsourcing capability has no statistically significant effect on the performance of microfinance institutions in Kenya.

H_1: Outsourcing capability has a statistically significant effect on the performance of microfinance institutions in Kenya.

4. Theoretical Literature Review

The study is grounded in the Resource-Based View (RBV) and the Theory of the Learning Organization, which jointly provide the theoretical foundation for explaining the relationship between outsourcing capability and organizational performance among microfinance institutions in Kenya.

4.1. Resource-Based View

The Resource-Based View (RBV) was advanced by Birger Wernerfelt in his seminal article, "A Resource-Based View of the Firm," and has since become an influential theoretical perspective for explaining differences in organizational performance based on firm-specific resources and capabilities [46]. The theory builds on earlier arguments by Penrose [38], who emphasized the role of internal resources and managerial capabilities in explaining firm growth. Subsequent scholars further developed the RBV by establishing stronger links between organizational resources, capabilities, competitive advantage, and performance outcomes [4, 39, 45]. The RBV posits that firms can achieve sustained competitive advantage when they possess and effectively deploy resources that are valuable, rare, difficult to imitate, and non-substitutable [4]. Barney [5] subsequently extended this perspective through the VRIO framework, emphasizing that resources and capabilities must not only possess these characteristics but also be effectively organized and utilized to generate sustained competitive advantage.

The theory views organizations as heterogeneous entities with distinct resource endowments and capabilities that are not readily transferable or replicable across firms [11, 13]. These resources encompass tangible assets as well as intangible capabilities, including institutional knowledge, managerial expertise, organizational culture, technological competence, operational routines, and strategic coordination mechanisms. Such resources and capabilities develop over time through organizational experience and learning, thereby creating distinctive strengths that can enhance organizational efficiency and long-term competitiveness [26, 36]. Consequently, firms that possess and effectively deploy distinctive resources and capabilities are more likely to achieve superior performance by improving resource utilization, strengthening strategic alignment, and developing competitive advantages that are difficult for competitors to replicate.

In the context of this study, outsourcing capability is conceptualized as a strategic organizational capability that enables microfinance institutions to effectively coordinate external service providers, optimize operating costs, improve service quality, and enhance organizational flexibility. Effective outsourcing capability encompasses the institution's ability to identify suitable non-core functions for outsourcing, establish and manage reliable vendor relationships, monitor outsourced activities, and leverage external expertise to enhance operational efficiency and organizational performance [16, 30]. Because outsourcing capability is embedded in organizational routines, managerial competencies, and institutional processes, it constitutes an intangible organizational capability that can contribute to institutional competitiveness and sustainability.

Microfinance institutions operate within highly dynamic and competitive financial environments characterized by technological advancements, changing customer expectations, regulatory pressures, and increasing operating costs [15, 19, 27, 32]. In such environments, institutions that effectively develop and deploy outsourcing capability are better positioned to access specialized expertise, enhance operational responsiveness, and concentrate internal resources on core strategic functions. Through the effective deployment of internal resources and management of external partnerships, microfinance institutions can improve service delivery, enhance customer satisfaction, strengthen operational efficiency, and expand their market reach. Therefore, the Resource-Based View provides a suitable theoretical foundation for explaining how outsourcing capability, as an intangible organizational capability, can contribute to the performance of microfinance institutions in Kenya.

4.2. Balanced Scorecard Framework

The Balanced Scorecard Framework was developed by Kaplan and Norton [14] as a strategic performance management approach that expanded organizational performance assessment beyond traditional financial measures to incorporate non-financial dimensions. The framework was developed in response to the limitations of relying exclusively on financial indicators, which primarily reflect historical performance and may provide limited insight into the factors that drive future organizational success [14]. Over time, the Balanced Scorecard evolved from a performance measurement framework into a broader strategic management tool that translates organizational strategy into measurable objectives and outcomes. It integrates financial and non-financial measures across four interrelated perspectives: financial performance, customer, internal business processes, and learning and growth.

A central proposition of the Balanced Scorecard Framework is that financial indicators alone are insufficient for comprehensively evaluating organizational performance because they primarily provide a retrospective assessment of past managerial decisions rather than capturing the capabilities and conditions that influence future performance. The framework emphasizes that long-term organizational success depends on balancing financial outcomes with customer satisfaction, operational efficiency, innovation, and organizational learning [8]. This multidimensional perspective enables organizations to align operational activities with strategic objectives while ensuring that improvements in internal processes, customer relationships, and organizational capabilities contribute to sustainable performance.

Consequently, organizations that effectively integrate financial and non-financial performance measures are better positioned to achieve superior performance and sustain competitiveness [28]. In the context of microfinance institutions, the Balanced Scorecard Framework provides an appropriate basis for assessing organizational performance using multiple dimensions, including financial stability, customer satisfaction, and product outreach. Financial stability reflects the institution’s ability to generate adequate returns, manage its resources effectively, and maintain operational sustainability. Customer satisfaction captures the extent to which clients’ financial needs are met through reliable, responsive, and quality service delivery, thereby supporting customer retention and institutional reputation. Product outreach reflects the breadth and accessibility of financial services offered to target customer segments and geographic areas, indicating the institution’s effectiveness in fulfilling its financial inclusion mandate [20]. Collectively, these dimensions provide a multidimensional assessment of organizational performance that extends beyond profitability to encompass customer and market-related outcomes [18, 33].

The relevance of the Balanced Scorecard Framework to this study lies in its ability to conceptualize organizational performance as a multidimensional construct influenced by internal capabilities and strategic operational practices. Since outsourcing capability can enhance operational efficiency, service quality, resource utilization, and organizational flexibility, it may contribute to improvements in customer satisfaction, financial sustainability, and institutional outreach. Therefore, the Balanced Scorecard Framework provides an appropriate theoretical foundation for conceptualizing and assessing organizational performance as the dependent variable in this study of the effect of outsourcing capability on the performance of microfinance institutions in Kenya.

5. Empirical Review

Kyereboah-Coleman and Matlay [23] examined the effect of outsourcing competency on the performance of microfinance organizations in the United Kingdom. The study adopted a cross-sectional research design and used linear regression analysis to examine the relationship between outsourcing competency and organizational performance. A sample of 21 microfinance institutions was selected through stratified random sampling. The findings established that outsourcing capability was a significant explanatory factor for organizational performance, with information technology and accounting services identified as key non-core activities that benefited from outsourcing. However, differences in the regulatory, institutional, and operating environments between the United Kingdom and Kenya limit the generalizability of the findings to Kenyan microfinance institutions.

Nyameboame and Haddud [35] examined the effect of outsourcing capability on the performance of local oil and gas companies in Ghana. The study adopted a cross-sectional survey design and collected data from 80 respondents who were selected purposively. The study identified information technology consultancy, business consultancy, logistics, and systems infrastructure management as key functional activities outsourced to third-party providers. The main motivations for outsourcing included cost reduction, avoidance of substantial capital investment in technology, enhancement of service quality, access to advanced technologies, and acquisition of specialized expertise. However, the findings have limited applicability to the present study because the Ghanaian oil and gas sector differs substantially from Kenya's microfinance sector in terms of industry characteristics, regulatory environment, and operational requirements. Furthermore, the use of purposive sampling limits the representativeness of the sample and, consequently, the generalizability of the findings to the wider population.

Kigwe and Maina [17] examined the role of outsourcing capability in explaining the performance of commercial banks in Mombasa County. The study targeted managers from commercial banks in the county and adopted a descriptive survey design. Data were collected through interviews, and the findings indicated that outsourcing had a positive effect on organizational performance. However, the study has methodological and contextual limitations that constrain the applicability of its findings to the present study. First, the descriptive survey design provides limited capacity to establish causal relationships between outsourcing capability and organizational performance. Second, the use of interviews as the primary data collection approach may have limited the systematic measurement of the study constructs compared with structured quantitative instruments. Third, the study focused on commercial banks, whose regulatory, operational, and organizational environments differ from those of microfinance institutions. Consequently, its findings may not be directly generalizable to microfinance institutions in Kenya, thereby creating a contextual gap that the present study seeks to address.

6. Research Methodology

Research design refers to the overall strategy and structure adopted to guide a study in addressing its research questions through systematic data collection, analysis, interpretation, and presentation [9]. This study adopted a descriptive and explanatory research design to describe the characteristics of the study respondents and examine the relationship between outsourcing capability and organizational performance. Descriptive research focuses on answering questions concerning the characteristics and patterns of a phenomenon under investigation [22], thereby providing a basis for understanding the distribution and characteristics of the study variables. Explanatory research, on the other hand, seeks to establish relationships among variables and explain the factors underlying observed outcomes [42]. The combination of the two designs enabled the study to provide a comprehensive description of the study variables while statistically examining the effect of outsourcing capability on organizational performance among microfinance institutions in Kenya.

The study targeted microfinance institutions operating in Kenya. The unit of analysis was the microfinance institution, while the unit of observation comprised management staff drawn from functional areas including operations, finance, risk management, human resources, sales and marketing, and product development. These managers are directly involved in implementing organizational strategies and overseeing operational activities and were therefore considered well positioned to provide reliable information on outsourcing capability and organizational performance.

According to Kothari [21], a sampling technique refers to the procedure used to select participants or units from a target population for inclusion in a study. This study employed a two-stage sampling technique, comprising proportionate stratified sampling and simple random sampling, to ensure adequate representation of management staff across the identified functional areas. The sample size was determined using Yamane's [49] formula at a 95% confidence level. The formula provides a straightforward approach for determining an appropriate sample size where the size of the target population is known.

$$n = N/ (1 + N (e2))$$

Whereby n =sample size; N = Targeted Population and e = error term.

$$n = 202 / (1 + 202 (0.05^2) = 134$$

The sampling factor was calculated as follows;
Sampling factor (k) = Sample size/Target population
Hence;
K= 134/202
K= 0.663

Table 1. *Sample Size.*

Department	Target Participant	Sampling factor	Sample size
Operations	45	0.66	30

Department	Target Participant	Sampling factor	Sample size
Finance	28	0.66	18
Risk Management	24	0.66	16
Human Resources	22	0.66	15
Sales & Marketing	48	0.66	32
Product Development	35	0.66	23
Total	202		134

Source: Researcher (2023)

Table 1 presents the study sample drawn from six departments using proportionate stratified random sampling to ensure adequate representation of employees across the functional areas. Using Yamane's [49] formula at a 5% margin of error, a sample size of 134 respondents was obtained from a target population of 202 employees. A sampling factor of approximately 0.66 was applied proportionately to the population of each department to determine the number of respondents to be selected. Accordingly, Operations contributed 30 respondents, Finance 18, Risk Management 16, Human Resources 15, Sales and Marketing 32, and Product Development 23 respondents. This sampling approach enhanced the representation of the various functional areas and provided an appropriate basis for obtaining reliable and generalizable study findings.

Data from the sampled management staff were collected using a structured questionnaire comprising closed-ended items measured on a five-point Likert scale. According to Mugenda and Mugenda [31], a structured questionnaire is an appropriate instrument for collecting standardized data in survey research, thereby facilitating systematic analysis of the phenomena under investigation. The questionnaire also included a section on specific information designed to capture relevant contextual aspects of outsourcing capability and organizational performance.

Validity refers to the extent to which a research instrument accurately measures the constructs it is intended to measure and, consequently, supports accurate conclusions about the phenomenon under investigation [21, 29, 31]. In this study, face validity, content validity, and construct validity were considered in assessing the validity of the structured questionnaire. Face validity concerns the extent to which the questionnaire items appear appropriate for measuring the intended constructs. The researcher sought the supervisor's expert assessment to establish the face validity of the questionnaire. Content validity evaluates the extent to which the questionnaire items adequately represent all relevant dimensions of the constructs under investigation [34]. Construct validity, on the other hand, assesses the extent to which the measurement items accurately represent the theoretical constructs they are intended to measure [25]. To enhance content and construct validity, the questionnaire items were developed and systematically reviewed against the relevant theoretical and empirical literature on outsourcing capability and organizational performance.

Reliability was assessed by examining the internal consistency of the research instrument using Cronbach's alpha coefficient. A Cronbach's alpha value of 0.70 or higher was considered acceptable for establishing the reliability of the questionnaire, consistent with the recommendation of Sekaran and Bougie [43]. Data obtained from the pilot study were analyzed to assess the internal consistency of the measurement items, with the resulting reliability coefficients presented in Table 2.

Table 2. *Reliability Results.*

Constructs	Number of Test Items	Alpha Score	Deduction
Outsourcing Capability	6	0.870	Reliable
Organizational Performance	4	0.761	Reliable

Source: Pilot Study Observations (2026)

All study constructs recorded Cronbach's alpha coefficients above the recommended threshold of 0.70, indicating satisfactory internal consistency and reliability of the research instrument. Specifically, outsourcing capability recorded a Cronbach's alpha coefficient of 0.870, while organizational performance recorded 0.761, demonstrating that the respective questionnaire items consistently measured their intended constructs. These results confirmed that the research instrument had adequate reliability and was suitable for collecting data in accordance with the study objectives.

The research authorization letter from Kenyatta University was used to facilitate the processing of the research permit. Subsequently, the research permit and introduction letter were presented to the relevant Human Resource Division to obtain formal approval to conduct the study within the selected microfinance institutions. The researcher also obtained informed consent from the prospective participants, ensuring that their participation was voluntary and that the study was conducted in accordance with established ethical standards. Questionnaires were distributed to all 134 sampled management staff, with a period of two weeks provided for completion. Follow-up was undertaken during the data collection period to encourage timely completion and return of the questionnaires for subsequent data processing and analysis.

However, the data were analyzed using descriptive and inferential statistics with the aid of SPSS software. Descriptive statistics were used to summarize the characteristics and distribution of the study variables. Inferential analysis was conducted using multiple linear regression to examine the effect of the strategic responses on organizational performance. The regression model used in the analysis is presented as Equation (1).

$$Y=\beta_0 + \beta_1 X + \varepsilon \tag{1}$$

Where: *Y = Organizational Performance*

X = Outsourcing Capability

β_0, β_1= Beta Coefficients

ε = Error Term

In conducting the inferential analysis, a 95 percent confidence level was adopted as the basis for making statistical decisions regarding the specific objectives of the study. Accordingly, a 5 percent significance level ($\alpha = 0.05$) was used as the threshold for determining the statistical significance of the estimated relationships.

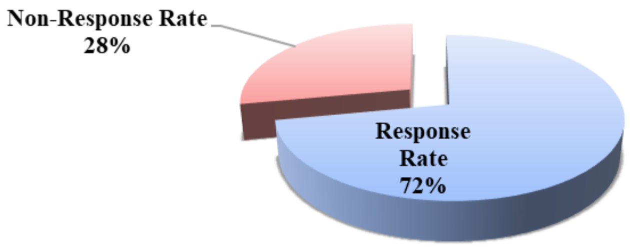
The study adhered to established research ethics and guidelines throughout the research process. Culturally appropriate and respectful language was used in developing the questionnaire and during data collection to ensure effective engagement with respondents. A research permit was obtained from NACOSTI, and formal consent was sought from the management of the participating microfinance institutions before commencement of data collection. Prior to administering the questionnaires, participants were informed about the purpose of the study and assured that their responses would be treated with confidentiality and used solely for academic purposes. Participation was voluntary, and respondents were informed of their right to participate without coercion. The findings were presented in aggregate form in accordance with the study objectives, while appropriate measures were taken during data processing, analysis, and reporting to safeguard the confidentiality and privacy of respondents.

7. Descriptive Results

The data obtained from the survey were analysed to assess the descriptive characteristics of the study in terms of response rate, mean scores, and standard deviations for outsourcing capability and organizational performance.

7.1. Response Rate

A total of 134 questionnaires were administered to the functional-level management staff selected for the study. Ninety-seven questionnaires were duly completed and returned, yielding a response rate of 72.4 percent, as presented in Figure 2.



Source: Field Observations (2026)

***Figure 2.** Response Rate.*

The study achieved a response rate of 84.2 percent, with a corresponding non-response rate of 15.8 percent. This response level was considered adequate for data analysis and supported the generalizability of the findings to the target population. Babbie [3] considers a response rate above 70 percent to be very good for social science research, while Fincham [10] notes that higher response rates enhance sample representativeness and reduce the potential for non-response bias. Accordingly, the response rate achieved in this study provided an adequate basis for statistical analysis and drawing valid conclusions.

7.2. Descriptive Findings for Outsourcing Capability

Outsourcing capability, the independent variable, was operationalized using cost management, risk management, and quality management indicators. Data obtained on these dimensions were analyzed using the sample mean and sample standard deviation, with the results presented in Table 3.

***Table 3**. Outsourcing Capability.*

Statements	n	Sample Mean	Std. Deviation
Management of cost of outsourcing services while maintaining service quality	97	4.03	0.64
Leverage the knowledge of other institutions to enhance service delivery	97	4.08	0.61
Sound management of change resulting in effective adaptation to new circumstances using institutional resources	97	4.17	0.69
Tracking of task execution in relation to outsourced services	97	4.18	0.54
Seamless flow of information to all institutional stakeholders	97	4.23	0.65
Management of relationship with different suppliers makes it easier to outsource some functions	97	4.07	0.62
Overall Scores		4.13	0.63

Source: Field Observations (2026)

The findings indicate a relatively narrow range of sample means, from 4.03 for the management of outsourcing service costs while maintaining service quality to 4.23 for ensuring the seamless flow of information to all institutional stakeholders. These results suggest a generally high level of agreement among respondents regarding the implementation of outsourcing capability practices within the sampled microfinance institutions. The standard deviations of 0.64 and 0.65, respectively, indicate a relatively high degree of consistency in the responses. Tracking task execution in relation to outsourced services recorded a mean of 4.18 and a standard deviation of 0.54, further indicating strong agreement and limited variation in responses. Similarly, sound management of change to facilitate effective adaptation to new circumstances using institutional resources recorded a mean of 4.17 and a standard deviation of 0.69, reflecting a high level of agreement among respondents and relatively consistent perceptions.

Furthermore, managing the cost of outsourcing services while maintaining service quality and leveraging knowledge from other institutions to enhance service delivery recorded mean scores of 4.03 and 4.08, with corresponding standard deviations of 0.64 and 0.61, respectively. The aggregate mean of 4.13 on the five-point Likert scale indicates that respondents generally agreed with the statements measuring outsourcing capability, suggesting that the construct is strongly evident in the operations of the sampled microfinance institutions. The corresponding standard deviation of 0.62 indicates relatively low dispersion in the responses, implying that respondents' ratings were closely clustered around the aggregate mean. The relatively high mean and low variability therefore suggest a consistent perception of outsourcing capability among the respondents. These findings are consistent with Handley [12], who observed that outsourcing capability enables organizations to effectively coordinate external service providers while aligning outsourced activities with strategic objectives. Similarly, Shi [44] found that effective outsourcing capability can enhance organizational flexibility, resource utilization, and long-term strategic development through effective management of costs, risks, and service quality.

7.3. Descriptive Findings for Organizational Performance

As the response variable, organizational performance was assessed using indicators of product outreach, financial sustainability, and social impact. Data collected on these dimensions were analyzed using the sample mean and sample standard deviation, with the results presented in Table 4.

***Table 4**. Descriptive Findings on Organizational Performance.*

Statement	n	Sample Mean	Std. Deviation
The institution has successfully expanded its products and services to reach a wider customer base	97	4.22	0.46
The organization ensures that its products and services are accessible to underserved groups	97	4.20	0.51
The organization effectively manages its finances to ensure the long-term feasibility of its operations	97	4.25	0.50

Statement	n	Sample Mean	Std. Deviation
The organization's operations enhance the general welfare of the society	97	4.23	0.49
Overall Scores		4.23	0.49

Source: Field Observations (2026)

The sample means for the observable items measuring organizational performance ranged narrowly from 4.20 for ensuring that products and services are accessible to underserved or vulnerable groups to 4.25 for effective management of institutional finances to ensure the long-term sustainability of operations. The corresponding standard deviations of 0.51 and 0.49, respectively, indicate low variability in the responses, suggesting that respondents' ratings were closely clustered around the respective mean scores. These findings indicate that the performance outcomes represented by the observed attributes were strongly evident in the surveyed microfinance institutions.

The findings further indicate a general agreement that the value created by microfinance institutions contributes to societal well-being, as reflected by a mean score of 4.23 and a standard deviation of 0.49. Similarly, the extent to which the institutions ensured that their products and services were accessible to underserved groups recorded a mean of 4.20 and a standard deviation of 0.50. Overall, the aggregate mean of 4.22, with a corresponding standard deviation of 0.49, indicates a high level of agreement among respondents that the outcomes represented by the organizational performance indicators were evident in the surveyed microfinance institutions.

These findings are consistent with the argument by Richard, Devinney, Yip and Johnson [41] and Xu, Hu, Zhang and Wang [48] that organizational performance reflects the extent to which organizations achieve their objectives while meeting stakeholder expectations. The results also support Bourguignon [7], who conceptualized organizational performance as an outcome influenced by organizational characteristics and the creation of value for stakeholders. Similarly, Porter and Kramer [40] emphasized that organizational success increasingly depends on the creation of customer and societal value rather than on financial outcomes alone. In the same vein, Kaplan and Norton [14] argued that non-financial indicators, including customer-related outcomes and organizational capabilities, are important dimensions of performance because they contribute to the achievement of sustainable long-term financial results.

8. Inferential Analysis

Linear regression analysis was conducted to examine the effect of outsourcing capability on organizational performance. Organizational performance was regressed on outsourcing capability, and the resulting findings are presented and discussed accordingly.

***Table 5.** Linear Regression Analysis.*

Model Summary					
Model	**R**	**R Square**	**Adjusted R Square**	**Std. Error of the Estimate**	**Durbin-Watson**
1	.656[a]	.430	.405	.28911	1.947
ANOVA					
Model	Sum of Squares	Df	Mean Square	F	Sig.
Regression	5.795	4	1.449	17.333	.000[b]
Residual	7.690	92	.084		
Total	13.485	96			
Coefficients					
	Unstandardized Coefficients		Standardized Coefficient	t	Sig.
	β	Std. Error	Beta		
(Constant)	1.017	0.406		2.504	0.000
Outsourcing Capability	0.076	0.065	0.98	1.174	0.024

Model Summary					
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson

Dependent Variable: Organizational Performance
Predictors: (Constant) outsourcing capability

Source: Field Observations (2026)

Regression analysis was conducted to determine the effect of outsourcing capability on organizational performance among the surveyed microfinance institutions. The model summary results yielded a correlation coefficient (R) of 0.656, indicating a strong positive relationship between outsourcing capability and organizational performance. The coefficient of determination (R^2) was 0.430, while the adjusted R^2 was 0.405, indicating that outsourcing capability explained approximately 40.5 percent of the variation in organizational performance, while the remaining 59.5 percent was attributable to other factors not included in the model. According to Bevans [6], the adjusted R^2 provides a more reliable estimate of model fit, particularly where the number of predictors is considered.

The ANOVA results indicated that the regression model was statistically significant, $F(4, 92) = 17.333$, $p < 0.001$, demonstrating that the model provided a significant explanation of variations in organizational performance at the 95 percent confidence level. The coefficient results further showed that outsourcing capability had a positive and statistically significant effect on organizational performance ($\beta = 0.076$, $p = 0.024$). This finding indicates that an improvement in outsourcing capability is associated with an increase in organizational performance among the surveyed microfinance institutions. The results therefore suggest that effective outsourcing capability can contribute to improved customer satisfaction, customer retention, and market share within microfinance institutions.

Furthermore, the contribution of the independent variable was examined to provide a clearer understanding of its effect on organizational performance and its contribution to the overall model fit. The resulting regression equation is presented as Equation (2).

$$\text{Organizational Performance} = 1.017 + 0.076\ \text{Outsourcing Capability} \quad (2)$$

The regression model indicates that, when outsourcing capability is held constant, the predicted level of organizational performance among the surveyed microfinance institutions is 1.017 units. This constant represents the baseline level of organizational performance attributable to factors not captured by the model. The regression coefficient for outsourcing capability ($\beta = 0.076$, $p = 0.024$) further indicates that outsourcing capability has a positive and statistically significant effect on organizational performance. Specifically, a one-unit increase in outsourcing capability is associated with a 0.076-unit increase in organizational performance, underscoring the importance of effective outsourcing practices in enhancing customer satisfaction, customer retention, and market share among microfinance institutions.

Regarding outsourcing capability, the regression analysis yielded a beta coefficient of 0.076 and a p-value of 0.024, indicating that outsourcing capability had a positive and statistically significant effect on the performance of microfinance institutions at the 5 percent significance level. Specifically, a one-unit increase in outsourcing capability was associated with a 0.076-unit increase in organizational performance, holding other factors constant. The findings therefore demonstrate that outsourcing capability positively contributes to organizational performance. These findings are consistent with Kyereboah-Coleman and Matlay [23], who established that outsourcing capability was an important explanatory factor for the performance of microfinance institutions in the United Kingdom. Similarly, the findings are supported by Nyameboame and Haddud [35] in the Ghanaian oil and gas sector and Kigwe and Maina [17] among commercial banks in Mombasa County, Kenya, who reported positive relationships between outsourcing practices and organizational performance. The findings further support the Resource-Based View, which posits that intangible resources and organizational capabilities can provide a basis for achieving superior firm performance when they are effectively developed and deployed [4].

9. Conclusion

The objective of the study was to determine the effect of outsourcing capability on organizational performance among microfinance institutions in Kenya. The findings established that outsourcing capability has a positive and statistically significant influence on organizational performance. The study therefore concludes that effective outsourcing practices play an important role in enhancing customer satisfaction, customer retention, and market share, making outsourcing capability a key predictor of organizational performance in microfinance institutions.

10. Recommendation

The management of microfinance institutions should strengthen outsourcing capability by developing clear outsourcing policies that emphasize effective risk management, cost management, and quality management practices. Institutions should also establish robust monitoring and evaluation mechanisms to ensure that outsourced services meet established standards and contribute to customer satisfaction and operational efficiency. In addition, management should invest in staff training on outsourcing coordination and contract management to strengthen accountability and service quality. The adoption of appropriate technologies and the development of strategic partnerships with competent service providers should also be encouraged, thereby improving operational efficiency, customer retention, and market competitiveness. Collectively, these initiatives can support sustainable institutional growth and improved organizational performance among microfinance institutions.

11. Study Limitations and Areas for Future Research

This study examined the effect of outsourcing capability on organizational performance among microfinance institutions in Kenya, focusing on risk management, cost management, and quality management. However, the study was limited to selected institutions and relied primarily on self-reported questionnaire data, which may have introduced response bias and limited the generalizability of the findings. Furthermore, organizational performance may be influenced by other factors not examined in the study, including technology adoption, organizational culture, innovation, leadership style, and employee competence. Future studies should therefore incorporate these additional variables and extend the investigation to other sectors, including manufacturing, insurance, hospitality, education, and public institutions, to facilitate cross-sectoral comparisons and broaden the applicability of the findings across diverse organizational contexts.

Abbreviations

ANOVA	Analysis of Variance
NACOSTI	National Commission for Science, Technology and Innovation
RBV	Resource-Based View
SACCOs	Savings and Credit Cooperative Organizations
SPSS	Statistical Package for the Social Sciences
VRIO	Value, Rarity, Imitability, and Organization

Author Contributions

Angeline Syongo Mwalili: Conceptualization, Funding acquisition, Methodology, Writing – original draft

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Conflicts of Interest

The authors declare no conflict of interest.

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